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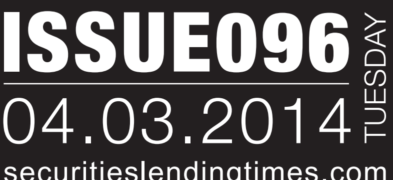
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ISLA okay with ESMA's easing of collateral diversification rules

The European and Securities Market Authority's (ESMA) proposal to ease up on certain collateral diversification rules contained in its guidelines for exchange-traded funds and other UCITS has been met with open arms by the International Securities Lending Association (ISLA).

ESMA's current guidelines require that no more than 20 percent of the NAV of a UCITS may be held in collateral from any one issuer.

In the consultation, ESMA considered allowing a derogation from this provision for government issued collateral in certain circumstances. The proposal is that this derogation should be limited to money market fund UCITS, only to allow them to use higher volumes of reverse repo against a single government issuer.

ISLA argues that while it supports the proposal, the derogation should be available to all UCITS, and not just money market funds.

"Whilst recognising the specific difficulties faced by MMFs in their use of reverse repo, the complexity of compliance with the current requirements will also have a significant negative impact on other UCITS in their management of collateral, and we see no clear rationale to exclude any UCITS from the derogation of the 20 percent diversification requirement," said the association in a letter.

It added that diversification is, in most cases, an appropriate risk mitigant, but there are circumstances where its application may increase or negatively affect the level of risk or cost associated with efficient portfolio management techniques.

readmore p2

RMB to love it if Clearstream's plan comes together

Clearstream has set out its market approach to developing and delivering solutions to help support the internationalisation of the renminbi.

It wants to bring together market providers and participants to collectively enable foreign investors to further invest in the Chinese currency, help develop solutions to increase offshore RMB liquidity, enhance the depth and breadth of RMB products and services, and facilitate both growth and maturity in the offshore RMB bond markets.

To deliver on this, Clearstream is actively seeking partners to join in building and implementing the components that will help establish and facilitate an international offshore RMB market.

readmore p2

Hedge fund managers cite cost and quality for moves

Hedge fund managers are changing their service providers, particularly prime brokers and administrators, because of low-quality service and cost, a survey has found.

Research and consultancy firm Preqin surveyed more than 100 fund managers at the end of 2013 to find out more about whether they had changed service providers and what had prompted the change.

A third of all fund managers have changed a service provider in the past year, with European and North American fund managers being the most active in switching service providers in 2013.

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ISLA welcomes ESMA's easing on collateral

Continued from page 1

"The current diversification rules may drive UCITS to take risk that they otherwise would not take, such as cross currency risk and in some cases cash re-investment risk."

"Whilst our members believe that all UCITS funds may be restricted in their activity relative to other comparable retail funds, the diversification rules may disproportionally disadvantage smaller, specialist or niche UCITS that may achieve higher levels of exposure to EPM techniques than 20 percent of their NAV because of the nature of their portfolio," continued the letter.

It added that the guidelines also have a direct impact on fixed income- or government bond-specific UCITS that may wish to employ EPM techniques with a narrow collateral policy focused only on government bonds (for example, a UCITS invested in US fixed income securities may wish to restrict collateral to US government bonds only).

Such funds would be forced to restrict EPM techniques to 20 percent of their NAV or would be required to accept some currency, market or country risk in their collateral pool.

"Restricting EPM techniques, such as securities lending, will negatively affect investment performance for these funds and may serve to increase the costs of management and administration (which are ultimately borne by investors)," said the association.

RMB to love it if Clearstream's plan comes together

Continued from page 1

Clearstream also plans to leverage its international infrastructure to act as a reciprocal gateway between Chinese and non-Chinese investors, and issuers and other market participants.

Since the launch of the offshore RMB programme in 2009 and China's recent new measures aimed at internationalising its currency, there has been impressive appetite for this growing world currency.

China is the second largest economy in the world with its currency presently standing in 8th place as a world payment currency by value, having risen from 20th place since 2012, according to SWIFT statistics.

But RMB currently accounts for less than 9 percent of global trade finance volume, while the US dollar accounts for more than 81 percent.

To help develop and execute its RMB market approach, Clearstream is working with the trade finance industry, investment funds industry and the global securities financing industry such as collateral management providers.

Simultaneously, Clearstream can facilitate the efficiency and liquidity of the offshore RMB cash market by funding the demand for offshore RMB in one region with supply of offshore RMB from another region, all secured by collateral held on Clearstream's collateral management platform.

Services and products to be explored include triparty repo solutions for increasing interbank market liquidity in RMB, cash management, bonds issuance and the development of new offshore products and services including in the funds area.

Head of global client relations and executive board member of Clearstream, Philip Brown, said: "A cornerstone of Clearstream's business strategy is to facilitate and support our customers' increasing demand to invest in the Asian markets. The internationalisation of the Renminbi that the Chinese authorities pursue is currently one of the most exciting developments in this space that we, as a core market infrastructure provider, have been supporting since the early days."

"We have a clear vision and market approach to help take this agenda forward—together with partners from across the market we

SLTINBRIEF

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intend to contribute to the development of a truly international offshore market for the Chinese currency."

Hedge fund managers cite cost and quality for moves

Continued from page 1

In the past five years but excluding the previous 12 months, 41 percent of fund managers have reported that they have changed a service provider.

Asian Pacific and North American fund managers were the biggest changers, with 55 percent and 46 percent changing their service providers over the longer time period.

Fund managers changed their administrators and prime brokers most frequently. In the last 12 months and previous five years, more than half of all fund managers moved to another provider.

