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Anticipated €50 billion cash-flow drag from Financial Transaction Tax

There will be an estimated annual cash-flow drag of €30 to 50 billion resulting from the Financial Transaction Tax (FTT), suggested a report.

The estimate was given by consulting firm Oliver Wyman, which was commissioned by the Association for Financial Markets in Europe (AFME) to evaluate the impact of the EU's proposed FTT on European end-users.

The analysis in the report was based on transparent data sources, methodologies supported by existing studies, and a series of interviews with both dealers and end-users.

The annual cash-flow drag would be realised in three different ways, said the report. Firstly, securities issued by EU-11 entities would fall in value as expected future cash-flows from the securities decline, imposing losses on holders of those securities.

Secondly, EU-11 corporates and governments would find future fund-raising through the capital markets more expensive, as a result of these lower valuations.

And thirdly, all parties would find it more expensive to manage financial risks, such as interest rate and currency risks on an ongoing basis.

These effects, said the report, would have material costs for end-users. Corporates would face annual costs of €8 to 10 billion, equivalent to 4 to 5 percent of post-tax profits in the affected economies.

Governments would face annual costs of €15 to 20 billion, equivalent to approximately 1 percent of their annual debt issuance, and investors would face a one-off decline in the value of their investments of 4 to 5 percent (equivalent to a €260 to €340 billion decline in asset values). They will also face €5 to 15 billion in increased risk management costs annually.

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Lending transactions rise for Brazil's stock exchange

In 2013, securities lending transactions at BM&FBOVESPA reached a new milestone with a financial volume of BRL 1 trillion with 1,693,151 trades.

This was a significant rise from the 2012 financial volume of BRL 785.9 billion and 1,313,365 trades.

In December 2013, the financial volume for securities lending transactions was BRL 92.93 billion, exceeding the BRL 70 billion seen in November 2013.

The number of transactions in December was 136,246, compared to 134,913 during the previous month.

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Shorters circle around Western Asset Mortgage Capital

According to reports, investment research firm Zacks has recently downgraded Western Asset Mortgage Capital Corp (WMC) from neutral to underperforming.

The firm, which focuses on investing residential mortgage-backed securities, also featured on SunGard Astec Analytics's hottest stocks from a securities lending focus.

WMC saw a surge of interest during the holiday period after announcing an unexpectedly large $2.35 joint cash/stock dividend for Q4, a move that saw its share price surge approximately 10 percent, said SunGard.

"Questions were soon asked, however, and as skepticism surfaced surrounding the company's motives, the share price actually dropped to lower than pre-announcement rates."

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Anticipated €50 billion cash-flow drag from FTT

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While end-users are not the intended targets of the tax, the report found that they are likely to bear heavy costs and that these have been underestimated to date.

These effects, it said, will have implications for the real economy and reduce the income generated by long- term savings and corporate investments. In particular, it is believed that two effects have been underestimated: cascading taxes paid in the financial system are too large to be absorbed by the financial system and so would in large part be passed on to end users; and reduced liquidity in the system would increase transaction costs for end-users.

In its Q1 2014 report, the International Capital Market Association added that there would likely be material second order effects not quantified in Oliver Wyman's study of the bank funding markets, on monetary policy transmission, and on the competitiveness of EU-11 banks in derivative markets and corporate banking.

Lending transactions rise for Brazil's stock exchange

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Brazil's securities lending industry has a centrally cleared design, by which the Brazilian Clearing and Depository Company (CBLC), the central counterparty (CCP) of stock exchange BM&FBovespa, accepts collateral from the borrower and holds it centrally.

The country has taken steps to open up its lending market to foreign participants. In a 2013 interview, Gregory Wagner, managing director and global head of prime services at Itaú BBA, said that although the exchange has been criticised in the past for not opening up to foreign participants, it has been extremely proactive in reaching out to the wider market as of late.

"As recently as last December (2012), representatives from the exchange went on a road show in Europe to educate and encourage foreign custodial banks (which represent pension funds and the like) and other institutions to work toward distributing their Brazil equity assets through the CBLC."

"The BM&F Bovespa representatives are implementing a follow up/action plan to the meetings to further address the questions raised during their road show. It's clear that the local exchange is serious about bridging the gap between home market policies and foreign participation in securities lending."

Shorters circle around Western Asset Mortgage Capital

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"On the securities lending front, short sellers were seemingly skeptical from that start—borrowed volume climbed 16 percent as the share price jumped, but tellingly this latest retracement has not brought any significant decline in borrowing, suggesting those on that side of the market are holding on to their concerns."

WMC describes its strategy as investing in, financing and managing primarily residential mortgage-backed securities. Although its core investment strategy is focused on agency RMBS, it opportunistically supplements its portfolio with RMBS that are not guaranteed by a

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US government agency or US government-sponsored entity, or non-agency RMBS, commercial mortgage-backed securities and other asset-backed securities.

Eurex wires in to Clearstream's triparty service

Eurex Clearing has extended its collateral services by providing direct connectivity into Clearstream's triparty collateral management service (the global liquidity hub).

Through this link to the triparty collateral management engine of the International Central Securities Depository (ICSD) Clearstream Banking Luxembourg, Eurex Clearing members are able to deposit and use securities collateral to cover their respective risk. The new service also supports clearing members in pooling their collateral portfolio within the global liquidity hub across different counterparts and services.

"Eurex Clearing customers will now benefit from a streamlined triparty collateral management process through our global liquidity hub," said Stefan Lepp, who is a member of the executive board of Clearstream.

"The execution of our strategy to access collateral locations globally, leveraging our growing number of strategic partnership arrangements and, on the other side, linking to globally fragmented exposure locations such as CCPs, further accelerates with the addition of Eurex Clearing."

Twitter stays buoyant

Utilisation levels for Twitter remain high after low trading levels in the Christmas month, according to SunGard.

The firm's Astec Analytics business reported on 7 January 2014 that, with relatively thin trade during what was effectively a holiday week for most, Twitter saw its share price retrace the minor pull-back suffered during the latter sessions of December.

"As utilisation levels for the stock remain high, an increase in demand to borrow as 2014 kicks off has led to a sharp increase in the cost of borrowing, which has tripled since 30 December," said a statement from the firm.

A tweet on 8 January from BondLend reported seeing Twitter as 90 percent utilised, with fees to borrow dropping again since the recent rise.

BNY/CIBC Mellon merger formalises new roles

Three months after BNY Mellon and CIBC Mellon created a lending giant with the merger of their two desks, Phil Zywot and his team have formally become BNY Mellon employees from 1 January 2014.

In his new role, Zywot takes on additional responsibility for expanding and enhancing service for BNY Mellon's global client base in the Canadian lending market, as well as working with Canadian players as they expand their participation in securities lending around the world through the BNY Mellon global network.

"Under Phil Zywot's proven leadership, the Toronto securities finance trading desk continues to provide outstanding service to CIBC Mellon and BNY Mellon clients in the Canadian marketplace," said Rob Ferguson, senior vice president, capital markets and product delivery at CIBC Mellon.

"[Zywot] has a deep understanding of the challenges and opportunities facing both borrower and lender clients, and his insights and leadership help position our clients for success."

"The integration of our respective trading desk teams last October represented the culmination of many productive years working together as partners in the CIBC Mellon joint venture and has enhanced how we are supporting our clients, both in terms of trading expertise and even deeper market coverage," said Rob Chiuch, managing director and global head of equity finance for BNY Mellon's global collateral services business.

Ferguson also takes on a new job title, and has become senior vice president of capital markets and product delivery.

Ferguson is responsible for CIBC Mellon's capital markets functions, including global securities lending, treasury services, foreign exchange processing and settlement services, transition management, and commission recapture.

In addition, he oversees the development and implementation of the CIBC Mellon's complete asset servicing product suite, client integration activities and online client information delivery systems.

A spokesperson for the firm said that Ferguson's new role, which sees him taking on responsibility for the product suite, technology, and online systems, aligns CIBC Mellon's capital markets products with the rest of the asset servicing suite.

Forestry mandate nabbed by Northern Trust

Northern Trust has snapped up a forestry pension plan mandate originally maintained by RBC Investor Services.

The IWA Forest Industry Pension Plan has named Northern Trust as global custodian for the C$3.1 billion pension fund serving nearly 70,000 members of Canada's forest industry.

As custodian of the assets, Northern Trust will also provide investment accounting, securities lending, compliance monitoring and performance services to the plan.

"Superior technology and expertise in alternative assets were key reasons for our selection of Northern Trust," said Colleen Troelstrup, director of investments for the IWA Forest Industry Pension Plan.

"Improved risk and performance analytics as well as user friendly presentation will enable enhanced reporting and more efficient internal processes. In addition, Northern Trust supports our expanding allocation to

alternative investments with experienced staff and market-leading tools to monitor and manage a range of asset classes."

The IWA Forest Industry Pension Plan is jointly funded by approximately 400 participating companies and close to 70,000 members. The administration of the plan is overseen by a board of trustees equally representing the United Steelworkers (formerly I.W.A. Canada) and forest industry employers.

Clearing Corporation of India now a CCP

The Reserve Bank has made the Clearing Corporation of India a qualified central counterparty. Clearing Corporation of India has qualified as a QCCP in view of the fact that it is authorised and supervised by the Reserve Bank of India under the Payment and Settlement Systems Act 2007, said a statement from RBI.

It is also subjected, on an ongoing basis, to rules and regulations that are consistent with the Principles for Financial Market Infrastructures (PFMIs) issued by the Committee on Payment and Settlement Systems (CPSS) and International Organisation of Securities Commissions (IOSCO).

Alpana Killawala, RBI's principal chief general manager, acknowledged that the Clearing Corporation of India was authorised in 2009 to operate payment systems for securities segment covering government securities and collateralised borrowing and lending obligations.

In July 2013, the clearing corporation was designated as a critical financial market infrastructure (FMI) for oversight considering its systemic importance in financial markets regulated by the Reserve Bank. As such, it was subjected to regulation and supervision using the PFMIs framework thus necessitating its adherence to the Principles for Financial Market Infrastructure requirements.

Clearstream's triparty repo and lending rise 7 percent

Clearstream's global securities financing (GSF) services, which include triparty repo, securities lending and collateral management, increased by 7 percent year-on-year, the company reported.

The monthly average outstanding in December 2013 reached €594.8 billion, an increase of 7 percent over December 2012 (€555.7 billion).

For the year 2013, monthly average outstanding reached €576.5 billion compared to €570.3 billion in 2012, a smaller increase of 1 percent.

Clearstream also closed off the year with a record a record €12 trillion in assets under custody held on behalf of customers.

In December 2013, 3.25 million international settlement transactions were processed, a 7 percent increase over December 2012 (3 million). Of all international transactions, 83 percent were OTC transactions and 17 percent were registered as stock exchange transactions. For 2013, Clearstream processed 41.11 million international transactions, an increase of 5 percent compared to 2012.

