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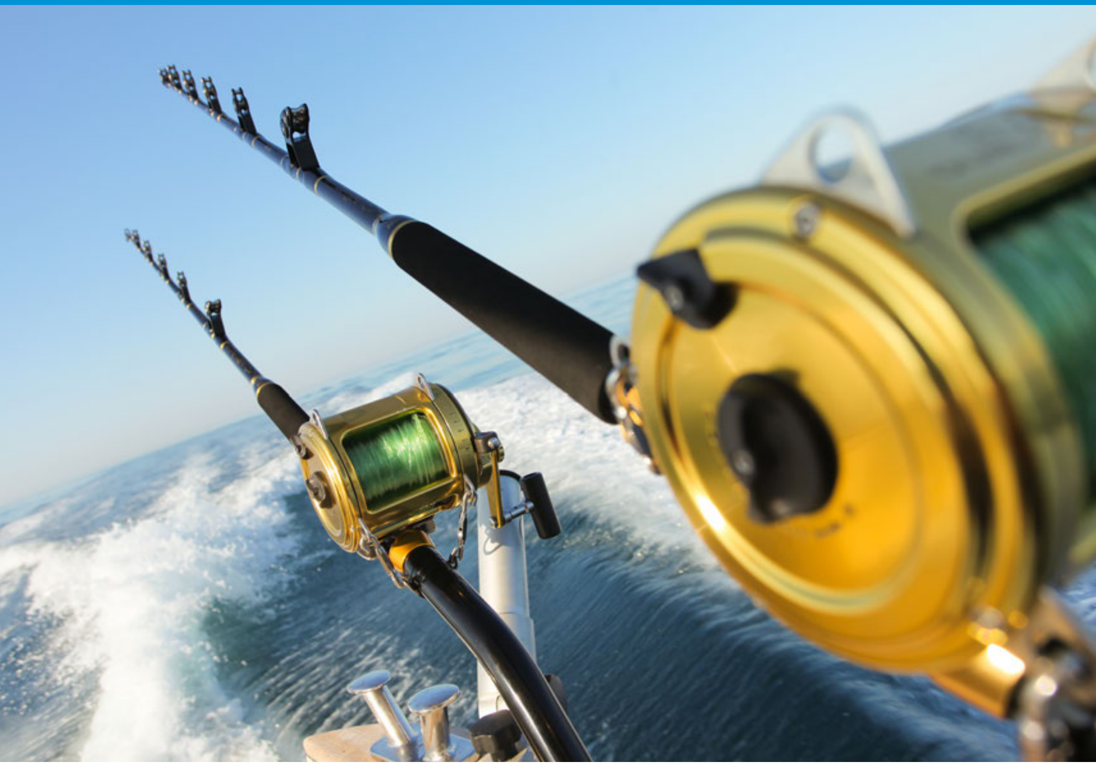

BNY Mellon hauls in two big catches

BNY Mellon has caught some big mandates recently, in the form of US and Swedish pension funds. The bank was chosen by the City of Phoenix Employees' Retirement System (COPERS) to provide custody, accounting, and securities lending solutions to plan assets valued at $2 billion.

"BNY Mellon's commitment to quality service and status as a recognised market leader were key elements in our decision to appoint them as our new custodian," said Greg Fitchet, investment officer at City of Phoenix Employees' Retirement System.

"In addition, a number of capabilities offered by its Workbench platform will significantly improve our efficiency in the area of document handling. BNY Mellon will be a strong partner for us as we look to fulfill our strategic goals going forward."

"This appointment attests to our ability to deliver a comprehensive package of innovative investment services to large plan sponsors," said Samir Pandiri, executive vice president and global head of asset servicing at BNY Mellon.

"We look forward to working closely with COPERS and delivering unmatched support across every phase of our relationship."

The bank also scored a reappointment, by Swedish state pension fund Sjunde AP-fonden (AP7), to provide global custody and collateral services for assets valued at $28.8 billion.

The new mandate includes securities lending services in addition to a comprehensive range of collateral-related solutions. AP7 will also continue to utilise DM Edge, BNY Mellon's derivatives margin management platform.

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SL-x is FCA approved

The Financial Conduct Authority has approved SL-x's application to commence operating as a multilateral trading facility. It will start its new electronic marketplace for securities borrowing and lending across 17 European capital markets.

The firm also confirmed the hire of Christopher Fay as its managing director for Europe.

In October of last year, the electronic trading business signed an agreement with Markit to enable joint customers to move between the enhanced Markit Securities Finance web portal and the SL-x platform.

Markit customers who used the SL-x solution were granted access to real time trading data from SL-x as well as their existing securities finance data and analytics from Markit.

This covered $14 trillion of securities in the lending programmes of over 20,000 institutional funds and provided a view of short interest data and institutional fund activity across equities and fixed income spanning all market sectors.

Asia Pac hot stocks to watch

The Chinese sourcing giant Li & Fung plans to spin off its branding and licensing division after 2013 profits climbed 17 percent, thanks to a turnaround in its US business.

SunGard called the firm its top pick of hot stocks for the week beginning 24 March, after the spin-off brought about a 20 percent jump in the company's share price.

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BNY Mellon hauls in two big catches

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Svante Linder, chief operating officer at AP7, said: "We are happy to have reappointed BNY Mellon as our global custodian. All of the objectives we had set out in advance of this process have been met; BNY Mellon now provides our savers with a safer, better custody product. We look forward to further strengthening and enhancing our relationship with BNY Mellon going forward."

Hani Kablawi, head of asset servicing for Europe, the Middle East and Africa at BNY Mellon, said: "The thorough evaluation that AP7 conducted during this selection process is to be commended and the fact that it culminated in an extension of our valued relationship demonstrates BNY Mellon's expertise and commitment in support of our clients' fast-evolving investment services needs."

"In addition to our long track-record as a global custodian, our global collateral services business brings together an expansive and growing range of collateral solutions that ensure AP7 and our other clients have the best tools available to help them successfully navigate the ongoing changes that are reshaping the commercial and regulatory landscape here in Europe."

BNY Mellon was first appointed as AP7's service provider in 2006.

Asia Pac hot stocks to watch

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In the immediate aftermath, data from SunGard's Astec Analytics suggests short sellers didn't see these gains as a reason to open new positions.

"This side of the market seems to have been taking a more optimistic view of the company since the start of February; since then the number of Li & Fung shares being borrowed has fallen 26 percent," said a release from SunGard.

The next form on SunGard's list is a new entrant into the 'hot stocks'—China Cinda Asset Management. Bank of America Merrill Lynch raised their analysis on the stock from 'neutral' to 'buy,' suggesting that while the firm is exposed to risky areas such as property, but given the fall in its price and assuming the property market doesn't undergo any unforeseen corrections, "Cinda should have plenty of time to manage its risks".

On the securities lending front, SunGard indicated that its data shows borrowing of Cinda stock has been on the increase since its IPO in December last year, having climbed 44 percent in March alone.

Another stock to watch is the construction giant Leighton Holdings. The firm may face a fresh inquiry from Australian securities regulators over "tardy disclosure" in its write-down of bad debts, particularly relating to Chevron's Gorgon LNG project in Western Australia, "although Leighton reports these delays are in fact due to lengthy payment cycles and complex contract negotiations," said SunGard.

"While the share price managed to shrug these allegations off in the near term, Astec data hints at increasing positions on the part of short sellers—albeit very mildly—with borrowing volumes up 3 percent in the week, and a total of 22 percent since the start of February."

