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Client Kings

BNY Mellon's John Templeton and Robert Chiuch on the changing world of securities finance

Brazilian Boom

Latin America's key market

Differentiation Engine

Making a programme more attractive

Clearstream provides tripartite service

Triparty agent Clearstream is to provide eurosystem triparty collateral pledge services to participants following the European Central Bank (ECB) creating cross-party triparty services on 29 September.

The changes will improve access to eurosystem liquidity by enabling the allocation of ECB-eligible collateral held in third countries to national banks of a cross-border basis.

The cross-border triparty collateral management services will be introduced under the Correspondent Central Banking Model (CCBM) and will be provided by both Clearstream's international central securities depository (ICSD) and its CSD in Germany.

Stefan Lepp, Clearstream's executive board member in charge of global securities financing, commented: "Thanks to these changes of the ECB, customers can benefit from automated triparty allocation by Clearstream to their home central banks."

SL-x confirms restructuring

SL-x Group is reviewing its corporate strategy and restructuring its operations, citing "the slow transition" of the US and European stock lending marketplace from its current OTC (over the counter) structure, to a centrally-cleared structure.

During this review period, SL-x has temporarily suspended the introduction of new clients.

An official statement from SL-x explained: "We believe that the central counterparty (CCP) structure is a critical component for SL-x, and thus there will be no change to our existing contractual relationships."

"We further believe that our patented trading platform will assist greatly in this market's transition, which will result in greater capital and operational efficiency for all participants."

SL-x recently applied to cancel its UK Financial Conduct Authority authorisation as a multilateral trading facility.

SunGard's hottest stocks

The hottest stocks from around the globe for the week beginning 22 September 2014 have been compiled by SunGard's Astec Analytics.

In the Europe, Middle East and Africa (EMEA) region, Astec singled out Thomas Cook Group (TCG.L) as its top pick following the release of its latest earnings numbers.

Despite coming in generally as expected, the numbers brought about a sell-off in Thomas Cook's shares as focus turned to a fall in German consumer confidence, and uncertain foreign exchange rates and oil prices.

Data from Astec suggests that, while some short sellers covered positions in the run up to the results, the numbers brought about a resurgence of interest, with borrowing ending the week 20 percent higher than it started.

French geoscience company CGG (CGG.PA) also continued to see interest as its share price pulled back further—losing around half the gains made earlier in the month.

On the securities lending front, although the number of CGG shares being borrowed did slip around 3 percent during the week, overall borrowing still stands almost 25 percent higher than the August low, suggesting short sellers are still holding out for additional losses in the stock.

Technology giant Apple (AAPL) is Astec's top pick for North America after it launched its latest handset, the iPhone 6, with dedicated fans once again queuing for days in order to be among the first to own one.

Astec commented: "We now know the company sold a record 10 million iPhones in its first weekend of sales, although despite this the week's trade in the cash market has still been somewhat mixed."

SLTINBRIEF

Cover story
BNY Mellon executives Robert Chiuch and John Templeton share their views on the changing world of securities finance

page18

Country profile
Brazil's securities lending market is growing despite many being wary of its CCP model

page22

Agent perspective
Northern Trust's Andrew Clayton reveals what agent lenders need to do to meet the demands of increasingly sophisticated clients

page26

Technology update
Todd Berlent of Helix explains that while a big bank in your corner may open a lot of doors, a good product is why they stay open

page28

People moves
New appointments at 4sight, BNP Paribas Securities Services and more

page50

On the borrowing front, Astec's figures suggest short selling has been steadily, if somewhat mildly, on the decline since the start of September, with borrowing of its stock having fallen 27 percent in that time.

Camera maker GoPro (GPRO) was also selected by Astec as a Wall Street Journal article drew attention to its high valuation compared to expected earnings, with much of the recent stock gains seen as focusing on its next release, which CEO Nick Woodman promised will be "a big one".

Despite this, GoPro shares held fairly steady during the week, although Astec's figures suggest demand to short the stock continued to grow, even with little availability in the market.

While GoPro's utilisation holds near the 100 percent level, the cost of borrowing was driven from 81 percent to more than 130 percent in the previous week, by far the highest on record for the company.

Chinese property developer Agile Property Holdings (3383.HK) is Astec's top pick for the Asia Pacific region after it announced a $355 million rights issue, which brought about a 7 percent drop in its shared.

Astec said: "The company's shares had already been suffering for most of September, and our data suggests short selling had been climbing throughout the week; borrowing is up more than 20 percent since the previous Friday."

Seeing its third consecutive week in Astec's list, hotelier Seibu Holdings (9024) saw fresh interest after it said it would be opening a sales office in Taiwan as part of a move to promote Japanese tourism.

While Seibu's share price has been treading water for most of the week, borrowing slipped lower by about 10 percent, although in context it still stands 20 percent higher than 1 September.

SmartStream wins TLM Reconciliations SEC contract

SmartStream has been awarded a contract by the US Securities and Exchange Commission (SEC) to furnish SmartStream's TLM Reconciliations Premium solution to the office of compliance inspection and examinations (OCIE).

The SEC will use TLM Reconciliations to support the OCIE's nationwide examination and inspection programme for registered self-regulatory organisations, broker-dealers, transfer agents, clearing agencies, investment companies, and investment advisers.

As well as TLM Reconciliations, the SEC also has access to TLM SmartRecs and will use data delivered by Morningstar's ByAllAcounts.

The TLM Reconciliations will be used in Washington DC as well as 11 regional offices across the US.

Phillppe Chambadal, CEO of SmartStream, said: "We are very excited to have the primary US regulatory agency using our solutions to support the work of its office of compliance inspections and examinations."

James Carney, president of ByAllAcounts, said: "Using ByAllAcounts data, SmartStream has created an innovative approach that the SEC intends to utilise in facilitating its examination and inspection programme."

Europe overcomes bad results

European H1 earnings in the securities lending market has yielded more opportunities for fast money shorting on disappointing results, according to research from Deutsche Bank.

According to Deutsche Bank's securities lending team, the Japan's central bank has maintained its view that the country's economy has continued to moderately recover during August.

Risk arbitragers also showed steady interest in Burger King's acquisition of Tim Horton's.

The MSCI World 30-day volatility index increased 20.43 percent over the month, ending at 8.63 on 25 August 2014.

Gross fundamental equity exposure increased 1.2 percent (ending at 2.84), while net fundamental equity exposure remained unchanged last month ending at 0.69 percent.

During August, in the US, two Federal Reserve members gave speeches focused on remaining regulatory reforms post-crisis in relation to non-banks and to regulation of systemically important financial institutions.

In Europe, the European Securities and Markets Authority (ESMA) published the official translations of the guidelines on reporting obligations under Articles 3 and 24 of the Alternative Investment Fund Managers Directive.

Additionally, ESMA published a letter from the European Commission stating that it will not be able to provide clarity on the definition of a foreign exchange derivative under MiFID1.

Tough month for education REITs

US education-exposed real estate investment trusts (REITs) have underperformed the rest of the market over the last four weeks, according to research from Markit.

All three US-listed student housing REITs have seen their shares retreat in the last month, while their short interest has increased by 41 percent year-to-date.

Over the last four weeks, shares in this small corner of the REIT universe have fallen 5.4 percent on average.

The surge in shorting activity was led by Educational Reality Trust, which saw the proportion of its shares out on loan jump six-fold at the end of July to 6 percent.

The company has seen its shares hold up relatively well in the recent sell-off, but has shown signs of buckling in recent weeks after its shares fell 5 percent in the last week.

Leading the price decline has been Campus Crest Communities, which has fallen by just under 9 percent to the lowest level since its 2010 initial public offering.

The company, which operates more than 43,000 beds in 80 campuses nationwide, recently announced that it was scaling back its purchase of competitor Copper Beach after failing to agree merger terms.

Shares in American Campus Communities, the largest of the three firms, have also fallen by a greater proportion than the rest of the universe with a 5.5 percent decline.

The quest for yield in these low rate times has forced investors to turn to increasingly exotic corners of the financial world such as these relatively high yielding student housing REITs where companies build and then lease multi-family units to students.

With the total US student population increasing by nearly a third in the decade to 2012, universities have increasingly turned to these firms to help house their growing attendees.

Markit analyst Simon Colvin commented: "All has not been smooth sailing for these companies as recent speculation of an impending rate rise has seen all major US listed student housing REITs fall by a greater proportion than the rest of the REIT universe in the last month."

Brazil's August transactions down

The Brazilian central counterparty (CCP) BM&FBovespa processed 110,266 securities lending transactions in August compared to 121,284 in the previous month.

Trading value amounted to BRL 59.27 billion ($25.1 billion) in August.

The August value beat July's, when trading value reached BRL 57.08 billion ($24.2 billion).

Deutsche AWM to open desk in Hong Kong

Deutsche Asset & Wealth Management (AWM) is to open a new securities lending desk in Hong Kong to better service the needs of clients in local Asia Pacific markets.

Vice president Mike Steinbrecher has been relocated to Hong Kong as of 1 September 2014 to provide dedicated Asia Pacific coverage and run daily trading operations.

Global coverage, excluding Asia, will continue to be performed out of the Frankfurt office.

Dirk Bruckmann, global head of securities lending for Deutsche AWM, said: "This is Deutsche AWM's first overseas securities lending desk and demonstrates both our commitment to the securities lending business and the importance of Asia as a region to Deutsche AWM."

"The new desk will serve to open up new markets for our business, including Taiwan, that will coincide with the launch of our Hong Kong desk. We look forward to strengthening our relationships with existing borrowers and developing relationships with new borrowers."

New Dubai office for eVestment

Analytics provider eVestment is to open a new Dubai office to meet growing investor interest in traditional and alternative managers in the Middle East and Africa.

The region's growing institutional wealth and the increased globalisation of the institutional investment industry have been cited as major factors behind eVestment's decision to open its new office. This is the company's first office in the Middle East.

The office is located in Dubai Internet City and will serve as eVestment's base of operations for the company's continued growth in the Middle East and Africa.

Since Q1 2009, investable institutional assets domiciled in the Middle East and Africa region have grown more than 180 percent, from $196.8 billion to $560 billion, as of Q2 2014, according to eVestment figures.

Sovereign wealth funds have also grown dramatically, and the wealth of the Middle East's high net worth individuals has increased from $1.4 trillion in 2009 to $2.11 trillion in 2013, according to the Capgemini/RBC Wealth Management Wealth Report.

At the same time, global institutional investor interest in mature, emerging and frontier Middle East and Africa markets has grown as investors look to increase portfolio diversity and returns.

While Dubai and the Middle East are not yet major centres for hedge funds and other alternative investments, Dubai recently eased restrictions on asset managers operating in the Dubai International Financial Center, the country's financial enterprise zone.

This is seen by some experts as a bid to attract more hedge, private equity and other alternative funds to the area.

"Technology has created opportunities like never before for institutional investors, investment consultants and managers around the globe to connect and make smart investment decisions," said eVestment CEO Jim Minnick.

"The rise in investable assets in the Middle East and Africa region and the increased interest in the region among global investors makes this the perfect time for eVestment to open this office to help forge those connections."

Wissem Souissi will lead the office as eVestment's vice president of the Middle East and North Africa region.

He has a 12-year track record in financial and investment sales and business development in the Middle East, Africa and Europe.

Prior to joining eVestment, Souissi served as sales manager for the Middle East and Russia with eFront. He also has worked with Moody's Analytics in Southern and Eastern Europe and Africa.

Syndicated loans to act as collateral

BNY Mellon has launched alternative loan financing (ALF) to provide an alternative structure for US syndicated loans to be used as eligible collateral in a range of financing solutions.

Syndicated loans have not been easily transferable between counterparties, but ALF will enable clients to use them as collateral.

Clients will benefit from improved costs of collateral usage, improved liquidity and potentially lower funding and set-up costs.

As BNY Mellon retains control of the syndicated loans, clients will receive independent third-party administration of the loans, which will include the handling of all settlement and loan administration requirements, receiving and reconciling all principal and interest payments.

Jocelyn Lynch, managing director in BNY Mellon's corporate trust business, said: "Given the shortage of quality collateral in the capital markets, there is a great demand for loans as an asset class since they are generally perceived as good quality collateral."

"[ALF] gives investors the opportunity to easily invest in this asset class."

Slow month for SS&C indices

Hedge fund flows in SS&C GlobeOp Hedge Fund Performance Index have advanced 0.58 percent for September 2014.

The gross return of the index for August 2014 increased 1.1 percent with year-to-date hedge fund performance is up 5.06 percent.

SS&C's Capital Movement Index has declined 1.15 points in the last 12 months and currently stands at 149.62 for September 2014.

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"Subscriptions were nearly double that of redemptions for September, although capital activity was generally lower overall," said, Bill Stone, chairman and CEO of SS&C Technologies.

Summer is over, says Lyxor

The late summer market rally has lost momentum, with equities drifting lower and high yield spreads widening in Europe and the US, according to a report from Lyxor Asset Management.

