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Polish CCP enables securities lending

KDPW_CCP has launched a negotiated securities lending and borrowing system in Poland.

The Polish central counterparty and the country's central securities depository, KDPW, said that securities lending within the negotiated lending system is designed to prevent or eliminate the suspension transaction settlement in organised trading.

It will also ensure the return of securities loaned in the automatic lending system, they added.

The objective of negotiated securities lending is to enable system participants to conclude loans and to ensure their comprehensive processing, including loan management, clearing and settlement from the conclusion of an agreement to the final termination of the loan.

The lending system will support the functions of posting the need for a loan, negotiating terms, and concluding agreements. Loan duration and fees will be open to negotiation. Loans can also be fixed or open.

Under the system, parties will be anonymous before, during and once a loan is complete. KDPW_CCP will guarantee loaned securities and any collateral through a separate liquidity clearing system.

The settlement guarantee fund, designed solely for securities lending and borrowing initiated by participants, aims to secure the performance of obligations arising from closing phases, including the return of borrowed securities and initial collateral.

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Blue Cross fails with new trial motion

Health plan provider Blue Cross's request for a new trial in its case against Wells Fargo has been rejected.

US District Court for the District of Minnesota Judge Donovan Frank dismissed Blue Cross's motion for a new trial over allegations that Wells Fargo breached its fiduciary duty on 2 October.

In March, a jury found that the bank did not breach a fiduciary duty to Blue Cross and the other plaintiffs.

Wells Fargo did not provide false information or use a deceptive practice in the course of selling the securities lending programme, nor did it knowingly misrepresent the true quality of the securities lending programme or its collateral investments.

Blue Cross asked the court to throw out the jury's verdict and order a new trial, but the health plan provider failed to justify its request.

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OneChicago's 7 percent hike

Equity finance exchange OneChicago recorded volume of 1,357,848 in September, a 7 percent increase year-over-year.

Year-to-date volume through 30 September was 7,952,933, up 14 percent compared to the first nine months of 2013.

Open interest increased 3 percent year-over-year to 678,148 contracts on the equity finance exchange at close-of-market on 30 September.

The equity finance exchange also saw 1,347,696 exchange futures for physicals and blocks traded in September, with activity representing $6.6 billion in notional value.

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Polish CCP enables securities lending
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Clearing members will be obliged to contribute to the settlement guarantee fund.

KDPW, meanwhile, changed its settlement cycle from T+3 to T+2 on 6 October.

Financial instruments subject to the T+2 settlement cycle include shares, exchange-traded funds and depository receipts.

“The Polish CSD KDPW and our participants are ready for the implementation of the new settlement cycle,” said Iwona Sroka, president and CEO of KDPW.

“The change harmonises the Polish market with the standards under implementation in the EU and follows from the harmonisation of the KDPW rules to the CSDR.”

Blue Cross fails with new trial motion
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Judge Frank said: “The court concludes that the verdict of the jury, and the court’s findings, were not without an evidentiary basis. Although reasonable persons could differ regarding the conclusions to be drawn from the evidence presented, the jury’s verdict was not so contrary to the evidence as to amount to a miscarriage of justice. The court also separately concludes that the court’s instructions to the jury were neither erroneous nor misleading.”

“Moreover, to the extent plaintiffs allege misconduct on the part of defence counsel and that they were prejudiced by the exclusion of deposition testimony, the court finds such arguments are without merit.”

In a statement issued in March, Wells Fargo said: “Our conservative approach was effective, as the plaintiffs in Wells Fargo securities lending programme had minimal losses averaging approximately three percent at the same time that the markets were down up to 50 percent during the height of the financial crisis.”

Blue Cross has 30 days to file an appeal with the US Court of Appeals for the Eight Circuit.

Wells Fargo received final approval from the Minnesota district court in August for a $62.5 million settlement of a separate class action over its securities lending programme.

OneChicago’s 7 percent hike
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OCX.NoDivRisk products accounted for 59 percent of September’s month-end open interest.

Execution fees in OCX.NoDivRisk products—composed of 1D contracts and the recently launched OCX.Weekly—were also reduced on 1 October.

OneChicago reduced execution fees by 75 percent from the current $20 per $1 million to $5 per $1 million executed notional value for all OCX.NoDivRisk products.

“Market participants looking to increase their investment yields by reducing their financing costs are very sensitive to transaction fee frictions,” said David Downey, CEO of OneChicago.

“Our fee reduction to five one-hundredths of a basis point will make establishing and rolling expiring security futures positions one of the most attractive means to carry equity delta exposure in individual equities as well as ETFs.”

Help for broker-dealers from SGSS

Societe Generale Securities Services (SGSS) is to launch a Global Broker-Dealer Services (BDS) outsourcing solution aimed at institutional brokers, mid-tier banks and broker-dealers.

The fully integrated global service includes middle-office services, back-office processing and post-trade services.

SGSS stated that it is developing this solution in response to “increasing market demand from inde-