European fund managers have changed their prime brokers the most, because "with the large choice of prime brokerage houses in Europe, funds in the region have more options to switch to a provider that can better fulfill their needs", commented Preqin.

Fund managers in Asia and the rest of the world have "more limited options available to them".

"On the other hand ... [they] are the most likely to change fund administrator; three-quarters of all the fund managers in the region have switched their administrator."

"Overall, fund managers are least likely to change service providers that provide custody or auditing services, particularly in the shorter term."

Dissatisfaction with the quality of service offered is the leading reason for switching service provider

"Although fewer fund managers gave this as the reason they changed service providers in the short term, indicating managers have seen some improvement, there is still clearly a long way to go for many service providers in keeping

hedge fund managers satisfied with the quality of service they receive."

Asia-Pacific and rest of world fund managers in particular reported dissatisfaction with the service they received. Eighty-six percent of those surveyed gave it as their reason for switching providers.

"As these emerging regions for hedge funds continue to grow in prominence, service providers will need to re-evaluate their services in each region and ensure they are able to offer the same quality and reach of fund services as they do in the established European and North American markets."

Cost was the next leading cause for fund managers to switch their service provider, with Preqin finding that "fund managers are being squeezed between investors looking for lower fees and rising costs as a result of investor demands, increased technology demands and the new cost of compliance".

Interestingly, in North America, concerns around cost are less frequently cited as a reason for them to switch service providers.

"For these North America-based fund managers, the changing size of the fund/issues around scale are the greatest concern, with this being the only region where fund manag-

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ers expressed this as a reason for switching service provider. North America-based funds have had the greatest success in fundraising over recent years, and as their funds grow, many funds have switched to service providers that are better able to cope with their larger capacity."

Newedge teams up with AgFe

Newedge has joined forces with AgFe, a London-based fixed income investment advisor and asset manager, to further enhance its Agency Cash Management (ACM) platform geared toward the institutional repo market.

AgFe will provide guidance on analysing and implementing triparty repo on the ACM platform, as well as offering general advice on developing and managing pools of cash-equivalent assets.

As part of the collaboration, ACM clients will also have access to detailed pre- and post-trade analytics via AgFe's proprietary technology platform, PACE.

Newedge is a 50/50 joint venture between Société Générale and Crédit Agricole CIB. It has a presence in 19 locations in 14 countries.

Angela Osborne, co-head of ACM at Newedge, said: "Transparent and timely data is vital to effective modern cash and collateral management. ACM clients can now benefit from AgFe's industry insight to help build, monitor and report on their portfolios and collateral exposures in a robust and efficient manner."

"Linking the ACM platform with AgFe's expertise and sophisticated analytics tools will further distinguish our offer from traditional unsecured money market products."

Kevin Cook, a partner at AgFe, said: "Combining our capabilities will help further promote transparency, best execution and efficiency in cash and collateral management."

Omgeo CTM sees increase in users

The user base of Omgeo Central Trade Manager (CTM) grew by 33 percent in 2013, with the addition of more than 150 broker-dealers and 280 investment managers.

The platform, which allows users to centrally match cross-border and domestic equity, fixed income, exchange traded derivative (futures and listed options) and contract for difference transactions, now boasts a user base of more than 1700 clients globally.

In 2013, total equity and fixed income volumes on Omgeo CTM also increased by 82 percent.

Post-trade services provider Omgeo attributes the user increase to "global market participants' increased desire for automated, post-trade solutions that reduce risk and increase efficiency", as well as completion of a migration of clients from its legacy local trade confirmation service, Omgeo OASYS Global, to CTM.

More than 500 broker-dealers successfully migrated to Omgeo CTM during the multi-year migration that concluded in June 2013.

"Omgeo CTM has been a key enabler of reduced risk and increased efficiency in post-trade operations at our firm," commented Dominic Janssens, director of global investment operations at T. Rowe Price Associates. "Central matching has become viewed by the industry as the ideal method for the post-trade confirmation process."

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Tim Keady, chief client officer at DTCC, which took full control of Omgeo after agreeing to acquire Thomson Reuters's 50 percent stake in the post-trade services provider in July 2013, said: "Community growth continues to be a key priority because it increases post-trade efficiency for all Omgeo CTM users."

"A number of factors contributed to last year's increase including our continued focus on strengthening our presence across Asia-Pacific and Latin America, as well as broadening our asset class coverage to include exchange-traded derivatives. We now have over 45 clients signed for ETD functionality."

"More than ever before, firms are seeking to implement best practices across trading and post-trade operations, and regulatory and industry initiatives such as the move towards shorter settlement cycles continue to drive adoption of robust, automated processes. We expect this to continue in 2014."

SEC hits Credit Suisse for almost $200 million

Credit Suisse has agreed to pay $196 million after admitting that it broke US securities laws when it provided cross-border brokerage and investment advisory services without registering with the Securities and Exchange Commission (SEC).

The Zurich-based bank will pay $82,170,990 in disgorgement, $64,340,024 in pre-judgment interest, and a $50 million penalty. It was found to have wilfully violated Section 15(a) of the Securities Exchange Act of 1934 and Section 203(a) of the Investment Advisers Act of 1940.

It provided cross-border securities services to thousands of US clients and collected fees totalling approximately $82 million without adhering to the registration provisions of the federal securities laws, according to the SEC.

From 2002, unregistered relationship managers travelled to the US to solicit clients, provide investment advice, and induce securities transactions.

