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SECURITIESLENDINGTIMES

ISSUE099
15.04.2014 TUESDAY
securitieslendingtimes.com

Broadridge serves up collateral solution

Broadridge Financial Solutions is to launch CollateralPro, following its link-up with Lombard Risk Management.

A comprehensive enterprise-wide solution, CollateralPro is designed to help investment banks, asset management firms and service providers transform their regional or global collateral management functions.

CollateralPro delivers end-to-end collateral management capabilities, which support bilateral and cleared derivatives, as well as securities financing transactions.

In addition to providing core collateral management functionality, CollateralPro offers an advanced optimisation module that can assist clients in improving liquidity and profitability via efficient asset allocation. This new solution will be available as a hosted or licensed technology; integrated as a holistic solution with Broadridge or other platforms; or offered as a managed service.

Jerry Friedhoff, managing director of securities financing and collateral management at Broadridge, said: "Financial services firms from many sectors are actively seeking strong collateral management tools that will help them respond to new regulatory requirements and optimise inventory usage across their businesses."

"CollateralPro leverages Broadridge's global service delivery model and our world-class infrastructure to provide an integrated solution that meets those challenges."

Collateral management, regulatory compliance and reporting solutions provider Lombard Risk and Broadridge announced in March that they will work on combining their collateral management offerings to address global issues.

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Nomura combines equity financing and delta one

Nomura has combined its equity financing and delta one departments under Ben Challice globally, according to a spokesperson for the group. Regional duties will continue to be undertaken by the respective heads of equity trading.

The bank has also announced a Japan-focused, prime brokerage sales effort to capitalise on the core strength of the franchise. Outside of Japan, the prime brokerage platform will continue to support the related opportunities associated with delta one, equity financing and Instinet/Nomura execution.

According to the Nomura, the combination of delta one and equity financing will allow for a more comprehensive financing and execution solutions-based offering for clients. This allows the bank to offer consolidated two-way cash and asset financing while encompassing multiple products.

Nomura has also hired William Donzeiser from RBS as a managing director in the New York equity finance solutions team, in order to help with the integration.

Brown Brothers Harriman joins IEF4 programme

Brown Brothers Harriman has expanded its collateral management capabilities through support of the CME Clearing IEF4 programme.

IEF4 helps futures commission merchant clearing members (FCMs) and their clients improve the efficiency and optimisation of margin collateral usage for listed derivatives and cleared OTC swap contracts.

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Broadridge serves up collateral solution

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“In recent years, several factors such as global regulatory changes, tighter liquidity, a move towards greater transparency and the increasing cost of collateral have prompted firms to rethink their approach to collateral management,” said a joint statement.

“In response to these changing market dynamics, this strategic partnership will lead to the creation of powerful Broadridge integrated collateral management offerings, combining Lombard Risk’s best-in-breed technology with Broadridge’s industry-leading applications and infrastructure.”

Brown Brothers Harriman joins IEF4 programme

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“BBH has been supporting collateral requirements of the derivatives industry since 1970, but disruption to the derivatives market following the 2008 financial crisis has increased demand for these services,” said a release from the firm.

Addressing the margin and operational efficiency concerns of derivatives users through a variety of services across the collateral lifecycle is now part of BBH’s core service offering to its asset manager, insurance, broker-dealer, and clearinghouse clients.

IEF4 provides FCMs and other industry participants the choice to deposit corporate bonds into a pledged triparty custody account at BBH, creating an opportunity for more efficient OTC clearing and margin collateral usage, added the firm.

Stephen Bruel, head of derivatives product management, said: “BBH is focused on bringing flexibility, efficiency, and integration to all touch points in the collateral lifecycle. CME’s IEF4 programme is an important part of this strategy as industry attention moves away from preparing for compliance with mandatory clearing rules, towards improving the efficiency of collateral solutions. Regardless of where in the collateral lifecycle an entity sits, this should be what they are thinking about.”

“Collateral management is an important service that we offer to all clients to help them capture efficiencies and put eligible CCP collateral to use,” said CME Clearing president, Kim Taylor. “We appreciate working with partners like BBH to extend these services to benefit the broader industry.”

BBH settlement banking clients are also promised enhanced functionality, efficiency, transparency, and future process improvements as a result of the integration between BBH’s settlement banking platform, ComSet Plus, and the CME Clearing enhanced collateral management programme.

TradeStation extends wingspan with IEX

TradeStation is to offer its clients the ability to execute trades with IEX, making it the first US retail broker to offer its customers access to this market centre. IEX is a non-exchange trading venue for buyers and sellers of equities.

TradeStation currently uses order routing to directly connect clients to different exchanges, alternative trading systems, and also offers clients the option of having their orders routed directly to the exchange or market center of their choice. IEX has been added to the list of venues to which TradeStation clients may directly route their orders.

IEX is the first equity trading venue majority owned by a consortium of buy-side investors, including mutual funds, hedge funds, and family offices.

“We are proud to announce that TradeStation has established connectivity with IEX and will give our clients the option of routing their orders

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directly to IEX," said Salomon Sredni, CEO of TradeStation Group and COO of Monex Group.

"We strongly support innovation in technology and market structure that seeks to promote fairness and efficiency for all market participants, including retail and institutional traders and investors."

J.P. Morgan celebrates 35-year anniversary

J.P. Morgan is celebrating 35 years in the securities lending industry, from an initial trade that was executed in 1979, through to the first trade executed in the Russian market this year.

"From the, we have consistently led developments in securities lending," said a release, adding that the bank currently manages over 260 relationships, with a lendable asset base of $2.4 trillion.

The bank has structured its business by having securities lending trading desks located in several key global financial centres—namely Sydney, Hong Kong, New York and London, from which it lends all asset classes across 37 markets.

"Throughout the years, we have been helping institutional investors achieve attractive returns by providing customised securities lending solutions. Our greatest asset is our clients, who rank amongst the largest and most sophisticated in the world."

Wells Fargo prevails in Blue Cross suit

Wells Fargo has won a second suit levelled against it by the health plan provider Blue Cross.

On 24 March, a jury returned a verdict in which it found that the bank did not breach a fiduciary duty to any of the six non-ERISA (Employee Retirement Income Security Act) plaintiffs.