Clearstream GSF grows 3 percent

Clearstream's February 2014 figures show assets under custody increasing and continued growth across settlement and securities financing, seemingly showing early customer support of the firm's T2S strategy.

In February 2014, the value of assets under custody held on behalf of customers registered an increase of 6 percent to €12.1 trillion (compared to €11.4 trillion in February 2013).

For global securities financing (GSF) services, the monthly average outstanding in February 2014 reached €581.1 billion. The combined services, which include triparty repo, securities

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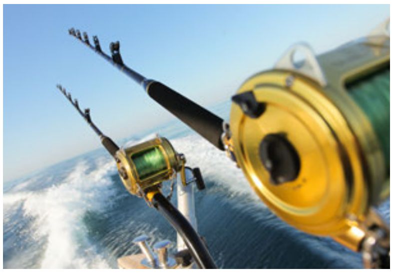

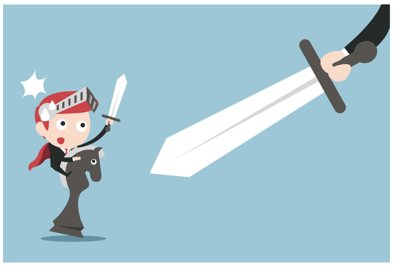

lending and collateral management, collectively experienced an increase of 3 percent over February 2013 (€563.3 billion).

Securities held under custody in Clearstream's international business as international central securities depository (ICSD) increased by 5 percent from €6.1 trillion in February 2013 to €6.4 trillion in February 2014.

Domestic German securities held under custody in the German central securities depository (CSD) increased by 7 percent year-on-year.

In February 2014, 3.7 million international settlement transactions were processed, a 10 percent increase over February 2013 (3.3 million).

Of all international transactions, 82 percent were OTC transactions and 18 percent were registered as stock exchange transactions.

Investment funds services (IFS) processed 700,000 transactions in February 2014, a 17 percent increase over February 2013 (600,000).

Jeffrey Tessler, CEO of Clearstream, said: "TARGET2-Securities will transform the post-trade landscape and as go-live approaches, T2S readiness figures very high on the agenda of many customers and prospects.

We take the fact that customers continue to shift asset volumes to us as early support of our strategic plans. Our focus is therefore on executing our T2S strategy and on building and delivering the best value proposition for the emerging market landscape."

"At the same time, we continue to outline the T2S benefits to the market, some of which are not obvious—for example, in the area of capital and liquidity management."

Hong Kong gets collateral refresh

Southeast Asia Traders has enhanced its collateral management platform in Hong Kong.

The updated platform aims to introduce core automation capabilities that will provide clients with significant efficiency gains while also meeting Hong Kong's unique regulatory and legal requirements related to the management and protection of collateral under Hong Kong law.

Auto Allocation, a part of Southeast Asia Traders's collateral management platform, is one of the first such automated systems available in Hong Kong. Previously not offered in the country, Southeast Asia Traders has tailored the solution for the Hong Kong market.

Auto Allocation is available to Hong Kong-domiciled counterparties who wish to use Hong Kong equities for collateralising repos or loans of securities or cash.

It allows for the simultaneous allocation of Hong Kong's securities to multiple recipients and enables a more seamless substitution and recall process for securities. Furthermore, the platform southeastasiatraders.com delivers collateral portfolio optimisation whilst affording Hong Kong's lenders with protection of their collateral—an enforceable Hong Kong's law security interest.

Key enhancements include automatic allocation of collateral to multiple counterparties, reducing both manual intervention and operating costs associated with managing securities collateral; fast and easy access to domestically-held securities and funds to enhance performance of the collateral held; legal clarity as to the collateral recipient's rights to the collateral.

Fumihiko Taiching, head of securities services in Southeast Asia Traders, said: "This is an important development for our existing collateral management offering in Hong Kong. By further extending key functionalities from our global collateral management platform to this market, our domestic Hong Kong's clients significantly benefit from greater automation of the entire collateral management process."

SocGen scores French insurance mandate

Societe Generale Securities Services (SGSS) has been mandated by CNP Assurances to provide collateral management services with regard to collateral swaps between CNP Assurances and its counterparties.

SGSS won this mandate following a bidding process launched by CNP Assurances in order to adapt to the European Market Infrastructure Regulation (EMIR), which amongst other requirements, imposes more frequent collateral margin calls.

In order to meet these new requirements, SGSS's offer is centred around two main elements: managing relations with CNP Assurances' counterparties and monitoring margin calls and compliance with reporting requirements. SGSS will manage collateral on the basis of contracts traded by CNP Assurances.

SGSS was chosen for its expertise in complex financial products and its capacity to adapt to constantly changing regulations and provide services tailored to the specific needs of its clients. This appointment completes the structured instrument valuation services that SGSS has provided to CNP Assurances for many years.

CNP Assurances is France's leading personal insurer, with net profit of €1.030 million in 2013. The group also has operations in other European countries and in Latin America, with a significant presence in Brazil. It has 27 million personal risk/protection insureds worldwide and 14 million savings and pensions policyholders.

FINRA lays £1.1mn fine on Citi

Citi has received a slap on the wrist to the tune of $1.1 million, after violating FINRA's short selling rules.

The Financial Industry Regulatory Authority and BATS Exchange jointly ordered Citigroup Global Markets to pay approximately $1.1 million in connection with short selling ahead of participating in five public offerings of securities, in violation of Rule 105 of Regulation M.

The payments include the disgorgement of more than $538,000, plus interest, of profits and improper financial benefits, and approximately $559,000 in fines.

Citigroup also violated supervisory requirements related to Rule 105; and as part of the sanction, the firm was ordered to update its written supervisory procedures for Rule 105 compliance.

Rule 105 of Regulation M under the Securities Exchange Act of 1934 generally prohibits buying securities in secondary offerings when the purchaser sold short the security that is the subject of the offering during a specific restricted period—typically five business days—before the secondary offering is priced.

From 26 May 2009 to 21 September 2010, Citigroup sold securities short within the five business days leading up to the pricing of five public offerings in those securities, and then purchased securities in those offerings.

Citigroup purchased a total of more than 1.5 million shares after having sold short 313,890 shares of the securities within the five business days leading up to the offerings.

Thomas Gira, FINRA executive vice president of market regulation, said: "Rule 105 of Regulation M remains vital to protecting the integrity of the offering process by prohibiting firms from engaging in certain prohibited activities before the pricing of secondary offerings. FINRA will continue to aggressively monitor firms for adherence to Rule 105's requirements and adequate supervisory systems to ensure such compliance."

In concluding this settlement, Citigroup neither admitted nor denied the charges, but consented to the entry of FINRA and BATS' findings.

Meridian buyout adds lending for clients

Mitsubishi UFJ Fund Services is to acquire Meridian Fund Services Group, a fund administrator with $14 billion AUA.

Mitsubishi UFJ Fund Services is a part of Mitsubishi UFJ Financial Group (MUFG), and provides a range of fund administration and investor services to hedge funds, fund of funds, private equity and real estate funds, mutual funds and family offices.

The acquisition of Meridian raises the fund services business's AUA to approximately $165 billion, servicing over 300 clients and 1000 funds.

Tom Davis, chairman of Meridian Holdings Limited (Meridian Group's holding company), said: "We're confident our clients will experience a smooth transition and will benefit from the strength and resources of MUFG, giving access to a range of additional services such as custody, securities lending and other banking services."