The report also suggested that this cautious market sentiment was related to the Scottish Referendum that took place on 18 September.

In the run-up to what was ultimately a 'No' vote, the gap significantly narrowed, with some polls even suggesting independentists may win the battle.

Such uncertainties about the future of the union have led hedge funds to trim their long positions on the pound and US dollar. Net positions were cut from +5 percent of their net assets at the end of May to -1.3 percent in early September.

Head of research for Lyxor, Philippe Ferreira, said: "Across strategies, there have been trend reversals that we expect to be short term movements: global macro and long/short equity credit (L/S) were up after having underperformed over the last month; commodity trading advisor-managed funds (CTAs) and event driven funds were flat to negative, after having been on the rise."

The performance of CTAs was mixed in the week beginning 8 September, with half of the funds delivering positive returns. Short-term funds outperformed long term strategies, mainly thanks to their short allocation to commodities.

The rates bucket was the main source of losses: long-term rates rose in the same week in Europe and in the US, leading several commentators to call the end of the bond market rally. Long positioning on the European fixed income market thus generated losses.

Ferreira continued: "On the positive side, equities proved supportive. US indices edged lower, but European equities were up on the back of the monetary policy easing in early September."

Finally, the forex bucket added some gains, with funds taking advantage of the dovish stance of the European Central Bank to reinforce their short positions. The euro was therefore an important source of gains.

BNP Paribas boosts liquidity options

BNP Paribas Securities Services is overhauling its liquidity management offering with the launch of the Liquidity Access solution.

The solution has been designed to help banks and broker-dealers manage and monitor their liquid assets.

Liquidity Access is based on three pillars; anticipate with reporting tools to give clients a clear view of cash and liquid assets at their disposal; leverage a consolidated view of accounts across jurisdictions to access new, secured funding possibilities while also benefiting from structured and transparent credit lines; and optimise with a range of cash consolidation solutions allowing them to manage their cash flows more efficiently across accounts held with BNP Paribas.

The launch of the solution comes as new regulations, such as Basel III and the US Dodd-Frank Act, require market participants to hold more liquid assets, to closely monitor their liquidity ratios and to anticipate the evolution of their liquidity positions.

Florence Bonnevay, head of market and financing services at BNP Paribas Securities Services, said: "We are seeing huge demand from our

clients to help them rethink the way they manage and monitor their liquid assets. The market is changing and so are we."

"We have devised a comprehensive liquidity solution, which enables our clients to anticipate their liquidity needs, take advantage of new liquidity facilities and optimise their cashflows."

Liquidity Access is available to bank and broker clients of BNP Paribas Securities Services.

Earnings calls see shorters pick their favourites

S&W Seed, Neopost and UNY Group are among the most shorted companies ahead of announcing their earnings in the final week of the second quarter results season.

Markit Securities Finance analyst Simon Colvin found that Agricultural company S&W Seed is the most shorted US company, with 10.3 percent of its shares out on loan prior to its 30 September earnings call.

It also received the largest jump in interest, with short sellers increasing their holdings by 38 percent in the run-up to its earnings call.

Colvin commented: "While the cause for the increased demand to borrow is hard to pin down, the firm's main crop alfalfa has been under pressure in recent years as the California drought continues to bite. This has seen its shares fall by over a quarter since the start of the year."

In Europe, French manufacturer Neopost saw the largest demand to borrow ahead of earnings, with 6.4 percent of its shares out on loan.

"This large demand to borrow hides the fact that short sellers have been actively covering their positions in the last few months as the firm has seen shorts nearly halved their positions since the start of the year. Demand to borrow the stock is close to its lowest level in over three years," commented Colvin.

Japanese retailer UNY Group had 9 percent of its shares out on loan, twice the level seen at the start of 2014.

"Japanese firms make up four of the five companies with more than 3 percent of shares out on loan ahead of results. Of these three are retail firms which have continued to come under pressure as shorts bet that consumer spending will continue to come under pressure in the wake of Prime Minister Abe's recent economic intervention."

"This looks to have played out last week when Asahi reported weaker than expected results which sent the heavily shorted retailer's shares down sharply."

Collateral management solution for LCH.Clearnet

LCH.Clearnet has successfully implemented the Calypso collateral management solution to its collateral and liquidity management offering.

With this solution, LCH.Clearnet is able to deliver further processing efficiencies with automated, real-time collateral management options.

Calypso's collateral management solution give collateral managers access to automated, real-time management of liabilities, a consolidated view of member collateral assets facilitated in a streamlined margin call process, and full support for cash management and treasury services.

By using Calypso's solution, LCH.Clearnet has been able to replace a vendor package in the front office and an in-house legacy platform in the back office.

Charles Marston, chairman and CEO at Calypso Technology, said: "Successful implementation of the Calypso platform at LCH.Clearnet is a strong testimony of our ability to scale and perform to the demands of one of the leading clearinghouses in the world."

"We are especially proud of this endeavour, as it is an innovative and sophisticated combination

of our core solutions for capital markets, treasury and collateral management."

CalPERS waves goodbye to hedge funds

The California Public Employees' Retirement System (CalPERS) has decided to close its hedge fund programme in a bid to reduce complexity and costs.

The decision to close its Absolute Return Strategies (ARS) programme will see CalPERS exit 24 hedge funds and six hedge fund-of-funds valued at approximately $4 billion.

"We are always examining the portfolio to ensure that we are efficiently and cost-effectively achieving our risk-adjusted return goals," said Ted Eliopoulos, interim chief investment officer at CalPERS.

"Hedge funds are certainly a viable strategy for some, but at the end of the day, when judged against their complexity, cost, and the lack of ability to scale at CalPERS' size, the ARS programme is no longer warranted."

CalPERS will spend the next year strategically exiting current investments in a manner that best serves the interests of the portfolio. Existing ARS staff will be reassigned within the investment office.

Despite the news, total assets in hedge funds increased 1.6 percent in August to $3.07 trillion, overtaking the all-time peak level set prior to July's slight decline, according to eVestment's latest report.

August's asset increase of $49.6 billion came primarily from performance gains, but investors added an estimated $12.6 billion into hedge funds during the month.

Net flows for the industry have been positive in every month of 2014, according to the report, despite flows in June and July being below average. For the year, investors have added $114.7 billion of new capital to the industry.

The report stated: "Flows throughout 2014 are in part the result of institutional investor policy decisions made several months in advance. During this time, investors have witnessed meaningful global equity market directional shifts, US markets reaching all-time highs and a persistent presence of geopolitical and sovereign risks."

Traditional US equity strategies reporting to eVestment have experienced net outflows greater than $200 billion in both 2012 and 2013, and is on the same pace for 2014.

In the last two and a half years, institutional investors have removed nearly $600 billion of assets from US equity strategies.

Investor interest in equity strategies, with many event driven funds being among this group, has been the key driver of hedge fund allocations in 2014, according to eVestment.

Event driven funds have seen the largest inflows of any strategy during the year, as August's inflow of $4.2 billion pushed the universe's net inflows to $42.9 billion in 2014, surpassing long/short equity strategy inflows.

Flows into activist strategies were again strong in August, receiving just less than half of the total allocations to event driven strategies in August.

Investors allocated approximately $1.9 billion to activist funds in August and performance gains also lifted assets under management (AUM).

Total AUM in hedge funds reporting to eVestment, which may employ activist strategies, was near $93 billion at the end of August.


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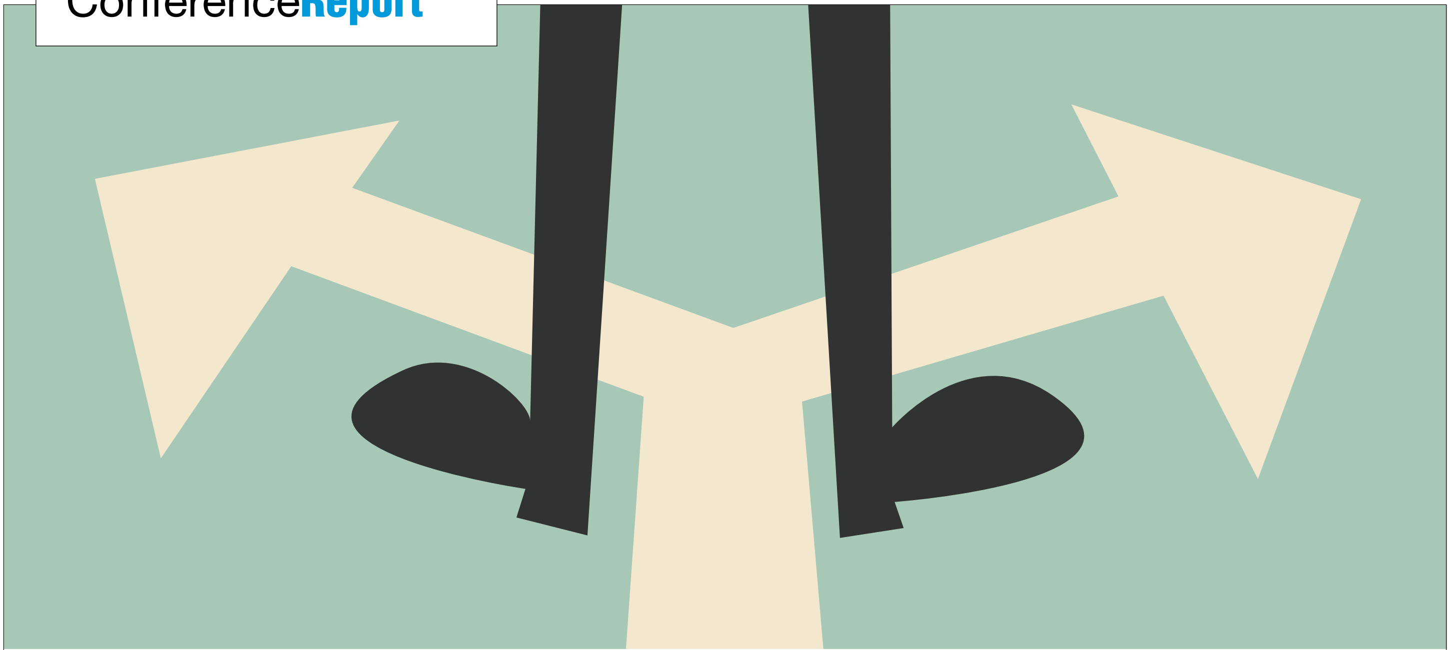


Time to decide

The European Beneficial Owners' Securities Lending Conference in London saw attendees learn the latest about the FTT, transparency and indemnification

MARK DUGDALE REPORTS

The EU 11 will come to a conclusion over the Financial Transaction Tax (FTT) before the end of the year, according to John Billige of State Street.

Billige was speaking at the European Beneficial Owners' Securities Lending Conference in London in an effort to minimise speculation over the FTT.

He said that there is heated discussion among the EU 11—the EU countries that used enhanced cooperation to push through plans for an FTT in 2013—about when and how tax revenue is distributed. He expects a conclusion talks before the end of Q4.

"The directive itself hasn't changed," he explained, but the EU 11 is undecided on the so-called establishment and issuance principles, with the former coming first and the latter's extra-territorial effect "clearing up", and possibly getting in the way of distribution.

"I can't see how they're going to come up with something sensible," added Billige.

An FTT on equities is due to launch in January 2016, while member states will be able to decide themselves when they introduce a tax on other instruments, such as fixed income or derivatives, before coming together again to consolidate their efforts.

This will create an imperfect tax, said Billige, and would not be good for securities finance, which is yet to be exempted.

There is no talk of exempting temporary transfers from the FTT, he explained, although repo transactions may be protected eventually.

This will see a 10 basis point charge levied on each lend and return, explained Billige, which will inevitably be passed on to beneficial owners because "banks wouldn't wear it".

A policy officer of the European Commission later promised that a directive aimed at improving transparency in securities finance will not adversely affect the business in any way,

Martin Mitov focused on the reporting of securities finance transactions in his speech.

Mitov said the European Commission's proposal on securities finance transaction reporting, developed in response to the Financial Stability Board's investigation into 'shadow banking', "is all about transparency—it doesn't restrict the transactions themselves".

The proposal will see market participants reporting to trade repositories "to achieve more transparent markets". All counterparties doing business within the EU must report trades, including repo and securities lending and borrowing transactions.

Under the proposal, all UCITS and alternative investment funds must disclose more information about securities finance transactions to investors, while rules surrounding collateral rehypothecation will also change.

Counterparties will soon have to ask the permission of the giver before putting any collateral received to work. This will apply to any instruments as defined by the Markets in Financial Instruments Directive.

Mitov commented: "This proposal does not restrict market practice. It's an important step in understanding and reducing risk."

The increasing cost of indemnification was also a hot topic at the conference, with attendees hearing that agent lenders will soon offer a two-tier pricing structure in the future.

