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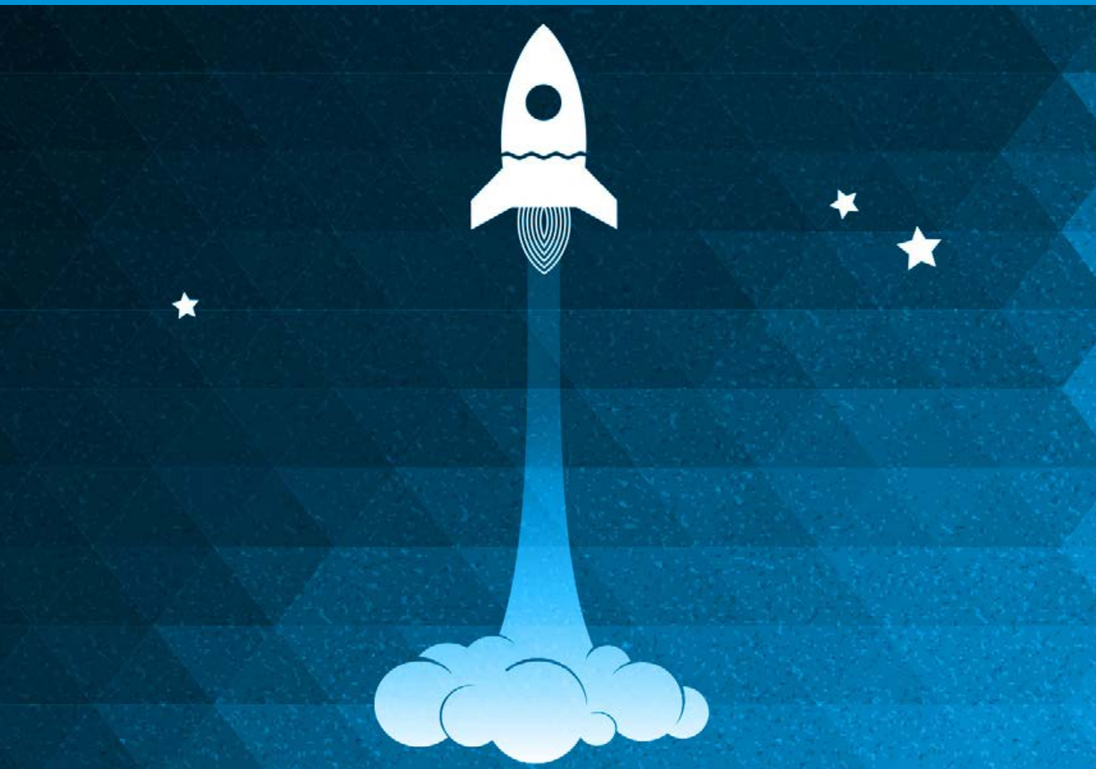

Citi builds on emerging markets rep

Citi has broken into the Russian market by launching lending services in Russian securities through its OpenLend platform.

The decision follows launches in India and Malaysia, and reinforces Citi's aim to build focus in the emerging markets.

"The launch of lending in Russian securities is a key development in a large market with tremendous potential, and offers an alternative to repo deals which have been a popular type of operation in Russia for many years," said Alexei Fedotov, securities and fund services head at Russia & CIS ZAO Citibank in Moscow.

Russia's repo market development has been in motion for the last few years. In 2010, The National Securities Market Association in Russia created the country's first repo market survey, which revealed that one of characteristics of the repo market at that time was a relatively high degree of concentration of repo trades, performed by leading operators of financial market: the 10 top repo providers made up about 70 percent of all repos in the market.

The survey added that repo trades continued to remain in the most degree very short-term: one-day transactions made up 64.5 percent of the woverall market.

"Citi is committed to pioneer new markets for our clients. This continued expansion of our product offering, leverages our deep on-the-ground expertise and enables us to present our clients with new and unique revenue opportunities," said David Martocci, global head of securities finance at Citi Investor Services.

Clearstream and VPS partner on collateral

Verdipapirsentralen ASA (VPS), the Norwegian central securities depository, and Clearstream have signed a letter of intent aimed at developing new collateral management services in Norway.

The new service will enable VPS to offer to Norwegian market participants the allocation, optimisation and substitution of collateral to cover domestic exposures.

VPS would offer these services on a white-labelled basis via Clearstream's fully automated real-time collateral management engine, the Global Liquidity Hub.

As a unique feature of the Liquidity Hub GO service, assets remain on accounts in the local market environment.

read**more p3**

EU's rejection of UK shorting appeal is 'skeletal'

The EU court's decision to reject Britain's appeal over short selling is skeletal and in parts opaque, but there is no avenue of appeal, said lawyers from Mayer Brown.

In an article explaining the decision, Alexandria Carr, Mark Compton and David Sahr said that the decision appears to contradict the Meroni principle, which placed limits on the powers that could be conferred on EU agencies.

In January, judges from the European Court of Justice rejected all of Britain's to limit the power of Brussels. The UK had argued that the European Securities and Markets Authority (ESMA) had been given a very large measure of discretion of a political nature, which was at odds with EU principles relating to the delegation of powers.

read**more p3**

Clearstream and VPS partner on collateral

Continued from page 1

Going forward, the partnership between VPS and Clearstream will also help Norwegian financial institutions and VPS customers to overcome internal collateral fragmentation across systems.

John-Arne Haugerud, CEO at VPS, said: “Our partnership with Clearstream will provide Norwegian financial institutions with the means to keep up with the increasing collateral requirements of Norwegian and international regulations.”

“From a risk perspective, it was particularly important that the underlying assets do not leave the Norwegian jurisdiction and this is guaranteed under the Liquidity Hub GO service. The Global Liquidity Hub offers more than a domestic solution and we will explore this potential along our journey with Clearstream.”

Stefan Lepp, member of the executive board and head of global securities financing at Clearstream, said: “The regulatory agenda requires banks and financial institutions to better manage their capital and liquidity buffers.”

“An efficient local and global collateral management service will become a must going forward—hence the growing popularity of our Liquidity Hub Go model through which our partners can offer sophisticated collateral management to their underlying clients without losing control over the assets. We are pleased about VPS joining our outsourcing service, thus including the first Scandinavian market in our global collateral management model.”

EU’s rejection of UK shorting appeal is ‘skeletal’

Continued from page 1

It also submitted that ESMA’s regulation aimed at harmonising short selling—based on an article that permits the adoption of harmonisation measures necessary for the establishment and functioning of the internal market—was not the correct legal basis for the adoption of the rules laid down in Article 28 of the regulation, which vests ESMA with certain powers of intervention that are legally binding.

But the court found that Article 28 of the regulation does not confer any autonomous power on ESMA that goes beyond the powers granted to that authority when it was created.

The Mayer Brown article described the court in Meroni as referring to the “fundamental guarantee” as to “the balance of powers which is characteristic of the institutional structure of the community” and said “[t]o delegate a discretionary power, by entrusting it to bodies other than those which the treaty has established to effect and supervise the exercise of such power each within the limits of its own authority, would render that guarantee ineffective”.

The effect of the Meroni doctrine is evident in the EU legislation that has been adopted since the establishment of the European supervisory authorities (ESAs), said the article.

“There has been a tendency to attempt to limit the discretion of the ESAs by setting out criteria and conditions to guide their decision making or by constructing procedures whereby the ESA decisions require endorsement, typically by the commission. The decision of the CJEU in the short selling case could be used to support the case for the conferral of further discretionary decisions on the ESAs, perhaps even without the requirement of endorsement by the commission.”

The article concluded that the decision, although not unexpected, is also likely to cause concern in the UK and some other member states that are already uneasy with the way in which the EU’s legal framework is being stretched as the the union seeks to transfer existing national powers and confer wide new

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powers on EU bodies while avoiding the contentious question of whether this actually necessitates treaty change.

Hong Kong adds securities to short selling list

Twenty-six securities will be added to the list of designated securities for short selling in Hong Kong.

As well as adding securities, Hong Kong Exchanges and Clearing (HKEx) removed 11 existing designated securities with effect from 14 February 2014.

Securities added included Hon Kwok Land, China Windpower, Pax Global, and Lung Cheong. Securities that were struck off the list included GD Land, Sea Holdings, China Haidan and Allied Group.

In July 2012, HKEx tightened up regulations by tripling the minimum market value stocks must have in order to short from HK$1 billion ($129 million) to HK$3 billion ($386 million).

Manual entries are no more, says SunGard

SunGard's Loanet, a suite of solutions for the US and Canadian securities finance industry, has created a new order management service that aims to help borrowers and lenders increase automation and boost productivity of their trading businesses.

A statement from the firm said that the new service would help centralise and automate the daily communication between lenders and borrowers, which can be inefficient with information flowing via telephone, IM, email, or through spreadsheets.

Borrowers will be able to combine real-time lender inventory with additional inventory sources in an automated, central system.

Loanet's order management service gathers availability information from numerous lenders to allow borrowers to fill an order and then automates settlement, making manual entries a thing of the past. With the new service, orders can be directed either to lenders in a bilateral trade or to an exchange platform (AQS). The straight-through processing service automates contract booking and settlement at DTCC.

Josh Galper, managing principal at Finadium, said that central order systems for securities lending are the next phase of efficient loan management.

John Grimaldi, executive vice president of SunGard's North American securities operations and securities finance, said: "The lack of automation and straight-through processing can create unnecessary costs, risks and inefficiencies to the securities finance industry. Loanet's centralised order management service improves the utilisation of securities, increases transparency on supply, and maximises loan rates on the most sought-after securities."

OpenLink found as key Basel III solution

Chartis's review of vendors has found that OpenLink Financial, which provides transaction lifecycle management solutions, is a key Basel III solution leader.

OpenLink has been placed as a category leader in the Chartis RiskTech Quadrant for Basel III, a distinction which recognises risk technology vendors that have the necessary depth and breadth of functionality, technology and content, combined with the organisational characteristics to capture significant market share by volume and value, according to the report.

OpenLink's solution to help meet Basel III requirements provides analytics and reporting, as well as a golden copy of data from asset-liability management, trades and positions, to analyse credit and liquidity risk. Advanced risk analytics, stress-testing, counterparty risk-adjusted valuations, risk visualisation dashboards and a suite of risk reports are also available along with collateral management capabilities, such as optimisation and margin horizon calculations.

"When you take into consideration the Basel III distinction this year and the collateral management designation last year, OpenLink has a very strong story to tell financial services firms about the breadth of its TLM system," said Mark Greene, CEO of OpenLink. "We also offer best-of-breed capabilities for many strategic functions that support financial transaction processing."

EquiLend sees record February volumes

A record number of trades were executed on EquiLend's securities finance trading platforms on 6 February.

The platforms saw 28,317 trades, including equities trades on EquiLend and fixed income trades on BondLend, executed between 65 clients glob. The total value of the trades exceeded $28 billion. The previous record of 27,955 trades was set on 9 August 2011.

Brian Lamb, CEO of EquiLend, said: "The fact that trading activity via EquiLend is exceeding record levels a full 12 years after our launch is a testament not just to the vitality of our systems but that we have been nimble enough to adapt to client needs and market demands throughout the years. "

EquiLend is currently building out a consolidated platform that covers the full pre-trade to trade execution process. The platform will begin being rolled out this year to clients, which have been working closely with EquiLend on its development.