Although the number of US client accounts decreased beginning in 2009 and the majority were closed or transferred by 2010, it took Credit Suisse until the middle of 2013 to completely exit the cross-border business as the bank continued to collect broker-dealer and investment adviser fees on some accounts.

At its height, the business amassed 8500 US client accounts that contained an average total of $5.6 billion in securities assets.

"The broker-dealer and investment adviser registration provisions are core protections for investors," said Andrew Ceresney, director of the SEC's enforcement division. "As Credit Suisse admitted as part of the settlement, its employees for many years failed to comply with these requirements, and the firm took far too long to achieve compliance."

HazelTree partners with Integra

HazelTree, a US provider of integrated treasury management solutions, is to enter a partnership with Integra-IT Hong Kong Limited.

The venture was formed to help facilitate business development and local support for HazelTree's clients in Asia.

Leon Carrington, managing director of Integra-IT, said: "We are excited to be working with HazelTree and look forward to representing them. Our clients are already enjoying the benefits that HazelTree's treasury management solution brings to their organisations and will realise the advantage of having a local presence, both on-the-ground and in the same time zone."

HazelTree's CEO, Stephen Casner, said: "With Integra-IT, we have found a highly capable local partner to support our growing business in Asia. Their knowledge of the alternative market in Asia, coupled with superb IT skills have created very strong relationships in the local markets. They are vital to supporting our global growth while maintaining the highest level of service to our clients worldwide."

Institutional investors see wood for the trees

Institutional investors expect risk management to play an even greater role in the investment decision process in the future, according to a new study by BNY Mellon and Nobel Prize-winning economist Dr Harry Markowitz.

Over the next five years, 73 percent of institutional investors expect to spend more time on investment risk issues, while 68 percent expect to spend more time on operational risk issues. Only 25 percent of respondents, however, had a chief risk officer.

"Institutional investors are up against some formidable risk pressures, from new regulations to transparency concerns to investment risks across the board," said Debra Baker, head of BNY Mellon's global risk solutions group.

"For many, risk management has been a puzzling proposition—just when they think most risks have been measured, managed and mitigated, new ones emerge and old ones evolve. We see the need for a collective risk management framework that incorporates all areas of risks, their impact on each other, and one's overall investment programme. Using some form of quantitative scoring across major risk categories may be the next frontier of risk management."

The new study arrives almost a decade on from the publication of BNY Mellon's 2005 whitepaper New Frontiers of Risk: The 360% Risk Manager for Pensions & Nonprofits, which also included input from Markowitz. The 2005 paper highlighted how the need for more structured and holistic risk management was just beginning to be recognised.

Markowitz said: "The crisis of 2008 was different. So was the crisis that started in March of 2000 with the bursting of the tech bubble. So will be the next crisis. The moral is that one will never be able to put the portfolio selection process on automatic."

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"The trusted quant team needs to constantly evaluate the current situation. It should also make sure that higher management understands what assumptions are being made, how and by whom any exotic asset classes being used have been evaluated, and what the vulnerabilities are of the general approach that is being taken. Furthermore, the push to integrate risk-control at the enterprise level, rather than at the individual portfolio level, should be continued."

Key findings of the new study, which surveyed more than 100 institutional investors, including pension funds and endowments and foundations with approximately $1 trillion in aggregate assets under management, include no more chasing alpha, whereby institutional investors are placing greater emphasis on achieving absolute return targets as opposed to outperforming a market benchmark.

Risk budgets, matching liabilities and avoiding downside risk all play an important role in this shift.

There has also been a drive towards analytical tools based on risk-return analysis and performance attribution continue to be the most commonly used to model, analyse and monitor investments.

Total plan/enterprise risk reporting tools are on the rise to encompass traditional and alternative investments, as well as liabilities.

Finally, the study showed a desire from investors to avoid unintended leverage, and to better understand underlying investments.

Investors learn from Risky Business

More investors are now embracing a risk-based approach to asset allocation, and remain bullish on industry growth, found a recent survey from Deutsche Bank.

Four hundred investor entities participated in the bank's 2014 alternative investment survey, representing over $1.8 trillion in hedge fund assets and over two thirds of the entire market by assets under management.

The survey found that 39 percent of investors are now embracing a risk-based approach to asset allocation, up from 25 percent in 2013—and 41 percent of pension consultants recommend this approach to clients.

"The risk-based approach effectively removes historical constraints on the percentage allocation to absolute return strategies, allowing equity long/short managers to compete with long only and fixed income absolute return funds within the overall fixed income risk budget," said a Deutsche Bank statement.

Barry Bausano, co-head of global prime finance at Deutsche Bank, said: "Hedge funds continue to establish their growing position within the broader asset management industry, alongside some of the more mainstream asset managers. The hedge fund industry is predicted to reach a record $3 trillion by 2014 year end driven by significant inflows, most notably from institutional investors."

Anita Nemes, global head of the hedge fund capital group at Deutsche Bank, said: "With the majority of investors happy with hedge fund performance, we expect institutional investors to further strengthen their commitment to hedge funds. Last year's respondents targeted 9.2 percent for their hedge fund

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portfolios, and hedge funds delivered—the weighted average return for respondents' hedge fund portfolios this year was 9.3 percent. Looking forward, respondents are targeting 9.4 percent for 2014."

A significant finding was that investors are remaining bullish on industry growth—hedge funds are expected to reach a record breaking $3 trillion by the end 2014, up from $2.6 trillion at the end of 2013. This is based on investors' predictions of $171 billion net inflows and performance-related gains of 7.3 percent (representing $191 billion).