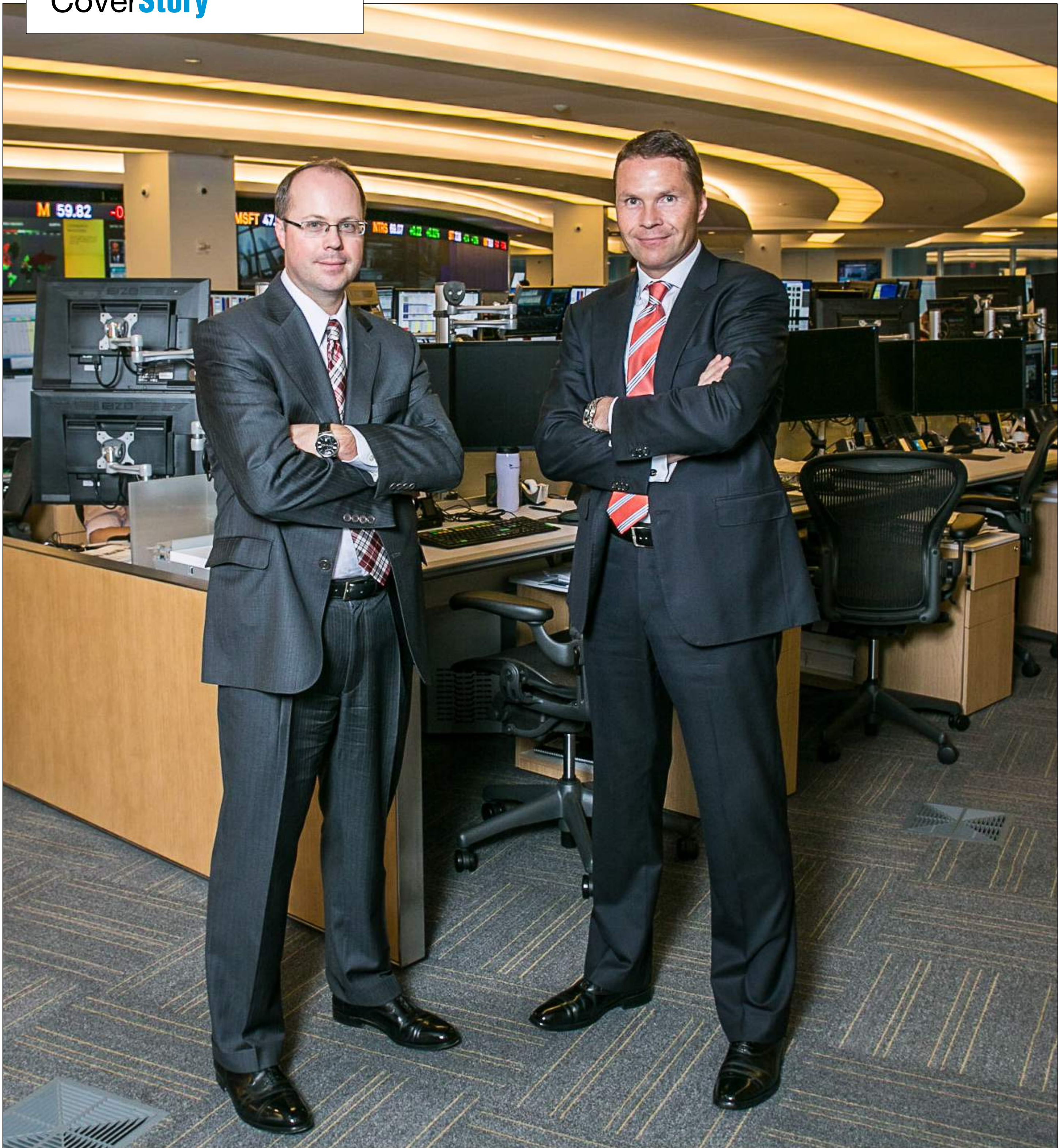
James Day of BNY Mellon said the increasing cost of indemnification will mean that agent lenders will have to offer fee splits with and without an indemnity, to give beneficial owners a choice.

Roelof van der Struik of PGGM Investments said that in the event that indemnification was not offered, it would be a case of measuring the increased risk against what is acceptable.

"We are not against risk—we just want to be rewarded for it," he explained, adding that if indemnification is removed and risk increases, beneficial owners would want greater returns as justification.

Van der Struik went on to praise indemnification, saying that it gives agent lenders a stake in trades.

He added that an indemnity also puts a lot of pressure on the beneficial owner, because it has to be confident in the agent lender's ability to complete a trade. **SLT**



Client kings

BNY Mellon's Robert Chiuch, global head of securities finance, and John Templeton, Americas head of financial institutions, share their views on the changing world of securities finance

JUSTIN LAWSON REPORTS

Rob, it's been three years since you joined BNY Mellon in New York. How are things going?

Robert Chiuch: Has it really been three years? Clearly, it's been a very busy time. And with all of the extraordinary changes and external forces shaping the industry, globally, we recognised the opportunity to evolve and remain at the forefront of servicing the industry. As the world's largest custodian, we have excellent human and financial resources to deploy with a strong commitment to investing in the future. Notwithstanding the various challenges we all experience day-to-day, it's an exciting time to be at BNY Mellon. In short, things are going well.

Having also taken on further responsibilities on the fixed income trading side, can you tell us about your expanded role?

Chiuch: Yes, I was appointed global head of our fixed income business earlier this year in addition to my role as global head of equities. We've observed similar trends in consolidation at other firms. The changing environment requires greater collaboration and coordination between product segments. Understanding those interdependencies is now more important than ever.

How have you restructured the securities lending desks?

Chiuch: We view this as a realignment of our capabilities and global services versus a true restructuring. We looked at opportunities to create value for our clients and the marketplace across our value chain and saw that we had all the ingredients. We have a great team and we've amplified our focus on global execution, while also leveraging the specialised expertise and resources of our regional teams on the various continents. Our fixed income and equity teams work closely together. We've introduced advanced trading technology as we continue to enhance and streamline day-to-day operations.

Notably, we formally integrated the team from our Canadian joint venture, CIBC Mellon, and that book of business onto our platform, providing us with, we believe, unparalleled knowledge of and presence within Canada—not to mention enhanced presence and capability from our five locations around the world. We have more work to do as we build out the business globally. Our clients have told us that our focus has been successful so far and I'm very proud of our team.

What do you see as some key themes facing the industry?

Chiuch: These three themes immediately come to mind: regulation, taxation, and central counterparties (CCPs). But I'm not going to talk to any of those—at least not in detail! Seriously, those are all important topics but they get a lot of coverage. Regulation is obviously a key theme, so let's break from the status quo and frame it in the context of market forces at play and the potential impact on earnings quality.

As a lender, I'm going to be preoccupied with borrower demand and capacity. The industry is seeing that various proposed regulations—some of which are not yet finalised—have raised costs and constrained volumes. Leverage ratios, the liquidity coverage ratio, and the net stable funding ratio (NSFR), for instance, are introducing new challenges to balance sheet management and capital cost. Aggregate market demand for high-quality liquid assets (HQLA) over various terms, especially with regard to NSFR (which implies significantly longer term funding) will likely widen spreads.

> "Like everyone else, hedge funds and their prime brokers are looking carefully across their value chain activities at how best to manage assets"

This is a good/bad news story, meaning, while higher spread business will grow, there will be less of it—at least in the near term. This development is generally unwelcome news for capital-intensive, low-margin, high-turnover businesses.

That said, markets appear to be turning over globally, notwithstanding the apparent economic divergence between the US and the rest of the world. Higher initial public offering and mergers and acquisitions volumes, increases in other corporate action activity, increased demand for HQLA and mounting pressure for tighter monetary policy in the US would likely translate into higher volatility down the road. The markets will respond accordingly, albeit at generally improved spreads.

So, where does that leave earnings quality? There are definitely a lot of moving parts to consider. For starters, the current environment will have a broader impact on earnings that will require better coordination—or balance of trade—across capabilities, products and services, globally, and at the regional level. Internal consolidation of business units is already happening across the industry as capital intensive activities get better coordinated with the goal of achieving stronger results. While ongoing changes in the regulatory space are likely secular in nature, economies and markets are cyclical and they are improving. Notwithstanding the unknowns, earnings are well poised.

John Templeton: For the markets, there's definitely a lot in play with the regulations, and a lot of work to be done with respect to implementation and compliance. The industry has moved off of the negatives and is looking practically at how the business will evolve. There will be winners coming out of this. The firms that will be best positioned are working now to become even more nimble and effective.

Custodians are having a tough time at the moment. How is this affecting your business?

Templeton: BNY Mellon is sharply focused on our clients' needs, which are evolving quickly. We continue to be highly rated by our clients for our innovative solutions and the quality of our capabilities. And we're well positioned to deliver what our clients need because we have resilient business model that we built on a diverse group of fee-based businesses.

Since the financial crisis, beneficial owners have come back to lend but hedge funds seem less keen. What's happening at the moment with hedge funds?

Chiuch: In general, hedge funds wouldn't typically lend in the past, per se. Given their business model, they would more likely choose to optimise the use of their own assets for themselves versus lending. Having said that, I'm not sure hedge funds are any more or less keen to lend today, but we do see them repositioning themselves. The changing macro-environment in the prime brokerage space affects their ability to optimise available resources. Like everyone else, hedge funds and their prime brokers are looking carefully across their value chain activities at how best to manage assets.

How have markets been affected?

Chiuch: Collateral markets have obviously been affected. HQLAs once considered less desirable for lending are now in vogue. This is probably a good segue for John, but I'll just add that collateral flexibility and the ability to mobilise and optimise the desired assets at the right time and the right price will continue to be a priority.

John, how do you see your clients changing their activity as a result of the market changes?

Templeton: Global regulations have certainly had an impact on our clients, both on the buy side and the sell side. On the sell side, they are affected by capital standards such as Basel III, which requires them to hold more capital and for a longer duration to finance trades, and the US Dodd-Frank Act with stricter collateralisation requirements on a much broader range of asset classes.

This has led the sell side to re-examine the return on balance sheet usage and to reduce or exit trading activities that do not generate the desired returns. This has been especially true on matched book repo trading for liquid assets, where the spreads are narrow and balance sheet usage is significant.

On the buy side, our clients are dealing with the complexity of complying with collateral requirements that are new and different, and now directly affect the price of their trades. This has moved collateral management from a back-office role into the front office. Complicating matters for some on the buy side is that the collateral management function for different trading activities is performed in silos with very distinct processes, but the client draws assets from a single pool for each legal entity. Clients are then reaching out to their custodians to assist them in solving their collateral challenges.

At the same time, the buy side has seen the sell side change its approach to financing trades. This has led cash providers in repo to increasingly term out their investment books to match the sell-side's need for term liquidity and for beneficial owners to re-examine the collateral they will accept for loans—broadening the eligibility requirements to include other assets such as equities. And we expect more changes to come as more clients understand the costs of daylight credit.

Securities lending has always been a relationship business—is this changing?

Templeton: The industry is in transition, so we recognise that relationships and capabilities are more important than ever.

That's the primary reason we've realigned our capabilities at BNY Mellon. For example, two years ago we formed our global collateral services business, bringing together a number of leading capabilities and solution sets including securities finance, global triparty collateral management, term financing, asset segregation, liquidity management, and derivatives middle-office. As clients face ever-evolving regulatory and marketplace pressures, through global collateral services they can engage with us around their financing and collateral needs.

While we've always had strong enterprise-level, strategic coverage, we wanted an internal alignment to match the execution of a client's overall strategy versus dealing in siloed businesses. By aligning our capabilities, we've made it easier for our clients to engage with us (and us with them). At the same time, we've aligned our relationship management teams by client segment, so we're redefining the client experience in a new way with added focus on the client and what's driving their business. As a result, we are continuing to deepen and strengthen our relationships.

We're hearing about further consolidation at BNY Mellon. What can you tell us?

Templeton: We've been successful in the creation of global collateral services, which is a first step in designing our capabilities and services for the future. These new opportunities build on client needs and where we see the industry moving. One of the really interesting developments for us as of late is the creation of BNY Mellon's markets group. This summer, we started combining all of the bank's markets-facing businesses: global collateral services, global markets and prime services. We're still in the early stages of building the markets group, but it's been well received by our clients who want expertise combined with scale, execution and distribution.

John, how important is BNY Mellon's markets group for today's market participants?

Templeton: When you look at the changes facing the industry, we'll only solve these challenges by working collaboratively. And when you look at BNY Mellon, we're unique in that as a custodian—the beneficial owners, asset managers, and broker-dealers are all equally important clients to us in terms of our current capabilities as well as how we expect to grow. So when we look at the industry's challenges, we seek to build solutions that help the industry as whole, and not just particular segments.

To our clients, the markets group is already extremely important, our securities finance business is one of the largest in the world and we are the leading provider of collateral management services, too, but we're very focused on how we will continue to add even more value for our clients as they respond to market, industry and regulatory changes.

What real benefits is the new markets group going to bring to the street? Are there real changes or is it marketing?

Templeton: I don't think there are any firms that make significant internal changes for marketing purposes! No, we see real benefits to our clients and that's the main reason we created the markets group.