Clearstream's investment funds services business processed 0.67 million transactions in December 2013, a 24 percent increase over December 2012 (0.54 million). In the year 2013, 7.86 million transactions were processed, a 23 percent increase compared to 2012 (6.36 million).

Short sellers were early indication of 2008 crisis

Actions of short sellers likely provided an early warning of banks' upcoming distress prior to the 2008 crisis, an academic study has suggested.

The report, authored by Hemang Desai of the Southern Methodist University, found a significant cross-sectional association between the banks' Q4 2006 financials and bank failures between 2008 and 2010, suggesting that the financial statements reflected at least some of the increased risk of bank distress in advance.

There was a dramatic increase in the level of abnormal short interest from 0.66 percent in March 2005 to 2.4 percent in March 2007 and a further increase to 4.48 percent in March 2008.

This increase in short interest is also accompanied by a sharp increase over time in the cross-sectional association between short interest and leading financial statement indicators.

The evidence suggests that short sellers apparently recognised that the banks' valuation and performance could not be sustained well before the crisis actually hit, said the report.

In contrast, Desai observed no real change change in analysts' recommendations, Standard and Poor's credit ratings and audit fees nor an increased sensitivity of these actions to financial indicators of bank distress over this time period.

Eurex Repo tops €200 billion

Eurex Repo, which operates Swiss Franc, Euro Repo and GC Pooling markets, reached an average outstanding volume of €222.6 billion across all repo markets in 2013, down from 234.7 billion in 2012. The secured money market GC Pooling hit a new record with an average outstanding volume of €153.8 billion, an increase of 6 percent year-on-year.

The international derivatives markets of Eurex Group ended 2013 with a turnover of approximately 2.2 billion contracts, a reduction of 100 million year-on-year.

The total volume for 2013 is comprised of 1.6 billion contracts traded at Eurex Exchange and 639 million contracts traded at the International Securities Exchange. This corresponds to a daily average trading volume of some 8.6 million contracts.


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At Eurex Exchange, the equity index derivatives segment was the largest in 2013 with a total yearly volume of 644.8 million contracts, down by 120 million year-on-year.

Derivatives on the EURO STOXX 50 index were the largest single product, with 268.5 million futures and 225.1 million options. The equity derivatives segment saw 382.2 million contracts (down from 411 million in 2012).

Higher yearly volumes were recorded in the dividend and volatility derivatives segments: dividend derivatives grew slightly and totalled 7.1 million contracts, an increase of 200,000. Volatility derivatives totalled 7.3 million contracts, an increase of 38 percent.

OCC sees 8 percent increase in new loans

OCC's securities lending central counterparty (CCP) activities saw an 8 percent increase in new loans from December 2012 with 93,274 transactions last month.

Stock loan activity in 2013 was up 26 percent from 2012 with 1,233,708 new loan transactions in 2013, marking the highest annual volume for stock loan activity to date. The average daily loan value at OCC in December was $72,489,182,819.

OCC cleared contract volume reached 4,170,855,768 contracts in 2013, up 3 percent from the 2012 annual volume.

OCC ended the year with cleared contract volume reaching 325,905,926 contracts in December, up 3 percent from the December 2012 volume of 317,190,974 contracts.

Last year marked the second highest year for OCC cleared contract volume to date, just 430,100,181 contracts behind the 2011 record volume of 4.6 billion contracts. OCC also reported a record year for futures and stock loan activity in 2013.

Exchange-listed options volume passed 4 billion contracts for the third consecutive year reaching 4,111,275,659 contracts in 2013, a 3 percent increase from the 2012 volume of 4,003,871,308 contracts.

Total options volume for the month of December was 320,209,356 contracts, up 2 percent from December 2012. OCC cleared an average of 16,314,586 options contracts per day in 2013.

Futures cleared by OCC reached 59,580,109 contracts in 2013, up 56 percent from 2012 and the highest annual volume for OCC cleared futures contracts to date. Total cleared futures volume in December was 5,696,570 contracts, a 22 percent increase from December 2012. OCC cleared an average of 236,429 futures contracts per day in 2013.

Qatar CSD goes private

The Qatar central securities depository (CSD) has been established as a Qatari private shareholding company.

The CSD is owned by both the Qatari central bank, and the Qatar Exchange. It has obtained a licence from the Qatar Financial Markets Authority (QFMA). QCSD will operate from its head office in the Qatar Credit Bureau Building.

QCSD's functions include safekeeping and settlement of securities as well as securities lending and borrowing settlement, management and follow-up of the non-Qatari shareholders' equity, registration and authorisation of exchange-traded funds

Register of all current shareholders recorded in the Qatar Exchange's central registration department will be transferred to the CSD. Qatar Exchange systems will be linked to the CSD's systems to enforce transfer of listed companies' shares at the Qatar Exchange between sellers and buyers.

In addition, all corporate actions applied to the shareholders' registry will be conducted only by the company that has all potentials required to facilitate the affairs of the shareholders and customers through the customer service lounge and the CSD's website.

OneChicago CEO cites lending in 2013 success

Equity finance exchange OneChicago has confirmed a December 2013 volume of 1,174,205 and a total volume of 9,515,194 for 2013.

David Downey, CEO of OneChicago, said: "It is very simple. Lowering your cost structure provides higher yields and a competitive advantage. Customers using the security futures products are able to carry equity positions on much more favorable financing terms than traditional margin loans while allowing the customers to capture the benefit from the value of the position in the securities lending markets."

In December, open interest stood at 489,272 contracts on the equity finance exchange at close-of-market, and 1,155,399 exchange futures for physicals and blocks were traded. December 2013 EFPs and blocks activity represented $5.7 billion in notional value.

Downey said: "2013 was a breakout year for the [futures] product as customers began to grasp this concept. In addition, CTA participation increased dramatically as we were successful in introducing the futures side of the world to the vast liquidity pools on the equity side. We anticipate this will expand in the years to come."

Fraud rumours send Mindray Medical rocketing

Whisperings of fraud are continuing to distress Mindray Medical, with a high amount of the Chinese firm's stock having been borrowed since October.

DataLend's most recent statistics showed that Mindray Medical has a current utilisation of

88.14 percent. The stock, which has 25.3 million shares on loan, spent most of last year in the general collateral territory, but fees to borrow shot up in late November.

China's largest medical equipment manufacturer manufactures and markets medical devices for both human and veterinary use, but has had to vigorously defend its firm in the light of fraud accusations.

Ottoman Bay Research issued a report in December 2013 that made some damming charges against the firm, even including pictures that compared the firm's own photos of an illustrious looking research and development centre that stood in stark contrast to Ottoman's picture of a gated field.

The research company went on to claim that the Chinese firm masterminded "accounting shenanigans": moving cash through a complex maze of offshore subsidiaries to inflate sales, significantly overstating the earnings power latent in the business, and inflating revenues by 30 percent.

It added that despite what appears to be a rich balance sheet ($1 billion as of 30 September 2013), that Mindray was a serial capital raiser and borrows from capital markets any time the company needs to pay out cash.

"A company reporting over $1 billion dollars in cash should not have to rely on debt or equity financing to fund its recurring annual dividend or a $101 million acquisition," said the report.

It noted that the US Securities and Exchange Commission had six correspondences with the firm since 2012, and that it had submitted its documents to the SEC for further review.

But a mere day later, after the stock tumbled 11 percent, Mindray hit back. In a public statement, the firm said that its financial statements had been audited by independent accountants, PricewaterhouseCoopers (PwC), which has also been acting as Mindray's auditor since 2008.

It added that the research report took information provided to the SEC out of context in an effort to discredit the company's financial numbers, and that photos "purportedly taken at Mindray's Nanjing and Zhongguancuan facilities … are of our completed Changping, Beijing facility (not our Zhonguancuan facility)."

The statement helped the stock bounce back somewhat, and it closed up 4.2 percent on 13 December, with the Bank of America setting a $40 price target and raising its recommendation from neutral to buy.

Since then, utilisation has stayed high, with much of the Chinese firm's stock having been borrowed since October.

DataLend's current statistics on the stock see it with 28.7 million shares in inventory, short interest of 27.94 percent, and 29.32 days to cover.

"Fees to borrow Mindray Medical peaked in late November, rising 25 times above the rates from a month before," said Chris Benedict, vice president of DataLend.

"Fees dipped at the start of December as the stock price showed some improvement, but they have been rising again over the past month as the stock price fluctuates." However, Benedict added that fees today are at just half the levels seen at the November peak.

"Utilisation steadily rose for the six months to November but has been on a slight, gradual decline since then. Mindray consistently has been among the most searched-for securities on DataLend in the past few months, meaning traders are closely watching this stock."

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Tuesday, January 28
11:30 am

A Practical & In-Depth Look: The Business Implications of Global Regulation for Securities Lending Stakeholders

Kevin Bannerton
Managing Director,
Head of Americas
Liquidity Management

Tuesday, January 28
4:00 pm

The Beneficial Owner Viewpoint on Preparing for a Future Not Yet Defined: Rising Interest Rates; An Evolving Regulatory Environment; & Continuing the Chase for Alpha

Tim Smollen
Managing Director,
Global Head, Agency
Securities Lending

Tuesday, January 28
4:45 pm

Is Securities Lending Still Economically Viable? Understanding and Calculating the Costs of Business & Debunking Common Industry Misconceptions

Anthony Toscano
Managing Director,
Head of US Trading,
Agency Securities
Lending

Highest score Globally
Ranked #1 in eight categories (out of nine)
Global Custodian Securities Lending Survey of 13 global providers, 2013

Ranked No. 1 and No. 2 in Risk management and No. 2 in EMEA overall
Global Investor / ISF 2013

Best Global Investment Bank
Euromoney 2012

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Securities Lending: 2014 outlook

The recent SLT and Citi joint breakfast seminar looked at regulatory concerns and the future of fixed income

Despite the early hour, Securities Lending Times and Citi's joint breakfast seminar saw beneficial owners and industry participants eager to thrash out the changes taking place in the securities lending market.

The panel brought together experts from all sides of the securities lending chain, including: Gavin Callan, director of securities finance at Citi, and moderator of the discussion; Kevin McNulty, CEO of the International Securities Lending Association (ISLA); David Martocci, global head of securities finance at Citi; David Brand, head of short term product sales for Europe at Morgan Stanley; Roger Fishwick, director of investor services at Thomas Murray; and Joseph Molloy, head of index equities at Legal & General Investment Management.

McNulty kicked things off with a comprehensive and insightful look at the state of regulation as pertaining to securities lending. First assuring the audience that regulators were not picking on the industry unduly, he outlined four areas that are demanding the most attention at the moment: Basel III, the European Securities and Markets Authority's (ESMA) guidelines on exchange-traded funds and other UCITS issues, the Financial Transaction Tax (FTT), and the Financial Stability Board's (FSB) work on shadow banking.