Ben Glicher, chief information officer of EquiLend, said that high volumes would be a precursor to greater participation as the firm rolls out new, consolidated trading platform, which aims to enable a vastly streamlined workflow for traders.

Clearstream triparty repo rises 4 percent y-o-y

Clearstream's global securities financing (GSF) services rose 4 percent over January 2013 (€548.8 billion). The combined services, which include triparty repo, securities lending and collateral management, also recorded a monthly average outstanding in January 2014 of €571.9 billion.

Investment funds services (IFS) processed 0.78 million transactions in January 2014, a 16 percent increase over January 2013 (0.67 million).

The firm's assets under custody held on behalf of our customers in January 2014 remained at a peak of €12 trillion, and there was custody growth in both international (ICSD) and German domestic CSD business.

Securities held under custody in Clearstream's international business as international central securities depository (ICSD) increased by 7 percent from €5.9 trillion in January 2013 to €6.3 trillion in January 2014, while domestic German securities held under custody in the German central securities depository (CSD) increased by 5 percent from €5.3 trillion in January 2013 to €5.6 trillion in January 2014.

In January, 3.9 million international settlement transactions were processed, an 8 percent increase over January 2013 (3.62 million). Of all international transactions, 79 percent were OTC transactions and 21 percent were registered as stock exchange transactions.

On the German domestic market, settlement transactions in January 2014 reached 7.48 million, 10 percent more than in January 2013 (6.78 million). Of these transactions, 66 percent were stock exchange transactions and 34 percent OTC transactions.

Philip Brown, head of global client relations and member of the executive board of Clearstream, said that a strong start to the year was a sign of continued strength in asset volumes.

"We are experiencing increases across all our business areas, be it the number of transactions we are processing or the volumes derived from our global securities financing and investment funds services business areas. This all stands us in good stead to keep confidently executing our business strategy—in particular, 2014 will be a year of market readiness for us to help customers and the market gear up to TARGET2-Securities, as the T2S 2015 go-live date draws closer."

Asset management is the new alpha of the wolf pack

Global assets under management will rise to around $101.7 trillion by 2020, from a 2012 total of $63.9 trillion, representing the move of the asset management industry to front and centre, said a report.

Research from PwC in its report, Asset Management 2020: A brave new world, also found that AUM in South America, Asia, Africa and Middle East economies are set to grow faster than in the developed world in the years leading up to 2020, creating new pools of assets that can potentially be tapped by the asset management industry.

However, the majority of assets will still be concentrated in the US and Europe.

PwC predicts that AUM in Europe will rise to $27.9 trillion by 2020, from a 2012 total of $19.7 trillion.

Global AUM growth will be driven by pension funds, high-net-worth individuals and sovereign wealth funds. At the client level, the euroclear

Post-trade made easy

Get on the Collateral Highway

Whatever your collateral destination

The right securities – at the right place – at the right time global growth in assets will be driven by three key trends: the increase of mass affluent and high-net-worth-individuals in the South America, Asia, Africa and Middle East region, the expansion and emergence of new sovereign wealth funds with diverse agendas and investment goals, and increasing defined contribution schemes, partly driven by a government-mandated shift to individual retirement plans.

PwC also predicted the transformation of fee models. By 2020, it said, virtually all major territories with distribution networks will have introduced regulation to better align interests for the end-customer, and most will be through some form of prohibition on having the asset manager allocate to distributors as evidenced in the UK's Retail Distribution Review (RDR) and MiFID II. This will increase the pressures of transparency on asset managers and will have a substantial impact on the cost structure of the industry.

The report also stated that traditional active management will continue to be the core of the industry as the rising tide of assets lifts all strategies and styles of management.

But traditional active management will grow at a less rapid pace than passive and alternative strategies, and the overall proportion of actively managed traditional assets under management will shrink.

PwC estimates that alternative assets will grow by some 9.3 percent a year between now and 2020, to reach $13 trillion.

ICBC automates pools with Helix's aid

Industrial and Commercial Bank of China Financial Services (ICBC), has implemented HelixRepo for its fixed income financing business and HelixMBS to automate allocation of mortgage-backed securities pools.

Helix Financial Systems owns the two solutions.

HelixRepo provides collateral management functions, real-time access to inventory and transactional information as well as transparency into counterparty risk.

"Helix products required integration with some of our proprietary technology, but the implementation could not have been smoother. The team was extremely knowledgeable and understood exactly what needed to be done from both a business and technical point of view," said Phil Fruchter, chief technology officer at ICBC.

John Hock, director of securities operations at ICBC, said: "We were amazed at the automation capabilities and ease of managing to-be-announced (TBA) pools in HelixMBS. Tasks that used to take 10 minutes now take just seconds."

Todd Berlent, president of Helix Financial Systems, said: "We find it extremely validating to have them sign up to use multiple of our product offerings, and anticipate they will drastically reduce operational costs and increase workforce productivity."

Caterpillar and Nintendo are new top picks

SunGard has released its hottest stocks globally, which saw BT Group, Caterpillar and Nintendo as top picks.

BT Group was the best choice for the EMEA region, with the week beginning 27 January seeing some skepticism coming from short sellers in the run-up to the UK telephone operator's latest batch of earnings numbers, said SunGard. The number of BT shares being borrowed climbed four-fold in a matter of days.

"Tellingly, despite the numbers eventually coming through better than expected, pushing a jump in the share price, data suggests shorting has not declined, but actually edged slightly higher."

The top pick for North America was Caterpillar, which is the world's largest producer of heavy machinery. It is accelerating a $1.7 billion stock repurchase programme, due to a strong balance sheet.

The firm also blamed the European Central Bank and "cautious policies" as bringing about a divergence in growth between the EU and the US.

Meanwhile, as the share price climbed approximately 10 percent on the share-purchase news, data from Astec Analytics showed that the number of shares being borrowed jumped almost three times in the last two sessions of the week.

In the Asia Pacific region, Nintendo was deemed the best bet, with the computer console giant seeing its share lose another 13 percent last week after a strategy meeting failed to improve the sentiment of investors after the company announced it no longer expects to be posting a profit in this financial year. It cut sales projections for hardware and games, and said that it is considering a new business model.

Members of the founding Yamauchi family also sold some of their holdings, with the firm completing its 114 billion yen ($1.1 billion) share buyback.

With the profit warning, and tellingly despite the large drop in share price, data from SunGard's Astec Analytics suggests short sellers have rushed to open positions in the company. The number of Nintendo shares being borrowed; the prerequisite of short selling them, has more than doubled since 22 January, hitting its highest level in more than six months.

Is fear in emerging markets hedge funds unwarranted?

Though hedge fund performance was negative in January, falling an average of -0.6 percent, the industry broadly outperformed global equity markets.

An eVestment report described the beginning of 2014 as "a very difficult month", driven by an increasing uncertainty in emerging markets.

But while fear in emerging markets was to blame for much of the global equity markets' decline in January, not all was negative from emerging market hedge funds. Those targeting markets in Africa and the Middle East were able to post strong returns during the month, picking up where they left off after an excellent 2013.

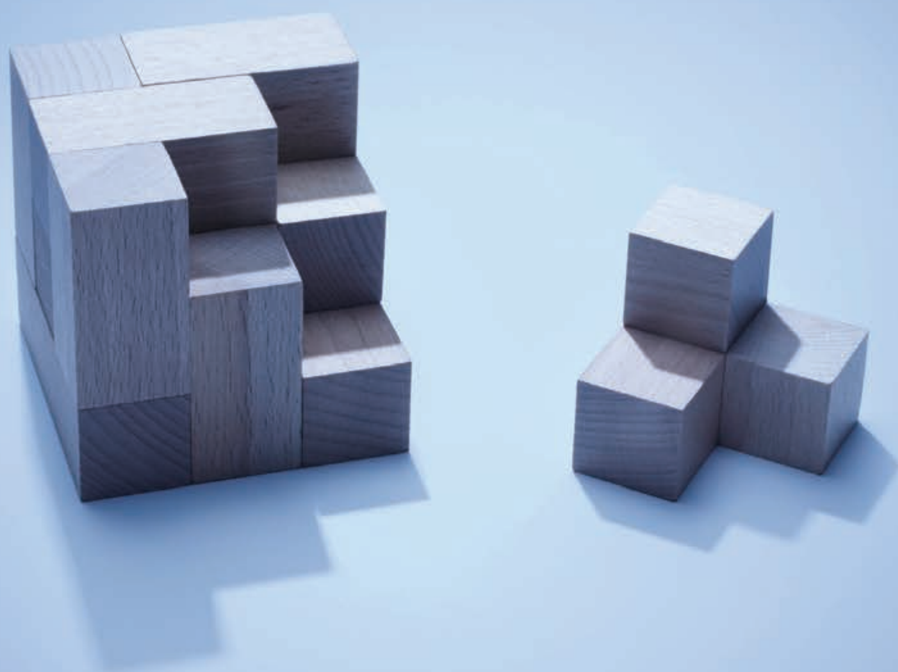
Volatility strategies, which lagged the industry throughout most of 2013, were well positioned to take advantage of equity markets' uptick of fear. The group's January returns were their best in 17 months as the VIX volatility index spiked to its highest level in over a year.

Activist strategies were able to post positive performance amid equity market declines with an average return of 0.3 percent. "After leading most of the hedge fund industry in 2013 on the back of strong equity markets, it was interesting to see their good relative performance during what was a broadly negative month," said the report.

Directional equity strategies declined in January, but posted their largest outperformance of the S&P in more than two years.

Credit strategies also posted negative returns in January, the second down month in the last six. Directional strategies underperformed relative value in a period where longer term treasury yields declined, an indication of widening spreads across the groups' aggregated holdings and a decline in global risk appetite.

Mortgage-backed securities-focused strategies were able to perform well in January, returning an average of 1.1 percent. The group has performed relatively well since



their rare decline on the back of the rate spike in May 2013, said the report, adding that investor redemptions emerged for the group in the second half of 2013, but returns have shown resilience.

Macro and managed futures strategies were unable to follow a strong Q4 2013 with continued success, and many funds which posted the best returns in December were the loss leaders in January.

Both large and small macro strategies declined during the month, but large macro managers again outperformed their smaller peers in January, the continuation of a trend seen in much of 2013.

Large managed futures strategies did not enjoy the same advantage in January as aggregate losses between large and small funds were generally on par.

OCC announces record January activity

OCC cleared contract volume reached 395,595,620 in January, an 8 percent increase from the January 2013 volume of 365,027,878 contracts.

OCC's securities lending central counterparty (CCP) activities saw a 6 percent increase in new loans from January 2013 with 106,134 transactions last month.

The average daily loan value at OCC in January was $80,232,802,121, which represents the highest average notional value ever recorded in a single month.

January 2014 marks the highest January volume for OCC to date, reaching record highs in options, futures and stock loan activity.

Exchange-listed options volume in January was 389,821,135 contracts, an 8 percent increase from January 2013 and the highest January options volume to date. Equity options trading volume reached 351,650,970 contracts, a 7 percent increase from January 2013.
Index options trading volume reached 38,170,165 contracts, up 13 percent from January 2013. Average daily options trading volume for the month of January was 18,562,912 contracts.