Wells Fargo did not "provide false information or use a deceptive practice in the course of selling the securities lending programme" to each of the six non-ERISA plaintiffs, and it did not "knowingly misrepresent, directly or indirectly, the true quality of the securities lending programme or its collateral investments in connection with the sale of the securities lending programme to the plaintiffs, the jury found.

The outcome was similar in August of last year, when ERISA plaintiffs from Blue Cross and Blue Shield of Minnesota, which offers health plans for individuals and businesses, alleged that their investments were grossly mismanaged in a securities lending programme.

Blue Cross Blue Shield's claim stated: securities lending was offered as a conservative option for investors; and the bank also represented that the collateral would be safely invested in high-grade money market instruments. Neither of these conditions were satisfied, alleged the firms.

But the jury has cleared Wells Fargo of any liability.

A statement from the bank in August 2013 said: "The verdict validates that Wells Fargo was focused at all times on serving our clients' interests and that Wells Fargo worked very hard and responsibly to achieve the best results for all

participants in the securities lending programme during extremely difficult economic conditions."

"Our conservative approach was effective, as the plaintiffs in Wells Fargo securities lending programme had minimal losses averaging approximately 3 percent at the same time that the markets were down up to 50 percent during the height of the financial crisis."

"The jury's verdict supports our company's firm belief that the investments made on behalf of our clients were in accordance with investment guidelines and were prudent and suitable."

Global Prime Partners chooses Deutsche Bank

Global Prime Partners (GPP) has appointed Deutsche Bank to provide execution, clearing and custody services.

The prime broker said that it had a rapidly expanding client base of emerging managers, family offices, professional traders and as of this month, boutique broker-dealers.

The mandate follows on from appointing other firms for custodial and clearing services, the most recent being BNY Mellon in November 2013.

Julian Parker, CEO at GPP, said: "We are excited to be partnering with another top-rated institution and are already enjoying the operational benefits that Deutsche Bank is providing. We continuously see smaller managers and broker dealers having difficulties gaining access to large, reputable institutions, but through Deutsche Bank, we will be able to provide our clients with this opportunity."

Deborah Thompson, managing director and global head of direct securities services sales in Deutsche Bank's global transaction banking, said: "GPP have an excellent reputation and we believe Deutsche Bank is the ideal partner for such a dynamic organisation. We look forward to broadening our relationship with them."

Liabilities outrun assets in pension plan race

The funded status of the typical US corporate pension plan declined 0.5 percentage points in March 2014 to 92.1 percent as liabilities increased faster than assets, according to the BNY Mellon Investment Strategy & Solutions Group (ISSG).

The BNY Mellon Institutional Scorecard for March noted liabilities rose 0.7 percent, outpacing the 0.3 percent increase in assets during the month.

Year to date, the funded status of corporate plans is down 3.1 percentage points, according to the scorecard.

Public defined benefit plans, endowments and foundations also lost ground as they failed to attain their targeted returns, said ISSG. "Despite a high degree of volatility in March, the markets finished the month close to the same levels that they began," said Andrew Wozniak, director of portfolio management and investment strategy for ISSG.

"Asset returns were restrained, leading to slightly weaker funded status for corporate plans and preventing public plans, endowments and foundations from reaching their targeted returns."

Wozniak added that, with the net decline in funded status through the first three months of 2014, plan sponsors are less motivated to reduce their exposure to market volatility. This was in marked contrast to 2013, when there was a significant move toward reducing risk.

The increase in liabilities for corporate plans in March was due to a two-basis-point decline in the Aa corporate discount rate to 4.56 percent, the report said. Plan liabilities are calculated using the yields of long-term investment grade bonds. Lower yields on these bonds result in higher liabilities.

On the public side, assets at the typical defined benefit plan in March rose 0.1 percent, producing excess return of -0.6 percent, missing the goal of positive 0.6 percent returns, said ISSG.

Year over year, public plans are ahead of their target by 3.6 percent.

Eurex Repo on the up and up

Eurex Repo, which operates Swiss Franc, Euro Repo and GC Pooling markets, recorded in all markets in March 2014 an average outstanding volume of €217.3 billion, increasing from the €215.3 billion seen last year.

The secured money market GC Pooling recorded an average outstanding volume of €150.1 billion, decreasing from the €151.8 billion seen year-on-year.

The Euro Repo market grew by 32 percent and reached an average outstanding volume of €40.1 billion (March 2013: € 30.4 billion). The Swiss Franc Repo market achieved €27.1 billion in volume.

The international derivatives exchanges of Eurex Group recorded an average daily volume of 9.4 million contracts (March 2013: 9.7 million).

Of those, seven million were Eurex Exchange contracts (March 2013: 7.3 million), and 2.4 million contracts (March 2013: 2.4 million) were traded at the US-based International Securities Exchange (ISE). In total, 199.4 million contracts were traded, of which 148 million were traded at Eurex Exchange and 51.4 million at the ISE.

In its largest segment, equity index derivatives, Eurex Exchange achieved 69.4 million contracts (March 2013: 65.9 million). Futures on the EURO STOXX 50 Index stood at 31.8 million contracts and 21.4 million on the index options.

Don't tighten reins on collateral, warns ICMA

The International Capital Market Association (ICMA) European Repo Council has called for regulators to consider the impact of financial regulation on the movement of collateral, highlighting the potential systemic risks of inhibiting collateral fluidity and the negative impact this could have on the stability and efficiency of capital markets.

In its recent paper, 'Collateral is the new cash: the systemic risks of inhibiting collateral fluidity', the council describes the increasing importance of collateral and how it effectively underpins the functioning of capital markets which provide the basis for economic growth.

"This paper will fuel constructive dialogue between the industry and its regulators and help market participants understand the interdependencies at work in the use of collateral, the cumulative effect of different regulatory proposals on its availability, and its role in the functioning of the financial system and in supporting economic growth," said Godfried De Vidts, chair of ICMA's European Repo Council. "As we build the framework of new financial regulation for safer markets we should steer clear of embedding systemic risks which could contribute to future financial crises'."

The paper highlights that much of Europe still suffers from largely fragmented, pre-euro legacy infrastructures with many barriers to efficient cross- border settlement. New market infrastructure is needed to ensure collateral can flow freely. There are initiatives under way, for example TARGET2-Securities and and the Central Securities Depository Regulation (CSDR), which are designed to help resolve these issues and which should take into account the specific needs of the repo market.