Commitment from institutional investors also continues to strengthen, and nearly half of institutional investors increased their hedge fund allocations in 2013, with 57 percent planning to grow their allocations in 2014.

Institutional investors now account for two thirds of industry assets, compared to approximately one third pre-crisis

Investors are happy with hedge fund performance, and 80 percent of respondents stated that hedge funds performed as expected or better in 2013, after their allocations returned a weighted average of 9.3 percent in 2013.

Equity long short and event driven are the most sought after strategies.

Investors today pay an average management fee of 1.7 percent, and an average performance fee of 18.2 percent. While fees have come down slightly, investors remain willing to pay for performance: almost half of all investors would allocate to a manager with fees in excess of 2&20 where the manager has proven "consistent strong performance in absolute terms".

The Fed's trading desk to increase basis point rate

The open market trading desk at the Federal Reserve Bank of New York has been conducting daily, overnight fixed-rate reverse repo operations as part of an operational readiness exercise.

Beginning with the operation conducted on 18 February, the desk will increase the fixed rate offered in these operations from three basis points to four basis points. All other terms of the exercise will remain the same.

The operations were announced in a 30 September 2013 statement.

"As an operational readiness exercise, this work is a matter of prudent advance planning by the Federal Reserve," said a statement.

"These operations do not represent a change in the stance of monetary policy, and no inference should be drawn about the timing of any change in the stance of monetary policy in the future."

Financial Transaction Tax must respect EU treaties

The Economic and Financial Affairs Council discussed the proposal for an EU11 Financial Transaction Tax (FTT) on 18 February.

This is the first time the proposal has been brought to the ministerial level and "reflects the Greek presidency's desire to make progress towards a political agreement", said the Law Society, which represents solicitors in England and Wales.

Law Society chief executive Desmond Hudson has written to key European finance ministers to raise the society's concerns that the proposal does not sufficiently respect the rights and competences of the countries that have chosen not to participate.

"The proposal for a FTT is designed in such a way that financial entities based in non-participating countries, such as the UK, would still be subject to the FTT for a wide range of transactions, including transactions that do not necessarily have a genuine economic link to a participating member state," said a statement.

Hudson added that, regardless of the potential pros and cons of the tax, he believes that any legislation should respect the EU treaties and the decision by a majority of countries not to participate.

"The point is that the extraterritorial effects of the proposed tax would in effect force a degree of participation on those countries."

The Law Society also has a number of technical concerns. Due to the wide scope of the proposed FTT, it is technically very complex, and it is more likely to get passed onto the end user of financial services.

Gary Richards, chair of the Law Society's tax law committee, said: "To prevent avoidance, the European Commission has proposed that in principle each leg of a transaction is subject to the tax and that each party is jointly and severally liable to pay. Essentially, this means that the costs will be much higher as is the likelihood that the tax will be passed onto non-financial parties, such as businesses, and pension savers."

TradingApp store goes online

TradeStation, a Monex Group company, will officially launched its all-new online TradingApp store at the annual New York Traders Expo.

The TradingApp store is designed to give TradeStation clients access to more ideas, strategies, technology and custom trading solutions.

The store is an online marketplace that currently offers more than 650 products, including indicators, analysis techniques and other tools. In addition to this, the store leverages the ingenuity of more than 250 independent third-party developer-traders to create a marketplace that continuously adds products.

TradingApps can be downloaded directly from, and will run seamlessly on, TradeStation's own trading platform. Some TradingApps are leased on a monthly basis, which enables traders to avoid incurring a large one-time investment. Others are offered free of charge while many TradingApps also offer a free trial.

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Salomon Sredni, CEO of TradeStation Group and COO of Monex Group, said: "Our new TradingApp store will encourage innovation by tapping the limitless creativity of traders, software developers and other market professionals to bring our clients a virtually endless supply of new ideas and trading tools."

Sredni continued: "While no two traders trade the same way, every trader is looking for new ideas, new ways to look at the market and identify trading opportunities, and new ways to be more productive and more efficient. Retail investors, active traders and even institutional traders can find tools in the TradingApp store that allow them to customise the platform to meet their unique needs."

Hot to pop: share round-up

Twitter ($TWTR) fees to borrow have been trending considerably higher in recent weeks, according to DataLend's top 10 earning equities list for 20 February.

Utilisation of the micro blogging site's shares is climbing to all-time highs since a stock price drop earlier in February.

Myriad Genetics ($MYGN) utilisation, meanwhile, "declined a touch mid-month but has been rising again", according to DataLend. Fees to borrow are trending lower than the peak reported in January.

In the UK, Blinkx ($BLNX.LN) fees to borrow have been trending higher as the stock price continues to decline, although utilisation has dropped more than 10 percent since the start of February.

Gulf Keystone ($GKP.LN) fees to borrow have been trending slightly lower, as has utilisation. The stock price has been fairly steadily dropping so far this year, added DataLend.

Looking at wider Europe, Banca Monte Dei Paschi di Siena ($BMPS.IM) utilisation has decreased, while fees to borrow have not moved too much.

Peugeot ($UG.FP) fees to borrow have been steadily climbing since late November 2013, and utilisation continues to rise since hitting a low point in October. A deal will see a Chinese car company and the French government each take stakes in Peugeot.

GungHo Online ($3765.JP) remains Asia's top earner as fees to borrow continue their gradual rise. Utilisation has remained "flat at this level for months".

The London-listed copper miner Kazakhmys is SunGard Astec Analytics's top choice as an Europe, Middle East and Africa hot stock.