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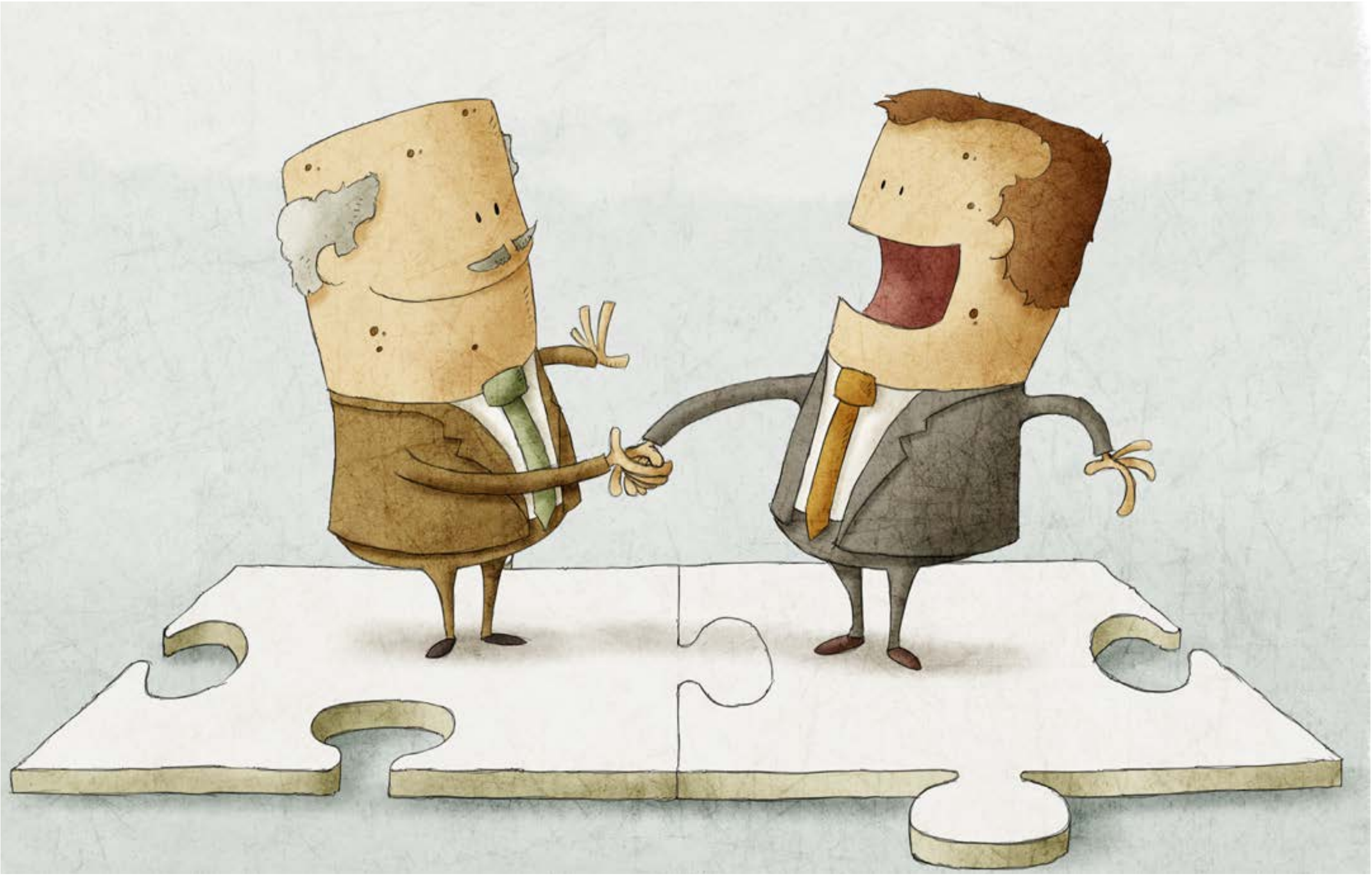


pendent mid-tier brokers who want to concentrate on their core business and lower their production costs".

The solution encompasses a set of services from execution, liquidity support, middle- and back-office processes, to core securities processing and asset servicing.

"Mid-tier sell-side firms face a growing challenge to maintain and sustain their business," explains Jason Nabi, head of financial institutions and brokers for the UK at SGSS.

"By outsourcing their full post-trade processes, clients become much more agile in terms of costs and set-up and can thus focus on growth and end-clients' increasing needs."

DTCC and Euroclear in joint venture

The Depository Trust & Clearing Corporation (DTCC) and Euroclear are to enter into a joint venture focusing on collateral processing.

The newly created company, DTCC-Euroclear Global Collateral, will be domiciled in the UK and its operations are subject to regulatory approvals.

Ownership and governance of the joint venture company will be shared equally between DTCC and Euroclear with its board and senior executives drawn from the two firms' management.

Michael Shipton, Euroclear managing director and head of corporate technology, will assume the role of CEO and Mark Jennis, DTCC's managing director of strategy and business development, will become executive chairman.

The joint venture's board will also include Euroclear's Jo Van de Velde and Mei Li Powell, along with DTCC's Peter Axilrod and Andrew Douglas.

It will bring to market a margin transit utility (MTU) and collateral management utility (CMU). The MTU will provide straight-through process-

ing of margin obligation settlement, using current DTCC infrastructure, as well as additional infrastructure currently in development in coordination with the industry.

Industry testing of the MTU is scheduled to begin in the midle of 2015.

The CMU will address sub-optimal collateral allocation and mobility, through utilising Euroclear's Collateral Highway, and will follow the launch of the MTU.

The joint venture will operate open architecture services thereby facilitating access to other central securities depositories, custodians and settlement agents.

Great start for triReduce and SwapClear customers

LCH.Clearnet's SwapClear members have eliminated $284.3 billion in notional in the first triReduce and SwapClear compression cycle for cleared South African rand (ZAR) interest rate swaps.

The $284.3 billion in notional represents 25 percent of SwapClear's outstanding ZAR notional and the 18,000 trade sides terminated accounted for 31 percent of its outstanding ZAR trade count.