Futures cleared by OCC reached 5,774,485 contracts in January, a 46 percent increase from January 2013. Equity futures volume was 613,613 contracts, up 14 percent from January 2013.

Index and other futures volume came in at 5,160,872 contracts last month, a 51 percent increase from 2013. OCC cleared an average of 274,975 futures contracts per day in January.

OneChicago endorses delta one single stock futures

Equity finance exchange OneChicago saw trading volume of 613,613 in January, which the firm's COO said was due to customers finding value in carrying their equity positions using the capital efficiency provided by single stock futures.

The announcement closely follows OneChicago's launch of OCX. Weekly futures, part of the exchange's NoDivRisk futures product suite. Pending regulatory approval, OneChicago will be releasing its physically settled OCX weekly futures product with next day settlement for the stock delivery upon expiration.

In January, open interest stood at 582,396 contracts on the equity finance exchange at close-of-market. There were 600,027 exchange futures for exchange futures for physicals (EFPs) and blocks were traded.

January EFPs and blocks activity represented $2.7 billion in notional value.

Tom McCabe, COO at OneChicago, said: "Our customers are finding value in carrying their equity positions using the capital efficiency provided by single stock futures. Customers are learning that the delta one single stock future is a more capital efficient substitute for the underlying stock without the variable risk of options or the counterparty exposure of OTC swaps."

Russian CSD extends collateral fees

The supervisory board of National Settlement Depository (NSD), Russia's central securities depository, voted to extend the validity of the fees for collateral management services and the fees for clearing services that had been approved by the board last year.

The documents will be in effect until the board approves new versions of both documents.

The members of the board approved NSD's rules of internal control of the professional securities market participants and NSD's rules of internal control of the clearing organisation. Both documents will be send to the Bank of Russia for registration and put into effect afterwards.

The board set the number of the members of the company's technological policy and development committee. The committee now includes nine members, due to the early termination of Dmitry Shatsky.

The supervisory board considered the report on CSD risk assessment for 2013, the report on evaluation of CSD risk management efficiency, and the activities report for Q4 2013 by NSD's controller and chief of the department of internal control of the professional securities market participant.

Mandate round-up

State Street has extended its 13-year relationship with Lufthansa German Airlines Group (Deutsche Lufthansa AG) for an additional five years. The relationship will now include transition management, collateral management and FX spot execution services.

State Street currently provides custody, fund accounting, risk analysis, performance measurement and securities lending services for assets in Germany, Switzerland, Luxembourg and the US with total assets under custody of $11 billion.

Axel Tilmann, senior vice president of Group Finance at Deutsche Lufthansa AG, said: “State Street offers a wide product spectrum and their ability to bundle these services into solutions that accommodate our needs, globally paired with a client centric service have all led to us extending our contract.”

Stefan Gmuer, executive vice president and head of sector solutions in Europe, Middle East and Africa, said: “We are dedicated to providing the best solutions for our clients’ needs and maintaining high service levels and a strong partnership.”

“For clients today, operational efficiency and rigorous data management and governance structures are essential. As our clients tackle these issues, we are committed to giving them the tools they need to succeed. We are delighted to continue our relationship with Deutsche Lufthansa AG, which will now see us working together for close to two decades.”

State Street also announced that it will provide a range of pension fund solutions, including securities lending, to Etera Mutual Pension Insurance Company.

Etera is a mutual employment pension insurance company. It provides pension cover for employees and self-employed persons and promotes well-being at work.

State Street will provide custody, fund accounting, transaction management, securities lending, futures clearing, agent fund trading, daily risk services, OTC derivatives servicing and collateral management for more than €5.6 billion in assets under management.

Jari Puhakka, chief investment officer of Etera, said: “Given the Finnish and European regulatory challenges facing the industry, and our enhanced investment strategy we needed to look to future proof our current business model. The ability of State Street to address our needs and provide a holistic solution to our liabilities was extremely important to us.”

Paola Bergamaschi, head of asset owner solutions for State Street in Europe, the Middle East and Africa, said: “Asset owners need access to real-time data to optimise their investment decisions. This helps explain why almost nine out of 10 asset owners plan to invest in order management and execution management systems over the next three years.”

“We’re pleased to be able to bring our expertise of servicing some of the largest pension funds globally to meet Etera’s specific requirements, and help them build a strong business going forward.”

BNY Mellon has scored a fund administration and securities lending mandate with Aon Hewitt on two of its Irish-domiciled fund ranges with assets of roughly £4 billion.

The bank will provide performance and risk analytics, securities lending and portfolio hedging to Aon Hewitt, which provides fiduciary management services to UK pension schemes.

George Mortimer, UK chief operating officer for delegated consulting services at Aon Hewitt, said: “We were looking for an innovative solution to optimise our Irish fund structure, in a way that leveraged to the benefit of all our clients the $45 billion of delegated assets we have globally. BNY Mellon’s commitment to designing and implementing the right solution for us was a key factor in our decision.”

Hani Kablawi, EMEA head of asset servicing at BNY Mellon, said: “Our ability to take a fresh and innovative approach to providing a solution that can support Aon Hewitt’s growth plans across the region was key to their decision to select BNY Mellon. This new mandate will see us providing Aon Hewitt with a broad range of flexible solutions and services and we look forward to further developing our relationship with them.”

The bank also recently extended its fund services relationship with Motley Fool Asset Management to include securities lending for its family of mutual funds with $575 million in assets under management.

Motley Fool Asset Management describes itself as “aiming to get right what much of the fund industry gets wrong. Our approach all begins with a unique, shareholder-centric philosophy.”

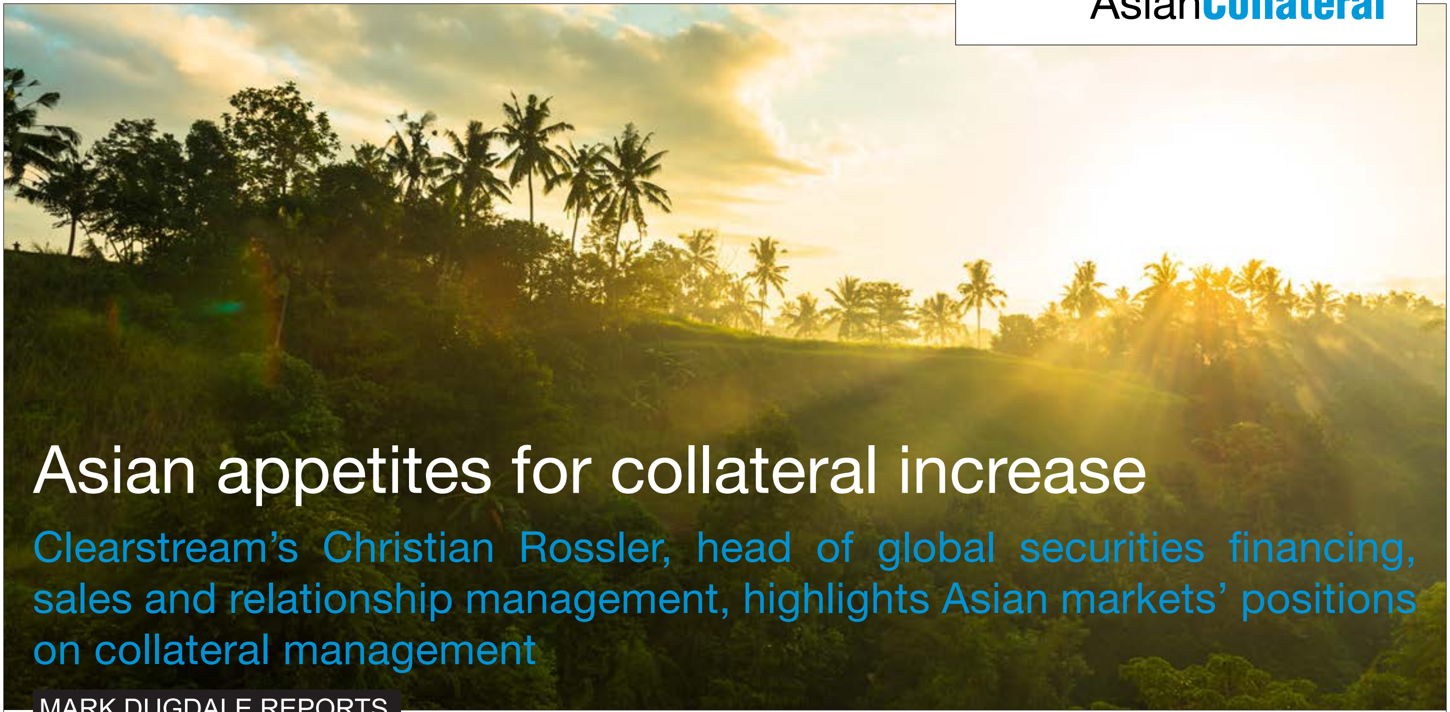
The asset management firm states its intention is to invest for the long term, to not impose loads or 12b-1 charges, and “to apply redemption fees only to discourage short-term trading”.

BNY Mellon has been providing fund accounting, fund administration, transfer agency and custody for Motley Fool Asset Management since 2009, and the new agreement provides for BNY Mellon to continue providing these services.

“We have expanded our relationship with BNY Mellon because of its strong client services organisation and its flexible technology,” said Peter Jacobstein, president of Motley Fool Asset Management.

“In addition, BNY Mellon provided crucial services that enabled us to launch our first fund in 2009 and provided important support as we added new offerings and grew our assets.”

“We continue to invest in service capabilities and technology to meet client needs at a growing number of fund complexes,” said Kenneth Roehner, managing director and head of US financial institutions at BNY Mellon.



Asian appetites for collateral increase

Clearstream's Christian Rossler, head of global securities financing, sales and relationship management, highlights Asian markets' positions on collateral management

MARK DUGDALE REPORTS

Have you seen any traction in collateral management in Asia?

From Clearstream's perspective, a lot of progress has been made. This is true for our classic services, but it is also true for new services, which we have developed in partnership with other players, like central securities depositories (CSDs) and stock exchanges around the globe.

In Asia, developments differ in collateral management across the region. There has been traction in collateral management in Australia, followed by Hong Kong and now Singapore. Collateral management is becoming a hot topic, because of the upcoming rules and regulations that will force banks and the buy side to go into secured financing, meaning that they will no longer be able to lend or borrow cash on an unsecured basis. Banks in Australia, Hong Kong and Singapore are moving fastest towards preparing for collateralised trading. Japan is slower.

Where is Asia at with new regulations?

Many financial institutions in Asia have not yet begun to fully appreciate the high cost of inefficient collateral management. Domestic regulators have delayed the issuing of many collateral related rules so as to allow time to adjust to North American and European Regulations. However, although collateral specific rules may be slower to arrive in Asia than in other parts of the world, domestic regulators have made progress on their Basel III capital rulemaking. Some Asian jurisdictions have said that they want to adopt Basel III, so this is something that will have an impact on financial intermediaries in Asia, meaning not just domestic or local banks, but also branches of foreign institutions in Asia.

Singapore, for example, wants to apply Basel III to the highest possible standards, which would mean that branches of foreign institutions in Singapore would also need to comply with LCR (liquidity coverage ratio) in the host country Singapore rather than the sole parent in the home country. This is good for us, because those branches would need collateral management services.

What is the overall economic situation in Asia, and what effect is this having on demands for collateral management?