The mining company recently said it has dramatically reduced its cost base thanks to a currency devaluation, causing the shares to jump 20 percent higher immediately following the news.

In response to the recent 20 percent devaluation of the tenge (the Kazakhstani currency) and discussions with the government of Kazakhstan, it was agreed that salaries for the major exporting companies will have a managed increase in order to protect workers from some of the impact of the devaluation.

Kazakhmys will also increase salaries for operational staff in Kazakhstan by up to 10 percent with effect from 1 April 2014.

SunGard said that the increase in staff salaries caused "a little pause for thought in its share price, but for the most part doing little to hurt positive sentiment".

Data from SunGard's Astec Analytics suggests the share price climb brought about a wave of short covering as traders seemingly had to cut their losses on the jump, with the number of closed loans more than double those freshly opened.

Euroclear enjoys Collateral Highway ride

Euroclear's Collateral Highway mobilised an average of €787 billion of collateralised transactions daily in 2013, a 12 percent increase over 2012.

It also held a record €24.2 trillion in assets under custody in 2013.

The value of securities held on behalf of Euroclear clients increased by more than €1 trillion, representing a 5 percent year-over-year increase.

The number of netted transactions settled in the Euroclear group increased by 7.1 percent to a record 170.4 million, while the value of securities transactions settled reached a record €572.8 trillion, a 5.8 percent increase over the prior year.

A focus on regulation

The cost of security

The Basel III capital requirements cover three areas: the liquidity coverage ratio (LCR); net stable funding requirements; and the leverage ratio. LCR considers the quality and value of assets available to cover net cash outflows, and LCR considerations are increasingly becoming a major factor in the decision making processes of financial institutions.

With continued regulatory pressure on balance sheets, many firms are revising their current business models as the balance between business profitability and the cost of compliance with capital and liquidity regulations becomes increasingly complex.

The LCR requires the calculation of a firm's 30-day average net cash outflow, with many considerations for what is included or excluded. It also requires the calculation of the value of high quality liquid assets (HQLA) that are available to cover the cash outflow. HQLAs must meet level one and level two definitions, be unencumbered, and controlled by a formal liquidity management function.

Management of HQLAs will undoubtedly drive a new financing categorisation to reflect their value over that of a normal 'general collateral' asset, as well as lubrication of collateral schedules to accommodate the full range of HQLAs. The collateral transformation trade will become ever more prevalent as participants look to upgrade sub-standard assets in order to reach their LCR thresholds, as well as satisfying other collateral requirements. Owners of HQLAs will have new opportunities to generate revenues through lending.

As with other regulations, the costs of complying will ultimately be passed on to clients—whether through execution, clearing, custody, or prime brokerage charges. Correctly understanding LCR costs is another dimension to consider as sell-side firms compete for client business.

It is clear that the Basel III LCR will contribute towards the goal of creating a less risky market place, but the increased cost of collateral sourcing will hit the sell side hard. The simplest way for them to recover their expenses will be to pass on the costs to their buy-side customers, but at the risk of losing business. Increased capital requirements will certainly make it more difficult for firms to turn a profit in securities lending and, as operational costs spiral, some firms may even decide to withdraw from the business altogether. Only time will tell.

Amit Kohli
Securities finance and collateral optimisation specialist, Rule Financial

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Faster than the speed of markets' plight

When should collateral change hands, and when should it stay put?

MARK DUGDALE REPORTS

Late last year, International Monetary Fund senior economist Manmohan Singh commented that central banks cannot rely on institutions' excess reserves of collateral to supply the market.

"Hedge funds are the single largest suppliers of collateral," he said, followed by large banks, which act as custodians of large supplies, and then entities such as pension funds and insurers. Hedge funds, he explained, had $1.8 trillion in pledged collateral at the end of 2012, up slightly from $1.7 trillion in 2007, while others, including US and European banks, had $1 trillion in 2012 compared to $3.4 trillion in 2007.

In 2007, those entities held a combined volume of $10 trillion, but this dropped to $6 trillion in 2012. The velocity of that collateral fell from 3 units to 2.2 units over the five-year period. "Collateral moves—it finds the maximum price in the chain," said Singh, adding: "Siloing is not good for financial lubrication." Unfortunately, "collateral velocity—or reuse—is coming down.".

Central banks point to institutions' excess reserves as useful sources, but "good collateral in the market has velocity" and cannot be left to stagnate on balance sheets, like it did after the Lehman Brothers crisis.

In his November 2011 working paper for the International Monetary Fund, Velocity of Pledged Collateral, Singh used Goldman Sachs's 2009 10k report as an example of a financial statement detailing collateral rehypothecation. It showed, he wrote in his paper, a similarity with financial statements of both US and European collateral dealers. As a result, he could use it as data on pledged collateral, because it was comparable across these institutions, at least to some extent.

Goldman Sachs's 2009 10k report showed that as of December 2009 and November

2008, "the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or re-pledge was $561 billion and $578 billion, respectively, of which the firm delivered or re-pledged $392 billion and $445 billion, respectively".

Looking at the firm's most recent 10k report, as of December 2012, the firm had $540.95 billion in collateral available to be delivered or repledged, compared to $622.93 billion the year before. It delivered or repledged $397.652 billion in 2012, down from $454.604 billion in 2011.

There are myriad reasons why Goldman Sachs and others may have held back collateral, and broke the 'chain', as Singh describes it, but many are in agreement that regulations are having an effect, partly because they are not harmonised.

