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BNY Mellon: the leaders unite

The global leadership team discusses reorganisations, markets, business and the future

Pershing launches OpportunityView

BNY Mellon company Pershing has launched OpportunityView, a new solution designed to help advisors and broker-dealers identify opportunities to increase returns for their clients.

OpportunityView, which is available on Pershing's NetX360 platform, will use big data analytics to help advisors more easily determine how specific clients could benefit from a wide spectrum of investment products.

The first generation of OpportunityView will help advisors identify fully paid securities lending (FPSL) strategies for qualified investors.

"OpportunityView places the power of big data into the hands of advisors and demonstrates yet another innovative solution being brought to market by Pershing," said Gerry Tamburro, head of Pershing prime services and collateral funding and trading.

"By providing advisors with the visibility to quickly spot lending opportunities, OpportunityView gives them important insights to help their clients earn incremental revenue."

OpportunityView features intuitive visual and predictive capabilities that enable advisors to see and scan all opportunities, including hard-to-borrow securities.

The solution also shows advisors the potential revenue that they can generate for their clients. By providing advisors with visualisations of all potential opportunities, it allows them to identify the positions that offer an attractive return rate for the investor.

Investors who sign up to lend securities will receive a daily report from their advisors reviewing any activity and income.

Since the programme is completely integrated within NetX360, advisors can easily monitor the number of shares on loan as well as loan values by client, investment professional or office range.

"While it offers investors the benefit of potentially increasing their returns, OpportunityView also provides value to advisors by simplifying an otherwise complex process," added Tamburro.

"It can help them to cultivate deeper, richer relationships with their clients through a well-established, minimal-risk offering that requires little time and minimal resources."

Merrill Lynch admits wrongdoing over short sale information

Merrill Lynch has admitted using inaccurate data when executing short sale orders, and agreed to a settlement of almost $11 million.

After an investigation by the US Securities Exchange Commission, Merrill Lynch admitted wrongdoing and agreed to pay the settlement. It must also appoint an independent compliance consultant to review the firm's procedures.

Under the SEC's order instituting a settled administrative proceeding, Merrill Lynch is required to 'locate' stock for customers for short selling, and to prepare an easy-to-borrow (ETB) list of stocks deemed accessible for granting loans.

The investigation found that in the course of a trading day some of Merrill Lynch's ETB securities became no longer easily available, as determined by the landing desk professionals tracking market events.

Although personnel stopped using the ETB list in these instances, Merrill Lynch's execution platforms were programmed to continue processing short-sale orders based on the list.

As systems still relied on the list, short sales were still executed, amounting to short sales of thousands of shares. The platforms would not trade accurate data again until the ETBs were updated the next day.

After the SEC began its investigation, Merrill Lynch began implementing system enhancements to correct this problem.

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The SEC also found that until 2012 a problem in Merrill Lynch's systems meant that, on some occasions, day-old data was used when creating ETB lists. This caused some securities to be included in the list when they shouldn't have been.

Andrew Calamari, director of the SEC's New York regional office, said: "Firms must comply with their short-selling obligations by making sure they do not rely on inaccurate ETB lists."

He added: "When firm personnel determine that a security should no longer be considered easy to borrow, the firm's systems need to incorporate that knowledge immediately."

The bank admitted to violating rule 203(b) of Regulation SHO of the Securities Exchange Act, 1934.

The financial repercussions include a $9 million penalty, plus $1.56 million in disgorgement and $335,000 in prejudgement interest.

BCS Prime joins Eurex

BCS Prime Brokerage, the international arm of BCS Financial Group and the largest broker of equities and derivatives on the Moscow Exchange, has been granted membership on Eurex, Europe's largest derivatives exchange.

BCS Prime has become a non-clearing member (NCM), which allows trading participation and provides clients access to the Eurex exchange.

Clients of BCS Prime now have access to some of Europe's most traded contracts such as Euro Stoxx 50 and Dax, as well as additional liquidity in Eurex's Russian derivatives.

The Eurex Exchange offers more than 1,900 products covering all major and alternative asset classes including Russian equity indexes derivatives like RDXUSD.

BCS Financial Group's Eurex membership adds to its existing LSE Derivatives Market membership, which grants the group access to the derivatives division of the London Stock Exchange, the largest stock exchange in Europe.

Matthieu Ressencourt, head of equity derivatives trading at BCS Financial Group, said: "Our membership of Eurex is yet another significant milestone as we grow and strengthen our international business."

"Joining the exchange will give both our international and Russian clients more options when trading, especially those based in Russia who will now have access to Europe's largest derivatives exchange."

Northern Trust secures RPMI Railpen mandate

Northern Trust has been selected to provide investment operations outsourcing services, including collateral management, to RPMI Railpen, manager of the Railways Pension Scheme.

Under the agreement, Northern Trust will provide trade matching, derivative processing and lifecycle management, active collateral management, and book of records services.

Nicola Dymond, COO of investments at RPMI Railpen, commented: "We are pleased to select Northern Trust whose experience and expertise in delivering investment operations outsourcing solutions for both start-up and established in-house managed asset owners and asset managers were key factors in their appointment."

HedgeCoVest hits the market

HedgeCoVest has launched its real-time hedge fund replication platform after four years of research and development and beta testing.

The platform offers advisors and all retail investors real-time replication of hedge fund strategies directly into their brokerage accounts.

It combines the liquidity, security and transparency advantages of a separately managed account with the long and short investment strategies of hedge funds.

HedgeCoVest has generated more than $80 million in committed capital for the platform and signed 45 investment management companies, including Fred Alger, The Boston Company, Cornerstone, Kovitz and Sandell.

The platform also offers 14 custom HedgeCoVest investment products including the industry's first real-time, investable hedge fund index. Investors can also create their own custom portfolio of hedge fund strategies based on their risk/return profile and investment objectives.

HedgeCoVest's platform is fully operational with Interactive Brokers and is in the process of completing integration with Pershing Advisor Solutions and TD Ameritrade.

Evan Rapoport, CEO of HedgeCoVest, commented: "We believe all investors should be able to benefit from hedge fund strategies with the transparency, liquidity, security and lower fees they seek. This is why we created HedgeCoVest."

Egyptian bank picks SGSS for securities lending

Societe Generale Securities Services (SGSS) has signed a cooperation agreement with Qatar National Bank Alahli (QNB Alahli) to provide securities services, including securities lending, to international institutional investors and corporates in Egypt.

The services provided through the agreement will span the whole post-trade value-chain.

QNB Alahli is combining its local expertise and knowledge of the Egyptian market with SGSS's commercial support, operational management and extensive international coverage.

As a result of this agreement, both domestic and international investors in Egypt will benefit from a full range of post-trade services fully compliant with local and international industry regulations and standards.

These services include local and global custody, clearing and settlement services across all asset classes, depository bank, transfer agent and issuer services, as well as cash management, foreign exchange and securities lending.

"Cooperating with QNB Alahli is an important step in bringing enhanced services to clients by offering them global coverage and direct access to a leading local securities services provider," explained Philippe Huerre, head of SGSS's international department.

"Egypt is one of the largest economies in the Middle East and North Africa region and foreign players are increasingly interested in accessing this and other markets in the area. The combined strengths of QNB Alahli and SGSS will enable clients to benefit from strong asset protection and in-depth local market knowledge for the support of their operations and development in Egypt."

Mohamed El Dib, QNB Alahli's chairman and managing director, stated: "This partnership with SGSS builds on a long-term relationship between QNB Alahli, a leading market player with more than 37 years in Egypt, and SGSS, one of the top global custodians worldwide."

"This cooperation agreement will foster and contribute to developing our securities services in Egypt for the benefit of both local and international customers."

ENSO Color Portal launches for primes and hedge funds

ENSO Financial Analytics has launched ENSO Color Portal, a platform to allow information between prime brokers and their hedge fund clients to be tailored to their trading activities.

The platform will allow hedge funds to receive customised desk flow colour commentary and trade opportunities from their counterparties.

For banks, the platform will allow prime brokers to receive instantaneous feedback and reduce balance sheet exposure, which will help improve return on assets in response to Basel III capital requirements.

Michael Gentile, partner at ENSO, said: "Hedge funds and their prime brokers have entered a completely new era of competitive and regulatory challenges."

"For dealers, availability of balance sheet is limited, and both prime brokers as well as hedge funds need to ensure they are using this resource in the most effective manner possible to optimise returns."

BNP Paribas acquires Credit Suisse Prime Fund Services

BNP Paribas Securities Services has completed its acquisition of Credit Suisse's Prime Fund Services (PFS) business, which offers fund administration, custody and banking services to alternative investment managers.