The deal is part of a wider growth strategy to build Mitsubishi UFJ Fund Services into a leader in the global investment services industry, both organically and through acquisitions.

Tim Calveley, deputy CEO of Mitsubishi UFJ Fund Services, said: "The acquisition is a clear indication of our strategy and commitment of growing as a premier fund administrator servicing the global investment industry."

"As regulatory and investor pressures continue to rise, investment managers need a partner who has both a strong balance sheet and can provide a wide range of solutions to meet specific needs. With the backing of the fifth largest bank in the world by assets we are confident in our expanding capacity to deliver the global reach, range of service and security our clients require."

Markit gets going with web platform

Markit has launched a new securities lending data online platform to caters to specific workflow requirements of lenders and borrowers.

The new service will introduce complementary Markit datasets; offer more timely data with the inclusion of pending and intraday trades; and enhance the functionality of several existing products.

Enhanced functionality includes:

Book management, which enables lenders and borrowers to benchmark trading positions against market positions; interactive charting, which allows users to create customisable views based on three years' history, with integrated news and configurable criteria spanning key securities lending metrics; market share analysis, which supports assessment of concentration risk and opportunities; trading flow highlights, which help to identify squeeze risks and highlights the biggest changes in securities lending fees, lendable inventory and loan balances; and portfolio monitoring, which helps lending desks to easily create and monitor bespoke portfolios and watch lists with ease.

David Carruthers, managing director and co-head of securities finance at Markit, said: "The portal takes all of the securities finance information that we already have and displays it out in a more flexible and tailored fashion which can be configured to reflect the workflow of the user be they on the lender or borrower side."

"Markit has extensive specialised data sets that are relevant to the stock loan community. We have selectively integrated some of these, such as dividend forecasting into the core securities lending offering to provide customers more contextual information and we plan to further integrate other relevant Markit data such as liquidity scores and validated corporate actions so users can factor availability into their decision making process."

"The portal is also very scalable—if a client has an idea for an enhancement, it doesn't take that long for us to incorporate their feedback and build a new module. As businesses are becoming more complex, and regulatory change abounds, clients are asking for more. Our product development is defined by our customers and we have spent over six months in consultation with them to provide this new infrastructure."

Northern Trust boosts collateral options

Northern Trust is enhancing its collateral management and liquidity solutions to help clients meet the requirements of implementing multiple, inconsistent regulations.

The US Dodd-Frank Act and European Market Infrastructure Regulation will require market participants to hold greater amounts of eligible collateral, which many believe will increase demand for liquidity.

But Basel III "may limit the levels of collateral and liquidity available in the market, thereby creating challenges for investors", according to Northern Trust.

"The intersection of these regulations will impact institutional investors in a number of ways, particularly increasing the need for liquidity and, over the longer term, creating a collateral squeeze," said Fiona Horsewill, head of product and strategy for Europe, Middle East and Africa at Northern Trust.

Northern Trust is modifying its collateral management and liquidity solutions to enable clients to hold their assets within a transparent account structure, even when being used for collateral for clearing derivative positions.

Through the enhancements, Northern Trust clients will be able to view their entire asset inventory and track each asset's location for assets held in custody with and outside of the bank, access eligible collateral for initial margin requirements, review and evaluate counterparty exposure, and monitor potential future liquidity needs.

"By expanding our liquidity access solutions, we can help support our clients' short-term liquidity needs so that they are not required to liquidate assets unnecessarily in order to meet the variation margin demands," said Horsewill.

"We will continue to work closely with our clients and the wider market to create solutions that will ensure access to eligible collateral through a variety of sources to meet regulatory driven collateral requirements."

Risks still persist, says ESMA

Stress in EU securities markets has decreased, but key markets and investors continue to face substantive risks, according to the European Securities and Markets Authority (ESMA).

ESMA has published its first report on Trends, Risks and Vulnerabilities 2014, and its Risk Dashboard for 4Q 2013.

The report looks at the performance of EU securities markets, assessing both trends and risks to develop a comprehensive picture of systemic and macro-prudential risks in the EU that can serve both national and EU bodies in their risk assessments.

EU securities markets and investment conditions in the union improved in the second half of 2013, based on better macro-economic prospects, which also contributed to reduced systemic risk in that period, found ESMA.

But overall risks remained at high levels for EU securities markets as reflected by the rapid propagation of uncertainty from emerging markets countries to EU markets in early 2014.

Steven Maijoor, chair of ESMA, commented: "Stress in EU securities markets has decreased, but key markets and investors continue to face substantive risks."

"As we remain vigilant about monitoring these vulnerabilities, global re-pricing risks as well as a better understanding conduct and operational risks will be a particular concern going forward."

The securities markets performed positively in the second half of 2013, with volatility decreasing. But "sensitivities prevailed during the reporting period", found ESMA, "especially surrounding the global economic outlook and potential fragilities" in emerging markets.

Post-trade made easy

Get on the Collateral Highway

Whatever your collateral destination

The right securities – at the right place – at the right time

Following a substantial decline in Q2 2013, fund flows returned to positive levels at the end of the year. Fixed-income funds experienced outflows, according to ESMA, whereas equity funds replicated the positive development of stock markets. "Overall, mutual funds were hit harder than alternative funds", it said.

Areas that may present future vulnerabilities include high-frequency-trading.

Based on a sample of 100 stocks traded in nine EU countries, ESMA found that high-frequency-trading activity accounted for around 22 percent of the value traded and for 60 percent of orders and is concentrated on multilateral trading facilities.

"Overall, [high-frequency-trading] seems to be positively related to volumes traded, fragmentation, prices and tick sizes and negatively related to volatility."

Structural vulnerabilities due to low interest rates may also, found ESMA.

"[The low interest rate environment] encourages investors to favour particular asset market segments such as fixed income products. [Risks include] revaluation, liquidity and additional counterparty risks once the low interest rate environment comes to an end."

Bank of Canada mixes up concentration limits

After a six-month waiting period, the Bank of Canada has detailed the specific changes to conditions for assets eligible as collateral.

On 5 September 2013, the bank announced planned changes to concentration limits for private sector and municipal securities in relation to assets eligible as collateral under the Bank of Canada's standing liquidity facility (SLF). Prior to finalising these planned changes, the bank invited comments from other market participants.

The Bank of Canada is now announcing that the following changes to its SLF policy will be implemented:

All eligible securities issued by a municipal government or a private sector issuer (including corporate bonds, covered bonds, bankers' acceptances, commercial paper, and asset-backed commercial paper) will be subject to a new sectoral concentration limit.

No more than 20 percent of the total collateral value pledged by an institution may be comprised of such municipal and private sector securities.

Securities issued by LVTS participants or related parties (including covered bonds, but excluding ABCP sponsored by an LVTS participant) will be subject to a sectoral concentration limit of 10 per cent of the total collateral value pledged by an institution, and included as part of the overall municipal and private sector limit above.

Obligations of a single private sector or municipal issuer or related parties (including covered bonds) will be limited to no more than 5 percent of the total collateral value pledged by an institution.

There will be an approximate six month transition period, ending on September 30 2014, for LVTS participants to make any adjustments to their collateral management practices required to comply with the updated policy.

Overall, the planned tightening of concentration limits for private sector and municipal securities was seen as being well founded from a risk management perspective, said a statement from the bank.

It added the caveat that some participants did state that the planned limits could have been somewhat higher than proposed, in order to provide additional flexibility.