There is still a lot of cheap cash in Asia, meaning that banks and corporates still lend each other cash on an unsecured basis.

Additionally, some of the markets do not take off because cash as collateral is still cheaper than securities as collateral. We are about to launch a partnership with the Hong Kong Monetary Authority (HKMA), which has already partnered with other triparty agents, but those platforms have gained no traction as yet. One of the reasons for this is that there is still a lot of cash collateral being pledged in Hong Kong, meaning that banks that are long in renminbi would rather swap it against US dollars instead of placing it in repo transactions and taking in collateral. That is something that is linked to the low-interest rate environment, so if that changes, it will also push banks into secured financing in that part of the world.

What is Clearstream doing in Singapore?

Recently, the SGX (the stock exchange) in Singapore signed a letter of intent with Clearstream aimed at developing new collateral management services for Singapore. The new service—offered on a white-labelled basis via Clearstream's fully automated real-time collateral management engine—will allow SGX to offer to Singapore market participants the allocation, optimisation and substitution of domestic collateral to cover domestic exposures. A unique feature of this set-up via Clearstream is that the assets won't have to leave their domestic environment. SGX is the first market infrastructure in Asia that together with Clearstream has the ambition to extend the offering into the broader Asian region.

Why does phase one focus on domestic collateral?

The point of the first phase is that domestic collateral remains in the domestic market, on the books of the CSD. It is very important that they keep control of their assets, because in a default situation, they do not want to have the collateral somewhere offshore.

Most regulators around the globe are trying to increase transparency of the financial markets and aim to better control and/or monitor their local environment. One important lesson from the crisis is that systemic risk has to be reduced going forward. When we talk about triparty operations, there can be a concern that having a huge chunk of collateral with just one agent leads to a dangerous concentration risk. As a solution to this, local neutral infrastructure like CSDs and stock exchanges are encouraged to establish triparty arrangements for their local markets which are connectable cross-border, but with a strict approval process controlled by the regulators. We have developed our Liquidity Hub GO (global outsourcing of collateral management) to fit this key requirement.

What challenges is Asia facing with collateral management?

The emerging realisation of the cost of collateral inefficiency is driving infrastructure providers in Asia to begin looking for specialist partners, which can provide sophisticated and yet cost-effective and time-efficient collateral management capability. This trend also fed into the rational for Clearstream to establish the Liquidity Alliance, an association of infrastructures which are all using Clearstream's collateral management technology and who can share and exchange their expertise, experience and best practice in this area. SLT

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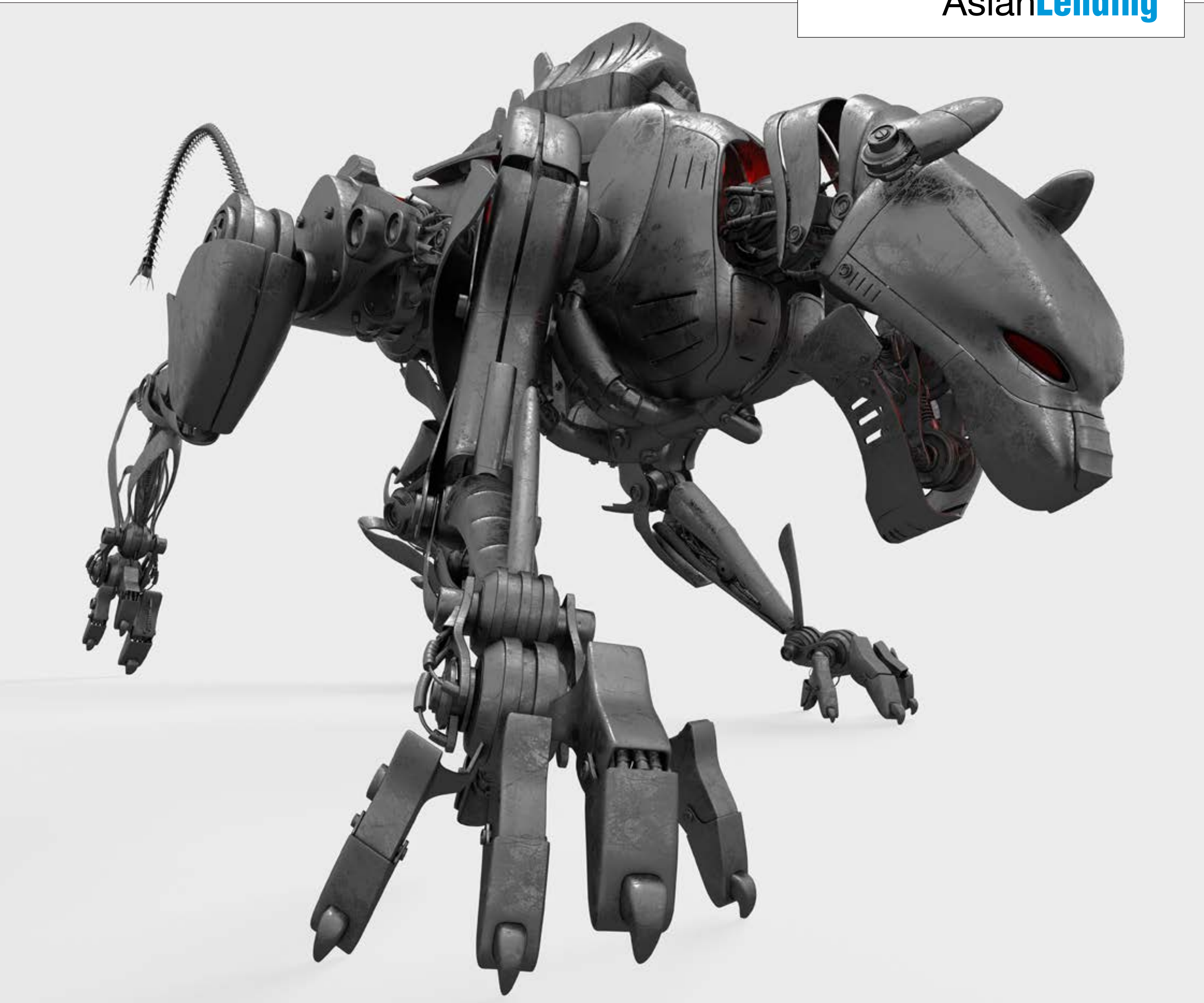

Metal year solid

An illustration of the Chinese economy neatly illustrates BBH's optimism about the future of securities lending in Asia's commodity and natural resource sectors

How has securities lending fared in Asia over the past few years and will 2014 look much different?

Robert Lees: The last few years have been interesting, and 2011 and 2012 in particular were very good for a couple of reasons. First, we saw an increase in directional lending opportunities in Hong Kong, which was largely driven by investor concerns over slowing growth in China, corporate governance issues in some sectors, and an overarching feeling that the property sector was overvalued. Second, we saw a strong increase in investor asset allocation into Asia, in particular hedge fund growth, which in turn drove demand to borrow securities.

In 2013, however, some of the concerns over China's economy eased, as an annualised growth rate of 7.7 percent was achieved and the central government was able to effectively manage that growth. As a result, demand remained relatively strong, but the improved economic conditions combined with global central banks' quantitative easing and a smooth political transition in China, led to a reduction in activity overall and consequently a softening in lending fees.

Fast forward to 2014 and we think things are back on the uptick. Recent data emanating from China has been mixed as the Chinese leadership increasingly focuses on developing a balanced economy that in the future, is driven more by domestic consumption and is less reliant on exports. The slower growth rate expected in the Chinese economy, coupled with the US Federal Reserve tapering its bond purchase programme, gives us reason to be optimistic that securities lending activity will increase in the region, particularly in sectors that are vulnerable to an economic slowdown—for example, commodities, consumer discretionary products and natural resources.

How is the development of a securities lending framework taking shape in China and do you see the potential for growth?

Zubair Nizami: So far, the China Securities Regulatory Commission (CSRC) has followed a similar path to other countries that have committed to developing a fully functioning securities lending and borrowing (SBL) framework—that is, proceeding in a structured manner and at a

pace designed to ensure the appropriate checks and balances are considered throughout the entire process. This is consistent with the way the CSRC has approached the development of the entire financial services sector in China.

Given that there has already been a successful Chinese SBL trial between a select group of domestic brokers, we have every reason to believe that in the longer term, the CSRC may introduce a similar trial programme for foreign (QFII) participants. That said, it is difficult to predict with any degree of certainty when such a programme will be introduced. This will largely depend on the priorities of the CSRC and will only be implemented when they have achieved the requisite level of comfort with the domestic SBL programme.

What is the outlook for other emerging markets in the region?

Nizami: Starting with Taiwan, I'd say demand continues to be strong, but we've definitely seen spreads compressing in recent years as the growing number of beneficial owners engaged in lending in Taiwan has resulted in more supply entering the market. That said, it is still an important source of revenue for beneficial owners and considering some of the discussions taking place around further reforms, such as a potential relaxation of the short selling quota and additional forms of collateral being permitted (Euro and yen cash), lending activity could be further stimulated in this market.

Aside from Taiwan, Malaysia is a market that has come into focus more recently, as reforms to the lending model have encouraged more activity from both lenders and borrowers. This is a positive development for the industry and will likely encourage greater participation from end-users like equity long/short funds who rely on increased liquidity to meet their investing needs. This will, in turn, increase overall borrowing demand in the market.

It's also interesting to note that the industry is seeing some movement in Indonesia. The Indonesian Clearing & Guarantee Corp (KPEI) and Indonesian Central Securities Depository (KSEI) have been in consultation with the Korean Securities Depository (KSD) to develop an offshore SBL framework. Details haven't been released, but the industry expects a bilateral SBL model will be developed sometime in the next few years.

What are your views on how global regulation will impact the industry and what should beneficial owners be aware of?

Lees: There are many rules that could have some form of impact on securities lending. Some are still to be finalised, but it's likely that Basel III, Dodd-Frank Section 165(e), the Financial Stability Board's shadow banking rules, and the EU Financial Transaction Tax, will have an impact on the profitability of the securities lending business for agent lenders and borrowers, and that will impact how some do business. Certain rules call for an increased draw on capital and credit lines, and for agents that means they may become more focused than ever on ensuring resources are used as efficiently as possible.

As supply chain participants re-evaluate the utilisation of resources to focus on their higher margin businesses, I believe the shift towards intrinsic value lending that we've seen over the past few years is here to stay. The impact on individual agent lenders and any subsequent action they take will vary depending on the structure of their programme. But at a broad level, it could result in increased fee splits and a greater focus on more profitable higher margin strategies, as well as changes to how indemnification is currently offered in light of the increased amount of capital it will require.

What impact would changes to indemnification have on beneficial owners?

Lees: We understand that indemnification is an important risk mitigant for some beneficial owners, but it's important to put its provision into some perspective. Lending transactions are fully collateralised with a margin that represents a strong risk adjusted return compared with other trades. The provision of an indemnification offers beneficial owners an additional safety net, but it is a guarantee that is not really seen elsewhere in portfolio management.

A key discussion for the industry at the moment centres on whether it is really necessary to provide an indemnification if you have already implemented the right collateral and credit parameters. Ultimately, the overarching concern for beneficial owners should be to ensure that your lending agent follows robust risk and control parameters, is aligned with your individual risk profile and is focused on helping you meet your long-term objectives.