Bank funding desks act as intermediaries between providers and users of collateral, thereby ensuring liquid and efficient short term funding markets—and measures such as Basel III affect the ability of bank funding desks to function effectively, said the paper.

Reduced collateral mobility has negative implications for secondary market liquidity, asset price volatility, hedging, trade execution and the pricing and management of risk.

"These in turn dampen GDP growth in the real economy through reduced investment in capital and businesses, higher borrowing costs for governments, increased funding costs for corporates, increased cliff-effect risks for pension and other institutional investment funds, and a greater reliance on central banks to support the markets".

Slight securities lending CCP decrease at OCC

OCC's securities lending central counterparty activity was down 1 percent in new loans from March 2013 with 95,094 transactions last month.

In March of last year, OCC saw 95,686 transactions on its securities lending CCP.

Exchange-listed options trading volume reached 355,570,399 contracts in March, a 14 percent increase from the same month in 2013.

Average daily options trading volume in Q1 2014 was 17,873,764 contracts, 8 percent higher than Q1 2013. Year-to-date total options volume is up 10 percent with 1,090,299,568 contracts in 2014.

OCC-cleared futures reached 6,809,436 contracts in March, up 34 percent from the same month in 2013.

OCC's average daily cleared futures volume in Q1 2014 was 298,081 contracts, 34 percent higher than Q1 2013. Its year-to-date cleared futures volume is up 37 percent with 18,182,964 contracts in 2014.

Total cleared contract volume in March reached 362,379,835 contracts, representing a 14 percent increase from March 2013. OCC's year-to-date cleared contract volume is up 10 percent with 1,108,482,532 contracts in Q1 2014.

OneChicago sees increase in OCX.NoDivRisk

More than 40 percent of March month-end open interest was in OneChicago's OCX.NoDivRisk products, according to the equity finance exchange.

OneChicago offers single stock futures, a delta one product, on approximately 1500 equities, including American depository receipts and exchange-traded funds.

Exchange futures for physicals quarterly volume grew significantly in Q1, reaching a 673 percent increase compared to Q1 2013.

Open interest stood at 572,260 contracts on the equity finance exchange at close-of-market on 31 March. Its volume for the month stood at 1,261,340, a 68 percent increase year-over-year.

"Carrying equity positions synthetically with competitively derived interest rates and without dividend variation risk is an attractive option for savvy market participants," said David Downey, CEO at OneChicago. "This investment strategy combined with the counterparty protections provided by the OCC is driving our volume growths."

Cost cutting drives down custody scores

In a 2014 survey of global custodians, it was found that Pictet, RBC and BNP Paribas were highest ranked, but that overall, scores declined across the board.

The R&M Global Custody Survey received 748 responses: thirty-one percent of which were from asset owners, 62 percent from asset managers, and 7 percent from banks.

A scoring system of one (low) to seven (high) was used for all questions, with the questionnaire covering 49 different aspects of global custody ranging from core skills such as settlements and income collection through to services including securities lending and alternatives processing.

Richard Hogsflesh, managing director of R&M Consultants and the author of the report, said: "it is rare to see scores decline so comprehensively as they have this year. When it has happened in the past it has usually been linked to falling market values. Clearly that is not the case at the moment. So what else can it be?"

"Everyone appears to be rushed off their feet and much of the talk is of regulation ... Add to that the debate regarding the potential EU Directive on the single market in Europe for personal pensions and you can see that no one escapes. So maybe that's why scores have fallen, reflecting the stress people are under."

"But the biggest decline by far was in the US. Perhaps there is another cause? Cost cutting, client service and relationship management are the cornerstones of good service levels. When RMs

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no longer have the budget to travel regularly to see clients and are being forced to confine communication to electronic media, be it emails, conference calls or video links, it strips out the human element. It's not winning favours with clients."

There was a return to pole position for Pictet—a place they have not occupied since 2003—but other custodians received harsh criticism.

One US based fund manager said: "I have no time to describe my issues with other custodians as I am really busy here but would like to express an opinion. Pictet is one of my top custodians and I would rate State Street as the worst due to getting someone to answer back on their help desk."

Think before you diversify

A risk institute is cautioning institutional investors to look carefully at the effectiveness of their portfolio diversification.

In a new publication entitled Improved Risk Reporting with Factor-Based Diversification Measures, EDHEC-Risk Institute encourages institutional investors to think on how best to diversify their funds.

"Before the financial crisis, pension funds were insufficiently diversified, with concentration in a small number of asset categories. Since the crisis of 2007, there has been a genuine trend towards investment in new asset classes and categories in order to diversify, but that does not mean that the diversification is effective," said a release from CACEIS, which supported the research that was produced.

The study examined the 1000 largest US pension funds as of 30 September 2002, 30 September 2007 and 30 September 2012.

The research introduces new diversification measures based on the concept of risk allocation rather than the concept of asset allocation. The authors' aim was to measure the correspondence between the appearance of diversification (the effective number of classes or constituents, or ENC) and the reality of diversification (the effective number of bets, or ENB), which measures the actual number of independent risky bets taken by institutional investors.

Risk-adjusted performance is measured more effectively by using ENB.

"Increasing the number of asset classes or categories without taking the inter-relations between their risks into account does not provide any real gain in terms, first, of diversification, and then of performance," said CACEIS.

I.A. Englander throws in the towel on prime services

I.A. Englander & Co. has agreed to transfer its managed account and prime services platform to Concept Capital Markets.

After reviewing the quality of service it seeks to provide to all of its clients, I.A. Englander concluded that its resources are best aligned with other parts of the marketplace and that transferring MA&PS to Concept Capital would in the best interest of its clients and employees.

"Concept Capital has continued to demonstrate a commitment to the prime brokerage business through investments in personnel and technologies that combine to deliver a comprehensive set of solutions for investment managers and those that allocate to them."

"Our clients could potentially benefit from these solutions and our employees may be better able to extend their reach into the alternative investment manager space with the additional tools available to them," commented Stephen Tobias, CEO of I.A. Englander & Co.

Joining Concept Capital will be Harry Freda, Nick Rizzi and Bob Chicoine in the New York branch, and Matt Pringle, Georgia Goodman, and Bob Wibbelsman in the California branch.

Additional personnel and account transfers between the firms may take place as well as details are finalised between the parties.