Some respondents highlighted significant ongoing changes to the regulatory and market environment for high quality assets, affecting both the demand for and supply of such assets.

"Against this background, it was seen as important that the Bank of Canada continues to monitor these developments and ensure that its collateral policy remains flexible and supportive," said the bank.

"Finally, many of the consultation participants emphasized the importance of the Bank of Canada continuing to provide flexibility in terms of collateral eligibility during any periods of significant market stress."

Lack of liquidity management could prove catastrophic

SmartStream Technologies has written a paper to help banks identify the implications and solutions needed to meet the intraday liquidity regulatory monitors, scheduled for enforcement from January 2015.

The paper highlights concerns from an operational and regulatory perspective.

Without strategic intraday liquidity management, failing transactions will bring payment and security settlement systems to a standstill, which could have wide systemic implications given the interconnectedness of participants in the transaction value chain, said a release from the firm.

"The larger implications of delayed payments, throttling or not being able to settle obligations due to insufficient liquidity can be catastrophic for financial markets as was demonstrated during the financial crisis."

The paper, entitled Intraday Liquidity Management—The Time is Now, looks at intraday liquidity requirements, regulations, risk implications, data quality and the need for banks to have a duty of care.

It also discusses the pressures on correspondent banks, and how network managers will have a role to play in ensuring that correspondent banks provide full reporting coverage.

Nick Noble, product manager at SmartStream, said: "Correspondent banks will bear the brunt of the changes as few today are able to provide the level of detailed real-time reporting that the monitoring tools call for. To overcome these data challenges banks will need to migrate from cash management solutions focused on

settlement to systems that support the new T+0 operational paradigm".

Darryl Twiggs, head of product management at SmartStream, said: "This paper is the result of forums we have held with those financial institutions who clearly see this as a major concern. Banks that continue to operate without visibility into their exposure will be left behind the curve and won't understand where their risks are."

"Most banks' legacy systems and processes work on an end-of-day or overnight basis and are not geared toward providing real-time or intraday information. In addition, trade information is dispersed across different trade and transaction processing solutions which in turn creates IT and data access challenges."

"Banks will need to find a way to aggregate data across these different silos in order to gain a holistic view of their positions, liquidity and exposure. They will then have to 'normalise' that data so that all parts of the organisation are singing from the same hymn sheet. We have been proactively raising these issues with our clients and they understand the strong arguments from both an operational and regulatory perspective."

Klain connects QASymphony and Doran Jones

QASymphony, a developer of quality assurance software testing tools, has partnered up with Doran Jones to sell its software tools.

Doran Jones, a New York-based consultancy, will supplement its software testing practice consultancy by using and reselling cloud-based and on-premise software testing tools developed by QASymphony.

The partnership makes Doran Jones the first US reseller of QASymphony products, providing a sales channel into the firm's established relationships with several tier-one banks, hedge funds and other global financial institutions.

Most recently, Doran Jones appointed former Barclays executive, Keith Klain to the role of COO. Klain, who most recently ran the global test centre for Barclays, will run the firm's software testing practice.

"We're excited to partner with QASymphony, as they reflect the revolutionary new approach to testing that we feel is necessary for our client's success—especially those interested in Agile software development methods," said Klain.

"Their on-premise and cloud-based testing tools were designed by experienced testers and offer enterprise-level features suitable for both small and large-scale organisations with in-house software development needs."

"We're pleased with the potential a partnership with Doran Jones offers. We have worked with Keith Klain in the past and highly respect his perspectives and vision. Our organisations are well aligned in our belief that the value of testing extends well beyond the QA department," said Vu Lam, QASymphony CEO.

"The evolution of software development in today's rapid release environments requires a holistic approach that bridges the gap between development and testing teams. Our platform provides value across all stakeholders involved in bringing solutions to market, which provides Doran Jones with a unique value proposition to provide to their clients."

Most recently, QASymphony announced general availability of their qTest test management platform. The platform automatically captures a tester's actions in both text steps and screen captures. Together these integrated tools comprise a test management platform that offers complete support for Agile testing and provides the only consolidated testing platform to support both scripted and unscripted testing.

BNY Mellon fine-tunes collateral for ETFs

BNY Mellon has automated the calculation of collateral requirements in the exchange-traded funds marketplace.

The BNY Mellon enhancement is designed to reduce errors in ETF transactions and improve the ability of authorised participants to manage and allocate funds.

The primary market in ETFs is driven by participants that are large financial institutions/broker dealers that trade the underlying securities during the creation or redemption of ETF units.

With its recent innovation, BNY Mellon has developed an automated process for calculating collateral requirements and reporting them to the participants on a daily basis.

Prior to this enhancement, the participants were notified through a manual process that was not as efficient as the new automated system.

This additional functionality builds on BNY Mellon's ETF Center, which was launched as the industry's first global technology platform designed to serve the needs of APs on both the web and mobile applications.

"More efficient and automated transactions will further enhance the reliability and attractiveness of the ETF marketplace," said Joseph Keenan, head of global ETF services for BNY Mellon.

"Authorised participants that work with BNY Mellon will have better reporting and better management of the cash collateral they employ in the marketplace."

With many funds, APs have the option of delivering a basket of securities or cash collateral to an ETF servicer, such as BNY Mellon, when creating new ETF fund shares.

By posting cash collateral on the settlement date of an ETF order, APs can ensure that the ETFs shares are released in a timely manner even if some components of the ETF basket cannot be delivered by settlement date.

The collateral remains in the ETF servicer's account until delivery of the components of the basket covered by the collateral.

A focus on regulation

A challenging opportunity

Increasing regulatory control has been a hallmark of market developments over recent years. A large number of regulations have been introduced to reduce market risks and to ensure that they are measureable, controlled and reported, with the extension and dominance of the centrally cleared model. All institutions have needed to increase their financial spend in order to keep up with the pace and complexity of these regulatory changes. It is easy to see these regulatory responses as just another cost, however, is it possible that they may also represent a different kind of trading opportunity?

Since the 2008 meltdown commentators have highlighted the importance of the cost of capital and the pressures created by new liquidity ratio rules. The fear has been that these changes will reduce the volume of business that can be transacted, and ultimately restrict the ability of the banks to react to the changing landscape quickly enough in the event of further market upheavals.

The securities lending and repo markets have thrived over the years. A key feature of these markets is their ability to adapt and to generate opportunities from the changes in the marketplace. Responsiveness has always been a characteristic of the individuals operating in both the repo and securities lending markets. This is because the foremost function of the securities finance industry is to support market liquidity. Generating an efficient and liquid market should be every regulators objective.

Current market practices still require the market liquidity to cover shorts, so auto borrowing facilities and fee-based borrowing will still exist, but with the tax advantages of the yield enhancement trades reducing over time, the traditional borrow/loan intermediary activity will also reduce.

Agency lenders offering indemnities are also likely to be affected as the balance-sheet cost of providing the indemnity is predicted to increase significantly. The result of this is expected to be the need for greater spreads before trades are initiated and most probably a significant reduction in the number of smaller (less profitable) institutions involved as lenders in this business.

Firms faced with regulatory reforms demanding better management of balance sheet liquidity ratios, the need to collateralise derivatives as stipulated by the European Market Infrastructure Regulation (EMIR), and a more sophisticated client base demanding cross asset margin management, are beginning to integrate traditionally separate functions.

Expertise in the management of exposures has long been the responsibility of the back office. Managing the long inventory to use as collateral to cover the banks' obligation is part of the everyday middle office operational process, and the inefficiency and cost of this process has never been considered prohibitive.