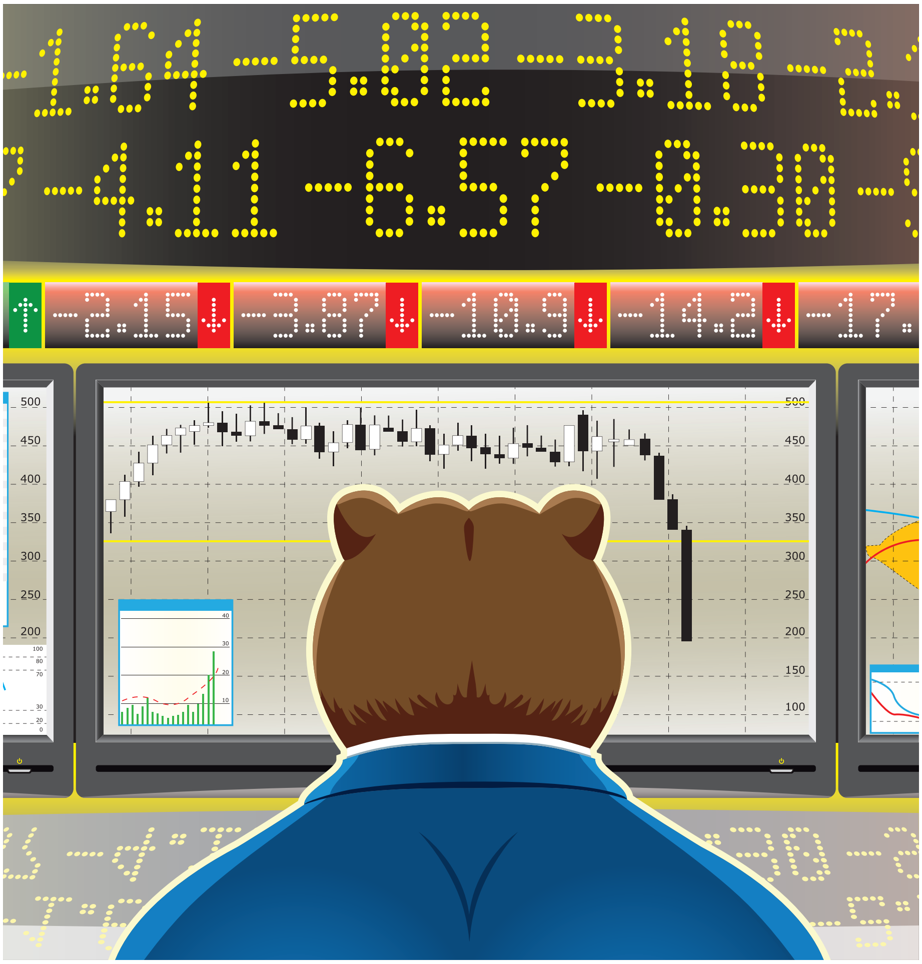
With the completion of the ZAR cycle, TriOptima and SwapClear now offer multilateral triReduce compression cycles in 10 currencies.

The total eliminated by LCH.Clearnet's SwapClear members in triReduce cycles at the end of August reached $330 trillion, $126 trillion in 2014 alone.

TriOptima has eliminated more than $500 trillion in both cleared and uncleared credit, interest rate and commodity swaps since it began offering its triReduce service in 2003.

Daniel Maguire, global head of LCH.Clearnet's SwapClear, said: "Compression is gaining momentum as the participation in this first triReduce and SwapClear ZAR cycle demonstrates."

"The industry recognises that it is the right move to help control operational and credit risk and minimise capital costs."



"Managing systemic risk is equally as important for South Africa as it is for any other jurisdiction, hence our dedication to providing ZAR-denominated internal revenue service clearing and compression solutions to market participants in the region."

Currently triReduce offers compression in 10 cleared and 27 uncleared interest rate swap currencies, cross currency swaps, credit derivatives, and commodity swaps.

Inflation swap and foreign exchange forward compression cycles will be introduced soon.

Bears and bulls in Q3, says Lyxor

Hedge funds ended the week beginning 29 September in negative territory, concluding a tough quarter for alternative strategies, according to Lyxor Asset Management.

The performance drivers of Q3 were once again running at full tilt, with Lyxor citing "choppy equity markets, credit spreads widening, and a strong US dollar among weaker commodity prices".

Head of research at Lyxor, Philippe Ferreira, said: "Most recently trends have been very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profound on [foreign exchange] and commodity markets, whilst in the last few years equities have proven to generate most of the gains."

"This shows that selecting the right hedge fund strategy, adapted to a given market environment, is key to generating uncorrelated alpha."

On the positive side, Lyxor has noted a pick-up in performance on systematic strategies: commodity trading advisor-managed funds (CTAs) and long/short market neutral are now the best performing strategies on a year-to-date basis, thanks to a strong Q3.

CTA gains were made on foreign exchange positions, especially on the short exposure to the euro. Commodities added to the gains thanks to the established short exposure on the cluster.

Lyxor has pointed out that short-term CTAs, with an average higher risk budget allocated to equity indices, "suffered from the sector and from trading around quick market movements, whereas long-term funds stuck to longer trends in equities, but also in rates".

The outperformance came also from commodities where, by construction, medium-term funds have a higher allocation.

HFA concern over SEC changes to accredited investors

The Hedge Fund Association has outlined concerns over the US Securities and Exchange Commission's (SEC) proposed change to the definition of an 'accredited investor' under Rule 501 of Regulation D.

In an open letter to the SEC, the association urged the Commission to reject an increase in the current requirements to account for inflation, which would "fundamentally undermine" the private placement market that introduced an estimated $50 billion into the US economy in 2013.

The changes will also have a negative impact on small business growth, as it will reduce the number of accredited investors in the US "by more than half", which will ultimately affect unemployment rates as businesses close, according to the Hedge Fund Association.

While the hedge fund industry has seen growth, this has been predominantly from a small number of large inflows that has widened the gap in assets under management between small and large funds.

The Hedge Fund Association stated that it "shares the SEC's goal of protecting investors from making investments which are beyond their financial sophistication", but the association believes that using net worth or income as a test for investor sophistication is "out-dated".

In favour of updating the tests, the Hedge Fund Association suggested a number of alternatives, such as: "A knowledge or education-based standard; a requirement that a non-sophisticated investor engage an independent registered investment professional to review and approve the investment; or limiting the maximum percentage of net work that any investor may contribute."

"We are in the process of a slow recovery from a global recession, and the SEC and Congress must be careful not to implement any rule that will stifle job growth and in fact lead to job losses in these precarious times," concluded the Hedge Fund Association.

The SEC opened the floor to comments on the proposed change in July 2013, and has extended the comment period multiple times.

Europe embracing T2S, according to SWIFT

A new SWIFT whitepaper shows market participants are embracing a direct route to TARGET2-Securities (T2S) that will enable greater market opportunities.

As the deadline approaches in June 2015 for the first of four waves of migration to the settlement platform, institutions have adopted a 'wait and see' approach to the first wave to see how the direct route will give the directly connected participants (DCPs) access to new markets and will deliver new services to clients.

The ability to connect directly to the platform offers more competition, better access to markets and therefore allows institutions to offer the best deadlines, quick reaction to settlement issues, and liquidity benefits.