The acquisition means that BNP Paribas now has about $237 billion in AuA. Patrick Colle of BNP Paribas Securities Services commented: "This acquisition is a key step in the development of our global fund business and puts us in a good position to support the convergence of traditional and alternative managers."

"Our clients will benefit from the combination of PFS's best-of-breed technology platforms and fund administration expertise with BNP Paribas's broad asset servicing offering and geographical reach."

The move comes after BNP Paribas expanded its depository banking network to help alternative managers to comply with the Alternative Investment Fund Managers Directive.

MarginSphere 2 is ready to go

AcadiaSoft has released MarginSphere 2, the latest version of its electronic margining platform for over-the-counter (OTC) derivatives.

The platform will enable more than 200 buy-side and sell-side firms that comprise the AcadiaSoft community to efficiently comply with 2016 regulatory requirements, including mandatory exchange of bilateral initial margin, automated processing of segregated collateral assets, verified management of collateral disputes, and unbundling of collateral movements into currency specific silos.

The new regulations, promulgated by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO), will take effect on 1 September 2016.

Once implemented, it is expected that margin volumes will surge three to 10 times current levels. AcadiaSoft has claimed that MarginSphere 2 will allow this increased margin activity to be managed without a directly proportional increase in operational costs.

"A lot of firms are just now waking up to the fact that margin volumes are about to explode, making traditional manual processing impractical and expensive," stated Chris Walsh, COO of AcadiaSoft.

"MarginSphere 2 provides the industry with a standardised electronic solution well in advance of the September 2016 regulatory compliance deadline."

AcadiaSoft's MarginSphere platform fully automates the margin process, including matching of margin, comparison of necessary inputs and agreement of calls and movements.

It enables participants to match margin calls immediately so disputes can be resolved or minimised before agreeing margin movements, while interacting with in-house and partner collateral systems to automate the margin process.

With electronic margining standards in place, AcadiaSoft's efforts are now focused on the collaborative development of other services to facilitate additional regulatory compliance while also providing for cost reduction and improved straight through processing across the industry.

Specific services under development include initial margin calculation, reconciliation and disputes management.

These services will be introduced throughout 2015 or at least, according to AcadiaSoft, "well before" the 1 September 2016 deadline.

"In coming months, we will continue to engage with our working groups and other major stakeholders to further enhance the solution we have developed with their input," added Walsh.

"We believe that MarginSphere 2 can ultimately form the basis for an industry utility that can create an even more efficient and risk-managed OTC derivatives market."

Shanghai-Hong Kong stock disconnect

Companies' shares that rallied in the past year, particularly those rising ahead of underlying fundamentals, are coming under increased scrutiny following dramatic collapses in certain Hong Kong stocks.

With over $36 billion in paper losses across just three single names in Hong Kong, the roller coaster for investors is set to continue.

Shares in Hanergy Thin Film Power Group (HTF) increased by 1,389 percent between May 2013 and 19 May 2015. The shares then plunged 47 percent in the last week before trading was halted, wiping out $18.6 billion from Hanergy's market cap.

The group showed relatively low levels of shares outstanding on loan, though demand to short sell remained high right up until suspension, with the cost to borrow peaking above 30 percent in April 2015.

Shares in Goldin Financial and Goldin Property also collapsed substantially, but these stocks were not suspended and were able to recover despite the company being seemingly unaware of any concrete motives for the large swings.

Goldin Financial and Goldin Property do not have high levels of shorting activity, according to Markit, though the demand to borrow remains high across the Hong Kong market.

The average sector ranks for a universe of 391 Hong Kong stocks revealed that the most expensive or in demand sectors by short sellers on average are non-cyclical goods and services (63), energy (58) and healthcare (54). These sector averages are well below the decile ranks of the individual names.

Relatively smaller in size than Hanergy but also ranking in the tenth decile is Haitong Securities, which provides financial services including securities brokerage. The firm's share price has risen by 122 percent in the last 12 months.

Reported sales and earnings have also dramatically increased during this period, indicative of increased trading activity in the region. These underlying factors may explain the share price movement in Haitong, which some other names in the region fundamentally lack.

Markit analyst Relte Schutte explained: "The irrational exuberance of investors [has] been previously been explained by expectations of fiscal stimulus and monetary easing as economic growth slowed, but investors and companies themselves are at ends to explain the continued growth."

Price collapse in such large stocks has regulators duly concerned, as reduced values not only impact single name investors but also global exchange-traded funds investors.

The opening of the Shanghai-Hong Kong Stock Connect in November 2014 aimed to bridge the divide between two distinct investor pools and increase liquidity.

Some commenters have observed that this has instead just opened markets to retail investors who are opening a record amount of trading accounts and trading on margin.

Eurex Repo down on previous May

Eurex Repo, which operates the Euro Repo and GC Pooling markets, recorded in all markets in May 2015 an average outstanding volume of €189.1 billion, down from €195.3 billion in May 2014.

The secured money market GC Pooling recorded an average outstanding volume of €154 billion, up from the May 2014 total of €151.8 billion.

According to Eurex, the quantitative easing policy of the European Central Bank resulted in the Euro Repo market reached an average outstanding volume of €35.1 billion, which is down from the May 2014 total of €43.5 billion.

Eurex did record an average daily volume of 10.1 million contracts during May 2015—a significant improvement on the May 2014 average daily volume of 8.1 million contracts.

On average, 7.7 million of these contracts were on the Eurex Exchange, while 2.4 million were traded at the US-based International Securities Exchange (ISE), part of Eurex Group.

During May 2015, a total of 147 million contracts were traded at Eurex Exchange and 48.7 million at the ISE.

ABN AMRO Clearing joins BM&FBovespa in Brazil

ABN AMRO Clearing has been admitted as a carrying broker and clearing member of the derivatives segment on the Brazilian exchange BM&FBovespa, clearing its first transaction earlier in 2015.

ABN AMRO Clearing has been providing access to the Brazilian market through a local partner for its clients since 2013.

The approval of the clearing membership for derivatives has been hailed by ABN AMRO Clearing as an "important step" in establishing itself as a local intermediary.

Acting as a direct participant in the market infrastructure creates processing efficiencies and permits the bank to offer competitive pricing to its clients.

Jan Bart de Boer, chief commercial officer at ABN AMRO Clearing, commented: "The clearing of Brazil derivatives seamlessly fits into our global clearing offering. It delivers capital efficiencies to our clients and allows them to improve their leverage capacity and optimise their need for collateral."

"ABN AMRO Clearing will continue to improve its services for its clients' needs and make them globally more competitive."

Guided by client demand ABN AMRO Clearing has continued to invest in a bid to extend its offering in both exchange-traded and over-the-counter products, as well as covering the additional execution venues relevant to grow its clients' businesses.

The more the merrier Celent

The success of the Shanghai-Hong Kong Stock Connect hinges on removing barriers to participation, according to a Celent and Depository Trust & Clearing Corporation (DTCC) whitepaper.

These barriers include features of the programme that restrict trading strategies, introduce risk and create operational complexity.

Institutional investors continue to cite issues such as limited support for short selling, using renminbi (RMB) as the sole settlement currency and the hybrid (T+0/T+1) settlement cycle as obstacles to increased usage of Stock Connect.

According to DTCC, this is compounded by remaining uncertainty over assets, shareholder rights and reporting.

Despite this, the paper noted that the initiative, which is supported by the China Securities Regulatory Commission and Securities and Futures Commission, has achieved significant inroads in the gradual opening up of China's capital markets to international trading.

Regulators and the Hong Kong and Shanghai stock exchanges are working to resolve these complex issues as well as to address a unique requirement to 'pre-deliver' shares for all sell orders.

The paper explained that improvements in these areas should enable greater participation; pave the way to more A-share representation in global equity benchmark indices, which will in turn unleash substantial further investment in A shares longer term; and ultimately open up this significant market to more trading strategies and investors globally.

"We estimate these 'workarounds' will drive international holdings of A-shares to $428 billion by 2017. Because they are committed to opening China's capital account, regulators can be expected to expand quotas to meet investor demand," said Neil Katkov, senior vice president in Celent's global Asian financial services group.

"A Shenzhen-Hong Kong Stock Connect is slated to start later this year. Observers debate the extent to which this will be followed by links between Shanghai or Shenzhen and Taiwan, Singapore, Tokyo, New York and London."

Recently, the Shanghai Stock Exchange, China Financial Futures Exchange and Deutsche Börse AG agreed on a strategic cooperation to launch a joint venture.

It has the objective to develop and to market financial instruments based on Chinese underlyings to international investors outside mainland China, therefore, products will be offered in RMB.

Hedge funds continue gains

Hedge funds posted gains for the fourth consecutive month in May, led by equity hedge strategies, with significant contributions from technology, healthcare and fundamental value exposures, according to Hedge Fund Research (HFR).