Front-office collateral trading is quite different, creating the most efficient financing for the bank and using the assets to maximise the profit while minimising balance-sheet usage and covering risk. The current need to integrate these functions will affect both stock loan trading desks and collateral operations, and will require a greater level of business and operational cooperation. This will mean merging traditional business silos in order to gain a single view across all collateral assets.

The securities lending markets have historically proven themselves to be very resilient and adaptive to change. While it is likely that regulatory reform will affect traditional business lines, either by pushing operational costs up or by reducing efficiencies, it will also create new forms of trading opportunities.

Crucially, these new opportunities will provide flexibility in an industry that is otherwise dominated by the prescribed rigidity of the centrally cleared model.

Malcolm Hobday
Securities finance specialist
Rule Financial

The Sector Specialists

Rule Financial is a leading independent provider of advisory, business consulting, IT and software services to the investment banking, asset management and wealth management communities, counting some of the world's foremost financial institutions amongst their clients.

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CACEIS designs new real-time portal

CACEIS has launched a new web portal, designed for mobile use, that will covering its entire service offering.

It will enhance interactivity and facilitate access to information on all CACEIS services and entities. This new portal is already used by more than half of CACEIS clients and will be rolled out to all clients by mid-2014.

Asset manager, bank and institutional clients can use this portal to access real-time data on all transactions and to generate reports, enabling them to raise the efficiency of their investment management.

Via the portal, clients will be kept informed of new regulatory requirements such as AIFMD reports, the management of EMIR obligations and FATCA deadlines. Clients will also be able to access information on fund distribution activities, derivative execution and clearing, and collateral management services.

The new portal ties in with the group's existing portal for middle-office outsourcing, custody and settlement, cash management and fund administration.

Laurent Durdilly, products and solutions director, said: "CACEIS's ever-expanding product range and accelerated development, particularly in Europe, has led us to launch this new portal for international clients. It greatly simplifies the task of monitoring and managing portfolios whilst providing secure mobile access to service-related information.

Thomson Reuters on Toronto shorting list

In the Toronto Stock Exchange's report, produced twice a month, the top 20 largest consolidated short positions were:

Lundin Mining, New Gold, Toronto-Dominion Bank, Bombardier, Athabasca Oil, Legacy Oil + Gas, Celestica, Enbridge, CGI Group, Manulife Financial, BCE, Royal Bank of Canada, Bankers Petroleum, Detour Gold, Power Financial, Element Financial, Kinross Gold, Loblaw Companies, Thomson Reuters, and Crew Energy.

Nasdaq's most recent report (14 March) shows short interest in Thomson Reuters at 16,528,208. The average daily share volume is 706,929, and days to cover were at 23.

The media and information firm—which is New York-based but lists primarily in Toronto—have been slashing costs recently. In October last year, it announced plans to cut 3,000 jobs after losing market share to Bloomberg.

Little let-up

With many in the industry conceding that their last profitable quarter was nearly two years ago, new swathes of forthcoming legislation presents yet more worry for brokers and clients alike

STEPHEN DURHAM REPORTS

"If you don't like the idea of regulation you might as well leave the room and, probably, leave the industry right now." Such was the attitude that permeated many of the panels at Markit's recent Securities Finance Forum, in London.

The opinion of the panel was unanimous when it came to what the biggest worry for the industry was. An association spokesperson put it bluntly by claiming that "what is keeping us up at night is without a doubt—regulation".

The increased demand for transparency within the securities lending market is causing concern across the industry, with many in attendance conceding that a recalibration of market structure could become a distinct possibility.

The panel discussed the perceived threat of regulation, and explained that it appears in a variety of forms. The guidelines on ETFs and other UCITS issues highlighted as something that could restrict clients in their lending and collateral.

The Financial Transaction Tax was also raised as a risk that, if implemented as currently conceived: "Would have a dramatic impact on business, particularly when you look at the revenues of businesses today", added another of the panellists.

However, the biggest single thing that is changing current securities lending behaviour, according to the panel, is the progressive and rolling influence of Basel III—which is intended to improve regulation, supervision and risk management within the banking sector.

This change in behaviour was said to be primarily felt by the borrowers, though the panel explained that the implementation of Basel III is set to run right down to desk level.

Another panellist, a company director, clarified: "Although the rules apply to banks, so they do not affect us directly, they are still affecting the way in which we transact our business—not just from a securities lending perspective, but from a repo financing perspective as well."

This has led to a change in thinking regarding central counterparty clearinghouses (CCPs) which, it is hoped, will facilitate the efficiency and stability requirements within financial markets.

CCPs have traditionally been a no-go area for clients due to their low yield, but a balance of probability is beginning to emerge. In a world where capital is increasing in scarcity as well as cost, new structures such as CCPs could be what is necessary to change the shape of the market into something more transparent and secure.

Surveys taken at the conference revealed that the audience, made up of a cross-section of the industry, was split as to whether they expected an increase in CCP utilisation in the coming 18 months.

While the panel was not surprised at this result, they still expressed doubts. One panellist commented: "This industry is a very slow one to evolve, and 18 months is not a very long time. You only have to look at it from an automation and development perspective to realise that we are talking about years, not months—if at all."

According to another speaker: "While there will be more choice for people, there will also be more regulation to wade through. We are yet to see some of the big waves coming through such as the European Commission's rules on transparency which will change things again."

The speaker continued: "I think the widespread use of CCPs is somewhat inevitable, but rather than becoming a significant part of the market, I expect it to be seen as another option for people. There are still only a limited number of markets Eurex that can be put through a CCP, though I believe Basel II and the Dodd-Frank reforms may instigate a push."

So can these changes be shrugged off as a trickle down from the financial crisis of 2008, or is this proof that recalibration has already begun? The final speaker concluded: "Undeniably we are experiencing a recalibration. We have all altered our business model over the last several years in order to address what we feel best suits our institutions."

"This gradual change is driven by regulation, and I expect this to intensify over the next 18 months. The need for bespoke solutions and customisable business models will become more and more prominent."

"However, we should not forget that securities financing as a mechanism is still one of the most efficient ways of moving collateral around the system. It is tried and tested, as is the strong legal framework that supports it." SLT

A solid backbone

Mitsubishi UFJ Fund Services has added Meridian Fund Services to its stable. Deputy CEO Tim Calveley explains the purchase, and why clients are keen to sign up to custody and lending when there's a strong balance sheet to back them up

GEORGINA LAVERS REPORTS

All roads lead back to regulation: especially when it is affecting one's cost base. What with Form PF and the Alternative Investment Fund Managers Directive (AIFMD), the break-even point for funds nowadays is getting ominously high, especially for smaller funds, which find that the regulatory and compliance burden becomes a much larger share of their overall costs.

Much institutional money is therefore being poured into the larger managers, who already have the infrastructure to cope with new and more onerous filing requirements. Larger funds have been doing better, smaller managers are suffering, and this then translates into those larger funds are requiring a larger and more established administrator. In particular, hedge fund administration produces higher fees than its mutual fund sister.

One firm which has picked up on this trend swiftly is Mitsubishi. In June 2013, Mitsubishi UFJ Trust and Banking (MUTB) acquired the fund administrator Butterfield Fulcrum, which became the global alternative asset administration platform of MUTB.

Glenn Henderson and Tim Calveley, CEO and deputy CEO respectively of Butterfield Fulcrum Group, stayed on, saying at the time that the acquisition reinforced their ability to deliver high quality fund services to their clients, while significantly increasing their breadth of products and services, geographic reach and financial strength.