"We are pleased to welcome our new colleagues to Concept Capital and excited for the opportunity to introduce our firm and its capabilities to them and their clients," said Jack Seibald, co-founder and managing member.

"With a diverse range of experiences and skill sets that include prime brokerage, launching hedge funds, portfolio management, research, sales and trading, clearance and settlement, financial operations, compliance, technology, and customer support, we believe the Concept team is uniquely equipped to understand and anticipate our clients' needs and preferences and deliver on those."

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

The not so hidden costs

Agent lenders have traditionally provided an indemnification to their securities lending clients to protect them against counterparty default. The cost of this guarantee has been borne by the agent. However, every indication shows that as regulatory changes start to bite, the cost of indemnification is likely to increase dramatically.

Currently there is no real precision in calculating the additional cost, as regulators are still considering the impact of Basel III recommendations and the US Dodd-Frank Act. Even though the regulations are not yet finalised, it's likely that any guarantee (including indemnification) will need to be backed by the balance sheet capital of the agent lender providing the indemnity. The cost of the indemnification may even need to be disclosed to the beneficial lender.

Where the total cost of securities lending becomes more transparent, it will inevitably bring into question the revenue generated from the agent lending programme, compared with the total fees and the risk that is involved.

There is considerable speculation about the effect these changes may have on the market. A number of the smaller lenders using agency lending services will be identified by the agent lenders as non-profitable and the indemnity cover removed. This may mean a withdrawal of such players from the market. This in turn raises the possibility of a reduction in liquidity, and consequently an expected increase in trading spreads. Any increase in the cost to the agent lender is likely to be recouped via the fee charged. This in turn is likely to result in a change to the split of fees charged, in favour of the agent lender.

Traditionally, there has been a lack of transparency on the precise makeup of the agency lender fee. However, there are increasing discussions around making the indemnity costs transparent to the lender, with increased focus on the precise composition of the fee. With the risk element removed, the cost of market connection and operational processing can be precisely calculated.

Institutions that are balance-sheet sensitive are likely to have to account for every cent of balance sheet usage. Firms with limited funding will likely compare business line returns in order to decide who will have access to the precious balance sheet. In such instances, agent lending is likely to lose out to business lines that are more profitable. This could again impact on lending activity, and therefore, market liquidity.

Those institutions with painful memories of unwinding their securities lending positions after the Lehman's collapse will fully understand the need for the regulatory changes, despite the cost to agent lenders of providing the indemnity to security lending clients. These changes are still shrouded with speculation, but there will certainly be additional costs to cover. Inevitably, this will reduce the net lending fee received by the beneficial lender and will result in a re-evaluation of the participant's appetite to participate in the agent lending market. If there is a reduction (as most predict) then this will inevitably reduce the volume and affect market liquidity.

James Tomkinson
OTC clearing and collateral management specialist
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HazelTree extends collateral branches

HazelTree, has enhanced functionality within its collateral management module so clients can correctly identify and analyse OTC and repo collateral.

HazelTree's proprietary technology supports clients in maintaining liquidity and mitigating the risk of over- or under-collateralisation, as well as reconciling positions and managing workflows to initiate calls or meet demands for collateral.

HazelTree CEO, Stephen Casner, said: "Addressing our client's needs for a complete collateral management solution enables funds to move from largely spreadsheet-centric models to a seamlessly integrated platform across all of their counterparties, reducing their risks and providing enhanced transparency to their investors."

New features of the solution include integrated SWIFT wire processing, repo collateral control, dispute resolution, and full accounting system assimilation.

Clearstream GSF rises 3 percent

Clearstream's March 2014 figures saw a continued peak of assets under custody at €12.1 trillion, and significant growth across all four Clearstream business streams of custody, settlement, global securities financing, and investment funds services.

In the month, the overall value of assets under custody held on behalf of customers registered an increase of 5 percent to €12.1 trillion (compared to €11.5 trillion in March 2013).

For global securities financing (GSF) services, the monthly average outstanding in March 2014 reached €587 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced an increase of 2 percent over March 2013.

The GSF monthly average outstanding has grown by 3 percent from the period year-to-date March 2013 to the period year-to-date March 2014. Investment funds services (IFS) processed 0.74 million transactions in March 2014, a 15 percent increase over March 2013 (0.65 million).

IFS transactions have grown by 16 percent from 1.93 million processed in the period year-to-date March 2013 to 2.24 million in the period year-to-date March 2014.

Philippe Seyll, head of investment funds services at Clearstream, said: "Our March 2014 year-to-date assets under custody business figure, which includes asset wins in the ICSD investment funds stream, is up 6 percent compared to the same period last year.

On the ICSD investment funds side alone, after an already strong 2013, our March 2014 year-to-date figure for the number of transactions processed is 16 percent higher compared to the same period last year."

Cash as counterintuitive

David Raccat of BNP Paribas talks about his new appointment to ISLA's board, as well as how cash is not always as safe as it would seem

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Could you talk about the development of ISLA, and how the association is progressing?

It was flattering to be asked onto the board, and I realise now, being from the inside, how many things the institution is doing. I think the regular and increasing development of the regulatory initiatives and dimension of the International Securities Lending Association (ISLA) is absolutely remarkable. The association has managed to develop connections through networking with very targeted people within regulatory bodies.

Since I joined, I have been impressed by both the quantity and the quality of the contribution that ISLA is bringing to the market. There are a lot of things that the market doesn't even see, but ISLA is permanently pushing initiatives, lobbying, talking to regulators and putting together our feedback when it comes to contributing to market consultations.

I think they are quite well respected by regulators and benefit from a very positive image, which is key to lobbying. Advocating for our market's interests is what we have to do these days to ensure our future is taken into account in what the regulators are putting together.

What is ISLA working on at the moment?

We are working on a couple of different things. The first one is concerned with the Financial Stability Board (FSB), which is about to publish its final recommendation as part of the working group on shadow banking. There is a very practical and detailed workshop that has been put together around the data that we will need to send to trade repositories when this is up and running. We are coordinating our thoughts with the Risk Management Association (RMA) in order to define what level of granularity we will need to provide to the trade repositories, and to propose something to the FSB. We are looking at each piece of the data—the securities lent, the collateral matrix, the maturity of the trade—in order to define how we are going to report the data, and whether it is going to be individual or pooled. We will try to propose something based on the existing framework.