The HFR Fund Weighted Composite (FWC) Index advanced +0.7 percent for the month, bringing year-to-date gains for the HFR FWC through May to +3.9 percent, leading both the S&P 500 and Dow Jones Industrial Average (DJIA), while the HFR Fund of Funds Index climbed +1.1 percent for May and +4.0 percent year-to-date.

Hedge fund strategy performance was led by the HFR Equity Hedge Index, which added +1.3 percent in May, the fourth consecutive monthly gain, bringing year-to-date to +5.1 percent and leading all main hedge fund strategies, as well as the S&P 500 and DJIA.

Equity hedge performance was led by the HFR Technology/Healthcare Index, which advanced +3.5 percent for May, leading all hedge fund sub-strategies.

The index has gained +8.5 percent year-to-date, also the leading area of sub-strategy performance.

Event-driven strategies also advanced for the month, as mergers and acquisitions activity continued to surge, with the HFR Event Driven Index gaining +0.6 percent, bringing year-to-date performance to +3.9 percent.

Macro hedge funds were impacted by directional currency and commodity volatility in May, with the HFR Macro Index unchanged for the month.

Macro performance was led by fundamental strategies, with the HFR Macro: Discretionary Thematic Index advancing +0.7 percent, while the HFR Macro: Multi-Strat Index gained +0.5 percent.

SWIFT boosts data intelligence

SWIFT has launched Watch for Securities, a new business intelligence solution that helps securities market participants to monitor and gain valuable business insights from their network traffic.

Watch for Securities is ready for use by local and global custodians, investment banks, asset managers and broker-dealers. The new solution covers settlement and corporate actions flows primarily used to facilitate cross border transactions between global custodians and investment banks and their counterparties, including local agents and asset managers.

Watch for Securities provides securities market players with additional independent and monthly aggregated global traffic information saving financial institutions the time and effort of gathering that same data from multiple proprietary systems and locations.

The analytics provided enables financial institutions to measure and benchmark their own activities with the overall activity on SWIFT, segregated by client type.

Stephen Gilderdale, head of new business development at SWIFT, commented: "Driving business performance from data is no longer just a 'nice-to-have'."

"With massive amounts of unstructured data available, many financial institutions need to find new ways to turn data into meaningful business insights. We are pleased to evolve and extend this service to our securities customers, particularly in the areas of corporate actions processing and settlement services."

Fabian Vandendreydt, head of markets management, innotribe and the SWIFT Institute, added: "Through Watch for Securities customers can obtain valuable insights into how securities markets are evolving, and their share of activity in particular markets. The tool also measures the relative efficiency of a customer's operations against the market as a whole."

SunGard's hottest stocks

SunGard's Astec Analytics has compiled the hottest stocks from around the globe for the week beginning 1 June 2015.

British telecoms giant Vodafone Group (VOD.L) is Astec's top pick in the Europe, the Middle East and Africa region after it confirmed it is in talks with Liberty Global over a possible asset exchange, though talks are still in the early stages.

On the borrowing front, data from Astec has suggested short sellers have been increasing their positions since the beginning of June—in which time the number of Vodafone shares being borrowed has climbed 55 percent.

Transocean (RIG) has held its place as focus in the oil market turned towards the Organization of the Petroleum Exporting Countries biannual meeting, in which the association agreed to keep levels of output high, initiating a knock-on effect on most related companies.

With this, Transocean saw its share price edge lower, though this seemingly helped spur additional short covering—the number of its shares being borrowed down 21 percent since teh beginning of May.

US technology firm Cisco Systems (CSCO) is Astec's top pick for the Americas after it undertook a shakeup of its senior management.

Its share price slipped lower during the week, and Astec's data has suggested short selling has also been on the decline for the past month with the number of Cisco shares being borrowed falling 58 percent since 1 May.

MannKind Corp (MNKD) has held its place in Astec's list as it continues to see positive attention build around its Afrezza drug, which has helped to bring about a 40 percent rise in its share price in June so far.

Data from Astec has hinted that these gains have been met by increased demand to short sell, with the cost of borrowing MNKD shares climbing from around 50 percent to more than 90 percent.

Hyundai Motor Company (005380.KS) is Astec's top pick for the Asia Pacific region after its shares closed at their lowest since 2010.

Astec's data has shown growing short selling activity even before these latest sales figures were released, with borrowing volumes in the company climbing 67 percent.

Finally, Australian grocery store Metcash (MTS.AX) has made it into Astec's list after it announced it would be suspending dividend payments in 2016, not declaring its final dividend for 2015, and saying it expects it will be writing down $495 million of assets.

This brought about a spurt of downgrades from most of the major players, including J.P. Morgan, Credit Suisse, Macquarie, UBS and Deutsche Bank.

The stock plummeted around 20 percent in the week, while on the borrowing front Astec's data suggests short selling activity has also increased rapidly—the number of MTS shares being borrowed climbing 12 percent in the past two weeks.

SS&C GlobeOp hedge fund index up 0.34 percent

The gross return of SS&C GlobeOp's Hedge Fund Performance Index for May 2015 measured 2.20 percent, up from 0.34 percent in the previous month.

Hedge fund flows as measured by the SS&C GlobeOp Capital Movement Index advanced 0.31 percent in June, down from a 0.92 percent advance in May.

SS&C GlobeOp's data on the GlobeOp platform represents approximately 10 percent of the hedge fund industry.

"SS&C GlobeOp's Capital Movement Index showed net flows into hedge funds increased at a moderate 0.31 percent for June 2015, following May's strong showing," said Bill Stone, chairman and CEO of SS&C Technologies.

Cumulatively, the SS&C GlobeOp Capital Movement Index for June 2015 stands at 147.55 points, an increase of 0.31 point over May 2015. The index has declined 2.88 points over the past 12 months.

LCH.Clearnet mandates SGSS

Societe Generale Securities Services has been selected by LCH.Clearnet to provide settlement services for domestic equity securities within the Euroclear Settlement of Euronext-zone Securities.

SGSS will provide settlement services on behalf of LCH.Clearnet in the Belgian, French and Dutch markets through its direct membership with Euroclear.

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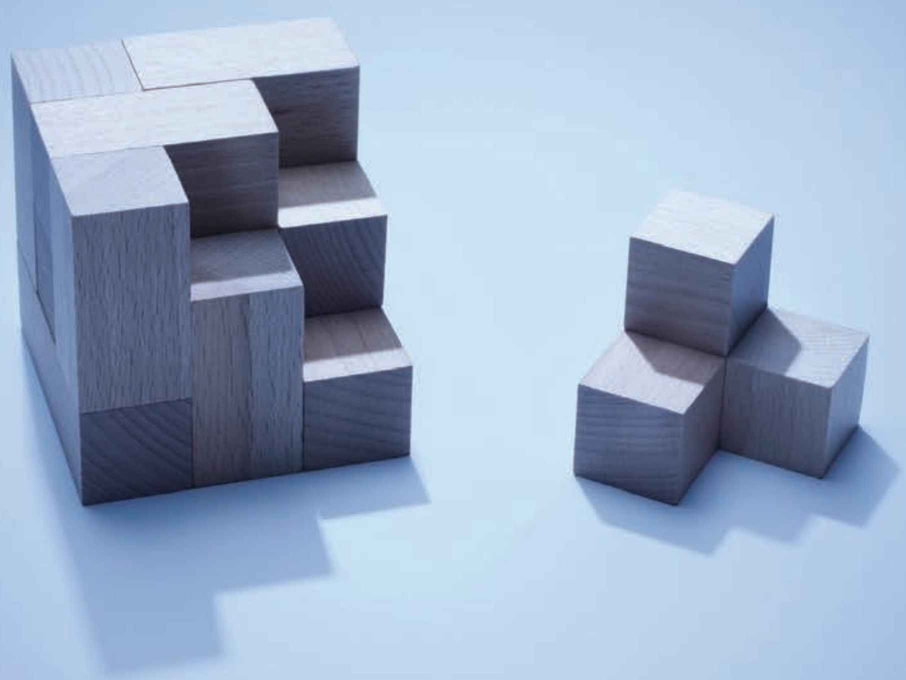