Is there room for central counterparty models in Asia?

Nizami: At the moment, we see little impetus for the industry to move to a central counterparty (CCP) model in Asia. Industry participants on both sides of the lending transaction are comfortable that many of the benefits a CCP is able to offer, are already provided by an agent lender in a bilateral model. Unless CCPs are mandated by regulators in the region or they can offer significant capital savings to counterparties, it is unlikely we will see much traction in the near future.

What are the growth prospects for Asia overall and how is BBH positioning itself for growth here?

Lees: We are more confident than ever about the strength of our position both at an industry level and in Asia. BBH has always been a specialist intrinsic value lender and we have prided ourselves on our expertise in lending emerging market equities, which means our strengths play very well to the opportunities available in Asia. Emerging markets such as Taiwan and Malaysia, and in the longer term Indonesia, continue to be a focus for us and we are excited about the future opportunity of the region as a whole.

In terms of developments on the horizon, the Mutual Recognition scheme between Hong Kong and mainland China is much anticipated and could present the potential for significant growth in the region. In BBH's assessment, we think that Hong Kong-China mutual recognition could develop into a $400 billion market in the next five to 10 years. The opportunities may not be immediate, but the size and scale of the scheme could present substantial opportunities in the medium to long-term and is something that BBH continues to monitor closely. This coupled with the growth in domestic Hong Kong funds means that there will certainly be attractive opportunities for managers actively engaged in lending.

Asia will continue to be an exciting part of our product offering and considering the strong fundamentals and optimism in the region, will remain a strategic priority for our programme. **SLT**

Robert Lees
Global co-head of trading for securities lending
Brown Brothers Harriman

Zubair Nizami
Head of trading for securities lending in Asia
Brown Brothers Harriman


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Tossing and turning

Experts discuss why Taiwan's potential is being diluted, an onshore and offshore dichotomy, and the impact of Basel III on the Asian markets

Dane Fannin
Head of securities lending trading Asia
Northern Trust

Andrew McCardle
Head of Asia
EquiLend

Francesco Squillacioti
Senior managing director, Securities finance division and Asia-Pacific regional business director
State Street

Joseph Tan
Director
Euroclear

Tim Smith
Executive vice president of Astec Analytics
SunGard's capital markets business

Ed Oliver
Senior vice president and head of product development
eSecLending

Paul Solway
Regional head of equity finance in Asia-Pacific
BNY Mellon

Georgina Lavers
Deputy editor
Securities Lending Times

What are the biggest challenges about lending in the Asian markets, and how are you overcoming these obstacles?

Paul Solway: The Asia region is still growing in both depth and breadth, and presents many new exciting opportunities for investors. Education on operational understanding is certainly an area that BNY Mellon is investing a huge amount of time guiding our clients around the Asia Pacific's market advantages and nuances. We have a collection of markets all of which are slightly different from a trading and operational perspective. However, as the new markets of South Korea, Taiwan and most recently Malaysia are demonstrating, models are starting to have traits, rules and regulations that are very similar in nature. Liquidity can sometimes be a challenge in certain securities or exchanges but with lending programmes continuing to expand their client base, borrowers/traders are able to invest with more comfort and confidence such that their strategy can be seen through unencumbered.

Tim Smith: There are many types of challenges that affect securities lending in the Asian markets. Firstly, the diversity of approach to securities lending. The approach to securities lending by the countries in the region are more divergent than any other region around the world thus inferring that it is really a 'region' on a geographical basis only. From central counterparties (CCPs) to on-shore bans and differing collateral and booking and tax requirements, one of the main challenges is to keep up with the continually changing scene.

Secondly, the geographical and political diversity also presents a challenge as the attitudes by governments towards short selling and securities lending can change at whim. In addition, as much of the business is still conducted in different time zones, the complications of settlements and failure costs can be significant.

Regulators in some countries have adopted a short-term approach, leading to uncertainty, but there are also a few mature markets where business remains more traditional and accepted. This diversity, and the fact that the regulators in the other 'more mature' securities lending markets have been tarnished—maybe unfairly—by the 2008 crisis, means that regulatory control is front and centre.

There is also the dichotomy between onshore and offshore. The history of securities lending in Asia has been one of a significant contrast between onshore and offshore approaches, depending mostly on the onshore's regulatory and fiscal approach to lending. This legacy attitude still causes challenges as the move to onshore becomes a greater priority.

Lastly, as securities markets and economies typically grow in double digits, the additional few basis points earned from securities lending can sometimes be unattractive given perhaps the perceived dangers of the activity. This was certainly the case in 1990s Hong Kong—which has now changed—and it is hoped that this will change in other markets as well.

Dane Fannin: Challenges relate to the lack of regulatory harmony across regional jurisdictions, specifically the impact of settlement rules to securities lending. While operating an offshore lending business is relatively uncomplicated in markets such as Hong Kong, there are unique challenges in markets where regulation remains complex, such as Taiwan and to a lesser extent South Korea. Typically, this may require lenders to involve clients in more unconventional ways, such as pre-trade notification for example, which ultimately constrains the pace of growth in supply from securities lending within that market.

However, these challenges do positively present revenue opportunities for those lenders and their agents such as Northern Trust who are able to successfully navigate existing rules and achieve first mover advantage, allowing their clients to capitalise on higher spreads. Importantly though, it is essential for lenders to adopt comprehensive risk management policies in such markets, to allow for the maximisation of returns balanced with the mitigation of settlement risk.

Joseph Tan: One of the differences between Asian lending and lending in Europe and the Americas is culture. Banks in Asia have a rich history of relationship banking founded on trust. Still today, large portions of domestic inter-bank cash lending is done on an unsecured basis. However, we are noticing a trend towards greater interaction between US and European firms and even increased intra-Asian lending, where secured forms of collateral are needed to cover exposures. For example, today it is quite common for a Singaporean bank to offer longer-term lending of US dollars to a Japanese bank, which will cover the loan with government bonds (JGBs). Indeed, JGBs remain one of the most liquid and safe asset classes used to cover exposures related to securities lending.

Francesco Squillacioti: The biggest challenges come from the sheer diversity of the markets—how they operate and the various characteristics, rules and regulations that define them. We invest a lot of time and resources into our product development process before entering a market, as well as making sure that we have people on the ground who understand the markets we work in and can help our clients and counterparts regionally and globally.

Ed Oliver: There are very few Asian markets that follow a standard securities lending and borrowing framework. Those that do, already have mature securities lending markets and steady supply. Therefore, the biggest challenge in managing the Asian markets is unlocking value in the "newer" opportunities.

Newer markets tend to have complex structures with nuances that lenders may not have seen in more mature markets. For example, many markets require collateral to be held at a CCP and others require pre-sale notifications that lenders may see as a barrier to entry. eSecLending works closely with the market infrastructure providers to understand the processes and rules that apply to each market so we can educate our clients about the intricacies, risks and rewards of each opportunity. eSecLending takes a consultative approach and specialises in providing highly customised programmes which address our clients' specific risk parameters, allowing them to fully participate in the newer Asian markets and capture value from these emerging opportunities.

Lenders are starting to have to work within an evolving regulatory framework. How have you seen this affect their relationship with borrowers?

Oliver: Although we have not yet seen a noticeable impact, the evolving regulatory framework has certainly been a topic of interest and discussion in recent months. Various industry discussions, articles and commentary concerning the upcoming regulatory changes suggests that the lender-borrower dynamic will have to evolve, and as a result, some difficult discussions may be needed to address trading limits and fees needed to execute a trade. For eSecLending, the impact is anticipated to be limited relative to other lending agents and we do not anticipate major changes to our borrower relationships.

Tan: Evolving regulatory requirements are making an impact, albeit more indirectly. Asia, post-financial crisis, has not seen the direct regulatory measures as taken in Europe (under the European Market Infrastructure Regulation) and in the US (under the Dodd-Frank Act). That said, there is an increasingly important role that foreign firms play when securing liquidity with Asian counterparties. Derivative clearing, for example, requires counterparties doing deals with firms that are bound to EMIR and Dodd-Frank to adhere to these rules. A US regulated firm cannot waive its regulatory obligations surrounding eligible collateral just because it is trading with a firm not bound by the same regulatory requirements. Adherence to the more stringent capital adequacy requirements under Basel III is all-encompassing, and is impacting firms all over the world as they attempt to bolster their reserves and optimise their entire portfolios in the best possible way to continue with their trading/funding strategies.

Andrew McCardle: Regulation is nothing new in Asia. The number of markets with different and changing regulation has meant that this is always a key point for all relationships. It continues to be a key topic of conversation, and I do not expect this to change any time soon. The positive side to the ever-changing regulatory landscape is that it also can provide new opportunities for clients.

Solway: Regulation is certainly flowing downhill and it is clearly affecting both borrowers and lenders. Balance sheet, cost of capital, indemnification, credit and leverage are just some aspects of the that the whole market must assess the impact of future regulation change. As we know, regulators are working hard to give as much information as to what may be coming and this is certainly helping institutions on-manage client expectations. While the challenges for borrowers may be somewhat different from lenders—most are intrinsically linked. At BNY Mellon, we are not only thinking of our own road-map ahead but anticipating the paths our clients may take and how we can guide them down the road.

Fannin: Although the extent to which pending global regulation will impact the securities lending business remains uncertain, the industry is already positioning themselves in anticipation of imminent changes, the effects of which are already evident in Asia.

From a borrower perspective and specifically within the context of Basel III effective 2015, the most noticeable change has manifested within the collateral space, as equity finance desks have increasingly been leveraged as the vehicle to drive balance sheet optimisation in an effort to reduce funding costs and minimise capital charges. In practical terms, not only has this demanded increased flexibility from lenders in the types of collateral accepted, it has also driven a change in the nature of trading, such as the growth of 'evergreen' or termed structures to facilitate financing requirements. Lenders have therefore been tasked with ensuring their capabilities are positioned well to secure both existing and future growth, given that higher utilisation rates are generally afforded to those with greater flexibility. Collateral flexibility also enhances borrower relationships by allowing brokers the luxury of swapping collateral preferences as and when their funding requirements dictate.

Smith: Historically, the 'power position' between participants in securities finance has been with the borrowers in terms of knowledge as if there is no demand then no advantageous lending can take place. However, as market data has become more prevalent and the 'value' of securities lent has become a known quantity, then the lenders have been able to assert themselves more into the conversation. In addition, the drive by the regulatory authorities on a global basis to ensure greater transparency for the underlying beneficial owners of the securities being lent has meant that both the beneficial owners and their agents have had to attain a higher level of control and understanding.

Are you seeing increased interest in securities lending and borrowing in the Asian markets?

Fannin: From an end-user perspective, we understand that investment growth within the hedge fund industry continues to gather momentum in Asia, largely driven by institutional investors seeking higher returns to offset suppressed fixed income yields in the current environment. However, not all of this growth has necessarily translated into increased securities lending and borrowing activity in Asia, largely a function of the nature of underlying strategies. Long/short funds have remained the most successful strategies to date, and whilst historically they have tended to drive volumes, the majority of these funds maintained a net long bias as markets continued to rally throughout 2013, most notably Japan. Volumes have therefore remained largely flat although there have been some noticeable shifts in focus within the region, making way for a more optimistic 2014.