There are other questions that we have just received from the FSB around floor haircuts, so we are going to contribute to that. There was also recent discussions that we had around the leverage ratio, and the applicability of netting. The last and most recent update that we are talking about is the paper that the European Commission published at the end of January, as part of the FSB working group around transparency, reporting to trade repositories, rehypothecation, and disclosure to end investors.

Why did you split principal lending into equity and fixed income? Why is BNP Paribas confident in the future of fixed income?

In the past we were split between agency and principal, which was very important for us because a Chinese wall between the two products is vital, to make sure we respect the compliance aspect of the business.

As far as the principal book is concerned, we realised around two years ago that, with the way regulation is moving and liquidity has also been evolving throughout the last two years, that we were in charge of two businesses, which were becoming more and more different.

On the fixed income side, what we were used to doing in the past was very flow business: lending fixed income assets on an open basis against cash, through securities lending or repo. But this very quickly moved into something much more structured, taking into account the demand relating to Basel III, the leverage ratio, new capital requirements, European Market Infrastructure Regulation (EMIR), and the additional need for collateral. The quality of the assets and the duration of the trades were making it very different from what we are doing with equities, which is still quite a flow business.

The decision was then taken to separate the two. The specifics of the equity market are very related to what happens in the market and the activity of the stock, whereas the fixed income business that we call STIR—short term interest rates—now encompasses repo, securities lending on fixed income assets, and liquidity trades where we are structuring the business with ad hoc confirmations.

How will lending change if it does enter a phase where interest rates begin to rise?

As far as the fixed income business is concerned, and as far as cash collateral is concerned, obviously the level of the rates and the curve are key drivers for generating revenues. So in the fixed income lending market, if interest rates were to rise at some point, it might have an impact on the cash interbanking market, and as a consequence could drive up demand, and could push up the general collateral repo rates or lending rates.

The other consequence of rising interest rates, which might be more applicable in the US, is that if interest rates are going up and yields are going up as well, there might be much more interest in lending securities against cash with cash reinvestment programmes. It is something that has been addressed by the FSB in its report.

On the one hand, there might be some more juice to be made in the market, but on the other hand, regulation is scrutinising cash reinvestment more closely. The guidelines are probably going to be much more formalised and conservative, and I believe the times where some lenders were lending securities only to get cash in order to reinvest might not be the future of the market.

Is lack of innovation detrimental to the business?

I don't honestly think that there is a lack of innovation. When I look at what the market, and we at BNP Paribas have been doing over the last two or three years, I see a lot of new structures, set-ups and trades that have been put in place. The way we trade today, especially in the fixed income market, has nothing to do with what we were doing three years ago.

It has been completely revamped—we moved from a pure flow business to something much more structured whereby we had to sit down with our legal and risk people in order to put something together which we believe answers the needs in the market. Innovation will still be needed in the future, though, because the barometers will change again.

Do you think that beneficial owners are taking advantage of new processes available to them?

It's a tough question. I think they do, because there are a lot of players in this chain, but at the end of the day it's the beneficial owner that holds the securities, with demand coming from the market. So the beneficial owners that are still in the game understand the new dynamics of the market and do benefit from new processes—they know that there is a regulatory pressure. For some beneficial owners, it might be more and more difficult to benefit from lending—that's a fact.

For example, for UCITS funds, the framework imposed by the European Securities and Markets Authority (ESMA) is going to make things much more difficult to them to enter the market and take full benefit of what can be done today. There is a very concrete inconsistency, regulatory-wise: if you are a UCITS fund, ESMA rules require that you can only enter re-callable securities lending, and cannot lend on a term basis. That is understandable, as the regulator is trying to protect the man on the street in ensuring maximum liquidity in case of a massive redemption or stress test.

On the other side of the equation, when you are sell side and want to fulfill your liquidity ratios—specifically the liquidity coverage ratio (LCR)—you need to borrow securities on the 31 day plus maturity. As you can see, there is an inconsistency. The UCITS fund will not be able to take advantage of this window and to get the full benefit of the return. For them to be able to lend to the sell side, they must find somebody in the middle who can take the risk.

Having said that, there are other players that might be less restricted from a regulatory standpoint—specifically, sovereign wealth funds, insurance companies (even though Solvency II might change things a little bit), or central banks could benefit from this, and fuel the market with stable assets.

What is happening in triparty repo?