Basel III reforms are going to require banks to adapt all of their activities, including securities lending and borrowing, to set aside more capital than they have historically—and McNulty explained that ISLA has set up a working group to consider how the market might need to evolve to better serve its clients in a world where capital is constrained. The specific issue McNulty had with Basel III—and where ISLA is lobbying for change—was to do with the leverage ratio.

"There was a proposal put forward in 2013 to treat secured financing transactions in a very specific way for the purposes of the leverage ratio, which is essentially a deliberately blunt mechanism to cap the activity of banks (relative to their Tier 1 capital)," said McNulty.

"The issue is that secured financing transactions such as securities lending and repo would need to be recorded on a gross basis, and that might limit some activity, particularly for the fixed income department. But we're hoping to change some of these rules and ease the situation."

Brand gave his view on how Basel III could reduce bank demand in securities lending activity. With potential systemically important financial institution (SIFI) buffers and counter-cyclical buffers, Brand foresaw banks needing to raise their Tier 1 capital ratios, in some cases significantly—either by raising capital or reducing their balance sheets. Brand noted that there could also be a potential requirement to gross up repo balance sheets, which could also affect demand from banks and a reduction or increased cost in current market financing opportunities.

McNulty next detailed ESMA's guidelines that deal with UCITS funds, which were released last year. Fishwick jumped in to explain the one worrisome aspect of the guidelines; that a UCITS fund manager should not be able to take a return from the securities lending carried out on behalf of the fund. This would be a significant change to the current practice, and ultimately mean that there are no incentives for managers of UCITS funds to lend assets.

But McNulty answered that although this created a lot of initial concern about whether a UCITS manager which acts as securities lending agent could charge commercial fees for their service—ESMA has clarified that it is acceptable for them to be paid "normal compensation".

"The authority was more concerned about fund managers taking a cut in addition to what the agent may charge—a three-way split type of arrangement. It's a little unclear how national regulators are viewing these arrangements. It seems to us, in the way ESMA has worded the guidelines, that fund managers can make a charge that covers the cost of servicing securities lending programmes provided these are fully disclosed."

As the discussion on regulations progressed, the FTT came to the fore.

The panel observed that the FTTs implemented to date have exempted securities lending transactions, while the potential FTT from the group of 11 EU countries considering it would not meet a 1 January 2014 implementation date, but that further discussions were likely to take place during 2014.

The FSB's definition of shadow banking—which includes some elements of securities lending such as the reinvestment of cash collateral—was another item on McNulty's agenda.

For more than two years, the FSB has focused on how to regulate the securities lending and repo markets, and now has 11 final policy recommendations covering transparency, collateral management and CCPs.

McNulty stated that broadly, ISLA thinks that these policy recommendations are fine. However, there are reservations about proposals for the regulation of haircuts. The consultation period on this ended in November 2013 and ISLA submitted a joint response with the European Repo Council, expressing concerns over the scope of the proposals.

"There are two issues," McNulty explained. "[The FSB] would like to impose what it calls numerical floors on haircuts, ie, if you're in the business of providing secured financing, you cannot do certain types of business with a haircut below a certain level. The FSB is attempting to exempt cash collateral and certain collateral upgrade businesses. It's rather technical, but we think that the language used to exempt those businesses is a bit flawed."

"The other side is requiring everyone in the market to have a methodology that has minimum standards to set haircuts. We think, for a securities lending market, that is a bit confusing, because if everybody has to have one it's a bit unclear who has to give who a haircut, so we want clarification on that."

As the discussion on regulations came to a close, McNulty summarised by saying that the industry is, year-on-year, in a better position. "There is greater clarity on the regulations and how they are evolving and a key objective for ISLA in 2014 will be to continue to monitor and influence their development."

Collateral transformation

Callan's next question was to do with collateral transformation, described by Fishwick as "the great white hope" of the industry. The US has already implemented the Dodd-Frank Act, which has required a lot more collateral to be deposited with CCPs, and the European Market Infrastructure Regulation (EMIR) will kick off in the eurozone in around 3Q 2014.

CCPs, stated Fishwick, are going to require "good-old high quality government bonds" and supranationals. "They won't take corporate Europe bonds, because they're being pressured to look into taking equities, and they're also being pushed into looking at taking the likes of gold as collateral."

As to whether beneficial owners are looking at these collateral transformation trades, Fishwick stated that their interest will have to be pushed by the agents. He then asked Molloy whether, on the fixed income side, he could see Legal & General lending out all of its government bonds and taking in equities as collateral.

Molloy answered in the negative, but quantified this by explaining that Legal & General does not lend fixed income as part of a collateral transformation trade as existing collateral requirements for stock lending mean that G7 (excluding Italy) government and AAA-rated supranational bonds will only be accepted as part of collateral requirements.

Molloy went on to say: "But I would say that it's changing quite quickly, so I would never say never. At the moment, it would go against what we think is a good stock lending ethos. We acknowledge that securities lending is not free of risk. However, we believe that the risk involved can be mitigated and controlled effectively."

"We have been offering our service in this area on the principle that we must avoid any potential for conflicts of interest between ourselves and our clients. For this reason, we have decided that all revenue from securities lending (net of administrative charges) should go to the fund for the exclusive benefit of clients."

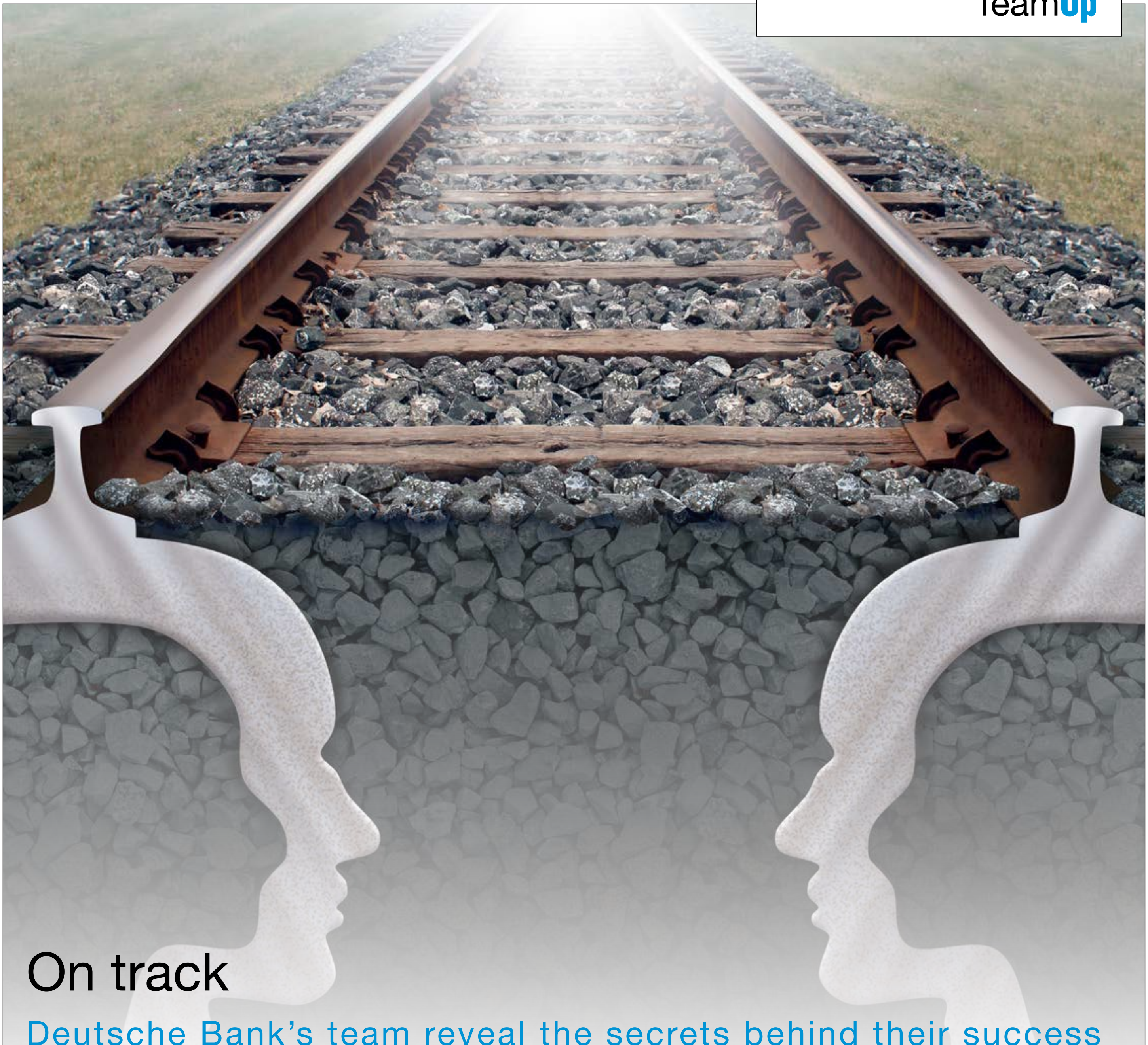
He explained: "Accordingly we ensure that: (i) securities lending is undertaken only in markets where we believe that the expected return considerably outweighs the risk involved, and where the risk can be controlled effectively. For these reasons, we only engage in markets where we consider there is a well-established securities lending market; and (ii) no compromises are made in terms of the quality of either the collateral or the counterparties."

"We are currently reviewing new stock lending markets such as Malaysia and Russia, where further risk/return analysis will take place before execution."

Fishwick went on to question where new fixed income collateral will be coming from, given that insurance companies are all facing Solvency II and will have to figure out how their lending practices fit into its parameters. He suggested that sovereign wealth funds will hopefully will be more proactive in their lending—and that China on its own could solve the collateral crunch, with its $2 trillion of US government bonds.

Martocci was more upbeat: "Will collateral transformation bring back fixed income? Maybe not in the same way that we have known it, but there will be increased demand for high quality assets. The agent lender is ideally positioned to facilitate these trades to support the market needs. This will hopefully lead to increased lending and borrowing opportunities for beneficial owners."

Martocci concluded the discussion on a positive note by reflecting on how adaptable the industry has been since its inception and how, as an essential part of the financial markets, it will continue to adapt and play a prominent role in the future. **SLT**



On track

Deutsche Bank's team reveal the secrets behind their success

GEORGINA LAVERS REPORTS

The core members of the Deutsche Bank agency securities lending (ASL) group have more than two decades of experience throughout the industry, overseeing all aspects of securities lending services. Twenty years on, Tim Smollen, Anthony Toscano, Frank Gambino, Jay Schreyer, Fredrik Carstens as well as Mark Tisi, and Peter Carter, remain together as the Deutsche Bank ASL management team that continues push their business into new markets, with new ideas, to court new clients.

How have you been able to keep the team together in a business where staff are continuously headhunted?