Changes in demand from Hong Kong securities and into Japanese securities were most noticeable. As the 'consensus short' to a slowing Chinese economy dissipated, hedge funds were welcomed by the inception of Abenomics that made way for growth in exposure to Japan, albeit with a long bias. Following a significant market rally, the perception now is that Japan is more conducive for fundamentals based stock picking strategies, rather than mere high beta exposure, which ought to benefit lending activity this year. There are also expectations for increased corporate deal activity, which has already been evident in more frequent capital raising. Beyond Japan, demand has continued to gravitate towards the emerging market space in Asia, most prevalently in Taiwan, which remains the most attractive market from a potential revenue stream perspective. Notably however, regulators in South Korea lifted the covered short sale ban on financial securities in late 2013, having imposed this in the wake of the financial crisis. While this did not stimulate demand in the short term, sentiments are for this to benefit securities lending in the long term as it allows funds to deploy their strategies more effectively.

Solway: Asia has the benefit of experience of both mature and emerging markets. The old guard of Japan, Hong Kong and Australia contrast with the emerging players of Korea, Taiwan and Malaysia where spreads are still attracting a lot of new interest. In saying that, Japan market performance was a surprise to all investors in 2013 and that looks to continue as a theme in 2014. Volatility, currency moves and tax changes have all contributed to a renewed interest in Japan and given the size of the market—there are certainly some promising returns on offer. 2013 saw short-selling regulation actually relax in South Korea and Taiwan in contrast to many other global markets. Indonesia looks most likely to be the next market to open its doors to a CCP-style exchange-driven securities lending and borrowing model, which is very exciting indeed.

Oliver: In a period of relatively flat SBL revenues, clients are interested in opportunities that arise from the newer Asian markets. Naturally, clients with larger exposures to these markets are the most interested, but overall interest is region-wide and not necessarily specific to individual markets.

We have seen increased borrower demand across the region. Of course, the vast majority of demand is concentrated in the less developed markets due to the limited availability of securities to borrow. In particular, South Korea, Taiwan and Hong Kong have seen the most activity. Markets where specials are prevalent are more attractive than other markets.

Squillacioti: Among our clients in the region, we certainly continue to see interest in securities lending—be it in Asian markets or other global, non-Asia markets. The interest is coming from virtually all parts of the region and from a broad array of the institutional investor/beneficial owner base we see represented here. On the other side of that, we also continue to see demand for the mainstay markets in APAC, as well as interest in newer or developing securities lending markets, such as Malaysia.

Tan: Asian lending continues to expand not only inside this region, but also into other geographical areas, such as Europe and the Americas. There is undoubtedly a heightened need for robust, efficient and cost-effective ways to source and mobilise securities for use as collateral. Different markets are at different stages of maturity. Likewise, some are more domestic in focus, while others like Japan and Singapore are truly international.

McCardle: EquiLend has seen usage of the platform locally over its 13-year history, but since opening our office in Hong Kong more than three years ago we have seen increasing interest from the Japanese domestic market along with the Australian domestic market. Both of these domestic markets are well suited to the EquiLend platform, with usage driven by the desire from firms to see the efficiencies and risk mitigation in these domestic markets that they currently enjoy in these markets from an offshore perspective. Already in 2014 we have seen record trading days over the platform, both regionally and globally.

Smith: The figures show that the interest in securities lending has grown significantly even if not in pure value of balances open but rather with an acceptance of the activity and the desire to participate. If you compare the interest level in markets now to where they were say 20 years ago, it certainly has changed and is continually changing. Twenty years ago, the vast majority of lending was undertaken in Japan and Australia. In those days, Hong Kong and Singapore were emerging markets. In the last five years, Hong Kong and Singapore have established themselves as mature lending markets as has Korea and Taiwan to a lesser extent. Interest levels are still growing in Malaysia, India, Thailand with smaller levels if activity in Indonesia, the Philippines, etc.

How are you using the market's relative newness as a strength?

Tan: Certain parts of Asia are not nearly as developed as capital markets in Europe. However, one of the strengths here is that there are no legacy rules, regulations nor archaic systems to rework or decommission. Furthermore, another strength of the domestic capital markets in Asia is that they have been doing successful business with each other for decades. While a bank in, for example, South Korea may wish to conduct repo or lending activities with a counterparty in Japan, it will not think twice about the business transaction as it knows its trading partner. However, it may well have concerns around the operational processes required to manage the exposure. This is where a neutral, proven capital market infrastructure provider like Euroclear Bank can add real value. Via our multi-currency global Collateral Highway, the South Korean firm could receive JGBs against its initial loan, and Euroclear would at all times during the lifecycle of the financing transaction ensure that the correct collateral and agreed haircuts are applied. Furthermore, via Euroclear's collateral conduit, that Korean firm could re-use its JGBs with a bank in America to secure US dollar funding.

Smith: From a service provider's perspective, the newness of the markets and the differing structures provide both challenges and opportunities for us and our clients. In some ways, as the newer markets come on line with securities lending activity, they have learnt from more mature markets' errors and mistakes thus requiring new safeguards, in many cases systematic, to be implemented. This enables us to expand our services to our clients as their business expands into new markets.

McCardle: The newness of these markets enables EquiLend to work very closely with clients to understand the difficulties or nuances within a market. This also enables us to partner with our clients to help provide not just the best solution for them but to work with the whole market to make sure that the solution works for all. This new ground makes it easier to achieve best practices on the system from the start.

Oliver: The challenges of some of the new Asian markets present an opportunity for proactive agents. For example, in those markets that do not generally support a standard SBL process, there is a chance for agents to work with the local market to assist in the development of the securities lending rules and processes. This is an area of strength for eSecLending and our clients recognise that we are adding value by doing so.

Solway: Investors new to an APAC lending programmes are concerned about buy-in risks. But in reality, exchange driven-models are transparent, rule-based, intermediated and structured. All these aspects were created by many of the new bourses to mitigate settlement failure in order to add confidence and liquidity to the market. In Taiwan, for example, a natural long position cannot be sold if it is on-loan or in the process of being returned from loan. Local intermediaries oversee this process, which inspires all parties to be fast, efficient and aware of all stages of the settlement lifecycle. Risk verses return is always a balancing act that investors have to call; APAC is leading the charge in ensuring that operational risks of any lending programme can be vastly reduced.

Are you seeing a broadened asset demand, or do equities still dominate?

Squillacioti: In terms of the demand we are seeing from our borrower base in APAC, it is still largely equity-driven. However, while equities have historically dominated in this region, we do see indications that fixed income is becoming a greater area of interest – both from our borrowers and from the beneficial owners we service. There seems to be growing demand for a few markets, including Australian government bonds, JGBs and Singapore.

Solway: The domination of equities does indeed continue, but fixed/convertible flows are on the rise, which is evidenced by new roles and flows emanating from APAC securities finance desks. Certainly at BNY Mellon, we are now open for lending over any global lendable asset class in the Asian time-zone and this has already made a real difference for our client base. Co-ordination is key naturally and institutions with a truly global reach and capability, ultimately have an advantage. ETF capabilities continue to expand across the region, as exemplified by India's National Stock Exchange of India (NSE), which introduced trading in exchange-traded funds in its securities lending and borrowing segment (September 2013).

Tan: Regional equities remain at the forefront and main revenue generator in the securities lending realm for beneficial owners here in Asia. However, there are signs of a pick-up of fixed-income activity but this activity is still lagging behind equities, owing to the fact that debt capital markets in Asia are not as well developed. Much of this is due to the cultural norms inherent in the banking industry in Asia, where there is little need to access the capital markets for funding. Owing to a high savings base, there is ample liquidity for banks to utilise, and as a result, no compelling reason to seek external funding in the form of debt.

Oliver: Although many cite fixed income as the preferred investment class, our programme shows a stronger bias towards equities. In addition, equities remain the desired asset class for borrowers. It will be interesting to see how equities react in 2014 due to current speculation that the returns experienced in recent months/years will not continue and some investors may shift out of equities and into fixed income. Conversely, eSecLending looks for increased demand for equities in 2014 and are poised to capitalise by continuing to work on increasing supply and opening new markets.

McCardle: We have seen a greater interest regionally in BondLend for fixed income trading, but we still see equities as the predominant asset traded on our platform. With more firms having a fixed income presence in the region, we expect the interest in this side to continue to increase throughout the year.

Fannin: Undoubtedly, equities remain the dominant asset class from a securities lending perspective in Asia, and this is likely to remain the case for some time to come. However, demand for fixed income securities is growing and is likely to gather momentum as global regulation begins to materialise. Basel III is driving borrowers to optimise their balance sheets and pursue the collateral transformation ethos, which is encouraging increased demand for fixed income financing transactions out of the region. Whilst activity remains modest in its current form, this is likely to gather prominence over the next few years ahead of Basel's implementation. Demand for regional fixed income coverage is also being driven by increased Asia-based hedge fund flows, which require trade execution during local hours rather than via London at a later time.

Which of the emerging markets is proving the most interesting and why?

Dane Fannin: Of those markets which are operational, Taiwan continues to offer the most attractive returns for clients on a relative basis, although spreads have recently been eroded for two primary reasons. Firstly, Taiwan's supply curve continues to mature as agent lenders pursue the launch of new clients into the market, thus diluting overall fees. Secondly, restrictive short sale quota rules have constrained the ability for hedge funds to deploy selected strategies in scale, largely relative value type funds.

Indonesia is attracting attention too. The Indonesian Clearing and Guarantee Corp are making strides in developing a viable platform, they hope to be able to launch next year. Borrower demand is indicatively robust and ought to be a lot deeper than other less developed markets, largely because Indonesia offers greater liquidity to hedge funds, allowing them to better deploy strategies effectively.

Oliver: That is a tough question to answer because there are so many emerging markets that are interesting right now, in Asia and elsewhere. These range from Malaysia, where the negotiated transaction is opening up the market for lenders, to Brazil and India where the use of a CCP is still a challenge. For those lenders that can partner with clients to structure a functional approach to these markets, there is a significant revenue opportunity.

McCardle: We currently see the strongest interest in working to get South Korea, Taiwan and Thailand set up and traded over the EquiLend system. As clients in the region have become more familiar with the system, they see the opportunity to use a platform such as EquiLend to bring the efficiencies that are needed.

Smith: The emerging market that would appear to have been generating the most interest with our clients is India. This is not because of the size of the book already being generated but rather because of the challenges that the regulations and the processes require. Whilst still a long way to go, there is always that continual watchfulness by our clients and ourselves as to how the market in securities lending will travel.

Solway: At BNY Mellon, we see Japan, Korea, Taiwan and Thailand as the markets of most interest heading into 2014 purely due to their relative evolution and subsequent return potential.

Tan: This is a very difficult question to answer, and depends where you sit. Capital markets across the Asian-Pacific rim differ remarkably. In Australia and New Zealand, financial firms have long been used to operating according to US or European collateral management norms. Domestic capital market firms are using Australian government and corporate debt to secure foreign hard currency funding with increasing regularity. The flipside to this is that US and European firms are happy to diversify the collateral taken with such assets, which are seen as highly liquid and considered 'global-crisis remote'.