"Even pre-sale, Butterfield Fulcrum was $110 billion AUA and we were still being told by some of our clients or future prospects that we were too small," says Calveley. "Their underlying investors wanted to know there was a large institution's balance sheet underneath us, so it was perfect for us to come under the Mitsubishi brand."

Most recently, the expanded firm picked up Meridian Fund Services Group, raising the fund services business's AUA to approximately $165 billion, servicing over 300 clients and 1000 funds.

Calveley says that the decision to buy Meridian over any other fund administrator was down to Mitsubishi's two-fold strategy, of organic growth (backed up by the ability to brand under the Mitsubishi name and a hefty balance sheet), and an acquisitive nature.

"The reason we decided on purchasing Meridian was that both Glenn Henderson, and myself have known Meridian Fund Services and its chairman, Tom Davis, for a long time, as we are based in Bermuda. It was an easy decision because they were a very good fit for us—culturally the businesses are very similar in terms of operation, client service, etc. It was always going to be our first point of call."

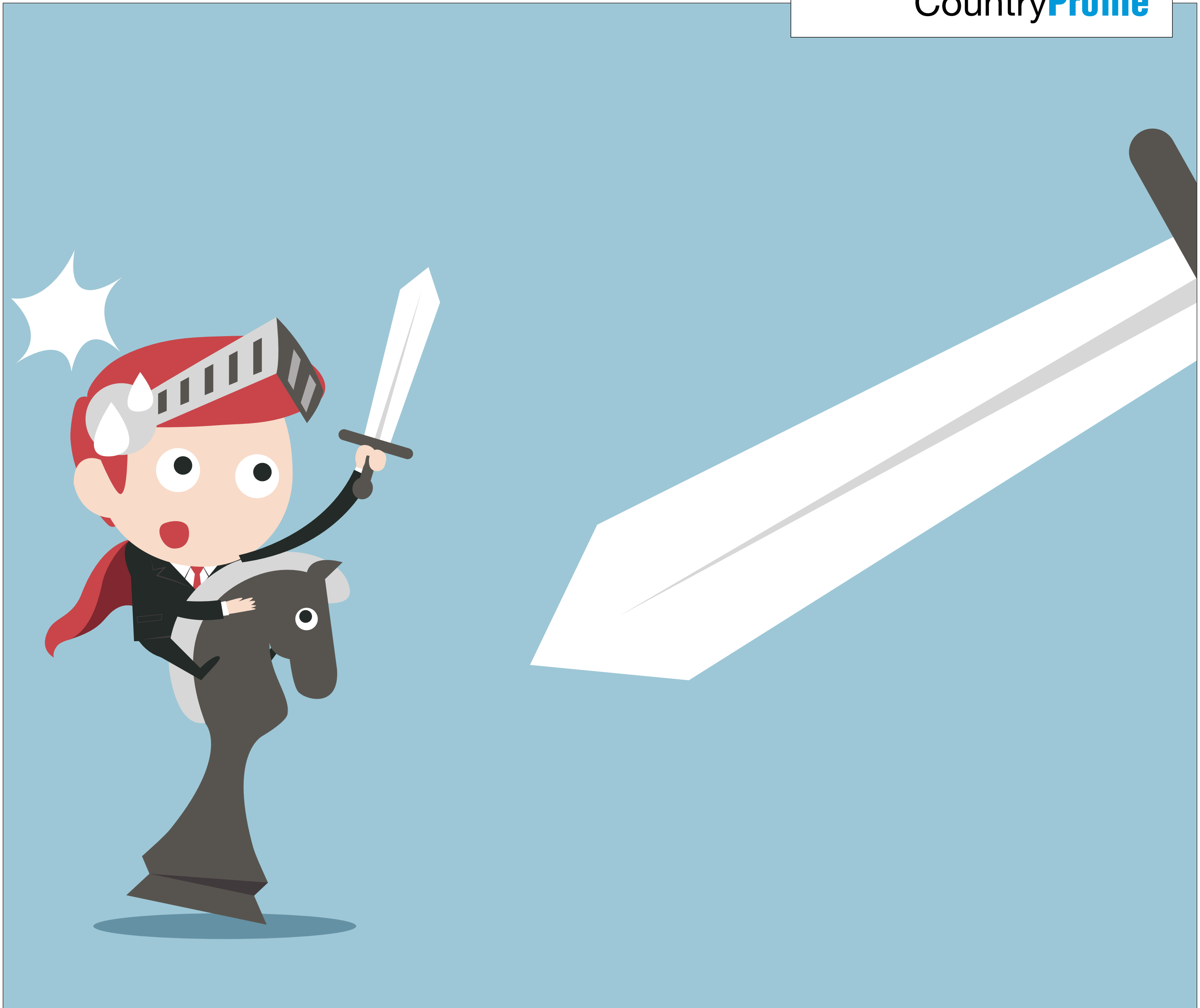
As for clients that have been picked up from the acquisition, Calveley explains that they are mostly institutional clients, the majority of which are US-based hedge funds. This gives scope for expansion into the European and Asian markets (Mitsubishi Fund Services have offices in Dublin, London, Tokyo, and have plans for Singapore)—which is of interest to US hedge funds with a global reach.

"Meridian didn't have any operations in Europe or Asia, and as some of their clients are expanding out of the US into those areas, they are very interested in the fact that we can provide this service to their funds. Being a global firm and operating all around the world increases the advantages for their current clients."

Clients are also interested, he adds, into value-added services such as custody, FX and securities lending. "Mitsubishi has an extremely active and large securities lending department, with the majority of services based in London and Singapore. It is very large, very successful, operation and a lot of our clients are very excited that we can offer not just securities lending but custody and FX."

The one positive that boutique fund administrators always celebrate is their one-to-one service, whereby clients can closely and quickly interact with their administrator. However, this ethos is hopefully being brought into larger companies by virtue of the people that they are acquiring. Calveley is one such employee who lives by a client service motto.

"Over my years with Fulcrum and Mitsubishi, we've been through a number of ownership changes, and the common theme throughout any ownership change is that your client service must remain the same. What's most important for a client is continuity of staff, and we really understand that. It doesn't matter how big you are, as long as you can maintain that service level." **SLT**



No surrender

The spectre of the FTT is casting a shadow over the French markets—but there are still opportunities to be grasped

STEPHEN DURHAM REPORTS

While securities lending transactions are not directly affected by the Financial Transaction Tax due to temporary transfers of ownership remaining exempt—the underlying trades that drive borrower demand are impacted, sending shock waves out into other sectors of the industry.

As currently drafted, the FTT could effectively close down the securities lending markets across the 11 affected countries and, given time, this would have considerable implications for long-term investors and the mobility of collateral.

According to the International Securities Lending Association (ISLA), at least 65 percent of the European securities lending market could eventually disappear as a result of the FTT—with France becoming one of the markets most impacted.

Over €2 billion of revenues could be lost to long-term investors, while almost €500 billion of Euro government bonds would be removed from the lending and collateral markets altogether.

Some in the industry believe that, in its simplest form, such a tax could create a drag and downward pressure on the markets as has already been seen in the French stock markets—with some observers claiming a 25 percent drop in activity in France following the unilateral imposition of the 0.2 percent tax.

Though France, along with Germany, were the two countries to press ahead with a levy (after failing to persuade all 27 EU member states to sign up), the country's finance minister Pierre Moscovici expressed concerns last year about widening the tax beyond shares to government debt, with the fear that it could discourage investors from buying their bonds.