Chiuch: If you interpret the word marketing to mean spinning a story, then, I totally agree with John. Good marketing can also mean that we clearly understand our target markets, that we've set clear objectives and that we're determined to deliver for our clients. And, John's second point is right on the mark.

> "We're still in the early stages of building the markets group, but it's been well received by our clients who want expertise combined with scale, execution and distribution"

Investment services fees over the past quarter were down 1 percent year-over-year. Is this a worrying trend or a minor blip?

Chiuch: We don't consider the year-over-year decrease in the second quarter to be a worrying trend. The decrease was primarily from lower depository receipts revenues driven by fewer corporate actions, lower revenues from our corporate trust business, and higher money market fee waivers. We saw gains in asset servicing and clearing services fees. We continue to see strong demand from our clients for our solutions, and two consecutive quarters of growth in our investment services fees highlights that.

Do you have any predictions for the next 12 months?

Templeton: G-SIFIs may realign their businesses to pass along the increasing balance sheet and capital costs resulting from Basel III. Alternative managers may consolidate business at their strongest prime brokerage relationships. And there will continue to be an increased focus on CCPs in the financing markets.

Chiuch: Prospects for our space in 2015 look good, with some regional differences in performance likely. We'll likely see more industry consolidation in the interim. And, I'd like to see the Maple Leafs win the Stanley Cup, but that's me. Go Leafs! **SLT**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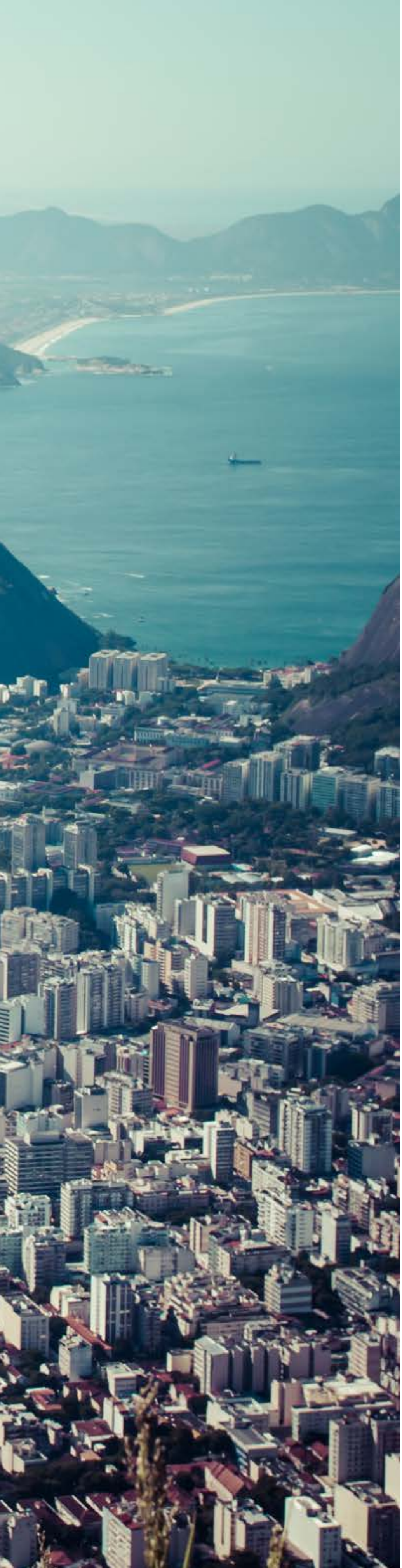
Latin America's sec lending capital

Brazil's market is growing despite many being wary of its CCP model

MARK DUGDALE REPORTS



There is no market in Latin America quite like Brazil. Primarily specials-driven, there is, on average, approximately $3.7 billion on loan at any given time. Ask any agent lender where it is looking to do business next and Brazil is usually top of the list.

And it's clear why. Chris Benedict, director and lead analyst at DataLend, says: "Brazil's overall volume-weighted average fee across all securities on loan is approximately 153 basis points (bps), which is high compared to the rest of the region and most other markets around the globe."

Brazil has also had an overall average utilisation of approximately 20 percent over the past 12 months, "which is also high compared to the region", says Benedict.

Some of the most profitable Brazilian stocks for securities lending participants in the past 12 months have included B2W Companhia Digital, Kroton Educacional, Lojas Renner, Oi preferred shares and BTG Pactual. "These stocks together yielded approximately $9.6 million in securities lending revenue in the past 12 months."

Despite some market participants being weary of Brazil because of its central counterparty design, the country's CCP, BM&FBovespa, sees securities lending as a rapidly growing business.

A BM&FBovespa spokesperson comments: "Securities lending is a rapidly growing business at BM&FBovespa, with a 32 percent compound annual growth rate in terms of opened positions in the last six years."

Indeed, the CCP processed 121,284 securities lending transactions in July, beating June's total of 108,422.

But there is still work to be done to attract lenders to Brazil. The spokesperson says: "While already healthy and attractive for players, BM&FBovespa has also been working to improve its CCP securities lending programme further in order to attract equity holders to lend in this environment. In 2013, the programme still had excess borrowing demand in comparison with the lending supply."

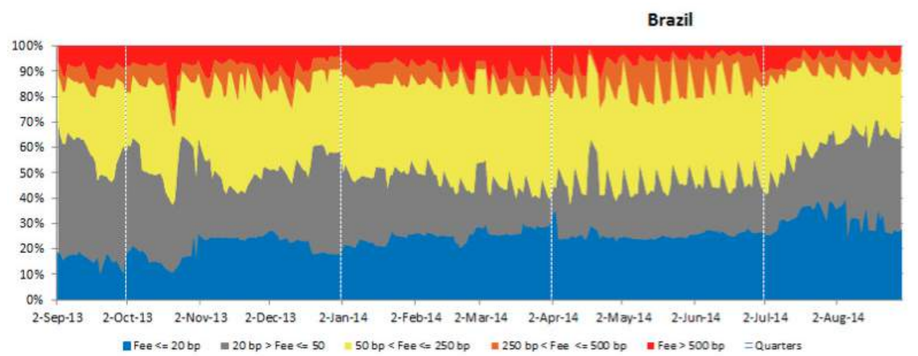
Among the changes were enhanced corporate action treatment and new delivery failure procedures, as well as an improved trading screen for agents that register transactions on behalf of lenders and borrowers.

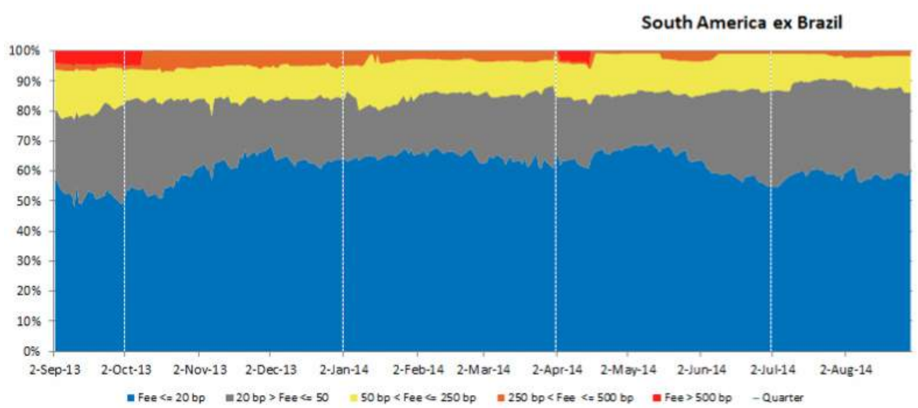
Agent perspective

Paul Wilson, global head of agent lending product at J.P. Morgan Investor Services, says that his bank is the only non-domestic agent lender currently active in Brazil, which is somewhat unique because the country's CCP collects collateral in a variety of forms from borrowers.

"Collateral is not passed on to the lenders, so for all intents and purposes they appear to be uncollateralised."

"That being said, the CCP is also the central securities depository (CSD), so by virtue of investing in the Brazilian market in the first place, investors would have had to take into account."





Source: DataLend

How is Brazil aiming to make more lenders "comfortable" with its CCP model?

The BM&FBovespa spokesperson says: "International investors in Brazil hold 40 percent of the assets in the BM&FBovespa CSD and their access to the lending market is growing at a lower rate when compared to local players."

"As the CCP model for securities lending is mandatory in Brazilian regulation, these international investors need to understand the system's safeguards, a process which may take some time, as well as understand access to such a model vis-à-vis their own regulatory framework and modus operandi."

"To overcome this issue BM&FBovespa has been working along to major international associations, intermediaries and the beneficial owners to engage the market participants on the discussion of the CCP model and the regulatory framework in Europe and the US."

"Regardless of these challenges, high return for lenders in the Brazilian market seems to be an additional stimulus for them to start doing business in it. The only institution currently authorised to provide securities lending in Brazil is BM&FBovespa."

"As the CCP model has proved extremely reliable even in stress situations like the 2008 financial crisis, it is unlikely that regulators in Brazil will accept a different model than a CCP-based one for the market."

Clearinghouse overhaul

Changes are afoot with BM&FBovespa's clearinghouses. It currently has four—for equities and corporate bonds, derivatives, foreign exchange, and federal government bonds—that it is combining. Announcing the project in August, BM&FBovespa CEO Edemir Pinto said: "Sometimes the market goes for several years without any changes. In this case we'll leap forward several years in a single day."

"The single clearinghouse and Closeout Risk Evaluation (CORE) [risk management system] represent a revolution in modernity, security and efficiency in central counterparty and risk management services."

"As was the case with the Brazilian Payment System (SPB), the market will be divided into before and after the new clearinghouse and CORE."

Cícero Vieira, COO of BM&FBovespa, added: "This pioneering project will result in one of the most secure and sophisticated clearing systems in the world. The new clearinghouse will reduce the market's back-office costs and make trade settlement and the allocation of collateral more efficient."

"It will also bring greater flexibility and reduce time frames for the launch of new products."

The BM&FBovespa spokesperson stresses that the project will benefit securities lending participants. "One of the major benefits for the investor is the more efficient use of capital for collateral thanks to the new margin calculation model, which will allow risk to be offset across different asset classes and between open interest and pledged collateral, while preserving the security of the system."

"From a securities lending perspective, as long as the product is integrated and controlled along with other contracts (foreign exchange, derivatives, etc), it will allow borrowers to have a more efficient offset on calculation of margin calls and deposited collateral."

"From the lender's perspective, securities lending contracts that are already accepted as collateral for some operations will become accepted for a longer list of trades, facilitating capital allocation and leveraging the possibility of new trades."

As Brazil attempts to attract more lenders to its shores, it will be interesting to see how long it will remain a specials market, and when other emerging jurisdictions will step in to take its crown as an 'attractive possibility'. **SLT**

Differentiation engine

Northern Trust's Andrew Clayton reveals what agent lenders need to do to meet the demands of increasingly sophisticated clients

MARK DUGDALE REPORTS

How attractive are markets proving to your clients at the moment?

Markets have improved across the board. Asian markets remains buoyant and emerging markets demand remains solid in Asia for Taiwan and many other frontier markets such as India, Indonesia and China. In Latin America, Brazil also remains a very attractive market but its lending infrastructure poses challenges. Although emerging markets are often the space where clients can earn better returns than expected, the traditional markets, such as the US, have enjoyed nice upward trends in the last few years with increased specials activity.

From a demand perspective, the business has changed. Although supply rebounded to pre-crisis levels, demand remains subdued from 2008 levels to the current market environment. As such, technological efficiencies such as EquiLend/BondLend capabilities remain an essential component to servicing borrower demand and managing a complex book of business in this environment. Reducing leverage and increasing transparency is good and we continue to have a very robust business to support our clients and organisation globally.

I think where there needs to be differentiation is on how securities are lent. Beneficial owners need to be flexible with collateral and agent lenders need to have sufficiently diversified borrower networks. These are a couple of key differentiators that will make securities lending more attractive in the market and allow it to attract more lenders to the programme. Our mantra has always been to have a world-class programme, to think ahead and be able to act quickly, be it to develop the product or make changes as a result of client requirements, the market or regulatory environment.

How flexible is Northern Trust? Do clients require an individual service?

Firstly, it's important to remember that our client base is broad and deep. It cuts across sovereign wealth funds, government entities, central banks, pension funds, insurance companies, mutual funds, wealth management clients and asset managers. In the US, it also includes large corporates. With such a broad client base, flexibility and the ability to react quickly and provide solutions is key to customer service and satisfaction.

Individual clients have individual needs. They all have different risk and return requirements and the way we have boosted our risk management capabilities and our ability to model different collateral types against the underlying loan has been outstanding. Maintaining the conservative nature of our organisation, we have become more comfortable with collateral flexibility than we were in the past, which also allows us to meet the demands of borrowers. If a client has a profile that accepts cross-currency equity collateral, for example, we can do that. If a client wants to move to collateral transformation or liquidity swap-type trades, where they will accept lower grade collateral, then we can certainly provide that too.