JGBs remain a highly sought-after asset class used extensively in the Asian region, and also further afield. But other government paper is rapidly catching up. We are increasingly hearing from our clients of the attractiveness of Malay and Thai government securities as benchmark assets. **SLT**


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Best Global Investment Bank
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Voted No. 1 Global Prime Broker, 6 years running
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Hold the hammer

CEO of eSecLending, Craig Starble, discusses his plans for expansion of the firm beyond auction technology, following its takeover in 2013

GEORGINA LAVERS REPORTS

How is the recently announced partnership between OCC and eSecLending a good fit for both parties?

We have a proven expertise in securities lending auctions and auction technology, having auctioned over $2.9 trillion in assets since inception across a global and diversified client base including pension plans, insurance companies, asset managers, mutual funds and now central counterparties (CCPs). Expanding our reach to attract more clients via a hosted auction service is a natural extension for us.

One example is our new asset liquidation platform, Auction Platform Services (APS), designed to appeal to a broad range of financial institutions interested in conducting their own auctions. CCPs and exchanges, for example, are finding the technology particularly helpful as a risk management utility. The Options Clearing Corporation (OCC) uses APS as an efficiency tool that dramatically reduces the administrative burden of conducting their own clearing member default liquidations and periodic stress testing.

Other institutions are attracted to the audit, compliance, reporting and post bid analysis functionality that helps with a more orderly decision making process. Regulators, in particular, are interested in how firms are dealing with fire sales and distressed assets—adding technology is one way to help firms cope with these various stresses.

Would you regard auctions as the firms main strength, and are you looking to expand beyond them?

We are a unique company, but our auctions are not solely what makes us unique. We are the only independent securities lending agent provider in the marketplace; we are not affiliated with a broker-dealer or a custodian bank, so can make unconflicted decisions.

In some of our auctions, not all of the exclusive bids are accepted, similar to an art auction where a painting that does not hit its minimum bid, or a bid that is reasonable to the auction house, is pulled out. We do that too. After an auction we perform a detailed analysis and discuss with the client if there is enough of an auction premium for each lot, or whether some lots may be better traded as a discretionary portfolio.

We take a highly consultative approach with our clients, which can be experienced during our auction process—both in planning the auction strategy and analysing the bids to determine the optimal result to best meet their risk/return goals. Clients are able to see evidence of wide price dispersions that still remain in the market for many portfolios due to different demand structures for the same assets, from different players.

There are many reasons why varying demand for a portfolio, or subset of a portfolio, may exist. For example, one borrower may have an interest in an emerging market portfolio and make a bid that significantly outperforms the rest of the market. This could be due to them having a large hedge fund client in the region that they are trying to support, or the fact that they may be building a business in that region so they want to have exclusive inventory.

This is all part of our highly customised service-orientated model. We partner with our clients in a different manner than most of the larger custodians and we are able to do that because we have fewer of them—but that is a good thing as it allows us to be highly attentive and responsive to their specific needs. Our type of service model also allows us to offer clients the opportunity to have one of our staff on-site at their office on a temporary or permanent basis, at our expense—an offer that many clients over the years have greatly valued.

Our firm is doing a lot of work in emerging countries. We recently auctioned a portfolio from Malaysia, which is a newly approved lending market for us, and are also actively working to get into the Brazilian market by auctioning or lending on a discretionary basis. Growth and demand in these markets has provided a lot of value to clients, so we are giving them our keen attention for the immediate future." **SLT**

Craig Starble
CEO
eSecLending

The interconnectedness of all things

The Middle East wants a slice of the capital pie. Dubai has its eye on a large helping

MARK DUGDALE REPORTS

Dubai is promoting itself a financial and business hub that connects the Middle East, Africa and South Asia's markets with the developed markets of Europe, Asia and the Americas, but it is not there yet. First, it has to attract service providers and create the infrastructure that will facilitate its transformation into a financial bridge that connects east and west.

The United Arab Emirates (UAE) state welcomed 55 active financial services and 103 non-financial services firms in 2013, bringing its total to 327 and 565 at the end of the year. It is now home to 22 of the world's top 30 banks, 11 of the world's top 20 money managers, six of the top 10 insurance companies, and seven of the top 10 legal firms.

Speaking at the beginning of February, Jeffrey Singer, CEO of Dubai International Financial Centre Authority, commented: "The growth that DIFC has experienced in 2013 has been the highest achieved since the beginning of the Great Financial Crisis."

Dubai has also implemented 'soft infrastructure' in line with international standards, to ensure that it achieves its mission of connecting regions separated by thousands of miles.

"There were several 'soft infrastructure' developments in 2013—such as the introduction of framework for institutions to develop shariah-compliant products and services, thus ensuring Dubai will become an Islamic finance hub, in line with the Dubai government's vision," explained Singer.

"In 2014, we will concentrate on the development of new markets such as Islamic finance, capital markets, family businesses and growth markets such as Africa, providing additional business opportunities to firms based both within DIFC and the wider region."

Dubai Financial Market, the UAE emirate's stock exchange, issued securities lending and borrowing rules in January, as part of its own efforts to enhance market infrastructure according to international best practices.

The operational implementation of the rules is expected to happen by the end of Q1 2014, but it is contingent on the readiness of market participants. Under Dubai Financial Market's securities lending and borrowing model, foreign securities lenders and borrowers may arrange loans based on international practices, but will have to instruct local approved lending and borrowing agents to move loaned securities.

Local lending and borrowing business will be undertaken by approved agents, which can either be local brokers, custodians or any entities as approved by the Securities and Commodities Authority. In the initial phase, securities lending and borrowing activities will be limited for market making activities and for settlement of failed securities delivery for delivery-versus-payment trades.

Maryam Fekri, executive vice president and COO of Dubai Financial Market, commented: "Over the past years, DFM has taken numerous initiatives and implemented various market enhancements. Certainly, these developments were highly recognised by local and international investors alike and played a pivotal role in the UAE market classification as 'Emerging Markets' status by MSCI as well as S&P Dow Jones amongst other international index companies, which reflect international investors' confidence in our markets and their satisfaction with what we have accomplished."

"The implementation of securities lending and borrowing (SLB) is an important development for the market because SLB is a key market infrastructure for the development of other market products like ETFs, thereby diversifying the range of products to be offered and increasing the UAE's attractiveness for investments."

Euroclear and Clearstream have taken steps to link up with Dubai, adding the emirate to its collateral management platforms to promote cross-border trading.

The Dubai Commodities Clearing Corporation (DCCC) became the first central counterparty (CCP) in the Middle East to join Euroclear's global Collateral Highway. Their agreement was announced in September 2013.

The exclusive agreement with Euroclear will enable clients of DCCC and the Dubai Gold & Commodities Exchange (DGCX), which uses DCCC as its CCP, to use eligible securities held in Euroclear Bank—and in all other entities connected to the Collateral Highway—as collateral to fulfill initial and variation margin requirements.

Speaking in September 2013, Tim Howell, CEO of Euroclear, said: "Extending our global Collateral Highway to the Middle East is another milestone in our plans to improve cross-border collateral mobility."

"It also underscores our commitment to clients and market infrastructures in the MENA region to ease cross-border flows and contribute to its appeal as one of the world's high-growth regions."

Clearstream, meanwhile, created its first Middle East CCP link in October 2013.

DCCC has agreed to cooperate on collateral management for CCP margining. By the end of Q1 2014, Dubai's exchange customers will be able to use the collateral pools of Clearstream and its partners to meet margin requirements at DCCC through the Global Liquidity Hub.

Gary Anderson, CEO of DGCX, said: "Partnerships like these are key building blocks in our efforts to transform the Middle East's derivatives marketplace and become a key hub in the global liquidity infrastructure map. Demand for collateral is expected to grow significantly, driven by both market forces and regulatory reform, and DGCX is keen to support its members in deploying collateral optimally without fragmentation."

Dubai's plan to become the mid-way point between established international markets is far from complete, but the Middle East as a region appears to making significant strides. Northern Trust, which has been supporting Middle Eastern clients since 1987, established a representative office in Abu Dhabi, UAE, in March 2008 and one in Riyadh, Saudi Arabia, in September 2013.

Sunil Daswani, head of international client relations for securities lending at Northern Trust, says: "Our client facing teams have over 100 years of Middle East experience between them and we have local language support for clients in the local time zone. We work with some of the largest, most sophisticated, influential funds in the world, covering the spectrum of asset servicing including securities lending, asset management and wealth management services for sovereign wealth funds, key public pension institutions, insurance funds, corporations, central banks and other financial institutions."

"One of the key characteristics of the Middle East is that business is very much relationship and face-to-face driven. Assets under custody for our Middle East clients have more than doubled over the five years ending 31 December 2013; [and] assets under management for Middle East clients have increased by nearly 150 percent over the same period." **SLT**

Securities lending myths busted!

Chris Benedict, vice president of DataLend, debunks the myth that lending securities enables short sellers to drive down asset values

Myriad myths about the securities lending markets have persisted over the years. "The securities lending market is opaque and unregulated," some have said. Others have said: "The securities lending market undermines corporate governance when voting shares are lent out." A favourite claim of journalists a few years back was: "Securities lending caused the financial crisis of 2008."

Yet perhaps the biggest myth of all is: "If you allow your securities to be lent out, you're enabling the short sellers to drive down the value of your assets." We decided to assess this last myth by looking at the top five earning securities in each region in 2013 to see what, if any, influence the securities lending market might have had on the performance of those securities' share prices.

In North America, Tesla Motors was the number one most-shorted security in 2013. This stock was also consistently one of the hottest names in the world, commanding a volume weighted average fee of close to 500 basis points (bps) over the year. Despite short sellers' best efforts, Tesla had a phenomenal performance last year, yielding a 344 percent stock price increase. Traders who shorted Tesla in January 2013 and didn't cover are probably in a new line of work today.

There was a lot of talk about a 'bubble' in the 3D printing space during the second half of 2013, but if there is any irrational exuberance in this industry, it certainly didn't ebb last year. Companies such as 3D Systems, Stratasys, Exone and other names all saw triple-digit stock price appreciations while commanding impressive fees of more than 700 bps to borrow.

Short sellers possibly thought that the Obama administration was going to regulate gunmaker Sturm Ruger into oblivion last year, but the company continued to fire off solid earnings each quarter, and the shorts were dead wrong. Securities lenders, however, were quite happy to collect around 2500 bps in fees while the stock clocked in an impressive 61 percent gain.

In Europe, short sellers may have seen Nokia with the same possible weaknesses as beleaguered BlackBerry, but a partnership with Microsoft boosted returns, and the stock almost doubled in 2013 in addition to yielding some solid revenues in the securities lending market.

Wacker Chemie outperformed last year via a series of strong earnings and analyst upgrades. The stock was also a top earner for Europe in 2012.

Finally, in Asia, Gungho Online busts the short-seller myth with authority. It yields maximum value for a securities lending participant from both fees to borrow and a stock price increase of an incredible 775 percent in 2013. This gaming stock was also a top earner in 2012.

Of course, not every stock among the top securities lending earners turned out to have a wonderful year in 2013. But in many of those cases there were company-specific or macroeconomic factors at play, well outside of the scope of the securities lending market.

For example, HTC was down 53 percent last year—not due to short selling per se, but because the firm faces very fierce competition from the likes of Apple and Samsung (neither of which had a great 2013 either). Serious supply problems also dogged HTC during the rollout of its much-hyped HTC One, causing smartphone buyers to turn to their competition and analysts to downgrade the stock.