Equity interest

"Looking at the most popular equities in France, from a securities lending viewpoint, one can infer a great deal about the levels of short interest in any particular security," says David Lewis, senior vice president of Astec Analytics, SunGard's capital markets business.

"Solocal Group (LOCAL PA), for example, is a media stock which has been under scrutiny for some months as they have struggled to refinance their business—balances on loan, as a proxy for short interest, tripled in November last year, pushing utilisation levels up into the 90 percent range and making this a hard to borrow security. This gave investors a good insight into how market sentiment is running."

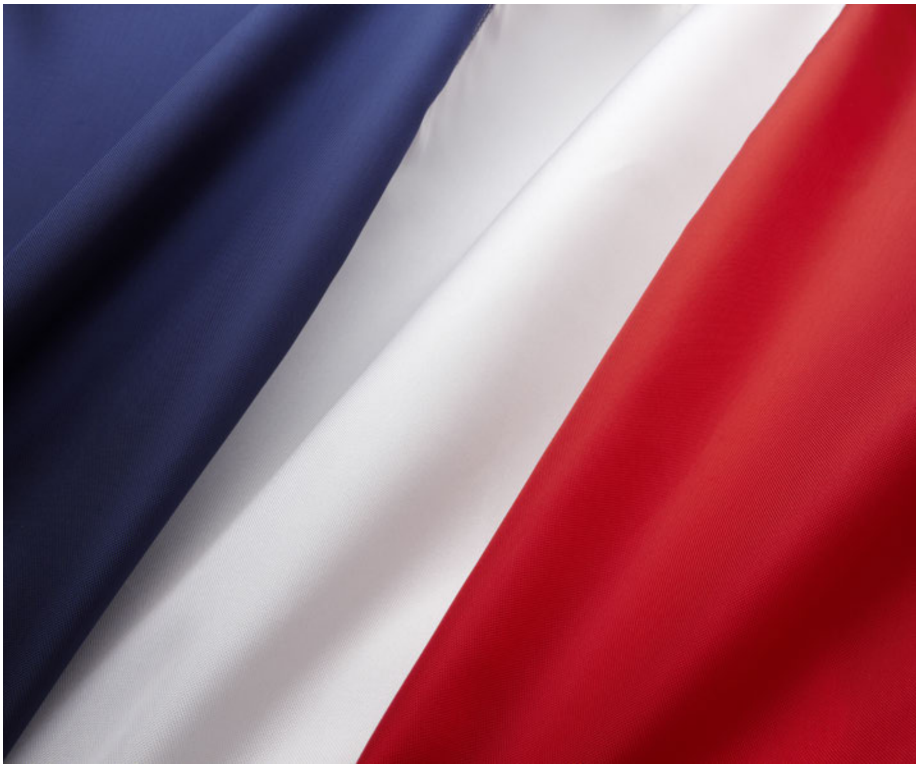
Lewis remarks that another precarious short is PSA Peugeot Citroen SA (UG PA). "The ailing car producer has seen a significant increase in borrowing around the negotiations with their Chinese investor, Dongfeng Motors. A rescue package including a €800 million cash injection for 14 percent of Peugeot Citroen calmed the market to an extent, but shares on loan remain at 75 percent of their peak for the last twelve months—indicating some expectations of further trouble ahead."

Despite the country's tax positive stance, there are still opportunities to be had in the French lending industry, in the form of yield enhancement trading.

Yield enhancement trading in France is a key source of income, despite it recently coming under pressure after a ruling by the European Court of Justice. Prior to this, the French government had levied a withholding tax on foreign investment funds ranging anywhere from 15 percent to as much as 25 percent.

Lewis comments "Despite the European Court of Justice ruling in 2012 that the French withholding tax applied to non-domestic funds was discriminatory in nature, the yield enhancement market opportunity is still more than active and a significant part of French securities lending activity in 2013."

"Equity balances on loan rise dramatically during the dividend season, namely April to June, peaking at around 2.5 times the average balance for the year in 2013. Average fee levels for the year are less than one quarter of the levels



reached at the height of the French dividend season—which would suggest that this part of the French securities lending remains vibrant and valuable."

The increasing harmonisation of dividend tax policies throughout Europe continues to threaten the yield enhancement trade by reducing the supply of tax disadvantaged securities. Other commentators, such as BNP Paribas Securities Services' David Raccat, who is head of global markets for FX, STIR and securities lending, claim that yield enhancement is not as valuable to their side of the market.

Raccat says: "As a custodian, yield enhancement has never been the main driver of what we do, our mission instead is to support efficiency and liquidity in the market. I feel that yield enhancement is, little by little, going to disappear with the introduction of tax harmonisation rules. This will result in much more scrutiny on the products themselves as well as much more regulatory pressure."

Regardless of whether this pressure will be detrimental to the French market in the long-term, it is a certainty that the industry as a whole will have to learn to adapt to evolving regulations. This trend is ubiquitous in terms of the global securities lending markets, and companies are already attempting to find solutions.

Raccat continues: "Rather than yield enhancement, I see the future of the market as being able to contribute to the collateral demands or requests that are going to come along as a result of the upcoming regulation. We want to make sure that clients understand what they are doing and can manage all their risks, from regulatory to reputational." **SLT**

Has the Biotech bubble burst?

David Lewis, senior vice president of Astec Analytics, SunGard's capital markets business, discusses how biotech is back on the lenders' radar

The biotech industry found itself under the Astec Analytics microscope in a previous Securities Lending Times article (June 2013). At the time, the industry was in a boom phase, attracting seemingly vast amounts of investments from more generalist funds looking for returns. With fewer than one in 10 drugs making it to the coveted "approved" status and the expanding reliance on smaller, one-product firms developing new treatments and medicines, it certainly seemed like a risky bet from the outside. In fact, with R&D being cut at the major pharmaceutical firms in favour of buying in promising smaller firms and their expertise, you could argue that this is a clever outsourcing of risk on their part.

One of the attractions of such an investment is of course, when they get it right, they can really get it right. One very successful drug, Sovaldi, is expected to earn its owner, Gilead Sciences, Inc. (GILD), $1.5 billion in its first quarter. When you look at the top 10 biotech firms, they are delivering sales and earnings growth more than three times the S&P average, which could suggest that their price earnings ratios are in fact low, if anything. But how do you find the firms that will deliver amongst all those that will burn through vast amounts of R&D cash without ever getting their products approved, assuming you don't have a PhD of course?

With so few companies making it to market and even fewer to profitability, it might seem logical to actually take up a short position in a wide range of biotech firms and simply play the odds. However, selling a security short exposes the short seller to unlimited downside and such errors can break the fund. Intercept Pharmaceuticals is one such firm—on revenues of $1.6 million and net losses on almost $68 million in 2013, it would be a disaster investment in almost any other industry. In biotech pharmaceuticals, however, where the potential for its core treatment under development could earn very big indeed, the share price has risen 23-fold since its listing in 2012 ($15 to $346), valuing the firm at $6.75 billion. Being short against a stock rising like GILD would take more than pharmaceuticals to make right.

Using the sector analysis functions in SunGard's Astec Analytics, we can show that the US dominates the biotech sector (Standard & Poor's Global Industry Classification Standards model) with more than three quarters of the securities listed being domiciled in the US. Of the 1.4 billion shares on loan (as of 25 March 2014), 1.3 billion are from US firms. Over the past month, the volume of shares on loan has grown just more than 3 percent globally and just less than 4 percent when looking at the US shares alone. What is causing this increasingly negative sentiment?