It has been a very robust and lengthy programme of collateral flexibility that we have embarked on over several years.

How is your third party platform going?

We invested heavily in building an excellent third-party platform many years ago and it is really paying dividends now. Frankly, in the past it has not been used as much as we would have liked mainly because of clients appetite to move securities lending away from their custodian. But now it is really coming into play and we have won several large third-party mandates in recent times, mainly due to the strategic aspects of clients around the specific portfolios on which we have been awarded to lend securities.

The more you can demonstrate that you can be in that space, and demonstrate that you have the technology and the support to be able to handle that business, then there is no reason why that will not grow. Our securities lending programme is agnostic to who the custodian is and we pride ourselves on being market leaders in securities lending as well as asset servicing for clients.

What is 2015 looking like for Northern Trust?

The business will continue to evolve. Next year will be a big year with the changing regulatory environment, and it is important to get this right, for us and for our clients. We have been actively monitoring the cumulative impact of global regulatory developments, and we continue to engage with regulators, federal agencies on these regulations either directly or through industry groups.

Borrower expansion in our programme will remain important because it helps to diversify risk and expands our opportunities to lend. This is another project that we have focused on and have added several new borrowers to our programme in recent years. And, as mentioned above, expansion in the types of acceptable collateral remains a priority. Collateral flexibility is important so that we can match requirements on the demand side, which will help to increase our clients' revenues.

New markets to lend securities in will also be important. We commenced securities lending in Poland earlier this year, and there is a list of markets that we are watching.

Our ultimate aim for 2015 is to grow our clients' revenues while maintaining our focus on risk, outstanding service, whilst maintaining expertise in this field and operating with integrity, all of which our clients have always enjoyed. **SLT**

"I think where there needs to be differentiation is on how securities are lent. Beneficial owners need to be flexible with collateral and agent lenders need to have sufficiently diversified borrower networks"

Andrew Clayton, senior vice president and head of global securities lending, Northern Trust

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They know (and trust) me

Todd Berlent of Helix explains that while a big bank in your corner may open a lot of doors, a good product is why they stay open

MARK DUGDALE REPORTS

How would you describe Helix in relation to other technology companies in the market?

Helix Financial Systems is uniquely positioned as a technology company in the market. We possess the qualities of a nimble and flexible small tech company but are owned and backed by a large well capitalised investment bank and primary dealer, Cantor Fitzgerald. This has given us both credibility and the capacity to hire and retain superior product development and customer service resources so that we can take a longer-term, strategic approach to growing our products and business.

Being owned by Cantor Fitzgerald has also afforded us the opportunity to gain the insights and learn from the most talented professionals on Wall Street, both in-house and available to us through Cantor's vast customer network. This has translated directly into the development of advanced features and entirely new products with the guidance of market professionals beyond what's available to our competitors. We also have the operational resources of Cantor at our disposal. This enables us to maintain our focus on developing the best products for our clients.

HelixRepo and HelixMBS are well known but tell us about HelixSL—how did this come about?

HelixSL, or Helix Stock Loan, was the next logical progression for us. Our HelixRepo product is an extremely robust global collateral management, margin/risk, profit and loss, and repo trading platform, primarily focused on the cash and non-cash fixed income securities markets. After years of client relationship building, and again being uniquely positioned within Cantor, we were able to identify the similarities and differences between repo and and stock loan. Even though they get to the same end goal, their paths can be vastly different. The differences are large enough that most of our clients manage completely separate groups to run repo and stock loan, with separate people managing the desks, potentially even at separate locations.

HelixSL comes with its own unique requirements specific to the stock loan industry. We contemplated building these features directly into HelixRepo but realised the similarities between the two worlds were not great enough to justify this. Building an all-in-one front end would result in an unacceptable degradation of the user experience. Our suspicions were confirmed when several clients, who were using vendor platforms designed to handle both repo and stock loan in a single application, told us this was not optimal.

This combined front-end decreased productivity, introduced unnecessary complexity and resulted in additional vendor costs. They felt the similarities would be better addressed in a summary level platform that looks across multiple business units and presents the shared data points at a higher level.

As a result, HelixSL was born. HelixSL is our stock loan front-end collateral management, margin/risk, profit and loss, and trade capture platform, primarily focused on the global stock loan and securities lending markets. HelixSL is unique because it can be deployed independently to perform traditional stock loan features or it can be integrated into a back end to enable communication with our HelixRepo platform where cross financing information is shared. We determined the similarities between repo and stock loan and integrated them into HelixSL and HelixRepo when necessary, while maintaining the unique pieces of each in separate client applications. This way our users are shielded from irrelevant information or functionality.

We provide a highly custom service to each trading unit while still marrying the high level financing, risk and collateral information in a shared back end that can be accessed by higher level users such as corporate treasury.

How will HelixSL be differentiated from other systems?

We differentiate ourselves by staying extremely relevant to our users and providing superior customer service. For example:

- We will continue to develop our front-end platforms to meet the specific, unique requirements of our clients. We concentrate on providing the most efficient user experience while automating as many tasks as possible. We keep in constant contact with our users and leverage their feedback to ensure our products are meeting the relevant regulatory changes, adapting to new concepts, and enabling new ways of trading that drive their profitability.
- Customer service is something that we take tremendous pride in at Helix. It is the cornerstone of our corporate philosophy and we strongly believe is a distinguishing benefit that comes alongside our products. Going the extra mile and doing whatever is necessary to help our clients is deeply ingrained in our DNA and is something we happily provide as part of a long-term relationship with our customers.
- Our ability to develop customised solutions to meet our client's needs across trading, collateral and cash management, counterparty risk/margin and profit and loss.

How flexible is HelixSL in offering a scalable solution from large multi-billion dollar stock loan and repo desks down to the needs of a single department?

We have a two-part approach that allows us to offer solutions from the small start-up all the way up to the largest, global securities lending businesses.

First, we offer a set of products that allow clients to select 'modules' for their specific business so users are not bogged down with irrelevant features that would only add unnecessary complexity and cost. Our products are built with the concept of multinational parent companies owning several separate legal entities that are made up of several different profit centres. Each area has different users enabled with different sets of permissions depending on their responsibilities. Helix was designed to be configurable, allowing our clients to purchase only the modules they need, but with all modules integrated into a common back-end. This allows the system to be both scalable and flexible to clients of varying size and complexity.

> "The challenge for companies is to convince end users that it is worth the investment to replace these systems with third-party applications. Third-party vendors are in most cases more scalable, cheaper, and a better solution than their current solution"

Second is our pricing. We think we have developed a unique and flexible pricing model that allows us to provide our products and services to a wide variety of clients. We believe in growing with our customers and adapting our pricing to match the evolution and development of their business.

What do you see as the biggest challenge facing the industry?

Regulatory requirements are constantly changing and imposing new rules. As a result, there are additional costs all participants in the industry must consider. Companies must adopt or develop new tools, resources, and processes so they can become and remain compliant while at the same time attempting not to adversely affecting their profit margins. Trying to comprehend the full depth of these regulations and constantly keep pace with the latest requirements is a challenging endeavor, and this undertaking is further exacerbated given how overall profit margins have eroded in the industry in recent years.

What are the biggest challenges facing technology companies right now?

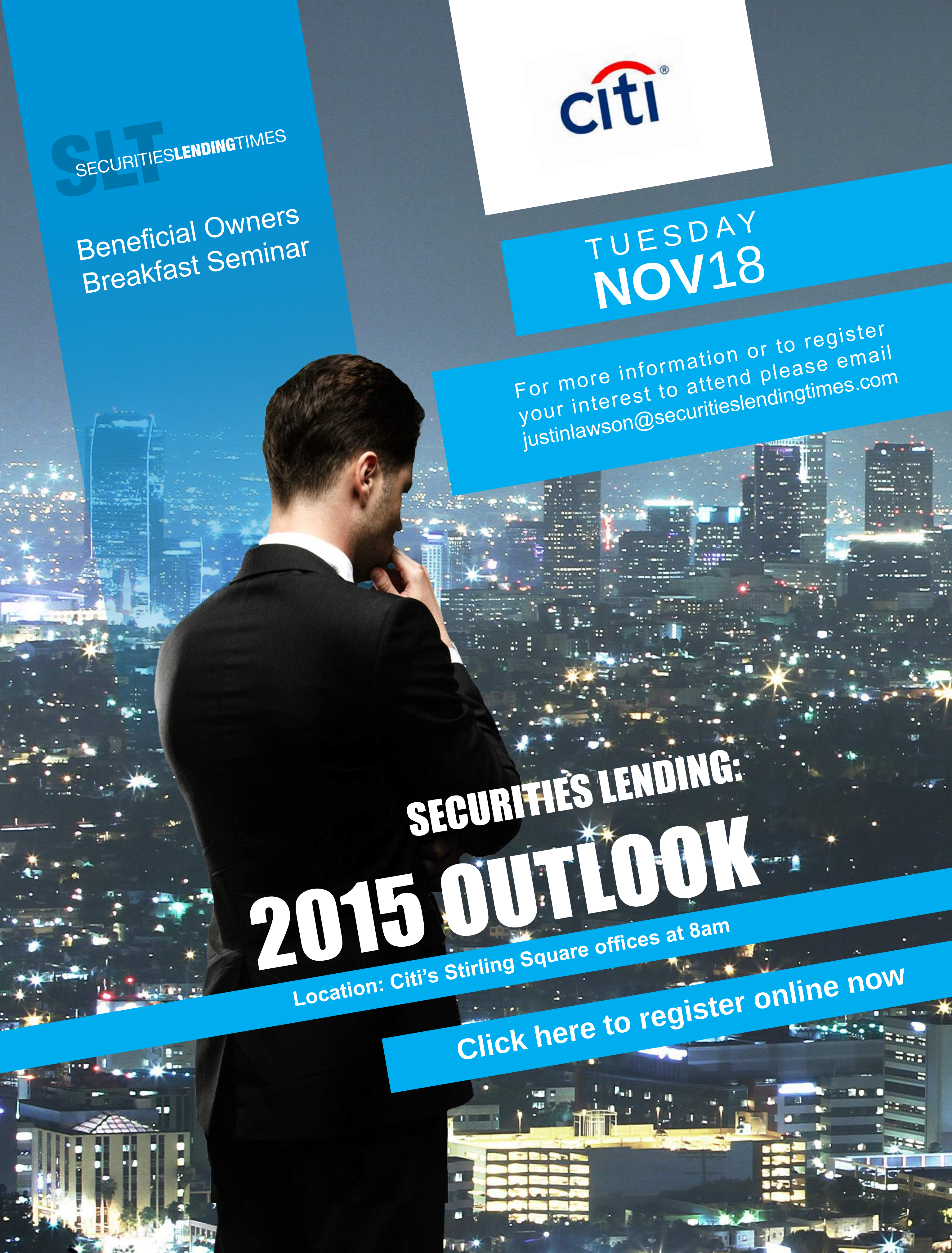
Existing legacy technology being used today keeps many companies feeling handcuffed. These legacy systems make it extremely difficult and costly to upgrade or switch to more cost-effective and innovative third-party solutions. Most bespoke platforms that companies use provide far less value than the cost they expend to maintain and support these 'home-grown' systems. The challenge for companies is to convince end users that it is worth the investment to replace these systems with third-party applications. Third-party vendors are in most cases more scalable, cheaper, and a better solution than their current solution.

Do you have any products or enhancements going live in the near future?

The next logical progression for Helix Financial Systems is a management dashboard that will aggregate relevant data across all business units. We already have the hooks in place within all of our specific products, HelixRepo, HelixMBS, and HelixSL, and will be able to easily, and in real-time, provide a dashboard that gives a cross business view of collateral, counterparty risk/margin, profit and loss, and cash management.

This cutting edge technology will be available to users on many different devices, not just your office PC. It will give the travelling professional everything they need to manage their firm's risk and profit and loss from anywhere in the world. **SLT**

Todd Berlent
Chief executive
Helix Financial Systems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The role of securities lenders in the supply of (re-usable) collateral

Manmohan Singh of the International Monetary Fund summarises collateral reuse within securities finance

A great deal of short-term financing is generally extended by private agents against financial collateral. The collateral intermediation function is likely to become more important over time. We look at a new concept: collateral reuse (or velocity) in the market. Although there is large issuance of good collateral, very little reaches the market. We describe how to measure this reuse rate and why this metric is increasingly important for policymakers to understand, especially when there is a shortage of collateral.

In the global financial system, non-banks generally allow reuse of their collateral in lieu of other considerations. The key providers of (primary) collateral to the 'street' (or large banks/ dealers) are:

- Hedge funds;
- Securities lenders (via custodians) on behalf of pension, insurers, official sector, etc; and
- Commercial banks that liaise with collateral dealers—this is small relative to the supply from hedge funds/securities lending.