SWIFT's whitepaper looked at how T2S will transform and affect every participant in the European post-trade landscape, with its aim to harmonise the eurozone post-trade settlement space.

There are many concerns within institutions about budgets, implementation costs and availability of resources of T2S and many global firms will have to prepare clients and be ready for each wave of migration.

The study found, that in the long term, T2S is a catalyst for innovation and change, and will help clients overcome key regulatory challenges in areas such as asset protection, collateral and liquidity management.

"As a large harmonisation project, T2S does not come without challenges for market participants. Many of the organisations that have chosen to become DCPs have done so in an environment of competing industry and regulatory initiatives."

"As an originator of the harmonisation process and the de facto provider for connectivity and interoperability services in the European clearing and settlement environment, the use of SWIFT's Value-Added Network (VAN) Solution for T2S means that users will not have to make significant changes to connect to T2S," said Isabelle Olivier, head of clearing and settlement for Europe, the Middle East and Africa at SWIFT.

US corporate pension plans take a hit

Falling stock markets drove the funded status for the typical US corporate pension plan to 89.9 percent during September, the lowest level since August 2013, according to the BNY Mellon's investment strategy and solutions group (ISSG).

Falling asset values also resulted in public plans, foundations and endowments missing their return targets.

The funded status of the typical US corporate pension plan in September fell 0.2 percentage points, despite liabilities falling 2.6 percent, according to the BNY Mellon Institutional Scorecard.

Assets for the corporate plans fell 2.7 percent, outpacing the fall in liabilities, said ISSG.

This funded status is now down by 5.3 percent

from the December 2013 high of 95.2 percent, according to the scorecard.

The lower liabilities for corporate plans in September resulted from the 'Aa' corporate discount rate rising 20 basis points to 4.31 percent over the month.

Plan liabilities are calculated using the yields of long-term investment grade bonds. Higher yields on these bonds result in lower liabilities.

"After benefiting from the first monthly decline in liabilities of more than one percent since November 2013, pension plans still failed to improve their funded status," said Andrew Wozniak, head of fiduciary solutions at ISSG.

"Although US large-cap equities outperformed the liabilities over the month, they were the only major equity class to do so. A sustained divergence between US large-cap equity returns and other public equity classes could continue the downward trend in funded status."

Public defined benefit plans in September fell short of their target by 3.5 percent as assets fell 2.9 percent, according to the monthly report.

Year over year, public plans have met their return of target of 7.5 percent, ISSG said.

For endowments and foundations, the real return in September was -3.6 percent, as assets declined 3.1 percent.

Private equity and real estate investment trusts, which comprise 15 percent and 8 percent, respectively, of the asset portfolio, fell 5.5 percent and 6.3 percent, respectively, over the month.

Year over year, foundations and endowments are behind their inflation plus spending target by 0.1 percent, said ISSG.

OCC sees 16 percent rise in new loans

OCC's securities lending central counterparty saw 101,800 transactions last month, with 16 percent in new loans over September 2013.

Year-to-date stock loan activity is down 8 percent from 2013 with 887,740 new loan transactions in 2014.

The average daily loan value at OCC in September was $156,863,064,081.

OCC's total cleared contract volume in September reached 371,034,038 contracts, a 15 percent increase from the September 2013 volume of 321,604,328 contracts.

Its average daily cleared volume for the month was 17,668,288 contracts, a 10 percent increase from September 2013.

OCC's year-to-date total cleared contract volume is up 2 percent in the first three quarters of 2014 with 3 billion contracts.

Pacific Life chooses Calypso solution

Pacific Life Insurance Company has selected Calypso Technology's collateral management solution for automation and optimisation of their collateral across all business entities.

Calypso has stated that Pacific Life required "a solution to manage the anticipated increase in margin calls" resulting from the Dodd-Frank regulation on central clearing of OTC derivatives.

By implementing Calypso, Pacific Life will be replacing a legacy collateral solution and manually-intensive spreadsheet processes.

"In Calypso, we have a solution that dramatically automates our collateral process and enables

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greater visibility of inventory across the organisation while preserving our current technology infrastructure," said Dominic Faso, head of treasury and investment operations for Pacific Life.

"Calypso stood out as the superior solution that enables us to quickly respond to new regulatory requirements and the resulting market structure changes for listed and OTC derivatives. In addition, this is a robust platform that we can leverage in the future for more functionality."

Charles Marston, chairman and CEO of Calypso, commented: "We are delighted to be working with a leading insurance company such as Pacific Life to help deliver operational efficiencies, improved investment performance, and regulatory compliance."

SGSS teams up with Diamis for T2S

Societe Generale Securities Services (SGSS) will concentrate management of liquidity and client collateralisation in Target2-Securities (T2S) with the Diamis Cristal solution.

Cristal will support SGSS's payment bank operations in T2S, managing proprietary cash accounts and auto-collateralisation with central banks as well as clients' cash accounts and intra-day credit positions.

The solution, from Atos- and Steria-backed Diamis, is designed to accommodate any organisation of proprietary accounts and their funding in T2S. It provides application-to-application connection to the platform to secure management of liquidity transfers as well as monitoring of cash accounts and auto-collateralisation.

It enables the intra-day reimbursement of auto-collateralisation to prevent unexpected funding requirement at the close of business, and supports all aspects of client credit in T2S, including collateral valuation, position and limit monitoring, and client collateralisation reimbursement during the day or at the end of day.

Cristal also features an audit trail that will provide SGSS with the required reporting to comply with Basel III monitoring for intraday liquidity risk.

Anne-France Demarolle, head of liquidity management at SGSS, commented: "Cristal enables SGSS to deliver flexible T2S cash services to our customers along with sound management of our intra-day liquidity in order to maximise pooling and funding benefits from T2S while securing our daily close of business."

"By entrusting a focused company such as Diamis with cash issues arising with T2S, we are able to dedicate most of our efforts and enhancing our services for settlement."

Eurex Repo markets slightly down on September 2013

All Eurex Repo markets reported an average outstanding volume of €214 billion in September. Volume was slightly down on September 2013, when all Eurex Repo markets reported average outstanding volume of €227 billion.