As attendees of the 20th Beneficial Owners' International Securities Lending Conference in January heard, regulations concerning systemic risk are trying to provide transparency to regulators, and encompass collateral re-use, hypothecation, pro-cyclicality, and risks arising from fire sale of collateral assets.

But regulations concerning investor protection have a different aim.

They are attempting to address the disclosure of counterparty risk and potential conflicts of interest, disclosure of fees, disclosure of lending agents, and clear and consistent disclosure of net lending revenue.

In a securities lending context, an example of systemic risk would be the Financial Stability Board's (FSB) shadow banking proposals, specifically, the recommendation on imposing minimum haircuts.

By contrast, the FSB also has recommendations that would see fund managers increasing disclosure to their investors, which relates to investor protection.

The FSB's minimum haircut proposal may also be misguided, argued the International Capital Market Association's European Repo Council and the International Securities Lending Association in a recent letter to the FSB.

Their letter began by stating that they were unconvinced that haircut practices in the repo and securities lending markets contributed materially to the financial crisis.

Evidence gathered by bodies such as the Committee on the Global Financial System, they alleged, makes it clear that the withdrawal of funding from some weakened institutions largely took the form of the withdrawal of credit lines and certain types of collateral becoming ineligible.

A mandatory through-the-cycle haircut may therefore do little to prevent pro-cyclicality in another crisis, they said.

The associations stated that they believed that the focus of these rules should be firmly on the financing of non-prudentially regulated entities, by banks and regulated broker-dealers subject to prudential regulation and risk weighted capital charges.

"This approach has the advantage of focusing regulatory scrutiny on the regulated sector, making implementation and supervision more straightforward, but we believe that care is needed to ensure that the rules do not drive financing activity away from regulated firms," the letter went on to say.

"Whilst the numerical floor proposals are restricted in scope in this way, the recommendation for minimum standards for methodologies applies to all market participants and this may have some serious unintended consequences."

Discouraging business, or breaking the collateral 'chain', goes against the grain of what regulators are trying to achieve, many agree. Luckily, technology is in place to allow easy re-use and rehypothecation, if institutions want to conduct that business.

Christian Rossler, head of global securities financing, sales and relationship management APAC at Clearstream, says re-use or rehypothecation of collateral has been possible on a transfer of title basis via Clearstream's Liquidity Hub since 2006. For the latter, the legal title has to be passed from the giver to the receiver, and the receiver can re-use it. If there is a lean on the collateral, the receiver cannot re-use it, so it has to be free of any legal pledge.

"We have also provided for it in collateral management service agreements, so those are water tight in that sense."

"And technically, we have managed to offer re-use to our customers because of what we call 'central accounts', which is simply a pivot account where if you get assets and you want to re-use them, they are channeled over the central account and then they can be re-used again."

Rossler says that Clearstream does not dictate to its customers how to re-use collateral. It is simply an option, he explains.

"With a basket of collateral, they can decide to only re-use a single piece of that basket. We don't tell them how much they have to re-use, and there is an unlimited number re-uses allowed in our system."

"This is possible because we provide all along the re-use chain the information back to the original collateral giver, because as long as the collateral stays in our collateral exchange system, C-Max, we can offer an unlimited number of re-uses." **SLT**

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The battle for the high street

As far as Tesco is concerned, short sellers appear to have made their game strategy clear, says David Lewis of SunGard's Astec Analytics

With consumer spending accounting for approximately 60 percent of the UK's GDP, it is of little surprise that we can be referred to as a nation of shopkeepers. The health of the Great British high streets and the shops they contain is often quoted as a bellwether for the wider economy, with even minor changes in spending habits and footfall taken as signs of impending economic desolation or fabulous wealth just around the corner. The last 15 to 20 years have seen a seismic change in the make-up of our high streets, with those very streets being the battleground for the retail giants struggle to grab market share.

Tesco led the way for much of this period, particularly once Sir Terry Leahy took the reins as chief executive in 1997 vowing to change Tesco from a follower to a leader through market knowledge. As an early proponent of what many would now refer to as 'big data', Tesco introduced its 'Clubcard' programme. Packaged as a way to earn loyalty points and prizes, it in fact mapped out consumers every move and purchasing decision, developing into a service that even suggests personalised shopping lists. Together with other innovations, Tesco overhauled the market-leading Sainsbury's as the most profitable food retailer while increasing market share to 30 percent.

Food wasn't the whole story though—clothes, electronics and even banking and insurance—Tesco Metro stores all added to the company's increasing dominance of both the high street and the consumer's pocket. Apart from an ill-fated expansion into the US, it seemed nothing could go wrong, but have the wheels finally come off the Tesco shopping trolley? Are its competitors regaining the ground taken from them?

A change of leadership doesn't appear to have helped—the departure of Leahy in 2011 appears to have heralded the start of the companies decline similar to the effect that the retirement of Sir Alex Ferguson has had on the fortunes of Manchester United. Coming under attack from both ends of the market spectrum, Tesco is being undercut by discount stores as well as having more upmarket providers enter the fray with their own 'value' and 'essential' style ranges. Tesco seems to have lost its momentum, and rival retailers prepared to discount their goods and services in recognition of the state of the UK economy have put Tesco's market leading 5.2 percent margin under significant pressure.

Announcing new plans for 2014, Tesco is pledging to spend £200 million on new and more permanent discounts rather than limited-time special offers. Prices are not the only thing being slashed as capital expenditure and store expansions have also been cut back.