We will focus on securities lenders that release collateral to augment returns at the request of clients (although hedge funds are an equally important source of collateral to dealers). The supply of pledged collateral is typically handled by the central collateral desk of dealers, which reuse the collateral to meet demand from the financial system. Such securities are reused as collateral against margin, etc. This collateral is used to obtain secured funding for dealers and is received in lieu of borrowing and/or other securities given to a client.

Major dealers active in the collateral industry include Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America/Merrill Lynch and Citibank in the US. In Europe and elsewhere, important collateral dealers are Deutsche Bank, UBS, Barclays, Credit Suisse, Societe Generale, BNP Paribas, HSBC, Royal Bank of Scotland and Nomura. The hedge funds are the main supplier of such collateral as they need financing (and thus as a quid pro quo, they release collateral against such financing). The other key supply source is via securities lending, which provides collateralised short-term funding, just like repo.

In a repo, there is an outright sale of the securities accompanied by a specific price and date at which the securities will be bought back. On the other hand, securities lending transactions generally have no set end date and no set price. The beneficial owner can recall shares on loan at any time and the borrower can return the shares at any time. Thus, securities lending transactions are much more flexible than repos and thus are more conducive to covering shorts where the position's profitability relies on exact timing/tenor matching.

Furthermore, with respect to legal rights, securities lending is effectively identical to repo. For example, both transactions include full transfer of title. The asset management complex, which includes pension, insurers and official sector accounts such as sovereign wealth funds and central banks, is a rich source of collateral deposits. The securities they hold are continuously reinvested to maximise returns over their maturity tenor.

We use the Risk Management Association (RMA) as the main data source (see Table 1), which includes only primary sources of securities lending from clients such as pension funds, insurers, official sector accounts and some corporate/money funds. The RMA's data includes the largest custodians such as Bank of New York, State Street and JPMorgan (another data source, Markit Securities Finance, shows larger numbers, as it also includes a significant part of secondary market activity).

The decline in the first row of Table 1 needs some explanation. The US regulatory rules that guide borrowers permit only cash, and certain government securities. Hence, the US developed as a cash collateral business, where the lending agent lends client assets versus cash and then reinvests the cash according to the client's direction in very short-term reinvestments. Outside the US (the UK, for instance), regulatory rules permit certain types of non-cash collateral that are readily available (such as FTSE equities).

In the aftermath of Lehman Brothers and the liquidity crisis, borrowers in the US borrowed more hard-to-borrow stocks (specials), and less general collateral. This explains the decline evident in the table. Non-cash collateral deals (ie, collateral for collateral) effectively provide the lenders with a hard fee for the deal, and it does not give temporary cash to generate excess returns by creating a short-term money-market book.

The risk aversion due to counterparty risk since Lehman Brothers has led many pension and insurance funds' official accounts not to let go their collateral for incremental returns. These figures are not rebounding as per end-2013 financial statements of banks.

Methodology for calculating the velocity of collateral

Our understanding is that there are 10 to 15 large banks active in collateral management globally. We may have missed a couple of banks but believe we have picked up more than 90 percent of the pledged collateral that is received from primary sources, such as hedge funds, pension funds and insurers, and official accounts.

We compare data between 2007 and 2013 to see how this market has changed from before Lehman Brothers's bankruptcy through the financial crisis, which straddles monetary policy experiments. As a starting point, we take the total collateral received by the banks

Figure 1: The sources and uses of collateral (2007, 2010-2013)

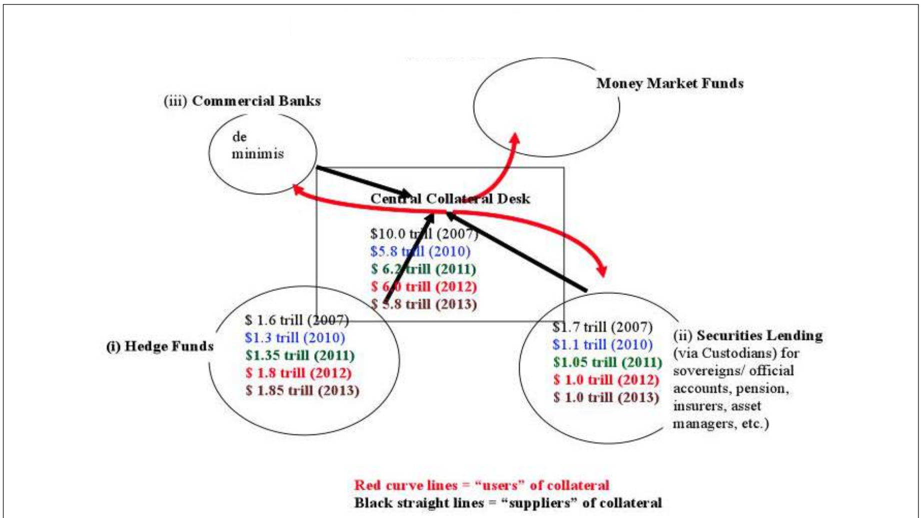


Table 1: Securities lending (2007 to 2013)

Collateral received from pension funds, insurers, official accounts, etc (USD, billions)

	2007	2008	2009	2010	2011	2012	2013
Securities lending versus cash collateral	1,209	935	875	818	687	620	669
Securities lending versus noncash collateral	486	251	270	301	370	378	338
Total securities lending	**1,695**	**1,187**	**1,146**	**1,119**	**1,058**	**998**	**1,008**

Source: RMA

(All data in US trillions; velocity in units)

Year	Sources: Hedge funds	Sources: Others	Sources: Total	Volume of secured operations	Velocity
2007	1.7	1.7	3.4	10.0	3.0
2010	1.3	1.1	2.4	5.8	2.4
2011	1.3	1.05	2.35	6.1	2.5
2012	1.8	1.0	2.8	6.0	2.2
2013	1.85	1.0	2.85	5.8	2.0

Sources: Risk Management Association and IMF staff estimates; see also Singh 2011

as of end-2007 (almost $10 trillion) and compare it to the primary sources of collateral (the two primary-source buckets identified in Figure 1, namely hedge funds and security lenders (on behalf of pension, insurers, official accounts etc)). The ratio of the total collateral received/primary sources of collateral is the velocity of collateral due to the intermediation by the dealers:

$$\textbf{Velocity of collateral} = \frac{\$\ 10\ \text{trillion}}{\$\ 3.3\ \text{trillion}} = \text{approx } 3$$

Collateral sources as of end-2013

Similarly, for 2013, total collateral from primary sources that could be repledged by the large dealers from hedge funds was $1.85 trillion, plus $1 trillion via security lending operations of custodians on behalf of pension funds, insurers and official sector accounts, for a total of $2.8 trillion. The total collateral received by the 10 to 15 large banks was $5.8 trillion as of end-2013 (still sharply lower than the $10 trillion peak as of end-2007):

$$\textbf{Velocity of collateral} = \frac{\text{US\$5.8 trillion}}{\text{US\$2.85 trillion}} = \text{approx } 2.0$$

Table 2 provides a succinct summary of the sources of collateral, the total volume received by the large banks and the resultant velocity. The velocity is not an exact metric, but gives an idea of the length of the collateral chains in that year. So we can infer that, on average, the collateral chains were longer in 2007 than in 2013. The intuition is that counterparty risk before Lehman Brothers was minimal but has changed since then (due to some central bank's quantitative easing policies, the ongoing European crisis, etc).

With fewer trusted counterparties in the market owing to elevated counterparty risk, this leads to stranded liquidity pools, incomplete markets, idle collateral and shorter collateral chains, missed trades and deleveraging.

Going forward

So far, the demand and supply for financial collateral by non-banks (and other commercial banks) is intermediated by the large 10 to 15 banks/dealers that have a niche in this cross-border collateral market.

However, as regulations kick in, some of the non-banks can develop in-house teams to deal with central counterparties, or CCPs, directly: Allianz, La Mondiale, Scottish Widows, SNS Real, Friends Life, VPV, Sun Life, etc. These may consider liaising directly with banks (and not via agents/custodians). To the extent collateral moves skirt the large 10 to 15 bank's collateral desk, the reuse rate will be harder to determine.

Similarly, central banks may become large conduits and alleviate collateral shortage to non-banks by supplying high quality liquid assets either explicitly (eg, Reserve Bank of Australia) or, under the rubric of monetary policy (US's Federal Reserve)—see inserted Box 1.

Anecdotal evidence suggests (counter-intuitively) that despite collateral constraints, securities lending business may not take off due to forthcoming regulations that will limit balance sheet space of the 10 to 15 dealers to undertake collateral transactions (eg, collateral transformation, repo, etc.), and increased supply of collateral from some central banks as monetary policy rates leave the zero lower bound.

Pre-Lehman Brothers, dealers would oblige the custodians that would push out general collateral (eg, IBM or Merck equities) along with specials that the dealers really wanted—often custodians would set a general collateral/special ratio as high as 5:1 or 10:1! There was no balance sheet constraint. However, it should be noted that collateral from hedge funds to dealers has bounced back to levels seen before Lehman Brothers, largely because they have preferred access to dealer balance sheet as margins are higher relative to securities lending business. **SLT**

Manmohan Singh is an economist at the International Monetary Fund.
This article was taken from his book,
Collateral and Financial Plumbing

Box 1: The 10 to 15 banks at the core of financial plumbing

Let the financial system that includes banks, hedge funds, pension funds, insurers, sovereign wealth funds, etc, be represented by A to Z. Only a handful (say XYZ) can move financial collateral across borders. XYZ also happen to be the large 10 to 15 banks discussed in this article. The rest of the financial system from A to W that demand and supply collateral need to connect with each other via XYZ. Entry into this market is not prohibited but extremely expensive and difficult, as we need a global footprint and global clients (and the acumen and sophistication to move and price liquid securities very quickly—in seconds sometimes).

For example, a Chilean pension fund may want Indonesian bonds for six months, and W (a hedge fund in Hong Kong) may be holding these bonds and willing to rent out to A for six months for a small fee. But W does not know there is demand from A. Only via XZY can A connect to W. Since XYZ sit in the middle of the web, they have the ability to optimise in ways that give them an advantage—the Indonesian bonds may come into their possession because they've loaned W money, or because they have a derivative with W, or through a security lending agreement.

Such securities that need to move cross border under a repo or security lending or related transaction need to be legally perfected (and herein legal perfection entails rules such as title transfer and rehypothecation). Similarly for over-the-counter derivative margins, there is an International Swaps and Derivatives Association master agreement. For prime brokerage/hedge fund collateral, there is a similar master agreement that resonates easily between XYZ.

Thus, it is not easy for all real-economy collateral to be able to move across borders. This market for bilateral pledged collateral is the only true market that prices at mark-to-market all liquid securities (bonds plus equities).

Given that collateral is in short supply (as reflected by repo rates), either:
Velocity of collateral comes back—this is a task that only XYZ can handle in bulk if more good collateral is sourced through them. However, regulatory proposals such as leverage and liquidity ratio may result in balance-sheet constraints for XYZ to do collateral transformation, repo etc; or
Central banks can make balance-sheet room for XYZ (as with the Federal Reserve's reverse repo programme since September 2013). Or, there is the Reserve Bank of Australia (RBA) route, which will provide good collateral to meet the increase demand when regulations kick in—this will be market-based. The RBA will not issue new debt to meet this demand (unlike proposals in academic circles—Gourinchas, Jeanne 2012). The European Central Bank type of approach also helps but collateral pricing may not be market-based.

Much to do about grumblings

Tim Smith of SunGard's Astec Analytics suggests that there is more the industry can do to educate the masses about securities lending and short selling

I recently encountered a pensioner who criticised short sellers, securities lenders and data providers and analysts. I found it very difficult either to get a word in edgeways but also to put across the benefits of a fully functioning securities lending market undertaken by professional participants. The only thing that we agreed on was not to expect a Christmas card from each other, either this year or for many years to come.

In light of that encounter, I have news for all those assembling in Florida at the Risk Management Association's (RMA) annual conference: securities lending professionals are still not that well-liked among the general populace.

A few years ago, even before the 2008 financial crisis, the RMA and other bodies agreed that education was a good way of promoting the benefits of securities lending to the general public. This decision had followed a plethora of 'academic' articles, based mostly on very old data and on some major misconceptions, which seemed to cast doubts on the benefits of short selling, and by association, securities lending.

Furthermore, this was at the height of the perceived borrowing-to-vote scandals, so our industry was under pressure even before the crisis hit. When it did, the political element kicked in and regulators and politicians around the world responded to the scorn and criticism being heaped upon us by taking a closer look at securities lending and introducing bans on short selling.

As a whole, the industry provided many articles as well as more up-to-date and relevant data in response. Charts and complicated calculations were provided together with detailed analysis to prove that short selling was not a negative factor but was indeed a benefit to global capital markets. The comments made by the chairman of the US Securities and Exchange Commission (SEC) that bans on short selling had not been a particularly effective strategy was due, in small part, to this effort.

Nevertheless, increased scrutiny of short selling and securities lending has been implemented around the world, with a focus on transparency and reporting. In fact, stringent tax measures have been suggested that could make it uneconomical to undertake securities lending transactions. Just to prove that the education war has not yet been won, when this effect was pointed out, many politicians were not only unmoved, they were even pleased that this would be the effect.