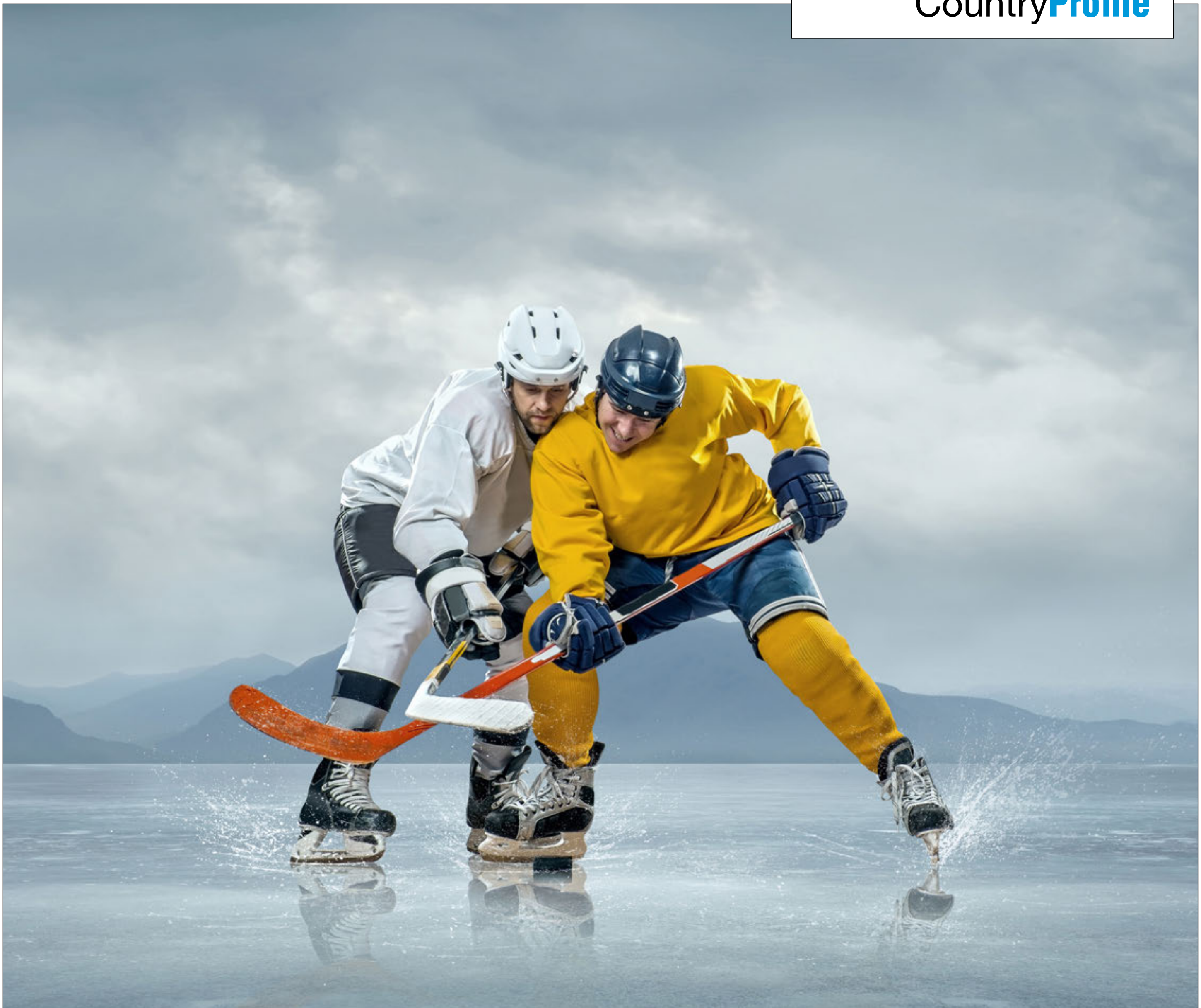
We are having a lot of discussions with triparty agents around two things: firstly, intraday cash. The intraday cash, as an agent lender, is an issue—let's face it. We know intraday cash can turn into overnight cash, and it could be an issue, regulatory wise, for some of our clients. There is something about cash that is quite counterintuitive. Cash should be considered as the most liquid asset you can get as collateral.

However, when you receive cash as collateral and you don't have the ability to reinvest that cash (because it is an accident, or is reported too late for you to do anything with it), you swap a net exposure into a gross exposure. If you receive securities as collateral, then at the end of the day you net what you have lent with what you have reserved, and these are assets you can liquidate, and then buy your securities back.

When you lend securities against cash, even though it is very liquid, if you don't do anything with it you end up with a gross exposure on where the cash is. So it is very problematic for some of our clients to end up with a gross exposure on the books of the triparty agent.

The second change around triparty repo, is that collateral matrices are becoming more and more complex. They are becoming more granular, and the quality of collateral that we are pushed to receive by the brokers is going down, because high-quality liquid assets are already mobilised for term trades. If you want to increase your business, or be a little bit more innovative, you have to go down in the matrices. This is all making matrices much more difficult to implement and monitor. This is a trend, and I think triparty agents need to be prepared for this, because they will need to manage more complex matrices in the future. **SLT**

David Raccat
Head of global markets
BNP Paribas Securities Services



Little loves large

Despite not having one of the larger securities markets in the EU, Sweden boasts solid economic foundations and strong trading performances

STEPHEN DURHAM REPORTS

In a lending landscape that is still dominated by a few large Swedish pension funds, lenders are starting to become more cost aware and demanding, according to experts in the industry.

Following a notable dip in activity during 2012, Sweden's trading volumes saw a marked resurgence during 2013 and Q1 2014. This was, in part, thanks to the Nordic markets being perceived by many as safe havens in uncertain EU conditions.

Within this environment, the big players continue to do well—and the emergence of new or competing lenders remains uncommon.

David Raccat, head of global markets, market and financing services at BNP Paribas Securities Services, says: "It is a very concentrated market because there are not a lot of securities currently trading."

"As a result, when you trade in Sweden, you usually trade only a couple of names. Apart from those names there is not a lot available, particularly in terms of dispersion."

Raccat goes on to explain that the Swedish securities market is just as concentrated in terms of lenders, with a handful of core, sovereign-like entities taking a large proportion of what is available in the country.

While it is undeniably a condensed industry, Sweden's securities market is also a relatively nuanced one—with niche areas of lending more available to clients than ever.

Ulf Noren, global head of sub-custody at SEB, comments: "In areas like autoborrowing we see that clients are having more control. Large transactions in large caps are getting fewer and fewer, while the interest in mid, and especially small caps, are sharply increasing."

"In a market where corporate finance activity is coming back, we also see that corporate action-driven activity often generates a higher demand than supply, and this results in a more favourable climate for us. "

According to Noren, the only limitation to Nordic markets concerns Danish bank shares. This is due to the concentration of trading generating a loan driven demand and an increase in revenue generation opportunities. For Sweden, this has included a noticeable increase in hedge fund activity.

Sweden's hottest stocks

Although Sweden's market ebbs and flows like any other, a number of key stocks are currently at the forefront of trading activity, according to Karl Loomes, market analyst at Sungard Astec Analytics.

The main news driver of interest in SSAB at present is the upcoming share exchange deal with Rautaruukki, although ongoing concerns in the commodity markets (namely steel prices) and the widening loss reported in its Q4 analysis in February have also been underlying much of the action in the cash market, says Loomes.

SunGard's data hints that short sellers have been taking a more optimistic view of SSAB during 2014. Although borrowing volumes climbed rapidly in January as the share price rocketed, suggesting short sellers were quick to bet against the gains, as the stock price pulled-back in the following weeks, borrowing volumes also slid—falling almost 40 percent from its peak by mid-February alone.

Loomes states: "As the shares began their latest climb, borrowing activity held fairly neutral. As news and terms of the Rautaruukki deal have been more prevalent, borrowing (and so likely short selling) has dropped off again rapidly—with trading volumes falling an additional 30 percent."

Recently named by SunGard as the fifth 'hottest' stock for the Europe, Middle East and Africa region, Scandinavian Airlines Systems (SAS) has generated interest as it expects sales revenue to decline because of competition, despite it carrying 2.2 million passengers in March—an increase of almost 8 percent compared to 2013.