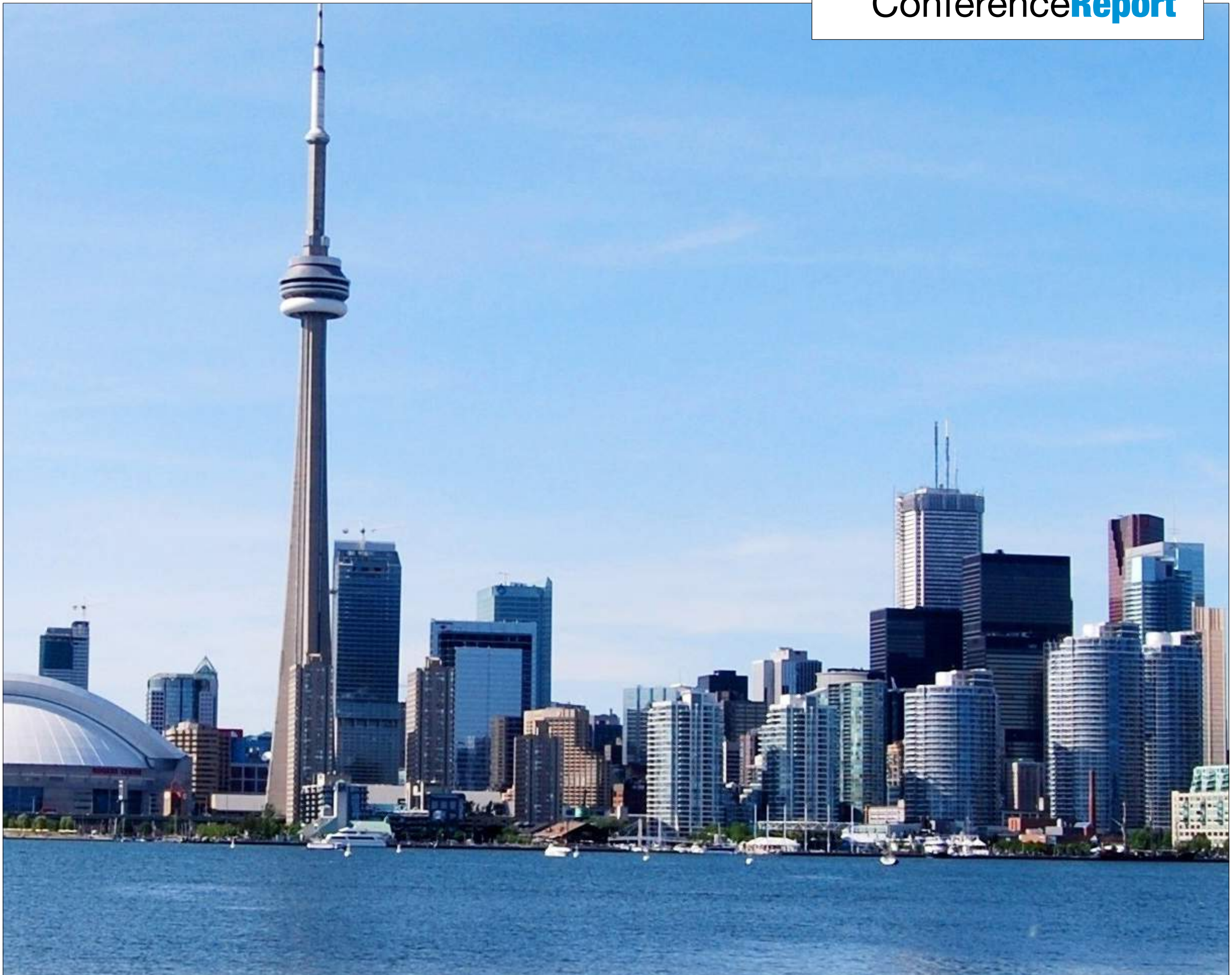

Loosening up

The world of collateral is changing, and flexibility, fluidity and additional capacity are the key to survival, according to delegates at CASLA 2015

STEPHANIE PALMER REPORTS

Changes to collateral management processes was the hot topic at the Canadian Securities Lending Association (CASLA) conference in Toronto at the beginning of June, with attendees discussing seismic changes in Canada and elsewhere.

One panel highlighted the lack of collateral in the post-financial crisis industry, with a participant saying that it is becoming more important to optimise the growth of assets on the buy side while dealing with this lack of capacity.

There is still a demand for high-quality collateral, and there is a lot around, but "what is missing is the plumbing". The panellist said the solution is to create more capacity in the securities finance framework in order to deliver a scalable and meaningful solution to clients.

A recurring point was the shift from cash collateral to non-cash in the US, while the opposite trend is occurring in Canada and Europe. A moderator said that issues have arisen from the over-use of cash collateral in the past, what he called "the avalanche on the mountain for securities lending".

But a panellist highlighted that "for the securities finance desk it's important that they have many routes to market", adding that circumstances can differ significantly depending on the jurisdiction.

"The regulators treat banks and dealers differently around the world, so some banks and dealers are going to be more constrained by their risk-weighted assets and others are going to be more constrained by balance sheet. Flexibility is key."

Another panellist added: "It's really about mobilising fluid liquidity, and that's very difficult in looking at the way we trade collateral."

In a different session, a speaker pointed out that, despite the challenges that agent lenders are facing with Basel III, increasing costs of capital and upcoming disclosure requirements, beneficial owners are actually becoming more engaged, opening up opportunities to present revenue enhancement vehicles as well.

Another suggested that the change in cash and non-cash collateral trends is "probably the most systemic shift we've seen".

The panel discussed the importance of flexibility in collateral, citing the banks' responsibility to get beneficial owners the best

returns possible. A panellist also highlighted the need for transparency, stressing that it's important for beneficial owners to understand where their collateral is located. He said: "It's an educational process."

Another panellist pointed out the many complications arising from collateral requirements, such as Basel III's liquidity coverage ratio (LCR). He said banks must pay attention to the collateral coming in, and where it is going but, alluding to flexibility, he added: "Different banks want their LCR set different ways."

"When it comes to collateral allocation, banks are "managing more holistically now", added another panellist.

He suggested that some banks are focusing on client needs on a "case-by-case" basis, but called this practice "a work in progress", and "a space race from a technology perspective".

He concluded: "We have to be fluid in responding to regulatory pressures—it's only going to get worse, not better."

A recurring subject of the conference was innovation in technology, and the need for the financial services industry to embrace this. A speaker on the technology panel suggested that market participants need to understand where their collateral is at any given time, and be able to provide real-time reports of this. He said that clients want this information and "we don't see that abating".

He added that because of this: "We have to have access to data real-time."

The same speaker later maintained: "We are good listeners." He stressed the importance of trying to understand what clients want, and then finding ways to provide better value to them.

He also made clear, however, that drastic changes must be approached carefully and could take some time to implement. He said that rigorous "day-to-day testing" is required before any new product is launched, saying that there is no way around this, and that it's important that customers are kept in the know.

"Any change you're making has to be transparent to them," he said.

Hedge funds were also identified as having a tough time up ahead. On CASLA's hedge fund panel, one speaker told attendees that while Canada may have one of the most effective banking systems in the world, it also creates inefficiency.

He suggested that the Canadian financial services industry is not conducive to investment in hedge funds.

Another panellist disagreed, however, arguing that the last year has been "positive" for hedge funds. He suggested that an increase in regulation leads to more distribution, and praised the strength of Canadian banks.

A third speaker also defended Canada's institutions, pointing out that it's easy to blame banks for cautious investment, but they are being highly regulated, too.

"It's not the banks' call," he said. "We are being forced to do this."

This speaker also talked about the importance of anticipating the challenges of the future, and building the systems to deal with them now, saying that the industry was woefully unprepared for the financial crisis. He said: "You would have had to be building from 2004 to be ready for 2008. There are opportunities to be had now."

The speaker also argued that Canadian banks should be looking to become global institutions. The first speaker on the hedge funds panel conceded to this, calling global marketing the key to Canada's success. "The world needs more Canada … but we need to go and tell the story."


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Only if it's beneficial to the owner

What should a beneficial owner consider before entering one of the emerging markets in Asia? Sunil Daswani of Northern Trust takes a look

Before expanding into new markets, Northern Trust carefully researches each new marketplace to understand the dynamics and identify securities lending opportunities.

The initial market review process looks at: overall market opportunities; settlement procedures, regulatory and tax implications; the number of lendable issues in our programme to be lent in the new market; demand for those specific assets within the market in question; the diversity of demand across our borrower base; and the overall current and anticipated future lending demand in that market.

With this mind, we turn to Asia to identify the opportunities in emerging markets there, and what needs to be done locally to attract foreign participants.

Taiwan

Taiwan is operationally complex, which puts some lenders off, although a survey at the Pan Asia Securities Lending Association/Risk Management Association Conference on Asian Securities Lending in March indicated that both supply and demand will increase throughout the latter part of this year.

Also in March, the Taiwan Stock Exchange expanded the collateral that foreign institutional investors can provide when borrowing securities. They can now provide collateral in euro, the Japanese yen, British pound, Australian dollar and Hong Kong dollar, on top of the US dollar.