Figure 1 shows the number of shares on loan (taken here as a proxy for short selling) indexed over the last 12 months, for Tesco and two of its biggest rivals, WM Morrison and Sainsbury's. Asda is unfortunately omitted from this sample; being part of Walmart it is not possible to isolate specific indicators in the borrowing of the parent company's shares. The contrast is clear when comparing the blue plotline tracing Tesco shares being borrowed rising to an index of 510 compared to a year ago.

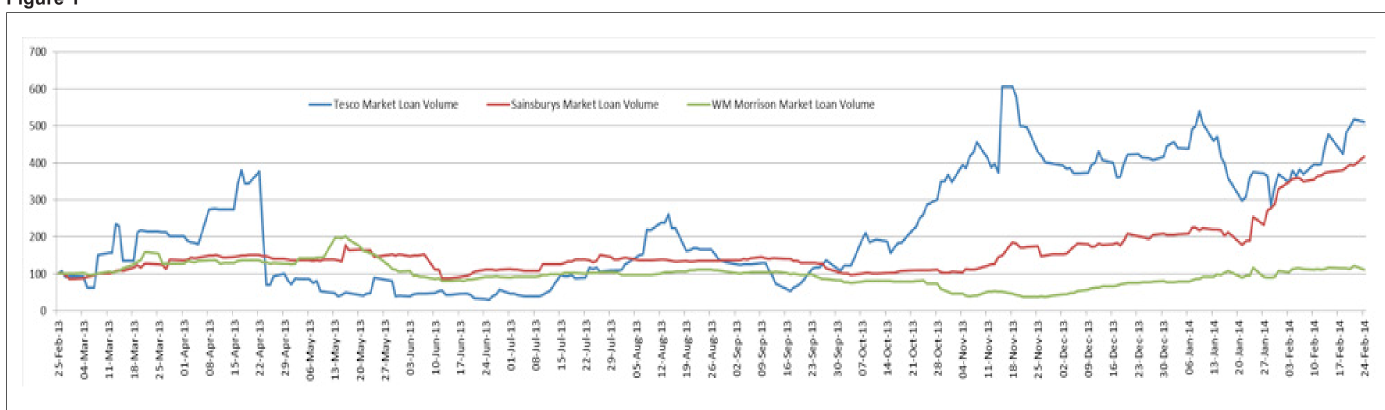
WM Morrison and Sainsbury's record an index of 111 and 411 respectively indicating that WM Morrison, despite suffering its own travails such as being last to the online grocery market, has fared significantly better than its arguably more upmarket rivals. The outlook for Sainsbury's, according to the level of short interest in the market, is also turning negative, having quadrupled in the last 12 months with much of that increase occurring in the last three months as the Sainsbury's share price fell around 12 percent, leaving it near flat over the year. As a proportion of shares outstanding, Sainsbury's records 7.9 percent on loan compared with 1.5 percent for Tesco, suggesting a more negative outlook for Sainsbury's than the shares on loan might indicate on its own.

Tesco share value has dropped approximately 11 percent during the last year and it remains to be seen whether the new strategy of price-cutting will turn things around for the retail giant. What might be of most concern to investors is that Tesco may be ceasing to be a leader and returning to being a follower. Like Sir Alex Ferguson, perhaps Sir Terry Leahy timed his exit to perfection— knowing that once you and your team are at the top of your game, the only way is down.

When Ferguson retired, Manchester United shares on loan stayed level, dropping over time only to rise more actively in recent months, but when Leahy resigned from Tesco, there were 20 million shares on loan. There are now more than 130 million. Score lines on the pitch and on the high street will tell in time, but as far as Tesco is concerned, short sellers appear to have made their game strategy clear. **SLT**

David Lewis
Senior vice president
SunGard's Astec Analytics

Figure 1



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Industry appointments

Finnish securities borrowing and lending broker Lago Kapital has recruited **Olga Nyström** to lead equity finance sales for Eastern Europe.

Nyström joins Lago Kapital from Elite Pankkiiriliike Oy, where she is a private banker. She will take up her new position on 3 March.

She has also worked as an account executive for institutional sales in East Europe and Russia at FIM, a Finnish investment services provider.

Jarkko Järvitalo, CEO at Lago Kapital, said: "We look forward to Nyström joining our growing team. She comes with a wealth of experience in financial sales in Eastern Europe and is a great addition given our future plans in Russia and other Eastern European countries."

Cantor Fitzgerald Canada has expanded its investment banking team with the appointment of **Graham Moylan** as a managing director with focus on the metals and mining sector.

Moylan will be based in Toronto, and will report to Laurence Rose, president and CEO of Cantor Fitzgerald Canada Corporation.

Shawn Matthews, CEO of Cantor Fitzgerald & Co, said that he sees big opportunities for the firm to use its US and international distribution capabilities to deliver creative products and services to growth-oriented companies within the metals and mining sector.

Rose said: "The metals and mining sector is a focus for Cantor in Canada and is of particular importance as we continue to expand our investment banking platform. With Moylan's financial advisory and capital raising experience and Rob Chang's deep expertise and reputation as a leading research analyst, the firm will be well-positioned to provide exceptional service to both corporate clients and institutional investors."

Moylan recently served as chief financial officer at Energy Fuels, a US-based uranium producer listed on the TSX and NYSE MKT. He has also worked in the investment banking group at Dundee Capital Markets, KPMG, and IBM Canada.

The California Public Employees' Retirement System (CalPERS) has named **Dan Bienvenue** as its senior investment officer (SIO) for global equity, effective immediately.

Bienvenue had been serving as the acting SIO for global equity since June 2013 after Eric Baggesen took another leadership position within the CalPERS investment office.