In February, a share issuance also generated some news flow, and seems to have triggered a downward slide in the shares, says Loomes

"From a borrowing perspective, the trend has been much clearer—our data suggests short sellers have been consistently building positions on SAS. Since 1 January 2014 the number of SAS shares being borrowed, the prerequisite to short sell then, has more than doubled, and now stands at its highest point since the summer of 2011."

"This increasing borrowing activity does not yet seem to have been matched by new availability being made available from beneficial owners, and so utilisation levels and the cost of borrowing the stock have been on the climb."

"Both of these metrics are currently the highest of any Swedish stock (utilisation is near 90 percent)."

The main news driver of interest in Atlas in 2014 has been its acquisition of UK-based Edwards Group, as well as some mixed earnings numbers earlier in the year.

Its stock climbed 10 percent between 25 March and 8 April 2014, although the last few sessions have seen some of this retraced.

Loomes comments: "On the borrowing front, the data would suggest short sellers are not as optimistic. The number of Atlas shares being borrowed has been climbing steadily since the start of February, following the company's earnings numbers."

"In this time the level has climbed 25 percent to more than 80 million shares, and most of these gains came amid the latest surge in its share price, which is a signal we often observe when short sellers feel the stock is overbought."

"Of course if short sellers are mistaken, these are quite significant levels we are talking about—offering a potential short squeeze if upcoming news triggers a fundamental shift in opinion." **SLT**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Return of the Taiwanese tech equity

There has been a short interest revival in 'broken' Taiwan. Simon Colvin of Markit Securities Finance takes a look at the available data

Taiwan was highlighted as an example of a recently "broken" market in the most heated session of our securities financing forum. This follows a pattern in which a once hard to borrow market sees participants crack the regulatory and risk hurdles needed to make it attractive to borrowers. This creates a short-term competitive advantage to for those with the right structure.

However, the gain can be a short-lived as new supply comes online which in turn erodes fees and restores the supply/demand equilibrium. The securities lending dynamic in Taiwanese equities over the last couple of years has followed this pattern.

Taiwan backs history

The return to lendable surged moew than three-fold over the 15 months leading up to July 2012 as Taiwan's aggregate securities lending balance jumped from $5 billion to $6 billion. This increased demand to borrow also saw lenders command much better fees for their loans as the weighted average fee to borrow the country's equities more than tripled to hit a high of over 400 basis points over the summer of 2012.

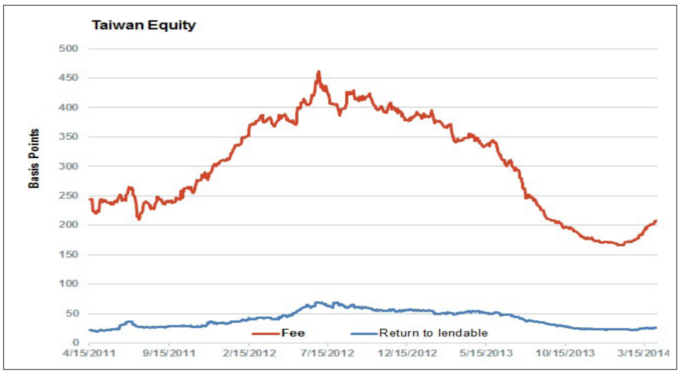
A total return to lendable figure of more than 60 bps did not go unnoticed and the available supply of Taiwanese equities quickly shot up from the $25 billion in 2011 to 2012 to the current all-time high $36.4 billion. This soon competed away the high fees commanded to lend by Taiwanese equities to their current level of 200bps—less than half of the July 2012 highs. The average total return to lendable fell dramatically to 25 basis points.

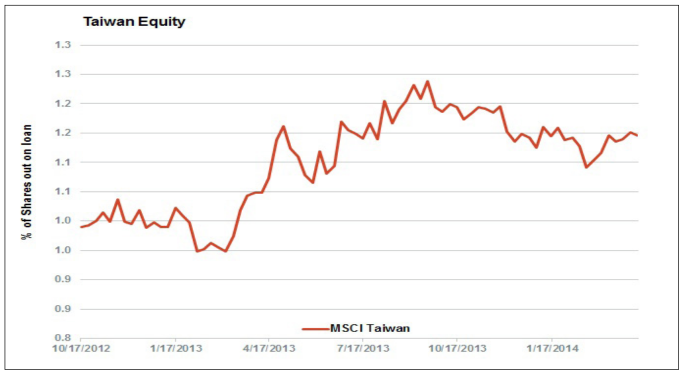
Demand to borrow Taiwan steady

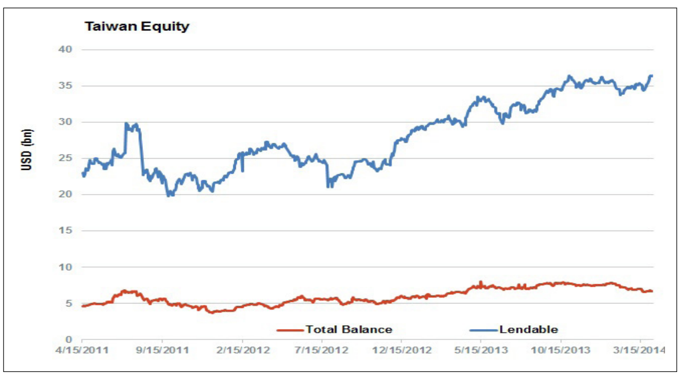
Interestingly, demand to borrow Taiwanese equities has increased by more than 10 percent over the last 12 months despite fees having more than halved. Average short interest across the constituents of the MSCI Taiwan index stands at 1.1 percent of shares outstanding. This has been driven by the country's heavy tilt towards the tech industry, which is struggling to compete regionally with a resurgent Japan.