Smollen: Our team has been together for more than two decades, and we have been able to constantly evolve and grow the business, keep everyone challenged, and continue to keep our business model fresh. There's a tremendous amount of camaraderie within the team in each of our locations. We are able to keep all functional components of the team physically together and operating as one business and with one agenda

In each of our locations, we have trading, client service, marketing, middle office, and IT. Everything is based on what the client wants and is customised to their needs. We believe that there's a lot to be said for keeping the team together as one cohesive unit, which also keeps us extremely focused.

We encourage mobility within the team and between our various locations. There are numerous examples of client service staff members who have come from our middle office, and traders who have come from our client service business.

We offer everybody an opportunity to take on different responsibilities within the business, which provides us with a well-rounded team who have seen all aspects of the business.

Toscano: For a long time, we've been running a large global business but with a boutique feel to it, challenging ourselves to grow beyond pure profit and find success in new markets, and win clients that diversify our client base.

The team has grown together, and so we have a very deep respect for one another.

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Gambino: We've created a business at Deutsche Bank that is very entrepreneurial, and that has kept us very nimble. We have all had experience working on the custodial lending side, which sometimes operates more like big machines—with our team and in our environment you are able to see your visions come to fruition quickly.

Schreyer: Through the years, because of the way our business is set up, we are constantly evolving, which gives people within our team room to grow without having to move on. We are constantly figuring out ways to expand the business, or to reach new clients. This gives us the ability to have members of our team stay in the same position, while continuing to grow individually.

Carstens: We've been able to keep the team quite lean while still being extremely efficient. Traditionally, big providers employ far more individuals and the larger they get in size, the more complicated and bureaucratic they become. A smaller team of course means that some of us wear more than one hat, but we believe that speaks to the level of experience each of us have and the service we are able to provide. We've worked as this same team over a long time—but it always feels new.

Smollen: One of the most important aspects of building and maintaining a great team is encouraging the right work-life balance. This team has been together for a long time and many of us have families and kids, and it is important to understand that people's families always come first. We encourage everyone not to lose sight of that and that is likely one of the reasons why many people stay with the team.

What is your perspective on Deutsche Bank's position and brand in the market?

Smollen: Historically, the perception in the market may have been that we were primarily a fixed income securities lending business. That probably speaks more to our early days, when many of our first clients were central banks and sovereigns, which happened to own a lot of fixed income.

Ironically, our growth has really been more on the equity side, particularly within the last five to seven years. While fixed income is our bread and butter, we have certainly put a tremendous focus on equity lending. When we look at portfolios, we are very interested in those that are diversified across all asset classes. You'll find that there are some lending boutiques out there that will only go after equities, but we do not.

Toscano: Collectively, we have had many experiences operating in different types of markets—whether that is working during rising or falling interest rate environments, FX crises, counterpart defaults, etc. We have taken those experiences, built tools to manage risk on our desk, and come up with ways to take advantage of opportunities to generate spread for clients in a manner that fits their risk profile.

Schreyer: Here are a few examples of how we have been at the forefront of a lot of these events in the industry: we started doing third party lending in 1992 on a very manual basis for our first clients in the US In 1993; we started lending in Europe with clients using a European provider as custodian; and started taking non-dollar cash collateral in London in 1992.

A lot of people claim to have invented third party lending, but for us, it's been a basis for a lot of what we have done over the years. We have been less concerned with size and more focused on partnerships with our clients, and being able to grow those partnerships.

How has the team handled the trend of de-risking?

Toscano: After the credit crisis and a long stretch of a low interest rate environment, we quickly recognised that a good place to extract value was through the securities that we had out on loan. What we have done is brought the term 'intrinsic value lending' to life—creating a process to extract and maintain value over the course of a loan's life, in order to compensate our clients in the best way possible.

That being said, we have clients that are not fearful of taking on some risk with their cash collateral, and that may speak a lot to our expertise as a third party lending agent. Clients that have chosen us have a certain level of sophistication as to how they're generating their income. Our clients have set numerous restrictions and limits for their programmes with us, but we've been able to adhere to those guidelines and at the same time develop lending strategies that generate positive returns.

Also, the client decision making in the last five years or so has been coming from a chief investment officer's office, rather than a COO's office. That may speak to the evolution out of an operational custody perspective, to the appreciation that this is a beneficial investment management product.

Schreyer: Because of the way we operate our business we have not needed to significantly de-risk our programme. Deutsche Bank's business has been set up as an asset liability management business, where we match off our liabilities with our assets and look to realise the lending value in the securities, rather than taking significant outright investment risk. We have seen a substantial increase in interest in this approach and many of our new wins are clients looking to de-risk their legacy programmes.

The other area on which we have focused in the last couple of years is continuing to build out our suite of risk management reports for our clients. We also have a dedicated team of risk specialists focused on securities lending, who not only measure and monitor the risk in the business, but also participate in client reviews. **SLT**

Anthony Toscano
Co-head of ASL in the Americas. Over 20 years of experience in securities lending, Toscano is based in New York and is responsible for trading strategies and risk management

Frank Gambino
Co-head of ASL in the Americas, alongside Anthony Toscano. Gambino has more than 20 years of experience primarily with a background in operations, and more recently with front-office client service

Jay Schreyer
Co-head of ASL, EMEA. Schreyer is based in London working in securities lending for 20 years responsible for trading

Fredrik Carstens
Co-head of ASL, EMEA alongside Jay Schreyer. Carstens is based in London, looking after client marketing and relationships with over 20 years in the industry. Carstens and Schreyer's teams focus on Europe and the Middle East as well as APAC via its offices in London, Frankfurt and Hong Kong

Tim Smollen
Global head of Deutsche Bank's ASL programme, is also the regional head of direct securities services in the Americas. Smollen currently oversees its 60+ strong lending team based in New York, London, Frankfurt, and Hong Kong. Smollen has over 22 years of securities lending experience and spent 15 years of his career based in London and is now located in New York

How low can you go?

Paul Wilson, the global head of agent lending product for J.P. Morgan, gives his 2014 predictions—which do not include a one-size-fits-all approach to pricing

It would be fair to say that 2013 was a challenging year for the securities lending business, and this was mostly driven by constraints on the demand side. The macroeconomic environment was tough, given central bank intervention and quantitative easing, coupled with very strong equity markets that resulted in somewhat subdued hedge fund activity. Last year was a year of generally lower volumes, lower spreads, and the consequence was lower returns.

All of these headwinds have come with the undercurrent of regulation, which—for the most part—has been impacting the demand-side of the business.

On the supply-side of the market, we continue to see that being positive. We still see new lenders coming to market, as well as existing lenders seeking ways to optimise their revenue from their portfolio by considering new and different things. That is very encouraging. With the demand side of the business being subdued, we have been careful as to how we have grown our inventory. If the demand simply isn't there, growing supply for supply's sake will likely exacerbate the problem, and spreads will decline further because on this imbalance.

Pricing

It is difficult to predict with any degree of certainty what is going to happen to pricing, as there are numerous factors that go into determining the fee split. You also have to understand the starting point for the agent or client, as well as the size, scope and breadth of services. Given these factors, pricing will not be one-size-fits-all, and I don't see fees going one way or another. I would point out that post the financial crisis, the market environment has become one where volumes are lower, demand is reduced, and spreads have narrowed. However, the market is also far more transparent: there is better reporting and technology, and indemnification is probably broader than it has ever been.

The result of this is that is that the securities lending market continues to be highly competitive, with a wide array of choice for the beneficial owners. I think that has been a very positive consequence for the industry, and I actually don't see those dynamics changing. I think that the winners will adapt, innovate and find new and different ways to enhance the returns for their clients.

Our pricing is incredibly unbundled and incredibly transparent. We talk to our clients constantly about returns, how they are generated, how that compares to benchmarks and how returns can be enhanced. I would suggest that there is a tipping point on fees. There is a level below that we won't go if we don't feel we are being paid appropriately.

Supply

We are seeing clients becoming more comfortable with emerging markets such as Taiwan, South Korea, Brazil and Malaysia—and emerging markets are something that we are widely recognised as being the market leader in (for example, we are still the only international lender that is active in Brazil). We do see some improved opportunities with collateral upgrades trades particularly in term, say three months.

There is also some opportunity in more developed markets, particularly for beneficial owners which are holders of high quality liquid assets. There is good opportunity to do decent profitable upgrades there. We are also actively expanding the range of collateral within the programme.

Advances in risk management

Risk management can mean different things to different people. It doesn't mean the broadest array of indemnified collateral, which is something I have heard many times. Because one agent might indemnify something another agent doesn't, this doesn't imply they can manage risk better—it could be the opposite.

Risk management practices have definitely evolved, and the way we look and manage risk has evolved. We spend a lot of time, for example, analysing event risk that was born out of the global financial crisis, Lehman Brothers, the euro crisis, etc. We spend as much time on this as we do managing risks associated with collateral, counterparties, liquidity, markets, etc. Our business resides within the corporate and investment bank at J.P. Morgan, and so we are able to leverage the tremendous strength, expertise and resources that J.P. Morgan has as a firm as part of the risk management of the business.

2014 predictions

For 2014, the key industry will be heavily focused on regulation, specifically Basel III, the European Financial Transaction Tax, and the Financial Stability Board's (FSB) shadow banking work that includes securities lending and repo. Basel III (and the Collins Amendment under the US Dodd-Frank Act) may mean that large US banks will be required to calculate regulatory capital ratios using both an advanced and standardised approach and to apply the more conservative of the two.

We are monitoring how all this regulation is going to affect our clients, the industry and us. The most notable aspects of the FSB recommendations are the potential advent of trade repositories, and the distinction between lending and financing transactions that could have different (minimum) haircut requirements.

Regarding equity markets, we feel they will again be positive—not to the same extent as 2013— but there may be a bit more volatility (which as a result, may increase hedge fund activity). Equity markets have been strong, corporate profits have been improving and we are starting to see more M&A activity, which should be positive for some of the yield enhancement and specials activity. **SLT**


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Don't poke the hornet's nest

The SEC has not been kind to those found violating its Rule 105. Law firm Herrick Feinstein warns firms about the danger of non-compliance

GEORGINA LAVERS REPORTS

Enforcement aimed at preventing price manipulation has kicked up a notch in recent months, and one law firm is attempting to shed light on the consequences of ignoring the US Securities and Exchange Commission.

A publication by Irwin Latner and Patrick Sweeney of law firm Herrick Feinstein LLP, pointed to the recent charging of Charles Langston III as evidence that the SEC was ramping up its actions against those who violated Rule 105 of Regulation M, which condemns price manipulation in advance of stock offerings.

In December 2013, the SEC brought a complaint against Charles Raymond Langston III, charging him with insider trading and illegal short selling.

The SEC alleged that Langston conducted insider trading in advance of a public announcement that significantly decreased the price of AutoChina International Ltd's stock.

Langston, the complaint read, received material, non-public information concerning a registered follow-on offering of AutoChina's stock and then used that information to sell short 29,000 shares of AutoChina in advance of the company's public announcement on 24 March 2010 that it had completed the offering.