Fertiliser manufacturer K&S stumbled along with the rest of the potash industry when the BPC potash cartel was effectively dissolved after Russia's Uralkali said it would pull out in late July. Potash stocks worldwide were down anywhere from 20-30 percent in a single day and have yet to recover their lost ground.

Management of Celltrion was embroiled in insider-trading probes that clobbered both the stock's share price and investor confidence. As for Banca Monte, 2013 was not a good year to be an Italian bank. Nor, for that matter, was 2012, or 2011, or 2010, or 2009.

Thus, in instances where a security's price dropped, it tended to be caused by company-specific economic conditions and business environment rather than securities lending activity.

Source: DataLend

Security Name	Asset type	Volume Weighted Average Fee (in bps)	Est. total securities lending revenue (in millions)	Stock price increase (decrease)
TESLA MOTORS	Equity	495	$72.67	+344%
INTEROIL	Equity	1,268	$64.65	-7%
3D SYSTEMS	Equity	724	$56.45	+161%
STURM RUGER	Equity	2,445	$55.60	+61%
ARENA PHARMACEUTICALS	Equity	1,474	$42.69	-35%

Figure 1: Top five earners in the North American securities lending market

Security Name	Asset type	Volume Weighted Average Fee (in bps)	Est. total securities lending revenue (in millions)	Stock price increase (decrease)
NOKIA	Equity	139	$22.00	+98%
ENI	Equity	135	$12.43	-4%
K+S N	Equity	194	$12.24	-36%
WACKER CHEMIE	Equity	803	$11.83	+61%
BANCA MONTE DEI PASCHI DI SIENA	Equity	532	$10.79	-22%

Figure 2: Top five earners in the European securities lending market

Security Name	Asset type	Volume Weighted Average Fee (in bps)	Est. total securities lending revenue (in millions)	Stock price increase (decrease)
HTC CORP	Equity	992	$26.69	-53%
CELLTRION	Equity	1,474	$25.42	-24%
GUNGHO ONLINE	Equity	1,749	$25.16	+775%
OLAM INTERNATIONAL	Equity	1,140	$22.89	-1%
ANA HOLDINGS	Equity	497	$19.06	+16%

Figure 3: Top five earners in the Asia/Australian securities lending market

Shorting emerging markets

As investors start to doubt emerging markets, Simon Colvin of Markit Securities Finance looks at how they have positioned themselves to benefit from this reversal of fortune

Our review of North American exchange-traded fund (ETF) flows showed that emerging market products witnessed some of the greatest outflows.

Investors have increased their holdings in the negatively exposed emerging markets products since the start of the year. All six of these ETFs have seen inflows since the start of the year, totalling $277 million. This takes the total assets under management to $644 million.

Topping the inflows is the ProShares Short MSCI Emerging Markets fund, which has seen more than $200 million of inflows, the same as its AUM at the start of the year.

Short interest surging

While investing in negatively exposed funds may make sense for investors looking to gain broad exposure to the recent trend, we see no shortage of investors looking to take on shorting emerging market companies directly.

Since the start of the year, the 830 constituents of the MSCI World Index have seen aggregate demand to borrow surge by more than 7 percent since the start of the year to hit 2.1 percent of free float on average.

This is increase in shares out on loan is the second peak in demand to borrow index constituents in the last year. The earlier spike was seen last summer when US tapering talks started to grow louder.

South Africa and China most shorted

Chinese companies within the index are the most shorted with an average of 4.5 percent of free float out on loan. This has increased by 10 percent in the last six weeks as the country posted disappointing manufacturing and sectors purchasing managers' indexes readings, placing doubts on the country's growth ability.

The slowing growth prospects matches where short sellers have positioned themselves, with construction company Anuhi Conch Cement topping the list as the most shorted company with 22 percent of its free float out on loan, up 70 percent year to date.

The country's financial sector has also seen a 50 percent increase in the demand to borrow, with short interest in China Minsheng Banking Corp having risen to 13 percent of shares outstanding on loan.

Hong Kong, a regional hub for companies with large exposure to China, has also seen high demand to borrow, with an average 3.8 percent of the free float out on loan.

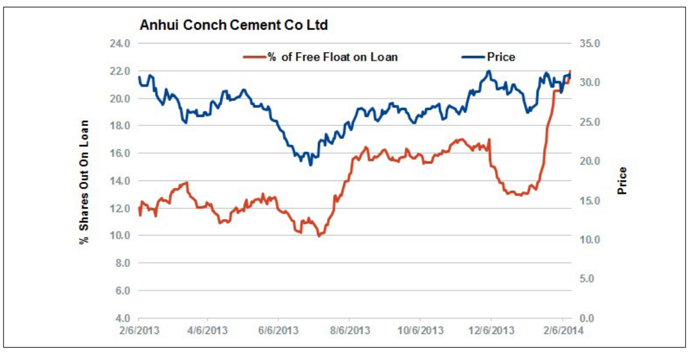
Currency woes driving shorts

The falling South African rand and Turkish lira have seen shorts hone in on these countries.

The 25 percent fall in the rand relative to the US dollar in the last year has seen African Bank Investment become the most shorted constituent of the MSCI Emerging Market Index. The bank has seen its demand to borrow jump by 38 percent year-to-date to a massive 43 percent of shares outstanding.

Also shorted is Turkish bank Akbank, which has seen demand to borrow nearly triple to 2.75 percent of shares outstanding. **SLT**

Simon Colvin
Research analyst
Markit Securities Finance



Industry appointments

William Duff Gordon, research director at Markit Securities Finance, has resigned from his position.

His departure follows that of Linda Benzi, who sources confirmed is moving to US-based financial services company E*Trade Financial Corporation.

Gordon is still in his position and will leave the industry when he departs.

The research director, who regularly speaks at securities finance events and writes for industry publications, joined Markit Securities Finance in early 2000, when it was known as Data Explorers.

Markit bought Data Explorers in 2012, rebranding the data company as Markit Securities Finance.

Most notably, former Morgan Stanley employee Edward Marhefka joined Markit Securities Finance as managing director and co-head of the business in April 2013.

Benzi, formerly director of sales and relationship management at Markit Securities Finance, is joining E*Trade.

She worked at Goldman Sachs and EquiLend before she joining Data Explorers from Citi in 2009.

Anthony Barros, previously a managing director at RCap Securities, is also joining E*Trade, a provider of online trading services. He starts today, according to sources.

As a result of a recent election, the International Securities Lending Association (ISLA) has appointed four new directors to its board.

These are **Casey Whymark**, co-head of securities lending and financing at UBS; **David Raccat**, head of global markets and market and financing services at BNP Paribas Securities Services; **Roelof van den Struik**, investment manager at PGGM; and **Arne Theia**, managing director and head of repo and collateral trading at UniCredit.

Kevin McNulty, CEO of ISLA, said: “As the ISLA membership base continues to grow and diversify it is important that the composition of the ISLA board remains appropriately representative. We are very pleased to have four new directors who are all based outside of the UK, represent equity and fixed income financing markets, and for the first time include a direct representative of the beneficial owner community.”

The board, which is chaired by Andy Krangel of Citi, meets several times a year and oversees the work of the association. The full list of ISLA board members is available on ISLA’s website.

Former Deutsche Bank head of European securities lending, **Benga Sofoluwe**, has left hedge fund EQI Asset Management and will soon take up a senior role at Citi, according to sources.

He will join Citi to run the bank’s equity finance desk in Hong Kong, sources have confirmed.

At EQI Asset Management, which he left late last year, Sofoluwe worked with Steve Smith as a trader in equity finance and delta one trading.

He was based in London and took up the role after being on gardening leave for approximately six months, following his departure from Deutsche Bank in March 2012.

Citi has integrated its services in a new platform, forming an “investor services group” that promises to address financing, execution, collateral management, custody and fund services.

Okan Pekin, global head of investor services, said in an internal memo that the integrated services platform would help as the business moves to adjust to more demanding capital, leverage and counterparty risk requirements.

The group will be run along four global product lines which will take responsibility for revenues, expenses, headcount, specialist sales teams where appropriate, as well as their technology and operations platforms.

The reshuffle involves a number of re-appointments within the firm. **David Murphy**, who previously ran prime finance in North America, will be appointed to lead prime finance globally which will also include delta one and agency securities lending.

David Martocci will continue to run agency securities lending globally and report to Murphy.

Arne Theia
Board director
ISLA

Casey Whymark
Board director
ISLA

Roelof van den Struik
Board director
ISLA

William Duff Gordon
Free agent
Formerly of Markit Securities Finance

Sanjay Madgavkar, global head of FX prime brokerage will report to Martocci in addition to reporting to Jeff Feig, global head of G10 FX.

Jerome Kemp will continue to manage futures and OTC clearing, which will be combined with collateral management. Rajen Shah will report to Kemp.

Sanjiv Sawhney, who previously headed securities and fund services in EMEA, will run global custody and alternative investor services. Sawhney will oversee the growth of Citi's global custody platform and also head up its hedge fund, private equity and wealth services businesses.

Mike Sleightholme, Joe Patellaro and Boaz Lahovitsky will report to Sawhney. Sawhney will also oversee Citi's strategy function run by Joe Pandolfi.

Pat Curtin, previously the head of long fund services will manage global fund services, which will include fund administration, transfer agency and middle office services. He will work closely with his operations and technology partners to consolidate Citi's platforms, build in-house technology assets and automate its processes.

Alan Pace, currently the head of prime finance and futures sales will run global sales for investor services, which will combine all sales and client facing functions across the business. Pace will partner with **Dirk Jones** over the coming months to create an integrated sales organisation, and Jones will transition to his new role as global head of issuer services by the end of April once the sales integration has been completed successfully.

Richard Gordon will run operations for investor services, reporting to Jon Beyman and Mike Whitaker. Gordon is a new hire from Deutsche Bank where he was the COO of the global risk organisation.

Mary Fenoglio will manage custody operations across global custody and direct custody and clearing (DCC), also reporting to Jon Beyman and Mike Whitaker as well Lee Waite, global head of DCC.

Regional leaders are as follows:

Shahmir Khaliq will run investor services in North America, reporting to Suni Harford, head of markets and securities services for North America. The memo said that a new role for Bob Wallace would be announced in due course.

Nick Roe, who previously ran prime finance and futures, will be responsible for investor services in EMEA. **David Russell**, who previously managed securities and fund services in Asia, will run Asia including Japan. Alejandro Berney will continue to manage Latin America and Roberto Gonzalez Barrera will continue to oversee Mexico.

The memo also stated that the new fiduciary head for the investor services group would be announced soon.

Kirtes Bharti has moved from Segantii Capital Management to Scotiabank, as regional head of securities lending.

Bharti was head of financing at the $749 million hedge fund, and had joined the Hong Kong-based firm in April 2012.

Before that, Bharti worked at Credit Suisse, and was a chairperson of the Pan-Asia Securities Lending Association (PASLA).

Scotiabank did not respond to a request for comment.

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SECURITIESLENDINGTIMES

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

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

Reporter: Stephen Durham
stephendurham@securitieslendingtimes.com
Tel: +44 (0)20 663 9622

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

Marketing director: Steven Lafferty
design@securitieslendingtimes.com

Published by Black Knight Media Ltd
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Beckenham, BR3 1AT, UK

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