The secured money market GC Pooling grew 8 percent year-over-year and recorded an average outstanding volume of €169 billion, beating September 2013's €157 billion.

The Euro Repo Market reached an average outstanding volume of €42 billion in August, an increase of 5 percent year-over-year.

The Swiss Franc Repo market reached €3 billion.

'Difficult month' for hedge funds

The September and Q3 Hedge Fund Performance report from eVestment has highlighted a variety of trends in hedge fund performance from a busy and tumultuous month.

Hedge funds declined an average of 0.72 percent in September but outpaced the S&P during what report author Peter Laurelli, eVestment's vice president and head of research, called "a difficult month".

The industry ended Q3 down 0.46 percent, the industry's first quarterly decline since Q2 2013, and is up 2.89 percent through the first nine months of 2014.

Managed futures strategies have experienced the industry's largest redemptions in 2014, but group's performance in September and Q3 puts them among the best performing strategies of this year.

The report also showed that losses from credit funds in September were highest since October 2008. Though nowhere near the magnitude of the drawdown, losses indicate elevated exposures to Europe and high-yield credit globally.

Laurelli commented: "Activist funds posted declines in September, however several funds had large gains which offset losses from many others. As a result, aggregate losses were more muted than expected given equity market declines. The group remains the best performing strategy of 2014."

Event-driven funds took in more assets than any other strategy in 2014. Though the group declined in September and Q3, year-to-date they stayed ahead of long/short equity, multi-strategy and both directional and relative value credit strategies.

Promising dividend season ahead, says Markit

Markit has forecasted a bright future for dividends across the major markets of the US, Europe and the UK, though it claims a number of areas are experiencing turbulence.

Eighty five percent of S&P 500 companies are forecast to pay dividends in this fiscal year, while dividend payments across Europe (excluding the UK) are expected to rise almost 8 percent, led by Belgium, Germany, and Switzerland.

In the UK, dividends are expected to increase more than 4 percent, but exchange rates remain an important consideration, according to Markit.

Markit's projection for S&P 500 dividend payments this fiscal year in the US is $373 billion, with a yield of 2.15 percent. The sectors contributing the most are technology, industrial goods and services, and oil and gas.

Overall, Markit said its outlook is positive, forecasting 75 companies in its index to increase quarterly payments in Q4 2014.

Based on Markit's projections for the UK, the basket of FTSE 350 companies are offering a yield of around 3.8 percent and are expected to increase regular dividend payouts by 4.4 percent to £74.5 billion.

When exceptional payments are taken into account the number rises to £84.1 billion, up 18 percent on 2013, excluding Vodafone's capital return.

The relative strength of sterling compared to the dollar is cited by Markit as being "extremely important for UK shareholders receiving dividends in pounds". A total of 53 companies in the FTSE 350 set dividends in dollars, accounting for 37 percent of the total projected payout.

Ryan Bransfield, dividend analyst at Markit, commented: "Banks are benefiting from improvements in asset quality, reporting better ratios on higher capital requirements and seeing improving profitability as a result of lower impairments."

"On average we expect growth of 7 percent in declared payouts, but the results of stress tests in December will be decisive."

Across the universe of MSCI Europe, excluding UK companies, Markit expects payments to rise 7.7 percent to €196.4 billion in this reporting year.

The strongest growth is expected in Belgium (15.1 percent), Germany (10.4 percent) and Switzerland (8.1 percent).

The fallout from the crisis in Ukraine is seen having the biggest impact on payments from Austrian banks Erste and Raiffeisen, which Markit has predicted will suspend dividends.

As a result of Russian sanctions, Markit has lowered dividend forecasts for almost a quarter of German index constituents in the Q3.

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Reporting for scrutiny

Although there is little indication of if or when the European Commission's newest regulations for securities finance transactions will come into force, keeping informed remains half the battle

STEPHEN DURHAM REPORTS

Following the Financial Stability Board's (FSB) work on shadow banking, which the board estimated to be worth approximately €51 trillion in 2011, the European Commission set about identifying and adopting measures that could protect what it has deemed to be systematically important to Europe's financial system.

In January of this year, the European Commission adopted a regulatory proposal that requires all counterparties doing business within the EU to report trades, including repo and securities lending and borrowing transactions. This, it has said, is essential to be able to monitor risks in an effective manner and intervene when necessary.

In order to enter into force, the proposed securities finance transaction reporting regulation must be passed by the European Parliament and adopted by the Council of the EU. The political process to achieve this has begun.

The rules would apply to all EU entities as well as to those third country entities that rehypothecate financial instruments provided by an EU entity. The rules would also cover any collateral arrangement under the Financial Collateral Directive, ie, title transfer collateral arrangement or security interest collateral arrangement.

The commission states: "This proposal provides a set of measures aiming to enhance regulators' and investors' understanding of securities financing transactions (STFs). These transactions have been a source of contagion, leverage and pro-cyclicality during the financial crisis and they have been identified in the commission's Communication on Shadow Banking as needing better monitoring."

SFTs are used by fund managers to earn additional returns or to secure additional funding. For example, repo transactions are often used to raise cash for additional investments. At the same time, SFTs create new risks, according to the European Commission, such as counterparty risk and liquidity risks that materialise if the counterparty to the transaction defaults.

Generally, only a part of the additional earnings is attributed to the fund, but the entire counterparty risk is borne by the fund's investors. Therefore, the use of SFTs may lead to a significant alteration of the risk-reward profile of the fund. The commission says that "managers' motivation to use SFTs may not necessarily be aligned with the interests of the investors". It adds: "For instance, revenues might not be fully shared with fund investors".

As a result, the proposed regulation will require all transactions to be reported to a central database. This would allow supervisors to better identify the links between banks and shadow banking entities and is designed to shed more light on some of their funding operations. As a consequence, supervisors would be able to monitor the exposures to and risks associated with SFTs and, if necessary, take better-targeted and timelier actions.

The regulation is also intended to improve transparency towards investors on the practices of investment funds engaged in SFTs and other equivalent financing structures by requiring detailed reporting on these operations, both in the regular reports of funds and in pre-investment documents. The commission has said that this would ideally "lead to better-informed investment decisions by investors".