He made more than $193,108 in trading profits based upon the material, non-public information.

Langston is a resident of Miami Beach, Florida, who actively traded securities through numerous accounts owned by CRL Management and Guarantee Reinsurance at several broker-dealers. He managed to settle with the SEC by way of paying a fine, neither admitting nor denying the charges.

Latner and Sweeney gave an overview of Regulation M, Rule 105 in their article, which states that it broadly prohibits the purchase of securities in follow-on and secondary offerings when the purchaser has taken a short position in the securities within a specified restricted period, typically five business days before the pricing of the offering.

"Rule 105 is a strict liability rule, and the SEC need not demonstrate manipulative intent or scienter (intent of wrongdoing) on the part of the purchaser to prove a violation," said the authors in their article.

To comply with the rule, traders who have sold short shares of a security that are the subject of an offering during the restricted period must refrain from purchasing in the offering, unless one of the limited exceptions to the rule applies.

The article added that there had been a recent surge in SEC enforcement actions. In September 2013, the SEC charged more than twenty firms with violations of Rule 105, signalling a "renewed focus on enforcement", said the authors. The firms, including private equity firms, hedge funds, and registered broker-dealers, were alleged to have participated in firm commitment offerings after selling short securities that were the subject of the offerings.

A mismatched punishment

However, Latner and Sweeney seemed dubious at the severity of the commission, saying that there had been little regard to the magnitude of the violation or remedial efforts undertaken by firms following inadvertent violations.

The lawyers quoted a recent case, whereby a money management firm was given a $65,000 penalty, even though the firm took just $4,091 in profits as a result of the violation, took prompt remedial action, and fully cooperated with the SEC.

Another firm was required to disgorge profits of nearly $600,000 and pay a civil penalty of roughly $215,000 despite relying on the advice of outside counsel during its participation in the offering that was the subject of the violation, said the authors.

"Indeed, a National Exam Program Risk Alert recently issued by the SEC's National Examination Program and Office of Compliance Inspections and Examinations stresses that '[a]fter-the-fact remediation [does] not absolve a firm or individual from the violation of Rule 105'."

Best practices

Given the rather extreme severity of non-compliance with Rule 105, added to the fact that the SEC has historically not been kind to those who violate the rule (even if they have taken remedial action), Latner and Sweeney stressed any asset management firm or private fund which participates in public offerings—whether or not the firm is registered with the SEC—should review its compliance policies to ensure ongoing compliance with Rule 105.

"Firms should develop policies and procedures to ensure that adequate means exist for trading personnel to confirm that no short positions were added during the restricted period prior to participating in an offering. In addition to ensuring adequate policies are in place, thorough training of employees regarding the application of Rule 105 should be the benchmark of any firm's compliance programme."

"Earlier SEC orders have noted that violations are apt to occur where personnel either misunderstand or are unaware of the rule, and compliance manuals or other firm policies fail to address the rule." **SLT**

Regs to respect

Experts discuss regulatory upheaval in the US, and give their verdicts on the finalised Volcker Rule and the 2014 landscape

Keith Haberlin
Global securities lending co-product head
Brown Brothers Harriman

Lance Wargo
Managing director and head of securities lending, North America
BNP Paribas Securities Services

James Slater
Executive vice president of global collateral services (GCS) and head of the GCS securities finance group
BNY Mellon

Rory Zirpolo
Managing director and head of securities lending
Cowen Equity Finance Group

Anthony Toscano
Managing director and head of US trading, agency securities lending
Deutsche Bank

Dan Dougherty
Global co-head of sales and marketing
EquiLend

Paul Wilson
Global head of agent lending product and portfolio advisory/investor services
J.P. Morgan

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

George Trapp
Senior vice president and head of North American client service
Northern Trust

Doug Brown
Senior managing director and head of business development/relationship management, Americas, securities finance
State Street Global Markets

There is increased optimism for markets—does securities finance business in the US reflect this, and why?

George Trapp: The past year has been very good for the securities lending segment of the market. Demand has remained fairly consistent and with expected increases to M&A activity, and healthy equity and fixed income markets, the outlook is positive.

Doug Brown: We expect an increase in M&A paid with stock in 2014, an increase in IPO activity that may yield lending opportunities, and the central bank to begin tapering—all of which are expected to benefit the securities finance market. We also anticipate market participants to remove or reduce flat-lined monetary policy from their modelling, so traditional fundamentals will likely play a larger role in the markets. We think this should result in an increase in shorting activity. The policy change will also likely help incrementally increase spreads in the fixed income markets in the coming year.

Similar to 2013, we expect high levels of corporate bond issuance to continue, given the low-interest rate environment, creating strong opportunities in the high-yield bond space. We're also seeing the US Federal Reserve's role in the repo markets growing, which is a positive sign with respect to overnight liquidity.

James Slater: There are a number of market forces a play. Last year saw both Standard & Poor's and the Dow Jones indices reach historical highs. Although we are still positive on the markets in 2014, we do not believe that the current growth rate is sustainable.

Last year, long bias kept shorts to a minimum, with specials very crowded. Combined with market rallies, lending activity was impacted significantly. We saw rehypothecation, broker-to-broker trading and equities used as collateral, which is now a requirement for utilisation, as opposed to a premium.

Lower volatility persisted through 2013 as the US equity markets' VIX averaged 14.23, compared to 16.01 the previous year. In 2014, we hope to see more volatility as opposed to straightline growth. Short interest remained stable, but considering the upside in the indices this really implied a downward trend. The early indicators for 2014 point toward increased cross-sector shorting.

Finally, M&A activity steadily increased in 2012, whereas we saw choppy deal flow in 2013 (the highest in Q3). These indicators point toward increased activity in 2014.

Keith Haberlin: While the demand environment has undoubtedly been in a cyclical low, there are reasons to be genuinely optimistic about the outlook for securities lending.

Chief among these is the growth in hedge fund assets driven by retail and institutional investors increasingly turning to alternatives as a way to reduce volatility. Unfortunately, uncertainty over monetary policy and the prolonged equity rally means hedge funds have not deployed those inflows into strategies that drive demand to borrow securities, but this is cyclical and should change as monetary policy begins to normalise. Additionally, an increase in M&A activity, which we're beginning to see already in 2014, and a return to more normalised interest rates will further stimulate the return environment for lenders.

Our message to beneficial owners therefore is to position themselves so they are able to optimise the opportunity when the return environment improves which we believe is not too far away.

Ed Marhefka: From a US perspective, given the continued steady (sometimes choppy) uptick in broad indices and stocks, the opportunity for long-short strategies to recover is still questionable. This can also impact high frequency trading because computer driven models are starved for short signals.

The US Dodd-Frank Act and other (proposed) regulatory changes are far from solidified as only around 40 percent of the regulations have been properly vetted and the industry (the Risk Management Association, the Securities Industry and Financial Markets Association, and firms) are still weighing in to influence the final versions. The majority of this is not expected to be completed until 2016.

While the Federal Reserve has reduced its quantitative easing programme, it is still a real event, and coupled with regulatory uncertainty and a shortage of ideas, the short side will continue to weigh down the revenue spread for securities lending participants.

In addition, the steady and continued need for dealers to maintain longer dated, durable funding under tighter balance sheet parameters will continue to keep the focus in repo markets in a 'defensive' mode versus a more aggressive, revenue generating mode.

Demand for collateral could provide some opportunities, but we expect this will be a slow steady growth rather than a big bang.

Dan Dougherty: Without a doubt, the equities markets in the US and beyond accelerated in 2013. According to DataLend data, the total securities lending inventory value of US stocks has continued to increase over the past six months alongside the stock markets themselves, while the total on-loan value has been more or less stagnant—which, among other things, reflects faith in the markets. However, while in some cases securities lending revenues have declined on the back of these rallying markets, the US securities lending industry as a whole remains strong with more than $3.6 trillion in US equities alone in total inventory value.

Lance Wargo: There is definitely increased optimism for the markets and securities finance business in the US does reflect this. Specifically, we have seen many beneficial owners, which have stayed on the sideline since the financial crisis show their interest of returning to the marketplace. Indeed, some have already re-engaging in securities lending. Furthermore, some beneficial owners which have never conducted securities lending business have also started to evaluate their securities finance strategies. In our opinion, all of these are attributable to a sounder financial system and a healthier financial market. It is also worth pointing out that a clear picture on the regulation front is also beneficial to the increased optimism.

Anthony Toscano: Optimism is a relative term and is applicable depending upon which market you are speaking. The securities financing business continues to heal itself from the damage caused by some during the credit crisis. In some cases, clients no longer feel as though they need to stay with the provider they had during the crisis and are now moving to new providers for an opportunity to wipe the slate clean. Securities lending has gone through a period where it has been redefined and it now generates revenue principally from the lending of securities rather than mostly through the cash reinvestment.

Paul Wilson: The macro factors affecting the industry are still generally blowing to the negative, most of which are dampening the demand side. The US market is by far the largest in terms of lenders and also securities borrowed but continues to fair relatively well, albeit better in respect of equities rather than fixed income. We see regulation for example as both a headwind and opportunity and this is particularly evident in the US market. We are encouraged by the strong desire from lenders to engage in securities lending and their appetite for new revenue opportunities and overall we are encouraged by our growth opportunities in the US market.

Brown Brothers Harriman BNP PARIBAS BNY MELLON COWEN GROUP Deutsche Bank

Rory Zirpolo: There is corresponding optimism because as recent Federal Reserve tapering actions make markets start to become healthier, it should result in increased hedge fund activity in markets after the initial reaction to tapering has passed. Increased hedge fund activity will prove to be a key driver for securities finance. If leverage is up, funds are larger and for a given shorting strategy a fund may therefore have more shorts. Funds with long/short strategy mandates have been predominantly long over the last year as shorts were hurt due to a 30 percent rise in the broad market.

The common view of the 2014 US equity market is that gains comparable to 2013 will not be replicated and that a return to volatility will give PMs the confidence to short once again. A combination of these and other factors may support an optimistic view.

How does the US regulatory landscape look today compared to last year?

Trapp: Certain key regulations affecting US agent lending activities (such as US implementation of Basel III capital rules, Basel III leverage ratio and the Volcker Rule) were finalised last year, but other regulations are still in proposed form, such as those affecting counterparty limits and transparency.

Dougherty: Counterparty concentration limits, new capital rules and leverage ratios, proprietary trading restrictions—those are just a few examples of changes afoot in the regulatory landscape. And securities lending industry participants are facing not just US regulations but regulations from around the globe, of which there is no shortage. Despite this, we have not seen any evidence that firms have scaled back on their securities lending activities—just the opposite, in fact. The number of transactions via EquiLend and BondLend continues to grow.

Marhefka: Last year was clearly the year of implementation in the swaps market that are overseen by the Commodity Futures Trading Commission (CFTC), with reporting, clearing, and business conduct rules being put into practice. While the trading on electronic platforms for swaps started last year, the bigger change will occur over the coming months when such trading will become mandatory for the most liquid swaps.