In Taiwan, a beneficial owner must appoint a local broker as its direct securities borrowing and lending market participant. Also required is the appointment of a local tax agent, because lending fees are subject to Taiwanese income tax.

A lender must also pre-advise sales to ensure a loan recall is settled prior to instructing sales in the market, and ensure that it signs an addendum to its lending agreement covering all of these points. A letter of authorisation must be provided, permitting a local sub-custodian to facilitate lending.

Repeatedly failing to settle sales due to stock not being returned before the settlement date can result in suspension of the lender's trading licence. This should be avoided by your lending agent having the necessary controls in place.

Malaysia

Malaysia's securities borrowing and lending system is similar in structure to Taiwan's, with Bursa Malaysia running the central model through which negotiated transactions can be agreed between offshore participants and settled.

There is less demand in Malaysia than in other Asian markets, due to a lack of liquidity brought on by limited supply. Hedge funds have limited focus on Malaysia as a result.

Having said that, the list of securities eligible for short selling has been expanded in a bid to attract offshore participants and boost securities borrowing and lending business in Malaysia.

Lenders must practice caution over settlement failures and ensure the timely notification of sales, as penalties can be significant. This should be avoided by your lending agent having the necessary controls in place.

Like Taiwan, Malaysia expanded the list of eligible securities for borrowing and lending, as well as those that can be used as collateral for transactions, in January.

Some 30 new securities were added to the eligible list for borrowing and lending, while 18 were removed. With the updates, there are 239 eligible securities for borrowing and lending in the jurisdiction.

It is also worth noting that following the implementation of the Goods and Services Tax (GST) Act 2014, Bursa Malaysia amended its operational guidelines for lenders and borrowers, with the changes taking effect from 1 April.

The intermediary fee that borrower and lender representatives must pay has been set at 0.02 percent of the outstanding loan per annum, with a minimum of RM 100 ($27) payable, or 0.04 percent per annum, with a minimum of RM 200 ($53), on the borrowing representative only. The 6 percent GST is separate from this and must be paid on all fees, on every third business day of the month by 10am.

Indonesia, China and India

The KPEI (Indonesian Clearing and Guarantee Corporation) is working on the country's securities borrowing and lending system, and more details on the final model are expected to

be released at some point this year, likely soon. The KPEI appears to favour a bilateral model similar to that of South Korea.

On what the securities borrowing and lending system could look like in the future, the KPEI says its main aim is to support settlement management and facilitate margin trading and securities financing. To this end, it has worked to enable custodian banks to participate, and is pushing for more clearing members, investors and financial institutions to join and benefit from the facility.

In China, meanwhile, the Shanghai Stock Exchange has confirmed plans to promote securities lending business in the country.

To boost securities lending business, the Shanghai Stock Exchange plans to encourage institutional investors to participate, including publicly-offered funds and asset managers. They will be allowed to take up securities lending from the date of their establishment.

Securities lenders and borrowers will also be allowed to negotiate rates and term length, in a bid to raise trading efficiency and meet demand for securities lending.

Short selling received a boost in China, with the number of stocks that can be sold short increased to 1,100. The short selling of certain Shanghai-listed A shares was also permitted through the Shanghai-Hong Kong Stock Connect programme at the beginning of March.

Some 414 securities could be sold short through Stock Connect from 2 March, including Industrial and Commercial Bank of China, KPC Pharmaceuticals and state media website People.cn. Naked short selling is prohibited for northbound trading under Stock Connect's rules.

India has work to do if it is going to attract more foreign investors and their lending agents.

Authorised intermediaries can now enter into securities borrowing and lending agreements with clearing members in India, following market calls for the change. The Securities and Exchange Board (SEBI) of India confirmed in 2014 that the country's framework had been modified to allow authorised intermediaries such as agent lenders and prime brokers to directly enter into agreements with clearing members for the purpose of facilitating borrowing and lending.

Under the updated rules, an agreement must specify rights, responsibilities and obligations, and include basic conditions for lending and borrowing. The agreement must also detail the "exact role" of authorised intermediaries and clearing members in relation to their clients.

Authorised intermediaries have to ensure that there will be no direct agreement between lender and borrower, despite market participants expressing a desire to move away from the country's stock exchange settlement system to a bilateral format.

The move followed SEBI's decision to create a unified and simplified regulatory framework for foreign portfolio investments. A new investor class, foreign portfolio investor (FPI), has been created, merging the three existing investor classes.

India's National Stock Exchange introduced a rollover facility at the end of May to boost participation.

Participants can now extend deals for up to three months. Before May, borrowers and lenders could only carry positions forward for a month. **SLT**

Sunil Daswani
International head of client relations
Northern Trust

BNY Mellon: the leaders unite

BNY Mellon's global leadership team for securities lending discusses reorganisations, markets, business and the future

There was the creation of global collateral services, then the more recent creation of BNY Mellon's markets group. What's changed?

Robert Chiuch: This may be the first time our global leadership team has appeared in a single roundtable event. I'm obviously very proud of the team and thrilled with this opportunity, so thank you for the kind invitation.

With BNY Mellon's role in the financial markets and given the global clients we serve on the buy and sell side, our executive team long ago recognised the need to design for the whole of the investments lifecycle. Our clients are faced with new regulatory and capital constraints that affect their business and investment strategies. We launched global collateral services in anticipation of those initial regulatory developments, recognising that we would evolve that business model to help our clients adapt to these new realities. While collateral is a large component of our business, BNY Mellon has been uniquely positioned to align a number of related capabilities.

Enter the markets group. To that end and to be effective in the collateral/financing markets space, all the other pieces (ie, front- and back-office operations) are in place and operating smoothly as a single team that now incorporates foreign exchange, capital markets and so on. It may seem simple enough to say but the alignment was a massive undertaking and a terrific accomplishment for a firm of our size. It doesn't hurt that our clients are delighted either. It's amazing how people and strategy can come alive when enabled by a strong management team, good technology and cross-enterprise teamwork and collaboration.

For perspective, we touch one-fifth of the world's assets and service numerous central governments. The markets group offers an holistic approach to serving our clients as they cope and adapt to ever-changing regulatory requirements.

How is this going to help your clients? Are you more competitive?

Chiuch: The global marketplace is evolving. Just look at the changes that have taken place in the last five years—it's extraordinary. So for us, with the design for the markets group, we can help clients at every point in the investments lifecycle. It's the ability to apply our global expertise, service excellence and strategic solutions to help our clients as they wrestle with regulatory-related changes that can be ultra complex and expensive. And it must be said that nimbleness and execution are critical.

We talk with our clients every day. Here are just a few things they are buzzing about lately: high quality liquid assets (HQLAs), alternative forms of collateral and financing, optimisation, access to greater supply, and data-driven insight. With the markets group, we have enterprise-level attention, deep expertise, terrific problem-solving and global resource capabilities. For instance, this includes our services and solutions around liquidity and optimisation.

With approximately 20 percent, or roughly $28.5 trillion in assets under custody and/or administration, we don't see a shortage in collateral, but rather a potential shortage of access to high quality collateral. Clients want smart solutions that can be globally coordinated. We have a team of 30-plus traders who work as a single unit and represent the whole of the enterprise. It's very powerful—the team's agility and speed of execution are possible due to having talented people and investments in technology.

Competitors may try to cite size as a challenge to optimal performance; however, our size grants our clients better and broader access to global markets, more stable and diversified holdings, better distribution and more diversified earning streams across eligible asset classes, and the confidence of dealing with a high credit, quality counterpart that is a global brand.

Has the world been receptive to these reorganisations? Have they been easier to communicate in some markets than others?