Finally, the commission claims that this proposal would improve the transparency of rehypothecation (any pre-default use of collateral by the collateral taker for its own purposes) of financial instruments "by setting minimum conditions to be met by the parties involved, including written agreement and prior consent". This would ensure that clients or counterparties have to give their consent before rehypothecation can take place and that they make that decision based on clear information on the risks that it might entail.

At the European Beneficial Owners' Securities Lending Conference in London, the commission's Martin Mitov intimated that these proposed regulations would not adversely affect the industry.

Mitov said the commission's proposal "is all about transparency—it doesn't restrict the transactions themselves".

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

In the European Central Bank's official opinion, it has confirms that it "broadly welcomes the proposed regulation", while the UK government has also pledged its support to the objective of increasing transparency of the shadow banking sector. Minutes from a parliamentary committee meeting on the proposed regulation confirmed that, "as the proposal is taken forward, [the UK government] will look for reassurance on these issues and seek to amend the draft regulation if it deems it necessary". **SLT**

Drawing the battle lines

Markus Büttner, CEO of software and consulting firm Comyno, discusses the current state of the securities finance industry and why the marketplace may face an uphill battle to remain efficient and liquid

MARK DUGDALE REPORTS

Regulatory changes have been topping everybody's agenda for the past few years. What are your observations with regards to how the various industry segments have reacted?

Stating the obvious, regulators around the world have changed the landscape permanently. Initially, most market participants have taken a fairly rigid approach, in that regulatory compliance was the only concern. More recently, we've seen many taking a more holistic approach, along the lines of 'if we have to overhaul our systems anyway, we might as well improve them from a business perspective at the same time'.

Often this entails a complete business review as a starting point. This allows organisations to proactively position the business for future growth. The confirmation of how critically important securities finance is often is a by-product of such business reviews. As we all know, it is not unusual for the business to be questioned in its core.

Finally, smaller market participants, often institutional lenders, have been forced to look for scale, as well as ways to generate indirect alpha for their portfolios without having to revamp, let alone newly build, their infrastructure.

Within this context, which process stages does Comyno typically get involved in?

When Comyno was founded in 2006, we always had a full-scale approach in mind, albeit with a clear specialisation in securities finance and the various areas it is closely connected with, such as trading and treasury. We consider ourselves an integrated consultancy firm, with a results-driven approach, based on the concept of combining technical solutions and strategic expertise.

Our projects usually have a clear goal that goes well above meeting market standards or complying with regulatory requirements. We always target a clear improvement of our clients' competitiveness.

Beyond the above work, can you name a key area of focus?

We identified the emerging significance of central counterparty (CCP)-based models relatively early and positioned ourselves accordingly. It obviously took a while for it to take off but we now spend a significant amount of our time on working with our clients on the Securities Lending CCP topic.

As this is a rather new product for most participants, our holistic approach, which covers all services, from building, presenting or validating a business case, all the way to its implementation, has been recognised by our clients. We now work with four out of five of the connected members—as well as the CCP itself.

You describe Comyno as a software and consulting firm—where does software come into play?

First of all, we have often built specifically customised software for our clients to proactively crystallise the competitive advantage that we had identified within our consulting mandates. More recently, we've complemented our Securities Lending CCP expertise with a software package, the Securities Lending CCP Hub, to speed up the integration to the involved service providers, such as trading platforms, triparty agents, custodians and the CCP itself.

Furthermore, the market has prompted us to help out in connecting to the new Eurex Repo F7 platform—now 'there's an app for that', with the first customer already on board.

Where do you see the biggest challenges for the securities finance marketplace?

In our view, regulatory changes have not only prompted market participants to focus on compliance, it has also created a distorted market. On one hand, pricing for the underlying assets is distorted by regulations such as Basel III and the US Dodd-Frank Act, which require market participants to hold more liquid assets.

On the other hand, European Securities and Markets Authority (ESMA) rules effectively prevent UCITS funds from doing term lending, whereas the sell side focuses heavily on aspects such as the liquidity coverage ratio, which effectively requires a term transaction. You might argue that this opens up opportunities for intermediaries willing to take certain risks, but overall it is likely to test the mechanisms of an efficient marketplace.

If you had to single out one multi-dimensional challenge, which one would it be?

Whoever we speak to, inventory optimisation seems to be high on everybody's agenda, be it banks, broker-dealers or hedge funds. Conceptually, it seems relatively straightforward, but practically it usually turns out to be incredibly complex. What most legacy models have in common is that they provide partial information on both long and short inventory, which has typically led to a decentralised approach. Not only is this inefficient, but it also makes it all but impossible to come up with firm-wide aggregate numbers that are now required to meet the demands of business lines, treasury and regulators.

A number of infrastructure providers, such as custodians, have made tangible efforts in order to support a view of holdings across different custodians and intra-company entities. We at Comyno have worked hard on helping our client base in this area.

Do you share the view that collateral is the ultimate market driver?

First of all, the market has come a long way. I still remember the time when unsecured transactions weren't uncommon. At the height of the financial crisis, collateral all of a sudden became so critical that the collateral provider rightfully worried about his own exposure to the collateral taker.

More generally, we've seen a clear trend towards more complex collateral schedules and, let's face it, some market participants have only designed their first schedules more recently. We firmly believe that some collateral schedules have and will become too complex to be properly implemented, monitored and enforced. Setting certain standards, such as a collateral schedule's general format, might be the way forward.

Finally, 'big data' has been a technological buzzword for a while. What significance does it have within securities finance?