It will also be interesting whether we will see some final rules from the Securities and Exchange Commission (SEC) in relation to the securities-based swaps markets. Apart from that the Volcker Rule and the final rules for margins for uncleared swaps will be two major further drivers of changes in market structure this year.

Brown: While regulators have made significant progress on capital and market rules over the past year, uncertainty still remains. The large exposure limits continue to be the most significant concern as the current proposal could significantly affect indemnified loan balances. The standardised risk-based capital measure would also have a substantial impact on the cost of capital associated with indemnities. Since all banks will be required to use this measure in the US, it will have a material impact on the market. The leverage rules were just eased somewhat and will allow for limited netting of securities financing trades, which should be a positive for the market.

Wilson: During 2013, there were a number of preliminary rules and consultations. This year should provide further clarity around what the final regulatory landscape will look like. The one change that did emerge over the past year is that there appears to be an increased level of global coordination in some areas (single counterparty concentration limits and the leverage ratio) with the Basel Committee taking the lead.

Also, agent lenders are starting to assess the impact of the upcoming capital rule changes. For example, hardly a day goes by when something isn't written about the adoption of Basel III and the Collins Amendment within Dodd-Frank the fact that large US banks will be required to calculate regulatory capital ratios using both an advanced and standardised approach and to apply the more conservative of the two. It has been said this may create an uneven playing field across securities lending agents in the US.

Haberlin: Similar to last year, we can expect 2014 to be extremely busy for regulators, although the focus will be more on the refinement and finalisation of proposed rule makings rather than the introduction of new regulatory initiatives.

The completion of the Volcker rule in 2013 represented a significant hurdle for US regulators, not only in terms of the rule's potential significance, but also in terms of the resources dedicated towards the final rule making. With the freeing up of these resources, we can reasonably expect US regulatory authorities to turn their attention to making progress on a number of other significant long-term

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pending regulatory initiatives. Key among them will be Dodd-Frank, most notably Section 165(e) (the single counterparty credit limit), money market reform, and implementation of additional shadow banking rules given the finalisation of the Financial Stability Board's (FSB) recommendations.

In terms of new initiatives, we might begin to see more focus on direct regulation of the securities lending industry by the SEC and continued analysis by the Federal Reserve on the impact of 'fire sales"'on asset prices during times of market stress.

Zirpolo: The FSB is comprised of a virtual team of national regulators, including the SEC and Federal Reserve in the US, the Prudential Regulatory Authority in the UK, and others. In the last year, their efforts to create a global framework to guide the work of constituent nations has matured and influenced the promulgation of regulation. This year will quicken the pace of this effort and bring more facts into the hands of the FSB and its members as quantitative impact studies are completed and returned for analysis.

Toscano: With each passing month, we get a better handle on the effects of proposed regulation. We have created strategies and have adapted our business so that it is responsive to the new regulatory environment while still delivering value to our clients.

Wargo: While the picture becomes clearer, the dust has not completely settled. There are still some conflicting messages coming from different regulatory bodies in certain areas. However, we have seen increased cooperation/coordination among regulators, which could speed up the progress on this front. The end results seem to be less harsh than initially feared.

Slater: The US regulatory landscape got a little more certain during 2013, with the issuance of Basel III capital rules as well a final Volker Rule. However, there's still some uncertainty in the landscape, especially as it relates to single counterparty credit limits, liquidity ratios and regulations due to be proposed by the SEC under Section 984 of Dodd-Frank. Adding to this, the industry will be watching Europe for the FSB's proposals with respect to minimum haircuts and the proposed pan-European financial transaction tax.

What's your verdict on the final Volcker Rule?

Zirpolo: The Volker Rule forces banks to return to traditional banking businesses by prohibiting proprietary trading and investment in private investment vehicles. By creating a regulatory framework that does this, banks have incentive to maximise return in those more traditional, controlled businesses. Securities lending is specifically affected through the inclusion of commingled cash collateral investment pools utilised by the large agent lending programmes. These funds provide a significant benefit to smaller lenders by enabling their participation in the market by offering liquidity and the minimum market yield required to sup-

port lending activity The potential exists for the exclusion of these pools, thereby excluding most smaller lenders from the market. The Volcker Rule was finalised in December 2013 and the latest version may provide the desired relief.

Marhefka: The Volcker Rule will definitely have a significant impact on how the financial industry operates, and we have already seen significant decisions in the recent past for firms to come into compliance.

Whilst one can expect that proprietary trading expertise will migrate from banks to other market participants as a consequence of the Volcker Rule, all of the larger banks with broader financial market activities will need to spend significant resources to establish compliance programmes and generate a whole range of quantitative measures for reporting to their regulators.

Providing evidence that the firm does not perform proprietary trading or it should be permitted to make use of the market making or the underwriting exception will be a resource and data-intensive exercise.

Toscano: It has changed shape many times since it was first discussed. As regulators seek to put an end to proprietary trading, we have seen an impact on demand from clients.

Wargo: The industry has made its case on the importance of certain activities to a healthy financial market and to maintain the leadership of the US financial system. We expect those activities—especially those conducted to facilitate clients, such as agency lending and market making—would be exempt from the Volcker Rule. Yet, we are going to see increased scrutiny—and the associated compliance cost—on this front going forward.

Haberlin: The Volcker Rule is very complex and reaches far beyond the potential implications for securities lending. Since its introduction in proposed form, numerous large financial institutions have restructured or altered their business models in order to comply with the rule's restrictions on proprietary trading. The implications for securities lending are more subtle and centre on the cash collateral side of the business.

In particular, the potential limitations that may be placed on an agent lender's collateral reinvestment offerings, specifically those that have relied on certain specific exemptions from registration requirements under the '40 act. It is difficult to assess the full impact of the final rule, however, it will be limited to those covered cash collateral vehicles that may not rely on an alternative form of exemption from the Volcker Rule and will be agent and lender specific.

Dougherty: The final text of the Volcker Rule has been released, but further questions have been raised about the clarity of certain aspects related to repo and securities lending. It likely will be some time before we fully understand how the securities lending industry will be impacted.

Wilson: The direct impact of the Volcker Rule on securities lending will be on cash investment options. Fund structures such as 3(c)(1)s and 3(c)(7)s, which are commonly used as commingled funds by agent lenders, are now considered covered funds. This means that agent lenders are prohibited from extending any credit to these funds (ie, to cover overdrafts) even on an intraday basis. Agent lenders will now have to make some decisions around what to do with these cash investment vehicles.

Options include turning these funds into vehicles not covered under the Volcker Rule, such as standard money market funds or other fund structures or move the cash to separately managed accounts. Generally, separately managed accounts have broader guidelines than standard money market regulated funds (2a7). A move to regulated funds will limit reinvestment options and opportunities and will increase competition for investments in what is already an overcrowded segment of the market. Added to this is the potential for 2a7 regulatory changes, which could further limit agent lenders' ability to deploy cash.

Brown: Overall, the Volcker Rule should be manageable for the securities finance market. It may require some changes to operating models, but compared with Basel rules on risk-based capital and large exposure limits, as well as proposed money market reforms, the Volcker Rule is a relatively low-impact event for agency lenders.

Slater: In the end, the Volker rule will not likely impact on the ability to provide indemnification to certain clients as originally suggested. However, the rule will ultimately require some changes to the way in which custodians provide services to certain co-mingled cash collateral vehicles.

Trapp: The final version of the Volcker Rule was somewhat disappointing because of the limitations placed on use of pooled cash collateral investment structures. That being said, the industry was prepared for the result. Beneficial owners should expect to see changes to investment structures as a result.

What is the cumulative effect of current and prospective rule changes on the US agent lending business?

Slater: From an agent lending perspective, if we consider indemnification for example, it will be much more expensive to provide. In the past, the capital that agent lenders had to set aside for this indemnification was commensurate with the economic risk. It was a relatively low cost for agent lenders to provide capital for borrower default indemnifications.

Fast forward, and under Basel III, regulatory capital associated with these indemnifications has gone up significantly, which ultimately increases the costs for the agent lenders, which offers that service to their clients. This was one of the topics at the RMA, from the perspective of how does that rulemaking impact activity and pricing going forward. As mentioned above, the impact of single counterparty credit limits is still unclear. However, the industry has worked hard to identify the unintended consequences and has to this point been successful in preventing any large-scale issues that are not within our ability to manage.

Wargo: Potentially higher capital charges, coupled with the limitations on counterparty exposures, could dampen both the supply and demand of securities lending. Intrinsic lending would continue to dominate the marketplace, and the emphasis on sound collateral management would become ever important. There has been increased focus on liquidity management on both sides of the trade, as could have a profound impact on pricing and market structure.

Wilson: I have a sense the industry is still working through this, but one thing is sure is that it will impact all participants in different ways, depending on how they manage their lending programmes and business today. I think for the near term there will be continued pressure on the demand side of the business and there will be a lot of industry chatter from agents on the impact of capital rules on indemnification. I think this will drive a more intense focus on business models, costs and profitability. We do see opportunities emerging from this and have been adapting our strategy to capture these.

Toscano: It has highlighted the costs associ-

ated with running the business and has given pause to many providers that have never considered metrics beyond lendable assets and securities on loan.

Brown: We don't expect regulations will affect demand with respect to high-demand (or special) securities, which currently generate about 70 percent of revenues for most clients. However, the proposed large exposure limits and standardised risk-based capital measures may result in reduced balances for general collateral trades. Other regulations, such as money market reform, may alter the structure of reinvestment vehicles and create obstacles to comingling cash collateral.

Trapp: The next year or two will likely involve some changes to programme offerings within the business. However, the impact and actions will vary by institution. With change comes opportunities and so it is important that beneficial owners remain engaged in their securities lending programmes as the regulatory changes work their way into the market.

Haberlin: The most significant cumulative impact is likely to be on the cost of providing indemnifications given these will draw on firm capital and credit lines to a much larger extent than they have to date. However, the impact on each lending agent and their subsequent response will differ depending on the agent lender's broader balance sheet usage thereof, their regulatory regime and programme structure.

That said, all lending agents will be focused more than before on ensuring that they are using their firm's balance sheet and credit lines in the most efficient way. This will mean that indemnifications will become a more valuable resource and the trend towards higher margin lending strategies will likely become a more secular one.

Dougherty: Much has been said about how regulations will affect various players in the securities lending industry, particularly about what custodians will do to meet new capital requirements and how that will affect agent lenders' indemnification agreements with their beneficial owner clients. The bottom line is that it remains to be seen what the outcome will be as the various regulations impacting this industry come into effect and play out.

How will beneficial owners be affected?

Haberlin: As mentioned, it's possible that agent lenders may review the commercial viability of supporting indemnified, low margin lending programmes that do not represent a good return on capital. Increased fee splits, removal of indemnification or a greater focus on more profitable intrinsic value strategies are all possible outcomes.