So, as the great and the good gather in Naples, Florida, for the annual RMA Conference on Securities Lending in October, it might be good to restart the educational process with a new approach concentrating on presenting the case to the people who really matter—the pensioners and other ultimate beneficial owners. The simple questions that need to be addressed are: do short sellers intentionally drive down prices to make a profit, affecting individuals' pensions or personal holdings? And are we in securities lending assisting them in this endeavour?

> "The simple questions that need to be addressed are: do short sellers intentionally drive down prices to make a profit, affecting individuals' pensions or personal holdings? And are we in securities lending assisting them in this endeavour?"

If this is deemed to be dumbing it down or patronising, that would be a mistake. There is a tendency to overcomplicate what we do. How many of us have not, at some stage of our careers, argued a point about which we were not clear by throwing in meaningless verbiage, including the occasional gratuitous Greek letter or two, in the hope that our interlocutors will be satisfied? I know I have and I also know that I have received nodding heads as a result. I think the questions asked need to be answered, and we can do a better job of providing the right answers. Let's review two examples.

With GoPro, at the IPO and a few weeks afterwards, there were continuing charges of the short sellers 'going after' the stock. The price went up and down as Figure 1 suggests, and the volume of shares borrowed for shorting moved around as well. Indeed, there seems to have been a period at the end of July and August when the loan volume increased before a rise in market price and then dropped when that market price kept going up. Surely it was a case of 'what does not kill you makes you stronger'?

That is the typical case for the IPO, but what about a long-standing company that is continually in demand from the short sellers, such as Sears? Yes, it is under pressure, but have the short sellers really driven it down? Of course not. Look at Figure 2, which compares market price with volume of securities on loan as a proxy for short selling for the last year.

Certainly, there are points where it could be argued that volumes increased before a decline in the price. However, there are just as many times when the decline in price went in the opposite direction to an increase in loan volume, and sometimes even preceded it.

GoPro and Sears are just two stocks, and there are numerous other examples. The difficulty lies in the ability to convey the case effectively and succinctly. We need the right soundbite, not a 100,000-word treatise that can be consumed by the average person. And the responsibility may lie with industry associations and professionals—we could produce content for the annual analysis that pension funds send to clients, or attend insurance conferences to present the case. In any event, if popular concerns are not addressed, then regulators will likely be driven by their political masters to over-regulate and over-scrutinise. **SLT**

Figure 1

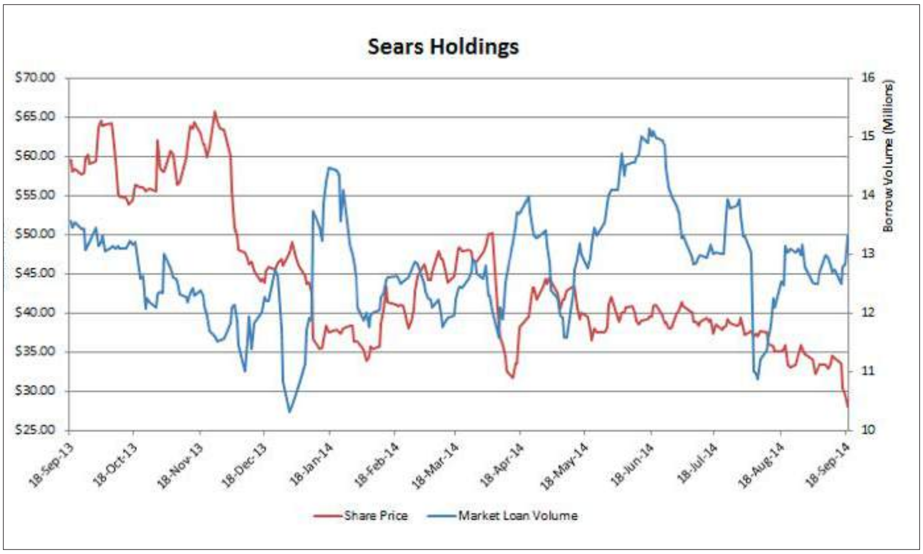


Figure 2

Tim Smith
Senior vice president, Astec Analytics
SunGard

T+2: the time has come

Chris Smith and Camille McKelvey of Trax look towards 6 October and how markets will react to the new settlement cycle

With T+2 on the horizon, the market is confronted with how best to manage efficient settlement processes and reduce operational risk.

Over the next two weeks, firms will need to put the final pieces of the puzzle together ahead of the market migration date of 6 October to T+2 settlement. Teams across trading, risk and operations are being forced to think about how they will address some of the key aspects of Article 5 of the Central Securities Depository Regulation (CSDR) before the cash markets move to T+2 and the repo market moves to T+1.

For many, this has meant an increase in operational cost. To ensure this doesn't result in a long-term increase in operational risk, it is necessary that the infrastructure to support the post-trade workflow is both automated and scalable and that the workflow is carefully reviewed both intra-firm as well as across the industry to maximise efficiency.

Scope of CSDR T+2 and how to handle it

With T+2 just around the corner, firms should be putting the finishing touches to the scope of securities they are migrating by default. Defining instruments migrating to T+2 has been a tough one, at least for fixed income where some industry participants continue to question the scope of instruments included in the move to T+2 versus those remaining on T+3.

Trading venues are converging towards keeping US ISIN prefixed bonds on T+3, but with some of these instruments settling in European international CSDs, firms may consider some of these instruments part of the European market and so have a preference to settle them on T+2.

Additionally, questions continue to be raised regarding treatment of 144A and Reg-S bonds, which under an ISIN prefixed-based implementation will have a combination of T+2 and T+3 default settlement. Questions are being asked about the rationale for different settlement dates of different tranches of the same issue.

Implementation of defined scope

Once you have decided what securities are in and out of scope for migration, there are internal operational issues that must be considered, and it is at this point that inconsistencies could prevail. Different systems may take different data feeds from different providers that may not necessarily all have the same interpretation of scope. An example could be a difference between pricing engines and settlement engines.

If your firm identifies this as a potential operational issue, you will need to address how to deal with the reconciliation of these different data feeds. If these processes are not managed appropriately, we would expect to see an increase in the volume of operational exceptions. These exceptions will need to be resolved quickly to mitigate risk and profit and loss implications.

Different settlement preference across the market

Anecdotal evidence suggests that dealers are embracing T+2 settlement while some investment firms managing global funds may have challenges in fully migrating to T+2. This could lead to a smoother migration in the inter-dealer market than the institutional market. Dealers will need to think about who their clients are and to what extent they need to support non-standard settlement dates.

There is then the further consideration of the funding implication to the market, where one party is buying on a T+2 basis and the counterparty of the trade is selling on T+3. It's very likely that the repo market will help cover the additional funding requirements for the one-day lag, but the cost of operating under this kind of structure will be quite significant—who will be responsible for bearing this cost?

Although the answer to that question remains to be seen, it's clear that repos have the potential to become even more important in the market to ensure that cash positions are properly funded and stock lending/borrowing is likely to increase as firms search for assets to meet disconnected delivery timeframes.

A solution to help reduce operational risk

While many questions still need to be resolved, and when combined with the effect of other new regulations due to hit the industry in the coming years (such as Basel III), it's clear that operational processes will need to be modified to accommodate the new reality of shorter settlement cycles, while ensuring operational risks are managed effectively. Trade date affirmation is key to stopping dependent activities being affected at a significant cost to firms. In fact, the industry shouldn't stop at same-day affirmation, but should strive to adopt a sub-15 minute trade match of transaction details following execution, including place of settlement. **SLT**

Chris Smith
Head of post-trade services
Trax

Camille McKelvey
Product management
Trax

The top IPOs of 2014

Chris Benedict of DataLend takes a look at the top IPOs of the year

It's almost impossible to pick up a copy of any financial services paper or hit a news website without seeing some mention about the Alibaba Group IPO these days. The biggest IPO in history, Alibaba (BABA) raised a staggering $21.8 billion in capital, was priced at a higher than expected $68 per share and soared 36 percent on its first day of trading.

In the securities finance market, BABA began trading with fees to borrow at approximately 350 basis points (bps) and a utilisation of 63 percent. But these are still very early days for this company, which could end up trading in a wide range in both the cash and securities finance markets.

With all of these high-profile IPOs floating around in the US market, the street is starting to feel a little like it was 15 or 16 years ago. We've had almost 150 IPOs float so far in 2014, more than 2008, 2009, 2011 and 2012 saw all year. We reviewed recent IPOs to gauge the securities finance market's barometer on these new issues, asking: does the market believe they are cutting-edge companies poised for long-term growth and success, or overrated and overvalued retreads harkening back to the bubbly dot-com days of last century?

The GoPro (GPRO) IPO is a classic example of the bulls and bears battling it out. At the time of writing, the bears are being viciously mauled in this stock. GoPro's products have an innate appeal that entices both consumers and investors, with sleek, professional-level user video clips taking over YouTube and other media sites. The IPO was priced on the high end of expectations at $24 per share and raised $427 million in capital.

It traded red hot in the securities finance market immediately afterwards, with fees to borrow more than 7500 bps and a 93 percent utilisation. Fees dropped significantly in late July to around 600 bps but shot back up as the stock price went on a tear for the rest of August into September. In the securities finance market, GPRO was trading at a blazing hot 9800 bps and was 98 percent utilised by the end of September. Consumers and investors are still in love with the stock, but the shorts seem to be saying it's overvalued at current levels. However, like Tesla Motors (TSLA) last year, the shorts could be wrong in this name. Time will tell.

The performance of King Digital Entertainment (KING) has been a big disappointment to investors so far. Similar to its competitor Zynga (ZNGA), the KING IPO enjoyed tremendous

hype that propelled it to the top of its price range of $22.50 per share and an absurd $7.6 billion market cap.

As shorts got heavily involved, fees to borrow peaked at more than 3000 bps, and utilisation reached 99 percent in its first day of trading in the securities finance market. As the share price sold off through the spring into the summer, fees cooled to a low of 844 bps. After the firm lowered its growth outlook, no amount of Pet Rescuing or Farm Heroes could keep the shares from selling off by 25 percent in August. As of the end of September, the stock was limping along at around $13 per share, utilisation was still 99 percent and fees to borrow were a hot 1800 bps. The securities finance market seems to indicate that this company has more room to fall before fees and utilisation decrease.

LOCO is a fitting ticker for the restaurant themed El Pollo Loco, which is trading incredibly hot in the securities finance market. Priced at $15 per share, the stock was up 133 percent to $35 per share as of the end of September. In the securities finance market, it was commanding an incredible 9500 bps fees to borrow with a 99 percent utilisation. But with second quarter profits topping expectations, the shorts may have to endure more pain before the share price drops to a profitable level.

Rewalk Robotics (RWLK) was another hot IPO, priced at $12 per share and soaring 164 percent to more than $30 per share as of the end of September. But the securities finance market may think this stock has come too far, too fast as it was trading at a hot 2141 bps at 100 percent utilisation recently.

The Truecar (TRUE) IPO has been a slow burn in the securities finance market. The stock started trading slightly above its $9 IPO price and has been rising in the cash markets ever since. Fees to borrow similarly started at 81 bps but have recently reached a high of just under 750 bps with 95 percent utilisation.

GrubHub (GRUB) was trading hot in the securities finance market in April after its IPO first settled, commanding fees of 750 bps and a utilisation of 80 percent. Beginning in September fees dropped considerably to hit 180 bps and 59 percent utilisation more recently.

But not every high-profile IPO of 2014 is trading hot in the securities finance market. For example, Ultragenyx Pharmaceutical (RARE) trades at a general collateral 35 bps and is only 37 percent utilised. Radius Health (RDUS) trades sporadically at 109 bps and is only 8 percent utilised. Fees to borrow Mobileye (MBLY) have risen in tandem with its share price but have reached a peak of only 140 bps so far (although utilisation is high at 91 percent and fees are trending higher). Arista Networks (ANET) saw fees of 164 bps when it first started trading, but they have dropped to around 76 bps currently with a 55 percent utilisation. Zendesk (ZEN) has been warming up a bit as of late to 176 bps and is 66 percent utilised.

For the most part, 2014 is looking a bit like 2013 for the shorts, especially with the current crop of IPOs out there: lots of pain, little gain. It's difficult to say if a newly floated IPO is under or overvalued, at least until the first few sets of quarterly earnings are released. We expect many of these names to remain frothy and actively traded for the rest of the year.