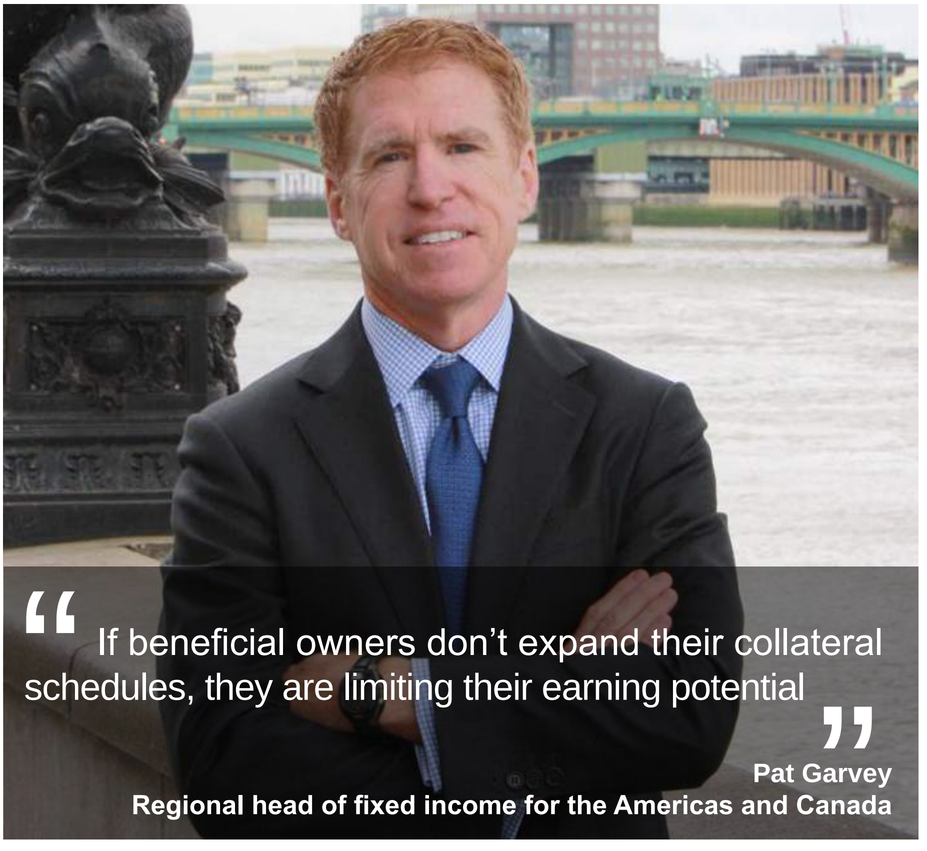
Phil Zywot: The Canadian market has been very receptive to our organisational changes as it has allowed for the streamlining of our product offerings, plus we've aligned the various internal teams and departments to best support our securities finance industry clients.

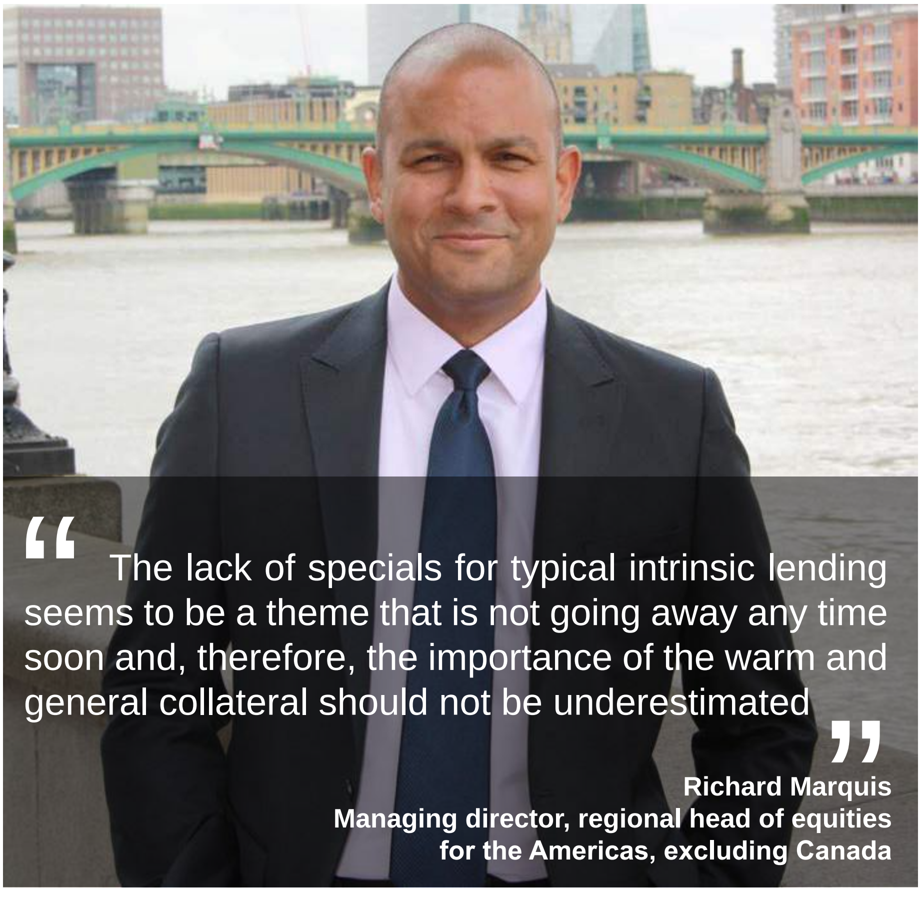
Richard Marquis: For the Americas, the same is true and the feedback has been extremely positive. Our alignment also expands the touch points between BNY Mellon and its clients throughout the investments lifecycle. For example, look at our tri-party team and the securities lending desk—both have been able to benefit from this symbiotic relationship in an environment that's focused on balance sheet optimisation.

Simon Tomlinson: Driven by the market forces at play, our approach brings key areas together. So the smart alignment of FX, capital markets, collateral management and securities finance also positions us for new and emerging opportunities.

Paul Solway: Global collateral services paved the way for the markets group, with both being true over-the-counter markets and with a number of common clients. We can better leverage and share our expertise with our clients. We're still growing in the Asia Pacific region, so the markets group supports the firm's overall cross-sell capabilities and opportunities.

Pat Garvey: With regard to the Americas, and in the two years since I joined the firm, the changes have been seamless and very well received by our beneficial owners and broker-dealers.





Howard Field: Yes, on the whole, borrowers have been receptive to the markets group. They understand that in this new environment we are uniquely positioned to bring these capabilities together. We have solutions for all clients, depending on whether they are long or short cash, bonds or equities. The BNY Mellon markets group isn't simply a name change. It's much more strategically-oriented in support of delivering across the investments lifecycle.

BNY Mellon formally integrated the team from its Canadian joint venture, CIBC Mellon, and that book of business on to your platform. What have been the benefits internally and for clients?

Zywot: I believe the results have been very positive for our clients and for our joint venture partners, too. Perhaps I'll step back for a moment just to clarify what occurred. We lifted out the securities lending trading team and formally joined BNY Mellon. The traders, including myself, are BNY Mellon employees. And CIBC Mellon, the joint venture, remains very successful and well regarded in Canada.

Rules for beneficial owners and borrowers in Canada sometimes differ from those of their US counterparts in everything from, for instance, collateral flexibility to tax rules. The benefits for our buy-side clients include significantly enhanced access to broader and more global distribution channels, while leveraging BNY Mellon's global technology, infrastructure and market access. Additionally, the sell side clearly benefits with more convenient access to a broader pool of assets and market capabilities.

What changes have been made in terms of reorganisation in Asia?

Solway: While not necessarily groundbreaking, our Asia Pacific businesses are being viewed as a real growth opportunity, especially in the context of current markets. Fundamentally, we're paying special attention to our product mix and making changes as required, notably in Hong Kong, Japan and other markets.

We're also deeply focused on ensuring the right people are in the appropriate roles to assist clients, as well as to identify and capture opportunities. More specifically in our space, Mark Millitello is the regional business manager for the markets group and I've taken on an incremental role, too, as the regional head of securities finance. There's lots of cautious excitement, if I can use that phrase, around new markets, particularly China. We like the Asia Pacific region.

In Asia, what inroads have you made into countries such as Taiwan and China, from a fixed income and equities standpoint?

Solway: Equities in Taiwan. This is going well, but the market still faces access challenges due to

> "Pricing will more accurately reflect the impact of attracting capital as the broader community comes up to speed with evolving regulations"

Robert Chiuch
Global head of equity and fixed income finance trading for markets group

structural and operational restrictions. Additionally, quotas, borrow pre-matching, short-sell restrictions, tax reporting and dividend reporting are also areas to watch. Overall, when funds are potentially unable to sell their full positions immediately remains the biggest impediment there.

For equities in China, we are carefully watching developments. The Hong Kong-Shanghai Stock Connect is exciting, but still prevents offshore participants from qualifying for physically borrowing or lending. However, the velocity of change is encouraging. Most recently, the MSCI announced further encouraging reforms that move us closer to an independent market for Chinese securities.

Field: We continue to explore emerging market debt opportunities as they arise and we'll engage when those opportunities make sense for our beneficial owners.

Do the fixed income and equity teams work closely together? What has changed to enhance and streamline day-to-day operations?

Chiuch: Yes, in short, our equity and fixed income teams work very closely together. In a manner that's not dissimilar to other market participants, a combination of deteriorating market conditions and new regulations, led us to bring the teams under a single management structure and I was assigned the global fixed income business, as well as the global equity business. Working together often takes on new meaning under a single reporting line.