I think it's important to put the provision of indemnification into some perspective though. Lending transactions are after all fully collateralised with a margin that represents a strong risk adjusted return compared to other trades. The indemnification is an additional safety net, which while becoming standard over the years, is not a concept which exists in other investment disciplines and it's questionable whether its presence is critical if you have the right collateral and credit parameters. What is important is that you partner with a provider that has a strong track record in managing risk and you can trust to make decisions that put your long-term best interests first.

Trapp: As has historically been the case, the market is the true driver of what clients should expect from their programmes, so to the extent that regulations will still encourage and accommodate the securities lending industry, the long-term prospects should remain healthy. While on the surface the new regulations may point towards reducing volumes in the industry, they are also intended to increase the safety and stability of financial markets, thereby promoting long-term growth.

Zirpolo: Public fund lending programmes may be squeezed out if changes to regulation at the national level conflict with state statutes. Also, changes affecting cash collateral investment pools may result in separate account-only programmes. Lower investment yields may eliminate smaller lending programmes. Basel III impacts on indemnification may eliminate programmes by conflicts of law and/or compressed spreads

A combination of factors including those above may compress spreads further, thereby eliminating the profitability in many programmes.

Toscano: That would depend on who they have as their agent. We are hopeful the rule changes highlight the differences between providers and causes beneficial owners to choose securities lending agents based on the same criteria they would use to choose outside investment managers.

Wilson: It's hard to say with any degree of certainty as participants and beneficial owners could be affected very differently based upon a number of variables. I think we should look back and compare today's market to that of before the global financial crisis and there is now more transparency, more customisation, better reporting and technology, broader indemnification, and this all comes against a backdrop of lower volumes, reduced demand and narrower spreads. So the market has become highly competitive, with a wide range of choice, all of which has been good for beneficial owners, and I think going forward the market will continue to remain highly competitive.

Brown: We are still unsure as to the exact impact, if any, to all beneficial owners due to pending and proposed regulatory changes. We don't expect the impact to be equal, as lending structures, asset classes lent and collateral guidelines all vary. And the new regulations, as written today, assign different degrees of risk to different transactions.

First, securities lending providers and borrowers need to fully understand how their current programme parameters will affect their organisations' financial standing under the proposed and/or pending rules. Some trade structures may not ultimately provide enough return to warrant the capital or risk-weighted asset charges incurred in the future. I believe we will most likely discuss an array of options with our clients in the future, and we will continue to create structures that take risk and return into consideration.

Slater: Indemnified securities lending continues to play a vital role in the market as far as beneficial owners are concerned, and by extension agent lenders. But the rulemaking and related regulatory changes will ultimately have an impact on the cost of that indemnification, and the market must change to match it.

To consider how beneficial owner may be affected, take a look at how the agent lenders may choose to address this:

Agent lenders could try and charge the borrowers more for the securities, so they earn more. But, the margins in a lot of areas in this market are smaller so the opportunities versus the practicality of charging more may be limited.

The agent lenders could ask for more margin—additional collateral—that would help to reduce their own cost of capital for this service. And, it is possible for some transactions that this might be a strong option, but it ultimately only increases the cost of capital for the borrower. If they have to put up more margin, it will increase their cost, which probably is not all that viable in the long-term. Ultimately, it's the beneficial owner that enjoys the benefits and bears the costs. This may translate into a lower fee split for them going forward. For the beneficial owners that have valuable assets, the markets will find a way for them to continue on in a way that is consistent with their objectives and risk appetite.

At BNY Mellon, we recognise these challenges but also see opportunity to work consultatively with our clients to deliver the holistic solutions and services that will support their overall investment strategies. This is a remarkable period for the markets. Our clients and counterparties are equally challenged and we are working hard to partner and support their changing needs.

Wargo: There have been a lot of talks on the availability of borrower default indemnification after the implementation of new capital rules. It has become clearer that many industry participants may choose to offer indemnification on a somewhat selective basis. Alternatively, the agent banks may demand a higher fee split to keep the activity's economy viable. With the willingness of borrowers to conduct general collateral trades dampened by stricter regulatory leverage requirements, beneficial owners are facing a diminished demand for many assets they own. Yet, rising interest rates—on the back of a stronger economy—could compensate for some of the lost revenues on this front.

We're almost halfway through the decade—to what extent are in-house and outsourced systems matching the business in terms of sophistication?

Wilson: A robust and efficient operating environment is a critical component to a successful business model in the industry today. For our own part, we continue with our own multi-year, multi-million dollar investment and upgrade in core technology and in our client tools and reporting. For example, we just released our latest client dashboard with enhanced reporting using the very latest technology and applications. Our core technology is developed in house as we have found that better fits our needs and the needs of our clients, but we do leverage industry wide infrastructure such as Equilend to drive efficiencies in terms of connectivity for trading and post-trade activities.

Dougherty: We see continued investment in technology among agent lenders and prime brokers, particularly with regard to trading and post-trade services such as those offered by EquiLend. Existing clients of ours are looking at how to expand their usage of our services, and new clients around the globe are continuing to express interest in our offering as well. Securities lending market participants know that automating the trading of general collateral—and, increasingly, warm and hot securities—is the way forward, a trend that is very apparent from the growth across EquiLend and BondLend over the years.

Market data systems such as DataLend are also crucial for both lenders and brokers to ensure they are getting the best rates in their securities lending transactions. DataLend's considerable growth in the past year is evidence that industry participants know this and have made investments in this area as well. In addition, there is increasing demand for service provider systems such as EquiLend to integrate more seamlessly with client systems. We are working with our clients to enhance our trading functionalities to address these demands.

Wargo: There has been increased coordination between in-house and outsourced systems. There is no doubt that more could be done. Yet the market is moving in the right direction. Growing sophistication of the systems, coupled with increased cooperation among them, have greatly improve market efficiency and transparency.

Haberlin: While the industry is predominantly an OTC market, pre-trade and trade execution and transparency generally, probably present the greatest opportunities for advancement. Third-party utilities have been developed to address areas such as security locate, yield enhancement basket creation, and trade matching, but the most successful development has probably been the convergence of Equilend's various trading products.

Developments in the post-trade environment have been really successful and contributed to productivity gains in settlements, margin calculation, loan returns, billing and accounting. Collateral management is a particular focus given the changing regulatory landscape.

Lastly, beneficial owners' requirements for greater transparency are driving developments in reporting provided by agent lenders mostly in the form of in house systems, and increasing competition among performance benchmarking providers. Performance measurement has improved, but the OTC nature of the business and need to measure economic benefits over the life of a loan continues to create complexities in reporting for the industry.

Whilst the industry has certainly made significant advancements, the focus on efficiency, revenue and transparency will continue to create exciting opportunities for development over the next few years.

Brown: I'd say they match pretty evenly, as most large firms are using a combination of in-house and out-sourced technology. In-house systems allow you to build exactly to your business specifications on a proprietary and fully owned basis. There are some aspects of this business in which you want proprietary structures, as they may provide competitive advantages. On an out-sourced basis or industry-wide platforms, there are some very creative technology firms with new technology and broad market and competitor data comparison information. These firms need to be considered as part of one's overall architecture to compete effectively, as well.

As we move through the decade, I would continue to expect to see increased competition in the out-sourced space and more firms using out-sourced technology solutions.

Zirpolo: With financial institutions under pressure to deliver returns to customers and shareholders alike, they remain pressed for technology dollars to build optimal systems for their business (with a few notable exceptions). This constraint also limits many institutions' ability to spend on outsourced systems, though those are continuously increasing in their sophistication.

Resources and prioritisation are the two buzzwords that are spoken time and time again in the lending community.

The majority of all technology builds has previously been for the customer, the same can be said about legal, risk etc. The focus has now shifted more to the regulatory framework and systems that support it. In-house and outsourced systems, legal and regulatory manpower, and for the lending of securities or the onboarding of new lending counterparts, are taking a back seat to the need to dedicate a greater amount of resources to conform to the changing regulatory environment.

Toscano: We have found that the system an agent uses is less important than the reporting provided to the client and the staff administering the programme. In our experience, the reporting demands that various clients may impose on an agent are best met with the flexibility of an in-house system.

Trapp: Clients continue to seek an increased amount of information and this has been met with a number of different solutions, both proprietary and external vendor-driven.

Regulators are also seeking ways to increase transparency, so the industry can expect to see a higher volume of proprietary and vendor innovation emerge to meet ongoing regulatory standards.**SLT**

Anatomy of a re-rate

Chris Benedict, vice president of DataLend analyses the different approaches lenders take to re-rating stocks when news affects a company's stock price

On 24 October 2013, an influential research group blasted shares of NQ Mobile ADR (NQ), saying: "NQ is a massive fraud. We believe it is a 'zero.'"

While it is not our place to comment on the validity of the claim, investors clearly took the group at its word; the share price of NQ quickly plummeted by half that day, and the previously hot stock went ballistic in the securities lending market with volume weighted average fees to borrow screaming from 1000 to almost 9000 basis points (bps) within a few days.

In sifting through the aftermath of volatile trading for the remainder of October into November 2013, we asked a few questions: how did lenders with existing loans out in NQ Mobile react? How quickly, and by how much, were the loans re-rated? How did those re-rates compare to new loans being booked at the same time? We found some interesting results.

Taking a look at several agent lenders that had existing loans out in NQ Mobile before the news hit, we found a disparity among lenders in the number of contracts re-rated or returned, the number of days it took them to re-rate their existing positions and the new rates they negotiated with brokers.

NQ Mobile wasn't the only company to weather bad news last fall. Tile Shop Holdings (TTS) also faced a withering attack on 14 November 2013 in the form of a research report claiming the company had overstated earnings. The company's shares lost 40 percent of their value in a day.

Again, as we look at the outcome of the news, we saw that volatility in the cash and securities lending markets quickly ensued; utilisation soared to 85 percent, and fees to borrow went from a slightly warm 60 bps to a high of 3465 bps on 19 November. We saw a similar situation in TTS that we had seen in NQ: lenders took different approaches as to how quickly and at what rates they negotiated their contracts.

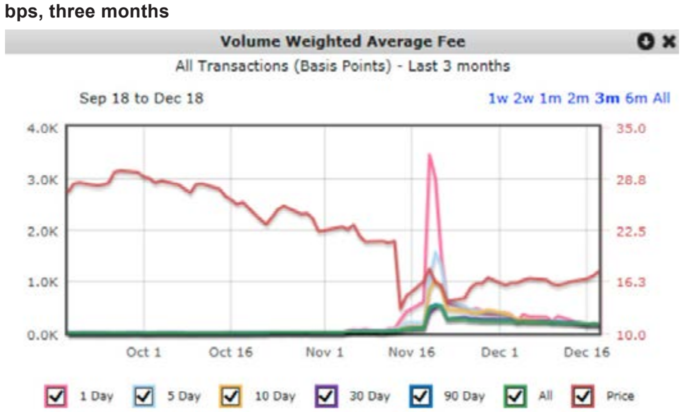
In both NQ and TTS, we saw some disparity in the time it took lenders to react to the headline risk that clobbered these companies, and in both instances the re-rate changes varied across lenders.