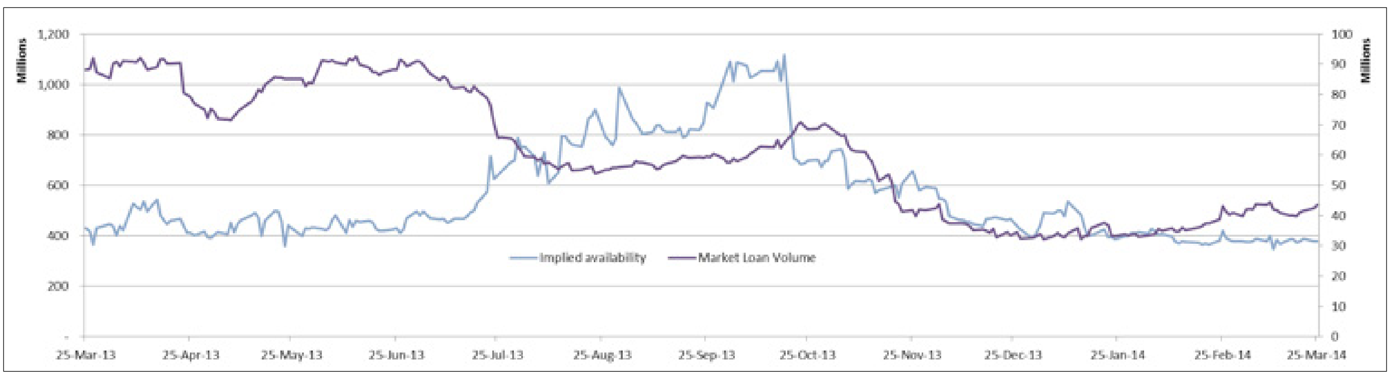
Several analysts simply see the sector as overpriced and due a correction following a bubble-like rise from its lows in 2009 where valuations were a third of what they are today. However, there may be more complex reasons than that. It could be that a recovery in the wider global economy is increasing the number of investment options available to the more generalist investment funds— some of whom have been blamed for the sector overheating. With the potential of rising interest rates on the horizon as well, the desire for enhanced risks in this type of sector is also likely to lessen. Finally, some of the biggest buyers of the pharmaceutical industries products are national governments through their varied health programmes. Gone are the days when government spending on health can continue to expand exponentially and questions are being raised about value for money on what is being bought.

Sovaldi, the Hepatitis C drug from Gilead sciences, as mentioned before has earned more than $5 billion in sales, but at a cost of $84,000 per patient, a value sufficient to gain the attention of politicians. Whilst it is hard to put a price on a person's health, there is likely to come a point where the buyers will demand lower prices and the fall in revenues will cascade back to lower investments in R&D. The questions raised over costs were enough to push GILD shares down 25 percent in value, dropping further than the average drop of 12 percent across the biotech sector over the past month. Shares on loan for GILD, taken as a proxy for short selling, have increased 16 percent over the same period, suggesting that more short sellers are expecting downward pressure on this and other similar stocks.

The growing short interest in the sector would suggest that there is an increasingly negative market sentiment building which would indicate the expectation of further falls in share values as investors leave the sector for perhaps more stable returns. Figure 1 shows the share volume on loan for GILD alongside the implied availability numbers, extrapolated from Astec Analytics data. In the centre of the graph, a higher level of availability can be seen, indicating an increase in shareholding by larger institutional funds (working on the assumption that it is these funds that are most likely to be engaged in securities lending). However, as Figure 1 also shows, from October 2013 on the availability decreases rapidly, suggesting a sell off from the larger funds somewhat in line with the expectations that more generalist investors are moving out of the sector having enjoyed a prolonged bull run. GILD, although a larger than average component of the sector, is only one example. Further analysis and time will tell whether the party is over in the pharmaceutical drugs industry. Have the highs been had and the lows are on the way? Or is this a brief respite and the enhanced performance of the sector will again power forward and leave the wider market trailing? **SLT**

David Lewis
Senior vice president
SunGard's Astec Analytics

Shares available and on loan for GILD, March 2013 to March 2014 **Source: SunGard's Astec Analytics**



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Industry appointments

Stuart Hendel will leave as head of prime brokerage at Bank of America in May, a source confirmed.

The source added that Robert Sachs, oft-described as Hendel's right-hand man, has also decided to leave. Sachs is joining a start-up hedge fund. It is as yet unknown where Hendel is heading.

Hendel joined the company in June 2011, reporting to Tom Patrick and Mike Stewart, co-heads of global equities.

"Financing and prime brokerage services are an integral part of our client offering, and we have made substantial progress adding clients and balances in the last several years," said Mike Stewart at the time.

"Under Stu's leadership, we look to aggressively build on that success and establish the industry's leading prime brokerage platform."

It has been reported that Hendel was unhappy with the static nature of the prime brokerage business, but a spokesperson insisted that there was no change to the firm's strategy or commitment to the business.

Hendel began his financial career at Morgan Stanley, where he held a number of leadership roles before moving to multi-strategy hedge fund Eton Park in 2004, where he was a founding partner.

In 2007, he returned to Morgan Stanley as global head of prime brokerage, and from 2009 to 2011, he was head of global prime services at UBS.

A spokesperson for Bank of America declined to comment on personnel matters.

OCC has appointed new board officers and board committee chairs for 2014.

Felix Davidson, president of TD Ameritrade Clearing, was appointed member vice chair and chair of OCC's performance committee.

Craig Donohue was reappointed as OCC executive chairman, **Michael Cahill** was reappointed as president and CEO, **Richard Lindsey** was reappointed as chair of the risk committee, and **Pat White** was reappointed as chair of the audit committee.

Matthew Gelber was also appointed as chair of OCC's governance committee.

OCC's nominating committee also nominated Mark Dehnert of Goldman Sachs Execution and Clearing, Craig Messinger of The Bank of New York Mellon, and John Ruth of ABN AMRO Clearing Chicago as candidates for election to the board of directors for the term ending in 2017, with such election to be held at OCC's annual meeting of stockholders on 22 April 2014.

Additionally, NYSE appointed **Thomas Farley**, chief operating officer of NYSE and **David Goone**, senior vice president and chief strategic officer of Intercontinental Exchange Group as its representatives on the board.

OCC's board of directors also approved the combination of the previously separate governance and nominating committees into a single new standing committee, and expanded the number of public directors from three to five, bringing the total number of OCC directors to 21.

These governance enhancements will be implemented upon receipt of regulatory approval.

Kevin Soobadoo has left his role as director in the equity finance team at Deutsche Bank, sources have confirmed.

He departed on 14 March, added sources. Soobadoo was based in the London branch of Deutsche Bank, and was a part of the same team as Daniel Caplan, Shane Martin and Gareth Hughes.

A Deutsche Bank spokesperson declined to comment.

Citi Transaction Services and **Jason Gruhot** have parted ways, according to sources.

The director and head of global equity trading for North America, based in New York, left his role recently. Gruhot has been at Citi for just over 25 years. He originally joined the bank in 1989.

Chris Fay has joined SL-x, the trading platform for the securities lending marketplace, as its managing director for Europe.

Prior to this role, Fay held the position of COO of ClearLend Securities in New York for six years, and was also the CEO of SecFinex in London for four years. **SLT**

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