Chris Benedict
Director and lead analyst
DataLend

Figure 1: GoPro volume-weighted average fees and share price

Figure 2: Recent hot IPOs with volume-weighted average fee, utilisation and share price ranges 2014

Security Name	Industry	Volume Weighted Average Fee range (in bps)	Utilization range	Security Price per share range (in USD)
El Pollo Loco Holdings (LOCO)	Consumer Services	9500 – 10,500	91 – 100%	18.48 – 41.70
Go Pro (GPRO)	Consumer Durables and Apparel	600 - 9900	87 - 98%	28.65 – 76.77
King Digital Entertainment (KING)	Software and Services	800 - 3000	80 – 99%	12.90 – 23.48
Rewalk Robotics (RWLK)	Health Care Equipment and Supplies	1100 - 2300	99 – 100%	11.50 – 43.71
Truecar (TRUE)	Software and Services	10 - 790	5 – 92%	9.05 - 25
Grubhub (GRUB)	Consumer Services	180 - 750	45 - 93%	29.86 – 45.80
Mobileye (MBLY)	Automobiles and Components	21 - 96	10 – 90%	31.11 – 58.61
Ultragenyx Pharmaceutical (RARE)	Biotechnology	5 - 100	5 – 66%	32.02 – 69.77

Source: DataLend

US securities lending revenue on the rise

This could be the most profitable year for securities lending revenue since 2012, says Andrew Laird of Markit

Security lending revenue decreased from for US equities from 2012 to 2013 by more than $250 million. This trend looks likely to reverse this year, owing to rising on loan balances, which have been pushing up overall securities lending revenue.

While the rise in lendable value is in line with the increase in the S&P 500, the increase in daily revenue is up more than 20 percent year-to-date—two and a half times above the index jump.

Note that the spike in mid-July was primarily the result of CBS Corp's spin off of CBS Outdoor Americas. On 11 July and over the weekend, lending revenues for CBS Corp alone were more than $1 million each day.

In the following weeks, revenues quickly reverted back to normal levels below $1000 per day as the trade unwound.

Revenues on track to return to 2012 levels

This strong return to form has 2014 on track to return to the levels seen in 2012.

The year's revenue tally so far ($1.3 billion) is on track to at least match 2012's $1.79 billion aggregate revenues, which could represent an approximate 15 percent lift in revenues.

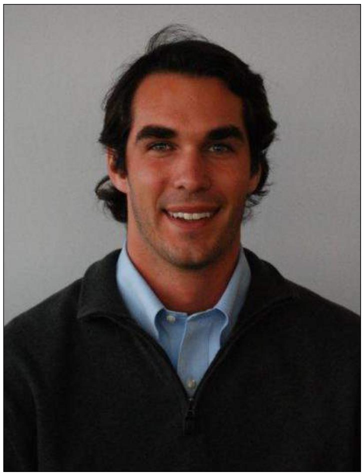
One of this year's revenue drivers has been an increase in demand for deep specials, defined as the instruments that command a fee of more than 10 percent.

At the start of the year there were $3.4 billion on loan in names commanding an above 10-percent fee.

This increased to above $7 billion in July and remains elevated at $5.7 billion as of 1 September. This increase saw deep specials make up a greater share of the overall on loan balance of US equities. Aggregate balance of deep specials represented 1 percent of the total in January. This has now increased to 1.6 percent as of 1 September.

At the extreme end of the scale, the share of the aggregate balance in names with a fee higher than 20 percent more than doubled since the start of the year, moving from 0.3 percent of total US equity loan balances in January to 0.7 percent at the start of September.

The lending of US government, corporate and convertible bonds has provided more than $220 million in revenue so far this year. Bonds do not see the same type of special behaviour, although there are some exceptions that trade at general collateral levels. Daily revenues have fluctuated over the past few years, trending upwards slightly, but not a significant amount. **SLT**



Andrew Laird
Analyst
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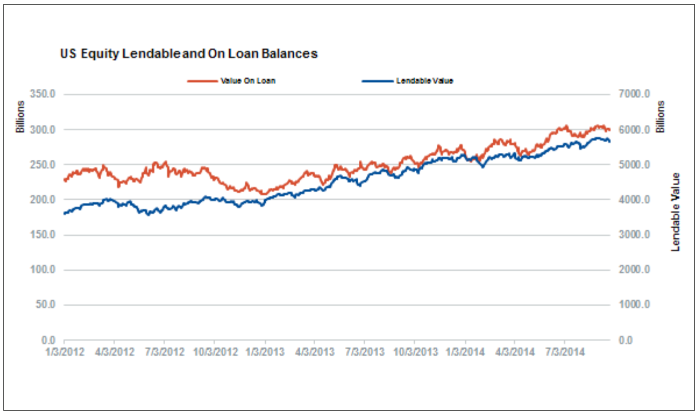

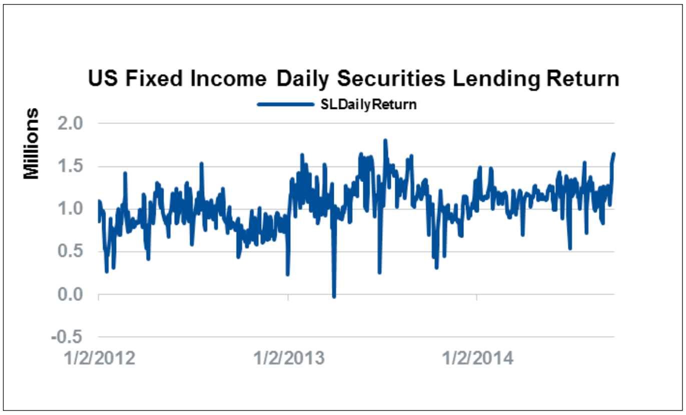

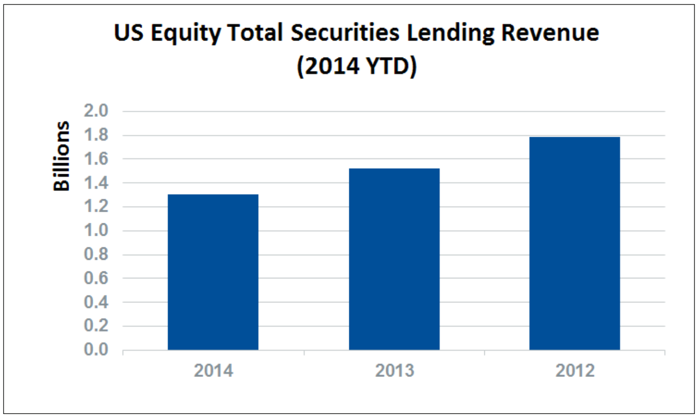

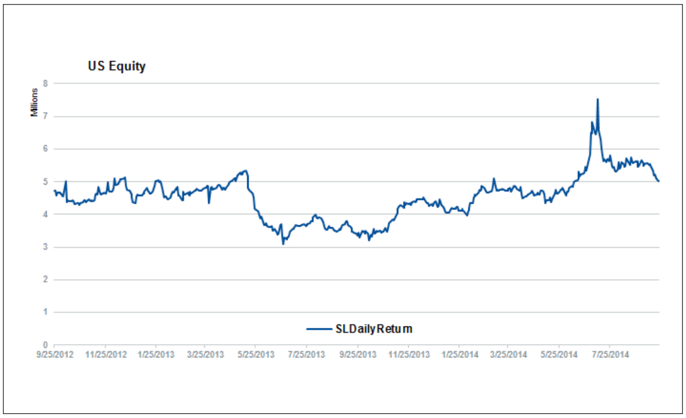

RMA Conference on Securities Lending

Date: 13-16 October 2014
Location: Florida
community.rmahq.org/SLConference/Home/?ssopc=1

As an active member of the securities lending industry, you should be attending the most important securities lending conference in the US, offering a forward-looking view of the industry.

Securities Lending: 2015 Outlook

Date: 18 November 2014
Location: London
www.securitieslendingtimes.com/events

SLT and Citi are hosting the second annual beneficial owners breakfast seminar on 18 November at 8am. The event will conclude at 10am with coffee and the opportunity to network.

19th Annual Global Securities Financing Summit

Date: 28-29 January 2015
Location: Luxembourg
www.clearstream-events.com

Hundreds of representatives participate in the Summit which is now widely regarded as the top global event on the securities industry calendar. We are fortunate to be able to bring together the largest gathering of active repo and collateral traders, securities lenders and borrowers, treasury managers and money market professionals in the world.

Industry appointments

4sight Financial Software has hired **Raymond Blokland** as a senior consultant.

Prior to joining 4sight, Blokland was a managing director at Bank of America Merrill Lynch and has previously worked as global head of prime brokerage trading at Fortis Bank. He has more than 20 years of financial markets experience.

Raymond will provide consultancy for 4sight clients and prospects in the securities finance, collateral management and synthetic prime brokerage business areas.

"Blokland has many years of experience in the industry on both the buy and sell side and we are delighted to welcome him to 4sight," commented Alastair Chisholm, 4sight's managing director.

"He will offer our customers and prospects a great depth of industry knowledge and provide significant input into the strategic direction of the 4sight product range."

Blokland said: "4sight has reached an exciting time in its development. The company has successfully positioned itself as one of the leading providers of securities finance and collateral management solutions and is growing rapidly."

"I look forward to working with 4sight's customer base to provide innovative solutions to the market challenges they are facing."

BNP Paribas Securities Services is expanding its Asia Pacific (APAC) presence with two new appointments to its management team.

Stephanie Marelle has been made head of Hong Kong, in addition to her role as head of clearing and custody services/corporate trust services in APAC. She will be responsible for client relationships and service delivery for Hong Kong clients

Marelle succeeds **Bruno Capenon** who has relocated to New York as head of clearing and custody services/corporate trust services, Americas.

David Raccat is the new head of market and financing services for APAC, in addition to his current role as head of global markets.

Based in Singapore, Raccat will oversee the market and financing business line, which offers principle and agency lending, foreign exchange, collateral management and outsourced dealing services as well as a variety of financial solutions.

Head on BNP Paribas Securities Services APAC, Lawrence Au, said: "I am very pleased to have Marelle and Raccat on board as we make additional investment in key resources in [APAC] and embark on an exciting phase of our development."

Lombard Risk Management has promoted **John Groetch** to managing director for the Americas, effective immediately.

Groetch joined Lombard Risk in April as regional sales director.

John Wisbey, CEO of Lombard Risk, said: "With over two decades of experience, he is well-equipped for this role."

Groetch said: "I am thrilled to manage the company's strategic drive in the region, executing upon our ambitious growth plans, both in staffing and revenues."

Michael Cahill, CEO of OCC, will be retiring from the corporation at the end of the year.

Cahill has been with OCC for 32 years and current executive chairman, Craig Donohue, will oversee the transition of Cahill's responsibilities to other OCC executives.

The board of directors has created a board subcommittee to undertake a search for a new CEO.

As part of the transition, Michael McClain will be promoted from COO to president and COO and will report to Donohue.

OCC will also be promoting John Fennell will be promoted from senior vice president of financial risk to executive vice president of financial risk.

Cahill said: "It has been a great honour to work for OCC for 32 years. I am sincerely grateful for the opportunities that I have had over the past 3 decades to work with so many talented people and to participate in the tremendous growth and challenges of the options industry and OCC."

He added: "I will truly miss the people I have worked with at OCC."

Donohue said: "Under Cahill's leadership, OCC has become recognised as one of the world's most efficient and innovative clearinghouses … annual cleared option volumes at OCC grew from 780 million to over 4 billion while Cahill helped facilitate OCC's expansion into futures, over-the-counter and securities lending clearing services."

"While we will greatly miss Cahill, we are fortunate to have a strong leadership team in place and we congratulate McClain and Fennell on their well-deserved promotions."

The California Public Employees' Retirement System (CalPERS) has promoted **Ted Eliopoulous** to chief investment officer.

He will assume responsibility for the investment office at the nation's largest pension fund, with a portfolio of $300 billion.

Eliopoulous currently serves as the interim chief investment officer. He will take over the role from the late Joe Dear.

Rob Feckner, CalPERS board of administration president, said: "Eliopoulous has the intellect, temperament, leadership ability, and investment experience necessary to succeed in this position."

"Eliopoulous will bring further stability to the office so he and his staff can focus on achieving long-term, risk-adjusted returns for our members," added Henry Jones, CalPERS board member and chair of the investment committee.

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James Burns, deputy director of trading and markets at the Securities and Exchange Commission (SEC), will leave the agency in October.

Since 2012, Burns has overseen core regulatory functions within the division including market supervision, analytics and research, derivatives policy and trading practices.

"During his tenure at the commission, Burns provided valuable leadership on important rulemaking and policy initiatives. His unwavering commitment to the investing public and his commitment to promoting strong capital markets served the agency well," said chair Mary Jo White.

Prior to joining the division, Burns served under chairman Mary Schapiro as the agency's deputy chief of staff, where he advised on the development and execution of the SEC's rulemaking and policy agenda.

He joined Schapiro's staff as counsel in 2010, having first come to the SEC as counsel to commissioner Kathleen Casey in 2008.

In these previous capacities, he worked on investment management and trading and markets regulatory and enforcement matters arising from the financial crisis.

Before joining the SEC, Burns was a securities lawyer in private practice, focusing on investment management regulatory and enforcement matters. He previously served as a clerk on the US Court of Appeals for the Fourth Circuit. **SLT**