That said, this team made the transition successfully and without hesitation. Interestingly, HQLAs came back in vogue around that time. It was great to see our two teams fully coordinating their activities to better manage the balance of trade across our products and asset classes to ensure the optimal use of capital and resources. What I'm seeing is accretive, ie, better for both teams. And, although such change could seem less than newsworthy, it's easier said than done in any large organisation. Some of the other benefits are better communication, strategic alignment, accountability, and a culture that is thriving.

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

Zywot: Regulatory change, both globally and locally, continues to re-shape and re-define the securities finance industry here in Canada. The evolution of collateral continues to also play a large part in Canada. Over the years, the Canadian market has gone from almost being strictly a non-cash sovereign debt collateral market to more of a balanced European model with cash and equity collateral playing a much bigger role. We continue to work with and educate beneficial owners on the potential risk-adjusted returns of alternative forms of collateral.

Another major theme is technology. Canada has been a slow adopter, preferring to wait and implement proven advancements. However, in the past few years, Canada has made great strides in catching up to our American neighbours in the use of AutoBorrow, contract compare, front-end systems and tri-party collateral facilities.

Marquis: I'm guessing this will be echoed globally, but ratios and acronyms are the obvious answer to me: SLR, LCR, NSFR, and so on and so forth. From our standpoint, it's how do we solve and price this for broker-dealers. Also, the net capital requirements for brokers and dealers, and the developments in the US will have a clear impact from the perspective of what brokers can pledge. Legislation such as the Employee Retirement Income Security Act will also require modification to fit into the new demand cycle, or such funds could be moved to intrinsic lending.

Tomlinson: Regulation has been the key theme globally for some time now and that has not really changed. There are still many challenges to come such as the introduction of a wider Financial Transaction Tax, which is still under discussion. Also, the settlement discipline regime under Central Securities Depositories Regulation, which brings with it some definitive changes, and the central counterparty (CCP) conundrum and the introduction of NSFR—due in January 2018—to name just a few.

Solway: For me, the key themes will be: the International Securities Lending Association best practice paper regarding proof of authorisation of fund lending; regulations requiring market participants to revisit distribution channels; revenue versus risk in the remaining emerging markets and whether the potential cost justifies the build; the consolidation of fixed income and equity teams; and automation and the speed of execution.

Garvey: The regulatory environment is creating the need for balance sheet neutral trades, or upgrade trades, such as treasury/equity. Overall, collateral flexibility by our beneficial owners is a critical element for navigating the compliance maze. If beneficial owners don't expand their collateral schedules, they are limiting their earning potential. To address this, we are continually educating our beneficial owners as to those trades that most effectively monetise their assets, given existing market conditions.

Field: I echo Pat's comments. You've got to consider trades that won't blow the balance sheet.

"We continue to explore emerging market debt opportunities as they arise and we'll engage when those opportunities make sense"

Howard Field
Regional head of fixed income for EMEA and the Asia Pacific

"Regulation has been the key theme globally for some time now and that has not really changed. There are still many challenges to come such as the introduction of a wider Financial Transaction Tax, which is still under discussion"

Simon Tomlinson
Regional head of equities for EMEA

Basel III ratios have added new challenges to balance sheet management and capital cost. How is this affecting BNY Mellon?

Chiuch: BNY Mellon is not alone with respect to contemplating and acting on these new rules and regulations. We also recognise the potential impact on our clients, too. The obvious considerations revolve around counterparty risk, balance sheet usage and capital costs under the Basel III rules and the US Dodd-Frank Act, to name two. It's been suggested by top industry thought leaders in the regulatory space that US regulators view the Basel III rules as a basis for future US rules and that we're currently only about half way through the process.

Recent updates suggest that the US is revisiting rules around large counterparty exposures, as well as NSFR in the context of linked transactions. There is thoughtful consideration of regulatory arbitrage, as well as a greater focus on prudential enterprise risk management (ERM). The Basel III rules are said to be further evolving from the standard calculation of 20 percent for banks and 100 percent for non-banks to a matrixed model that might contemplate asset class and risk exposures in determining margin. The list goes on.

The implications are that these industry changes are secular in nature. Generally, higher costs associated with compliance and administration, capital allocations and the ability, or lack thereof, to attract risk weighted assets that would inflate the denominator in the key leverage ratios will have to be more deeply considered than in the past as traditional business cycles take on new life.

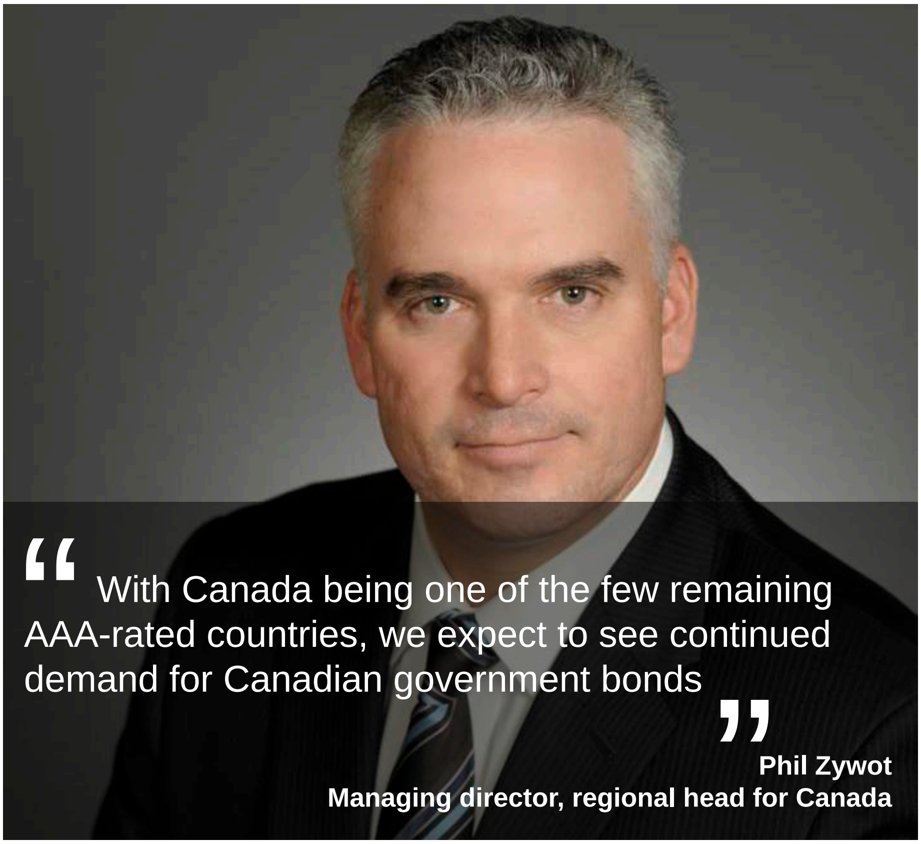
How are repo markets doing at the moment, and what are the most pressing regulatory concerns for the business?

Chiuch: Less balance sheet, more non-cash, industry shrinkage and wild swings in liquidity in rates due to global forces attributable to global quantitative easing siphoning liquidity out of local markets (i.e. recent volatility in the German bond market) contribute to repo market challenges, over and above market levels.

Can you all share any predictions for the next 12 months?

Zywot: With mergers and acquisitions (M&A) activity being up 21 percent in the first quarter and a recent increase in the threshold amount for Canadian governmental review of foreign acquisitions, this could potentially spark some interest in foreign takeovers in the small cap space, particularly in the depressed resource sector.

With Canada being one of the few remaining AAA-rated countries, we expect to see continued demand for Canadian government bonds.



We also expect to see a strong focus on balance sheet-friendly trades to continue with an increased focus on term structures and collateral upgrade trades.

Marquis: Looking deeper into 2015, the growing importance of non-cash collateral and the advantage non-US funds have over many US-based funds with regard to acceptable collateral cannot be overlooked. Regulations haven't created a level playing field.

The lack of specials for typical intrinsic lending seems to be a theme that is not going away any time soon and, therefore, the importance of the warm and general collateral should not be underestimated.

That said, I echo Phil's comments that there is a decent pipeline of M&A deals in the US moving into late 2015 to 2016.

Tomlinson: The next 12 months will be interesting for Europe, the Middle East and Africa. Several of the key issues that I mentioned are looming and could have a considerable effect on business depending on their scope.

These aside, the use of CCPs is likely to become more prominent, non-cash will continue to dominate with the need to match term increasingly important, and scrip dividends will continue to be in vogue.

Solway: Watch China carefully, particularly the Stock Connect programme and developments from the MSCI. This will likely determine the pace of evolution regarding offshore participation. Other themes include: Japan and Hong Kong to continue to dominate flows; and South Korea has made a come-back since the ban in 2008 to 2011, and continues to gain in interest for hedge funds.