Admittedly, the amount of data that is relevant for the securities finance business pales in comparison to some of the areas one usually thinks of when it comes to 'big data'. Yet the challenges of big data can also be found in our marketplace. We've noticed a significant effort by many to become more efficient in searching, collecting, sharing, analysing and actively using trading related data. Unsurprisingly, everybody seems to be tired of having to spend entire days coming up with ad-hoc reports often required at short notice by various internal and external parties. **SLT**


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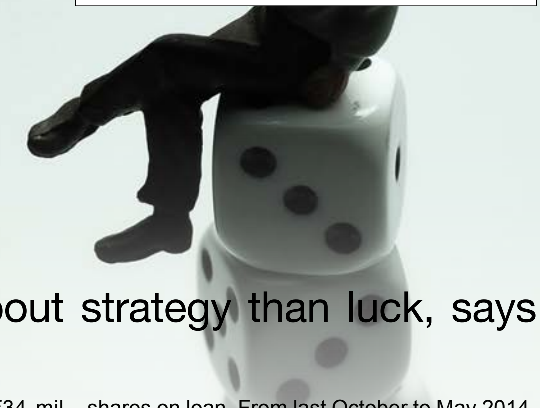


Does the house always win?

Succeeding in the betting sector is more about strategy than luck, says David Lewis of SunGard's Astec Analytics

It might seem odd, as a banker, to discuss whether betting is a fool's game and whether, with the odds commonly stacked against you, the house always wins. Betting is, of course, a game of chance and typified no more obviously than by the various national lotteries. I understand that the chance of winning the UK National Lottery is roughly one in 14 million—or 28 times less likely than being hit by lightning. Not great odds and the house will definitely win every time on that type of event. But what of mainstream betting companies? Do they have a licence to print money?

As a far from prolific gambler, I cannot claim to be an expert in how odds are set, but it might be natural to expect that they are set in the bookmaker's favour. Looking at the performance of some providers, it would seem not. Paddy Power, one of the largest betting providers in the UK, including both licensed highstreet betting shops as well as online and telephone services, has had a torrid year of results.

Known for its off-beat advertising, Paddy Power is no stranger to controversy either—a recent advertisement relating to the Oscar Pistorius trial stated that it would "pay out if he walks" drew a record number of complaints to the UK Advertising Standards Authority (ASA). And when Paddy Power referred to a large hit to its 2014 first half profits, the betting provider described it as being hit harder than John Cleese was in his last divorce.

Stating that a string of punter-friendly sports results (ie, the client won) across football and horse racing events had cost it €34 million of its "gross win", Paddy Power's first half profits dropped 20 percent. The share price, however, reacted little and has indeed risen since then from around €48 (approximately €1 above its 12-month low) to almost €58 at the time of writing.

With the share price showing a fall of around 10 percent from the middle of July to the end of August, it could be suggested that the poor first half results were already being priced in, presumably based on the totalling up of sports results and odds offered, giving a good trading signal on the fortunes of Paddy Power. However, as Figure 1 shows, the securities lending volumes for Paddy Power's increased significantly just ahead of the earnings announcement. Borrowed security volumes rose very steeply from just over 100,000 shares on 8 August to more than 617,000 by 20 August.

Short sellers have not earned themselves a payout, however, as the share price has continued to rise, by 6 October hitting a level just over 10 percent below its 12-month peak. As the red plot on Figure 1 testifies, more bets are being placed, suggesting that short sellers are in for the longer-term play, expecting Paddy Power to fall in price in the future. At 650,000 shares of around €50 each, it represents a wager of around €32.5 million.

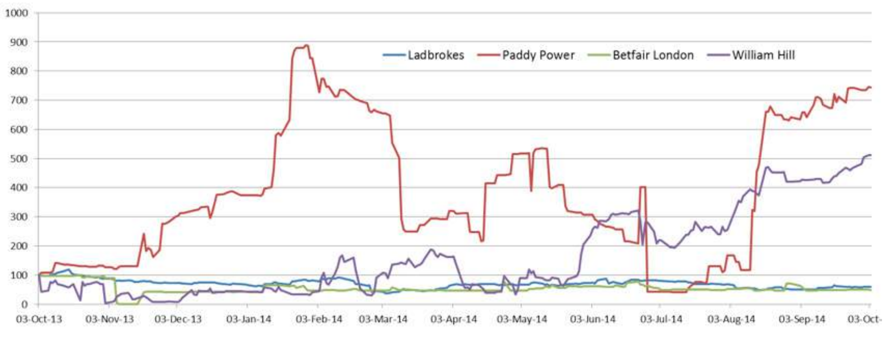
Paddy Power is not alone in having the market bet against its long-term performance. William Hill, Britain's largest bookmaker with 2362 betting shops, has also seen a significant rise in shares on loan. From last October to May 2014, volumes averaged just below 3.1 million shares on loan. April saw the beginning of a steady climb to just under 23 million shares at the time of writing (see Figure 1).

Lacking the shock rises seen by PAP, William Hill has nonetheless come under pressure from short sellers, despite recording market leading first-half results some way ahead of their nearest rival, Ladbrokes. Ladbrokes and BetFair, both UK betting providers, have seen their volume on loan decrease over the last 12 months. Indexed data shown in Figure 1 indicates falls of 40 percent and 50 percent, respectively.

While luck must play a big part, to win at betting requires a peer beating strategy—as much for the providers of betting as the punters they serve. Luck seems to have gone against Paddy Power with its run of losses over the first half of 2014, but as we can see from the short interest indications for it, William Hill and its rivals Ladbrokes and BetFair, it is also about strategy. Much of that hinges on the impact of their online offerings. Many traditionally 'bricks and mortar' businesses would not be able to compete effectively in the modern world without an online presence or offering. Gambling and betting are no different to the food retailers, pet shops, and book and music publishers that have all travelled down the same evolutionary path.

One thing is for certain: with the divergence in market sentiment indicated by differing levels of short interest, you can bet there is more volatility to come. **SLT**

Figure 1: Share volume on loan across last 12 months, indexed to 1 October 2013



Source: SunGard's Astec Analytics solution

David Lewis
Senior vice president
SunGard's Astec Analytics

Industry appointments

Trading Apps has welcomed duo **Anthony Simasek** as North American product manager and **Guy Marshall** as chief accounting officer.

Simasek joins from BNY Mellon where he spent six years in project management roles within securities lending and global collateral services.

Marshall has more than 20 years of experience at the BBC and wireless and cable firms.

Jean-Paul Musicco, US managing director of Trading Apps, said: "Simasek's experience and industry knowledge has made him a key addition to the Trading Apps team. I'm confident he will play a key role in providing and implementing high quality solutions for our clients."