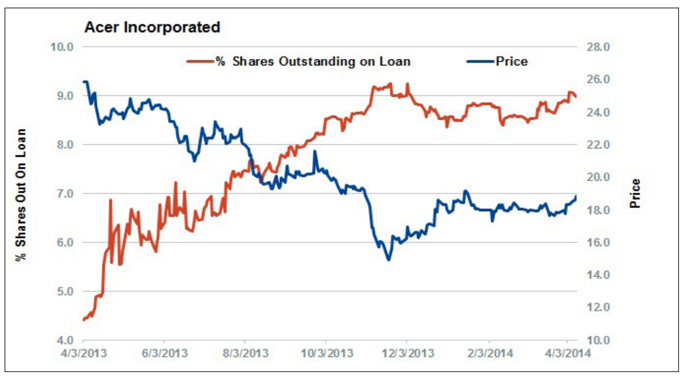
To this extent, HTC and Acer, both of which have been hit by a string of recent product setback, see more than 70 percent of their share available to be borrowed out on loan. This is despite the fact that their fees are currently well north of 500 bps. In the case of Acer, the available supply has jumped nearly three-fold in the last three years, to a current all-time high 7.5 percent of shares outstanding. This has seen the stock yield $29,000, 50 percent more than at the same time three years ago. **SLT**

Simon Colvin
Analyst
Markit Securities Finance









4th Annual CASLA Conference on Securities Lending

Date: 8 May 2014
Location: Toronto
www.canseclend.com

The 4th Annual CASLA Conference on securities lending will take place this year on 8 May 2014 at The Omni King Edward Hotel, Toronto, Canada.

Registration opens soon. Mark your calendars!

For more information about the 4th Annual CASLA Conference on securities lending, please contact cibcmellon@cibcmellon.com

3rd Annual Collateral Management Forum

Date: 22-23 May 2014
Location: Austria
www.globalleadingconferences.com

GLC Europe has organised the 3rd Annual Collateral Management Forum to bring together the most sought after people in this industry under one roof on 22 and 23 May 2014, Vienna, Austria. As usual, the event will provide solutions for the most emerging topics and bring together senior C-level executives from the biggest and top European banks, institutions and regulatory bodies.

ISLA's 23rd Annual Securities Finance and Collateral Management Conference

Date: 17-19 June 2014
Location: Berlin
www.isla.co.uk/isla2014

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Enterprise Collateral

Date: 24-25 June 2014
Location: London
wbresear.ch/enterpriseslt

Enterprise Collateral 2014 is the only conference to bring together the treasury, front, middle and back office from financial institutions to source enterprise wide solutions for optimising collateral.

Industry appointments

LCH.Clearnet Group has appointed **Jill Considine** to its board of directors.

Considine will join the board on 25 April 2014. She will also serve as chair of the board directors of LCH.Clearnet LLC, the group's US-based entity. Jacques Aigrain remains chairman of LCH.Clearnet Group.

Aigrain commented: "[Considine] brings a strong track record and deep understanding of market infrastructure, risk management and the clearing business."

"Our growing business in the US reflects part of the group's long-term strategy, and I look forward to working with [Considine] as we continue to expand our operations in this market."

From 2009 to 2011 Considine was one of three trustees of the AIG Credit Facility Trust appointed by the US Treasury and Federal Reserve Bank of NY.

She also served as chairman and CEO of the Depository Trust and Clearing Corporation from 1999 until 2008 and was president of the New York Clearing House Association LLC from 1993 to 1998.

Prior to these roles, Considine held an executive role and board position with American Express Bank, served as the New York State Superintendent of Banks; and served as a member of the board of the Federal Reserve Bank of New York, where she was chairman of the Audit and Operational Risk Committee.

ACI - The Financial Markets Association has appointed **Marshall Bailey** as its first full-time president.

Bailey will be the delegated president on the managing board.

He is a former member of ACI in Canada, and has experience as an FX trader with UBS, a managing director in fixed income and currency sales at RBC Capital Markets, and an executive manager of State Street Global Markets in EMEA.

"We are at a critical time for our membership, especially those involved in trading businesses, and Marshall's experience, strong ethical stance and leadership will help us forge a path with sell and buy-side individuals, and our regulators" says Eddie Tan, chairman of ACI's managing board.

"We conducted a year-long search and determined that we needed someone who can guide us through the challenges facing the industry, and who can work closely with the many facets of our association."

The California State Teachers' Retirement System (CalSTRS) has elected **Harry Keiley** and **Sharon Hendricks** as board chair and vice chair.

They will take up their 2014-2015 term positions immediately.

Gar Wood Securities has hired industry veterans **Darren Day**, **Christopher Calvert** and **Joseph McDonald** in an effort to increase the firm's presence in the emerging manager space.

Gar Wood is aiming to provide more prime brokerage and capital introduction to new and emerging fund managers.

Day was previously a board member and partner at Concept Capital Markets, after forming and subsequently selling Alaris Trading Partners to Concept Capital Markets.

Calvert has assisted in the launch and successful marketing of more than 100 managers over the last eight years.

McDonald formed, co-managed and raised assets for both mutual funds and hedge fund strategies by focusing on investor allocations from institutions and advisors.

"We are delighted that Day, Calvert and McDonald chose Gar Wood. Their combined experience servicing hedge funds and '40 Act funds with marketing, trading and custody is unique and a compliment to Gar Wood's current business," said Bob Jersey, president and CEO of Gar Wood Securities.

Formed in 2004, the firm is headquartered in Chicago.

The California Public Employees' Retirement System (CalPERS) has named **Tom McDonagh** as acting senior investment officer for real assets, effective 1 April 2014.

McDonagh will take over the position vacated by Ted Eliopoulos, who has been named interim chief investment officer upon the passing of Joe Dear.

McDonagh is currently a senior portfolio manager in the global fixed income asset class. He joined CalPERS in 2010, after serving as chief investment officer at both Freedom Mortgage and American Home Mortgage.

Prior to that, McDonagh spent time at CalPERS as a portfolio manager for global fixed income, in addition to positions at Vanderbilt Capital Advisors and Lazard Freres Asset Management.

As acting senior investment officer of real assets, McDonagh will be responsible for implementation and management of investment strategy and policy for the pension fund's $27.8 billion portfolio in real assets worldwide.

The board of BNP Paribas has promoted existing employee **Valentina Crovato** and hired **James Chan**.

After joining BNP Paribas in 2012, Crovato has now been promoted to head of trading for Europe.

Chan has joined BNP Paribas as a fixed income trader. He joins after leaving Lloyds Banking Group, where he was employed for almost a year and a half. He was most recently employed in specialist retail sales. **SLT**

SECURITIESLENDINGTIMES

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

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

Reporter: Stephen Durham
stephendurham@securitieslendingtimes.com
Tel: +44 (0)20 8663 9622

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

Marketing director: Steven Lafferty
design@securitieslendingtimes.com

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

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