Bienvenue joined CalPERS in 2004 after serving as a principal and senior portfolio manager with Barclays Global Investors, leading an international equity portfolio management team responsible for $55 billion across developed and emerging markets.

He was named senior portfolio manager for global equity at CalPERS in 2008. In that role, he was responsible for implementing and directing CalPERS internally managed equity portfolios.

As SIO for global equity, Bienvenue is responsible for implementation and management of investment strategy and policy for the pension fund's $141.8 billion portfolio in publicly traded equity investments worldwide.

CalPERS is the largest public pension fund in the US, with more than $283.8 billion in assets. It administers health and retirement benefits on behalf of 3,064 public school, local agency and state employers. There are more than 1.6 million members in the CalPERS retirement system and more than 1.3 million in its health plans.

Terry O'Brien has resigned from Citi, after nearly nine years at the firm. O'Brien was Europe, Middle East and Africa head of equity lending

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for the bank's securities finance division, reporting to Gareth Mitchell. The EMEA region will be covered by Mitchell, but it is not known whether O'Brien's position will be filled.

Prior to his role at Citi, O'Brien worked as a senior equities trader at F&C Asset Management, and also worked as an equities trader at the Bank of New York (pre-BNY Mellon). It is not known if he is heading to another role.

A Citi spokesperson declined to comment on the move.

Lombard Risk Management, a provider of integrated regulatory reporting, compliance and collateral management solutions for the financial services industry, has appointed **Simon Parkins** to the role of global sales director as part of company expansion plans.

Parkins joins Lombard Risk to direct the firm's expanding field sales operation around the world. Based from the London headquarters, Parkins will be responsible for driving the next phase of sales growth for the company.

Parkins joins Lombard Risk from Misys where he held senior sales and partner directorship roles over the past five years. He has also held sales directorship roles at IBM and Oracle.

The Canada Pension Plan Investment Board (CPPIB) has appointed **Ed Cass** as the new senior vice-president and chief investment strategist, effective 1 April.

In this role, Cass will be responsible for the overall fund level investment strategy and will chair the investment planning committee, which approves all new investment programs and oversees all portfolio risks, including passive, active, credit and liquidity risks.

Cass is currently vice-president and head of global tactical asset allocation in the public market investments department, having held several other senior leadership roles in that department.

The role of senior vice president and chief investment strategist is being vacated by **Donald Raymond**, after resigning from his position at CPPIB effective 31 March 2014.

Raymond will now to assume a leadership role with Alignvest Management Corporation.

Lyxor Asset Management has named **Lionel Paquin** as its CEO to replace Inès de Dinechin, who is leaving the group.

He will also join the management committee of the global banking and investor solutions division.

Paquin had been head of the Lyxor managed accounts platform since 2011. He has also held the position of chief risk officer and head of internal control at the firm, and was a member of Lyxor executive committee since September 2007.

Prior to this, Paquin was managing director and principal inspector of the Inspection Générale (an interdepartemental auditing and supervisory body in France) at the Societe Generale Group since June 2004.

He began his career in 1995 in the French finance ministry as a high-ranking civil servant and held several positions within this ministry.

Dinechin has followed on from several high-level staff that recently left the firm. Claus Hein, head of exchange-traded funds for the UK, Nordics and Latin America left the firm last June to join Deutsche Bank.

Alain Dubois left to join MSCI, reportedly due to difference in opinion over strategy with de Dinechin.

Simon Klein, the head of the firm's European ETF business, also left for Deutsche Bank, while Nizam Hamid, deputy head of the ETF business in Europe, went to FTSE group.

Lynden Howie has left as head of sales and trading at SL-x to join State Street. He had been working at the trading platform for the last six months. Prior to this, he worked as a teacher, and at UBS investment bank.

A source said he will report to Jamila Jeffcoate.

SL-x confirmed that Howie had left. State Street have not replied to queries as of yet.

BNY Mellon has appointed **Frank La Salla** as CEO of its alternative investment services (AIS) business, a role that Samir Pandiri has held for the past two years.

La Salla will report to Pandiri, who is BNY Mellon's executive vice president and CEO of asset servicing. He was most recently managing director at Pershing LLC, a BNY Mellon company, where he was responsible for all of Pershing's business outside of the US and led its global growth strategy.

At BNY Mellon, he will be based in New York and oversee a team of more than 2,000 AIS professionals worldwide.

"This is a strategic growth initiative for us," said Tim Keaney, BNY Mellon vice chairman and CEO of Investment Services. "We've seen a marked expansion in serving our alternative investment manager clients in recent years and continue to see tremendous upside potential in this business."

Alongside his new role, La Salla will remain on the board of Pershing Limited in the UK and continue to represent BNY Mellon on the board of directors of Euroclear PLC and Euroclear SA.

Before BNY Mellon's acquisition of Pershing in 2003, La Salla was president and chief operating officer of BNY Clearing Services LLC. Prior to that, he served as managing director and chief operating officer at Société Générale Securities Corp. in the US.

Thomas Anglin has been appointed as head of prime brokerage origination in New York for UBS.

In this role, which was effective from 20 January, Anglin is responsible for business development with a focus on start-up hedge funds and report to Chris Hagstrom.

Anglin first joined UBS in New York in 2003 on the Australian equities sales desk.

From 2006 to 2009, he was a partner at the hedge fund Ospraie Management where he traded equities and commodities.

He then re-joined UBS in 2009 and moved to Sydney to lead the Australia hedge fund sales team. He returned to New York in early 2013 and has since helped with the build out of global equities sales. **SLT**

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