Matthew Harrison, UK managing director, added: "Marshall's IT and accounting background are well suited for a fast growing global IT firm."

Nomura has added **Massimo Labella** and **Babita Ittoo** to its prime finance team.

They will be based in London and will report to Phil Morgan, who is head of prime finance sales for Europe, the Middle East and Africa (EMEA).

Labella joins Nomura as head of directional delta one sales. He previously worked at J.P. Morgan, where he focused on flow equity derivatives and delta one products.

Ittoo will be vice president and focus on client origination in the EMEA region.

The Japanese bank combined its equity financing and delta one groups under Ben Challice globally earlier this year, in a bid to create a more comprehensive financing and execution solutions-based offering for clients.

Deutsche Bank has appointed **Ajay Singh** as global head of issuer services within the institutional cash and securities services business that forms part of the bank's global transaction banking division.

Institutional cash and securities services, led by Satvinder Singh, was formed in July 2014 as part of the realignment of global transaction banking's cash management for financial institutions and securities services business units.

Business lines include institutional cash, investor services and issuer services.

Issuer services, which includes the corporate trust, global equity services and corporate services business areas, provides corporates, financial institutions, hedge funds and supranational agencies around the world with trustee, agency, escrow, depository receipts, and related services.

Ajay Singh moves to global transaction banking from the corporate banking and securities division where he was previously head of listed derivatives.

Prior to joining Deutsche Bank in November 2011, Ajay Singh spent 15 years with Goldman Sachs in their listed derivatives and OTC clearing businesses.

Ajay Singh will be based in London and will report directly to Satvinder Singh.

Satvinder Singh said: "I am personally very excited to have Ajay join the team. He is a highly-regarded industry expert who sits on various exchange, risk and industry boards."

"His experience as head of listed derivatives will be crucial in continuing the growth trajectory of our issuer services businesses."

"Furthermore, Ajay will leverage his significant networks, both internally and externally, to build deeper relationships with our clients."

Anastasia Kiseleva has joined Russia's National Settlement Depository as managing director for repository operations.

She will oversee issues related to promoting repository services in the market and developing repository technologies.

Kiseleva previously served as general director of UBS Nominees CJSC and carried out the duties of deputy chief of UBS' Moscow branch depository. **SLT**

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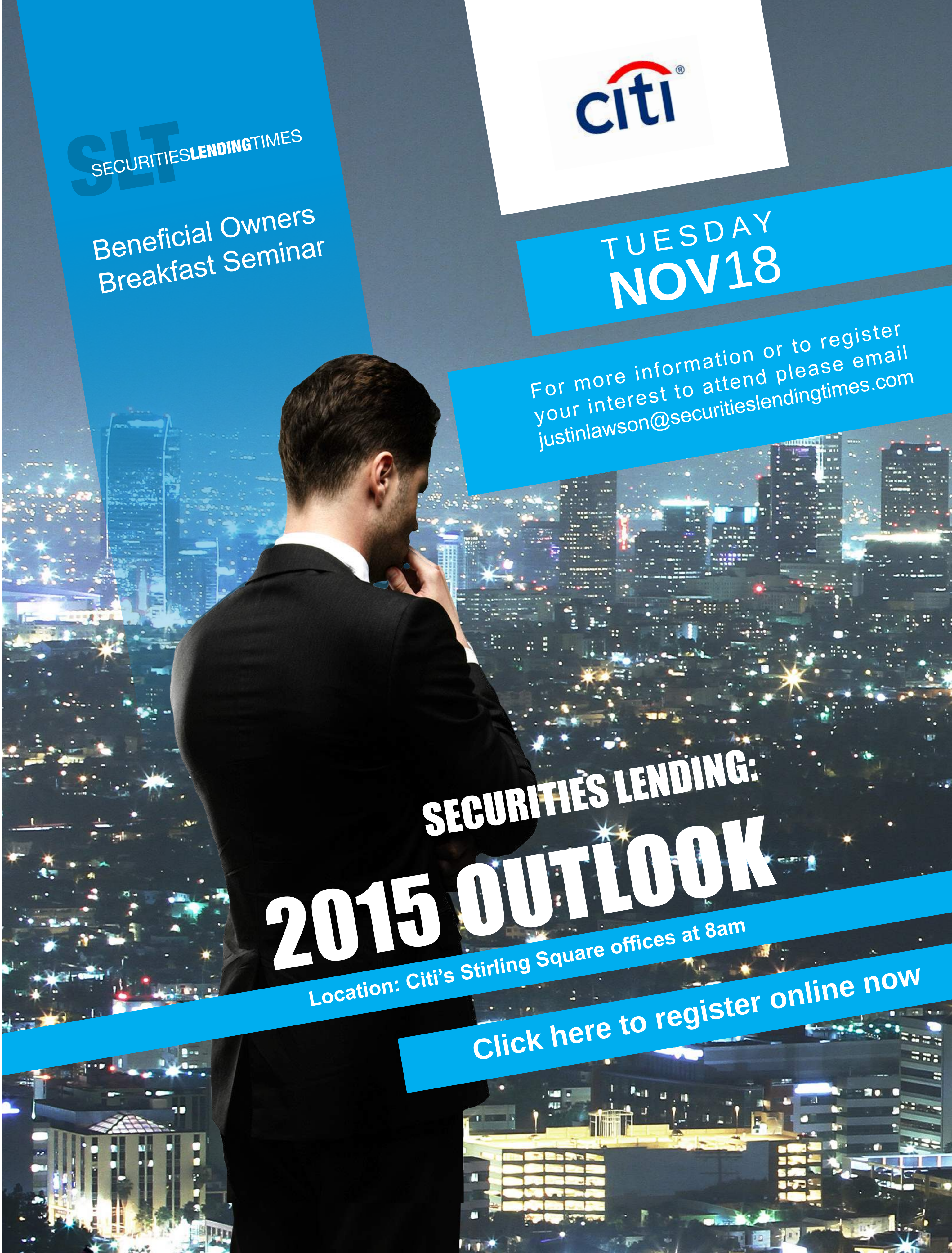
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