But in all instances across all lenders, we noticed that the re-rate increases were less than fees charged to borrow stock after the news hit the tape. The new loans consistently had higher average borrow fees than those of re-rated loans.

In the end, the lenders that found the balance between both the speed and the fee of the re-rate managed to maximise their securities lending revenue in these stocks.

Figure 1: NQ Mobile Volume Weighted Average Fee (VWAF) in bps, nine months

Figure 2: Tile Shop Holdings Volume Weighted Average Fee (VWAF) in bps, three months



Source: DataLend

Collateral opportunity

With the financial markets increasingly thirsty for collateral, Simon Colvin of Markit Securities Finance highlights the role of securities lending in meeting this demand

The US Dodd-Frank Act, and a plethora of other proposed regulations, will shape the face of the securities industry. One of the main topics of concern for the financial services industry is the mandate for the central clearing of OTC derivatives through one of the 80-plus (and growing) central counterparties (CCPs).

Key to centrally cleared trades is the CCP requirement for posting initial margin. While initial margins are generally low (0.5 to 1.5 percent of the notional value), the estimated $700 trillion scale of notional derivative trades has led to widespread expectations of a potential global collateral shortfall.

Collateral requirement

Trying to pin down the exact amount of collateral required by the various financial institutions looking to post collateral at CCPs has proven to be complicated. Conservative estimates from the Bank for International Settlements and others have suggested that OTC trades moving to central clearing could require global collateral of $1.4 trillion.

Add the fact that non-CCP traded collateral has been tipped to add another $1 trillion to this tally, along with the estimated $1.8 trillion needed for banks to hold assets for liquidity coverage under the new Basel III rules, and this pushes the total potential requirement to around $4 trillion.

The demand for collateral is expected to grow slowly and steadily, rather than the abrupt spike in demand that was originally expected.

There are two reasons for this: the legislation which will create some of the largest changes in the collateral picture is still only partly implemented. European financial firms are expected to switch to central clearing in 2014 and US pension funds are exempt until 2017. In addition, the regulations only apply to new trades and the largest category—interest rate swaps—will take time to roll over.

Securities lending collateral

While many in the world of finance have concerns about sourcing the additional collateral, the imminent need for more collateral is actually seen as an opportunity for securities lending.

This was emphasised in our recent collateral webinar with a near unanimous consensus (94 percent of respondents) within securities lending believing the collateral opportunity to be significant for the industry.

Respondents also unanimously agreed that 2014 will see an increase in collateral-related securities lending. Interestingly, the flow in collateral-related lending works both ways as there was also unanimous agreement that 2014 will also bring an increased need to locate collateral.

The fact that the collateral sourcing process will be a two-way flow starts to make sense when we see that equities are the third most popular source of collateral in our triparty repo database. However, no central bank accepts equity collateral.

Securities lending, with more than $14 trillion of lendable assets, provides just the type of collateral transformation engine that will be needed to efficiently manage and optimise the collateral needs of the financial industry.

Practical examples

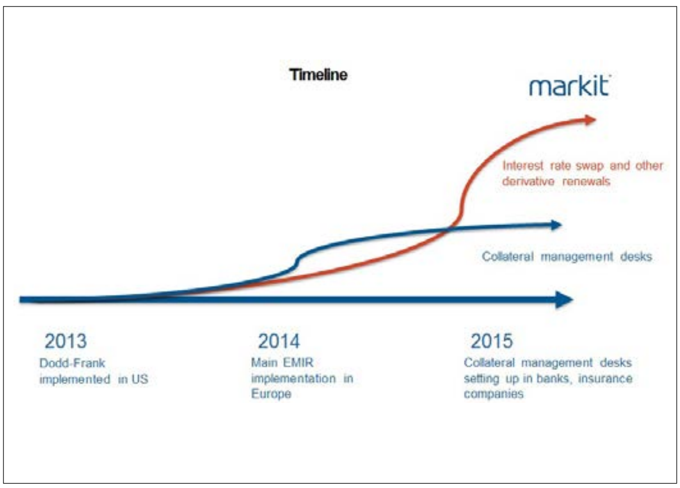
A practical example of collateral optimisation involves posting illiquid, but eligible bonds to a CCP: lending out eligible shares that have an expensive borrow cost in the stock loan market, and receiving further eligible instruments in order to optimise carry cost in a collateral trade.

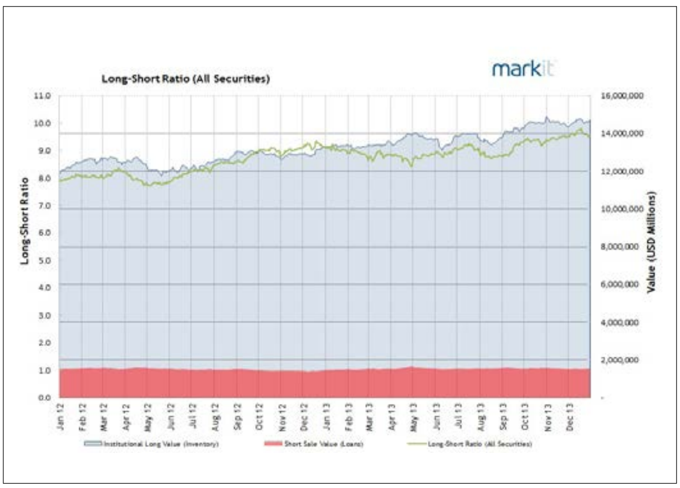
While this might sound too good to be true, several corporate bonds eligible as collateral in CCP collateral schedules have a stock loan fee greater than 1 percent. Using cases such as this require specialist knowledge. Seventy percent of the respondents to our survey communicated their plans to set up specialised collateral management teams.

Collateral challenge

Failing to meet the collateral challenge could see the financial system become less efficient as market participants choose to hedge fewer of their exposures. Securities lending provides the type of framework that can locate and provide eligible collateral, giving the financial industry a greater degree of flexibility to answer its collateral need. **SLT**

Simon Colvin
Research analyst
Markit Securities Finance





Industry appointments

Research and consulting firm Celent has named **David Easthope** as senior vice president of its securities and investments group.

Easthope first joined Celent as an analyst in 2005. Previously, he was a director of strategy at Charles Schwab. He has also held positions as a business strategist at brokerage firm Detwiler Fenton and equity research roles at Raymond James & Associates and Friedman, Billings, Ramsey covering companies in the financial technology industry.

Long-standing executive board member **Jürg Spillmann** has decided to retire at the end of the year from the executive boards of the Eurex companies.

Spillmann served as deputy CEO of Eurex Zürich AG and Eurex Frankfurt AG from their launch in 1998, and of the Eurex Clearing AG.

He will become a member of the board of directors of Eurex Zürich AG with effect from January 2014, and will remain on the supervisory boards of the European Energy Exchange AG (EEX) and European Commodity Clearing AG (ECC).

Spillmann made a decisive contribution to the migration of exchange-traded derivatives from local floor trading to fully electronic, global marketplaces, said a statement from Eurex.

Spillmann's roles in the Eurex executive board will be taken over by the existing executive board members.

The London Pensions Fund Authority has made the appointment of **Susan Martin** as CEO official. Martin has been interim CEO since August, and was previously deputy CEO.

Martin has been with the LPFA since 2007. A statement from the LPFA said that she will focus on delivering change at the LPFA and, should the minister so decide, within the wider Local Government Pension Scheme (LGPS), some of whose 89 funds are facing challenging times in meeting large deficits.

Martin's appointment follows the recent release of the LPFA's Annual Report 2013, which showed that the fund grew by £427 million during 2012 to 2013, to £4.6 billion.

The US Commodity Futures Trading Commission (CFTC) has named **Joseph Cisewski** and **Scott Reinhart** as co-chiefs of staff and co-chief operating officers.

He added that Cisewski and Reinhart had been instrumental in the 60 final rules, orders, and interpretations issued by the commission over the past two years, and that those efforts have been instrumental in bringing transparency to the swaps marketplace and in enhancing the soundness of the derivatives market structure.

In his role, Cisewski primarily will oversee activities in the CFTC's office of the general counsel, office of the chief economist, and divisions of swap dealer, intermediary oversight, and clearing and risk.

Reinhart primarily will oversee the activities of the CFTC's office of international affairs, including the agency's coordination with foreign regulators, and divisions of market oversight and enforcement.

Cantor Fitzgerald Europe has continued to expand its European credit fixed income team with the appointment of **Franz Bucher** as managing director in London.

Bucher will focus on high yield, distressed debt and special situations, and on expanding Cantor's presence in German-speaking markets.

He joins Cantor from the Austrian Raiffeisen Bank International (RBI), where he served as a senior director overseeing the company's work out activities in financials and sovereigns. Earlier, he oversaw RBI's credit opportunity desk, managing trading activities in high yielding bonds, loans and credit derivatives.

The Options Clearing Corporation (OCC) has reshuffled its leadership team, and appointed **Craig Donohue** as executive chairman, with **Michael Cahill** becoming president and CEO.

In his role as executive chairman, Donohue will preside over OCC board meetings and will be responsible for OCC's control functions and external affairs. As president and CEO, Cahill will provide oversight for day-to-day business operations, overseeing technology, risk management, business operations, finance and legal affairs.

As part of its executive transition plan, OCC has also promoted Michael McClain to chief operating officer. In this new role, McClain will be responsible for business operations and technology. McClain joined OCC in 2001.

Doran Jones has recruited **Dan McGovern** for a senior management role.

He joins the consultancy firm from J.P. Morgan, adding technology leadership to its expanding business in Charlotte, North Carolina. McGovern is a development manager with more than 15 years of experience in the financial services industry.

He has worked at both Morgan Stanley and J.P. Morgan, where he most recently managed a global team in agent lending technology with responsibility for collateral management and international loan management.

Doran Jones has added April Rathe, Lou Lebedin, Gerard Muldoon and Duncan Rawls to its ranks in the past year.

Prime brokerage veteran **Matteo Cassina** has joined Saxo Bank in a push to expand the bank's growth within the institutional space.

Cassina joins in a newly created position, as global head of institutional business, and will be based at Saxo Bank's London office in Canary Wharf, where Saxo is now placing its core institutional activities.

He will report to the co-CEOs and co-founders of the bank, Kim Fournais and Lars Seier Christensen.

Cassina recently served as the head of prime access SM for Goldman Sachs, which provides integrated execution, clearing and custody services across a wide range of markets.

He was also head of total trader for Merrill Lynch, and president of Citadel Execution Services.

BNP Paribas Securities Services has hired **Alexandra Ricciardi** to extend the firm's collateral franchise to North America.

Ricciardi will be based in New York as the head of product development for collateral services in North America. **SLT**

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