Also, the energy story will continue—nuclear (Japan), solar (China) and commodities (Australia)—which is the sector of focus, followed by technology (South Korea/Taiwan) and transport (shipping flows, rail-links and airlines).

Garvey: The need for non-cash trades, which are balance sheet neutral, are increasingly in high demand due to the myriad regulatory hurdles that clients are facing. We anticipate the non-cash component of our book will continue to grow in the next 12 months as both beneficial owners and broker-dealers adapt to these market and regulatory changes.

Field: Non-cash trading in term is the way forward. The book has changed from 70/30 in cash to 70/30 in non-cash and this trend won't be reversed in a hurry, certainly not in the low interest environment.

Chiuch: I would expect to continue to observe a secular shift in collateral flows and pricing. Recent news of possible changes to SEC rule 15-c-3 would likely diversify flow currently occurring outside the US. Pricing will more accurately reflect the impact of attracting capital as the broader community comes up to speed with evolving regulations. **SLT**

The future's bright—the future's transparent

Bringing securities finance out the shadows—as regulators put it—will help save the world. ISLA's Andrew Dyson reveals why that might not be the case

STEPHEN DURHAM REPORTS

What is the International Securities Lending Association's main concerns regarding the European Commission's proposal on securities finance transaction reporting?

Firstly, the International Securities Lending Association (ISLA) would generally fully support the objectives of both the EU and the Financial Stability Board (FSB) and this proposed legislation comes directly from the FSB shadow banking framework. However, we think it is important that this is part of a global implementation where there is a level of consistency in the type, detail and degree of reporting. For example, in Europe, the choice has been put in the text to ask market participants to report their trades to trade repository. We would see that becoming quite complex on a global basis if other regions or regulators ask for this type of reporting to be made available to them in a different way—either direct reporting or surveys.

We would stress the need for global consistency to make compliance with these rules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straightforward for the industry and easy for regulators and policy makers to aggregate.

We have raised a number of concerns during the development of the regulation, but we still do not yet know what the outcome will be. Matters that we have raised include the conditions that must be fulfilled before parties can reuse collateral. We have stressed that, while we do recognise the need for reporting and a better understanding of what happens to collateral, we would not want any of the proposed requirements to potentially interrupt the legal certainty that is given by title transfer collateral arrangements.

In terms of reporting to beneficial owners, we would very much like to see any reporting rules in that space be consistent with the European Securities and Markets Authority (ESMA) guidelines for UCITS funds. We are not anti-disclosure; we would just like to see consistency that would avoid duplication of effort and costs.

We have also argued that the reporting regime for securities finance transactions should learn lessons from the European Market Infrastructure Regulation (EMIR) derivatives reporting regime. Unfortunately, the official review into the operation of EMIR has only just been started by ESMA.

From our perspective, it would be good if the reporting and transparency of securities finance transactions could somehow reflect elements of that review—clearly ESMA and other regulators now know better what has happened in the EMIR world, and we would like that experience to be applied to securities finance transactions. Unfortunately, the findings from the EMIR review are almost certain to come too late for this.

Are there potentially detrimental effects for the securities finance industry if the proposal is accepted?

In theory, while it might make things a little more expensive, reporting and transparency shouldn't necessarily impact on what we do. However, it is important to have a globally consistent framework. We should certainly learn from what has gone before and, if possible, replicate it. Something like the UCITS reporting guidelines for investors are absolutely fine and so we do not see why they cannot be replicated in our world. It is more of a potential drag on the industry than something detrimental—it won't change the fundamentals of who is doing business with who, it would just make reporting slightly more complicated.

Is there industry support on both sides of the argument? How much support do ISLA's concerns have?

ISLA is an organisation that uniquely represents all sides of the market—lenders, their clients and the big prime brokers that borrow the securities. We have tried to engage with all our members to ensure that our collective comments and concerns reflect everyone. Some of the issues around reporting to trade repositories are more familiar to brokers because they are doing it already for EMIR-type transactions. There is probably more work to be done on the lending side, as they might not be as familiar but, having said that, they will be familiar with UCITS-type reporting.

Generally, we have taken our members with us on this one, and one side of the industry does not seem to be more or less supportive than the other.

How do you expect the situation to resolve? Is it likely to affect the industry either way?

Our best guess at the moment is that the legislation will go through and possibly be completed by the end of June. Then it will go to ESMA for the drafting of the detailed second-level text, which is essentially the writing of the technical rules. We will then embark upon working out how we will comply with these reporting and transparency regulations—it will probably take some months to understand the scope of the requirements, as we do not actually know yet.

Our industry is very adept now at reporting, and this is just another form of that. Once the requirement is defined, developed and built, I think the industry will be in a good position to comply. The challenge will be when the information has to come from more than one place for a particular trade—like if collateral information is in triparty, for example.

What other regulations are you currently concerned about or supportive of?

There won't be any surprises here, but what happens next with the Central Securities Depositories Regulation (CSDR) is clearly a concern, particularly with the revised rules that we expect to receive from ESMA regarding mandatory buy-ins and settlement fines. This is going to be another interesting challenge for the industry as it may well change the way firms think about settlement, looking at ways to be more efficient and reduce fails.

We at ISLA completely support the overall objective of increasing settlement discipline and therefore reducing fails. Some of the rules in CSDR could be pulling against that general objective and I think that is an area that we will have to revisit later in the year when further guidelines emerge from ESMA.

Another big thing in our industry is the rolling implementation of the Basel III rules, which particularly hit banks and broker-dealers. The likes of the net stable funding ratio and the liquidity coverage ratio are changing the way people want to think about securities financing. We are seeing more term and non-cash transactions, for example.

There is also a whole process going on around the resolution stay protocol regime. Developing bank recovery and resolution regulations around the world are providing authorities with certain powers to help them resolve or wind down banks in the least disruptive of ways.

The regulators are demanding that we provide a contractual solution that will support their powers to temporarily stay close-out rights under securities finance transaction agreements. They did this for the over-the-counter derivatives world in the last year. We are working to make this happen and it is not necessarily a concern, but it is a significant drain on resources.

Finally, what can attendees expect from ISLA's June conference in terms of content?

The themes in Lisbon will, as you would expect, focus on incoming regulation, but we are planning to cover those in detail with specific sessions early on in the programme. We are then moving on to look strategically how we can begin dealing with these issues. We are also planning to mix it up with some different perspectives. On the first day we have Cristina Casalinho from the Portuguese Debt Management Office giving her perspectives on what it is like to manage the national debt and the obligations of a smaller country in Europe. We also have a panel where we have a number of hedge funds giving their perspectives on the financing world, particularly Basel III.

The second day will see senior traders discussing the realities of everything we have mentioned and how it affects day-to-day business. We also have a panel on disruptive technology and how it is changing what we do, including participants from telecoms and music industry advisory companies explaining how they deal with these problems.

Finally, we will see a beneficial owner panel with a twist, as the European Central Bank will be speaking for the first time as a beneficial owner lending securities. The conference will focus not on the changes to come, but the new world we are living in right now and what the future might look like. **SLT**

Andrew Dyson
President
ISLA

Standardisation game

Chris Chanod of PrimeOne Solutions explains why synthetic products are increasingly attractive to the buy side, and how to standardise the asset class

What is demand like for synthetic products such as swaps from primes and hedge funds? Has it increased in recent years?

We have certainly seen an increase in demand around equity swaps, predominantly driven by hedge funds and the increase in Undertakings for Collective Investment in Transferable Securities (UCITS) fund allocations.

For emerging markets where leverage is not attainable through traditional margin financing, swaps have always been the dominant financing venue. Additionally, short exposure in a UCITS fund generally requires the use of swaps through portfolio swaps or traditional total return swap (TRS).

What new products are PrimeOne Solutions currently working on? Has there been much uptake of the recently-released platforms?

PrimeOne Solutions is currently engaged in strategic partnerships with select investment banks and institutional hedge funds to create greater efficiency in swaps processing and reconciliation across multiple counterparties. This will form the foundation for a ‘swap network’ where all counterparties can utilise the same calculation methodologies and work towards standardising a currently fragmented and inefficient marketplace.

What brought the idea about and how do you anticipate it will affect business for PrimeOne Solutions overall?

The swap network idea has been a part of our overall investment thesis here at PrimeOne Solutions from the very beginning. Assisting new entrants to the prime brokerage and swaps market by providing a cost effective, efficient and scalable technology solution, with a long-term goal of standardising the industry where possible.

This has created an additional revenue stream for PrimeOne Solutions in the institutional hedge fund community. We have worked diligently to make our product easily accessible to hedge funds at a relatively inexpensive price point.

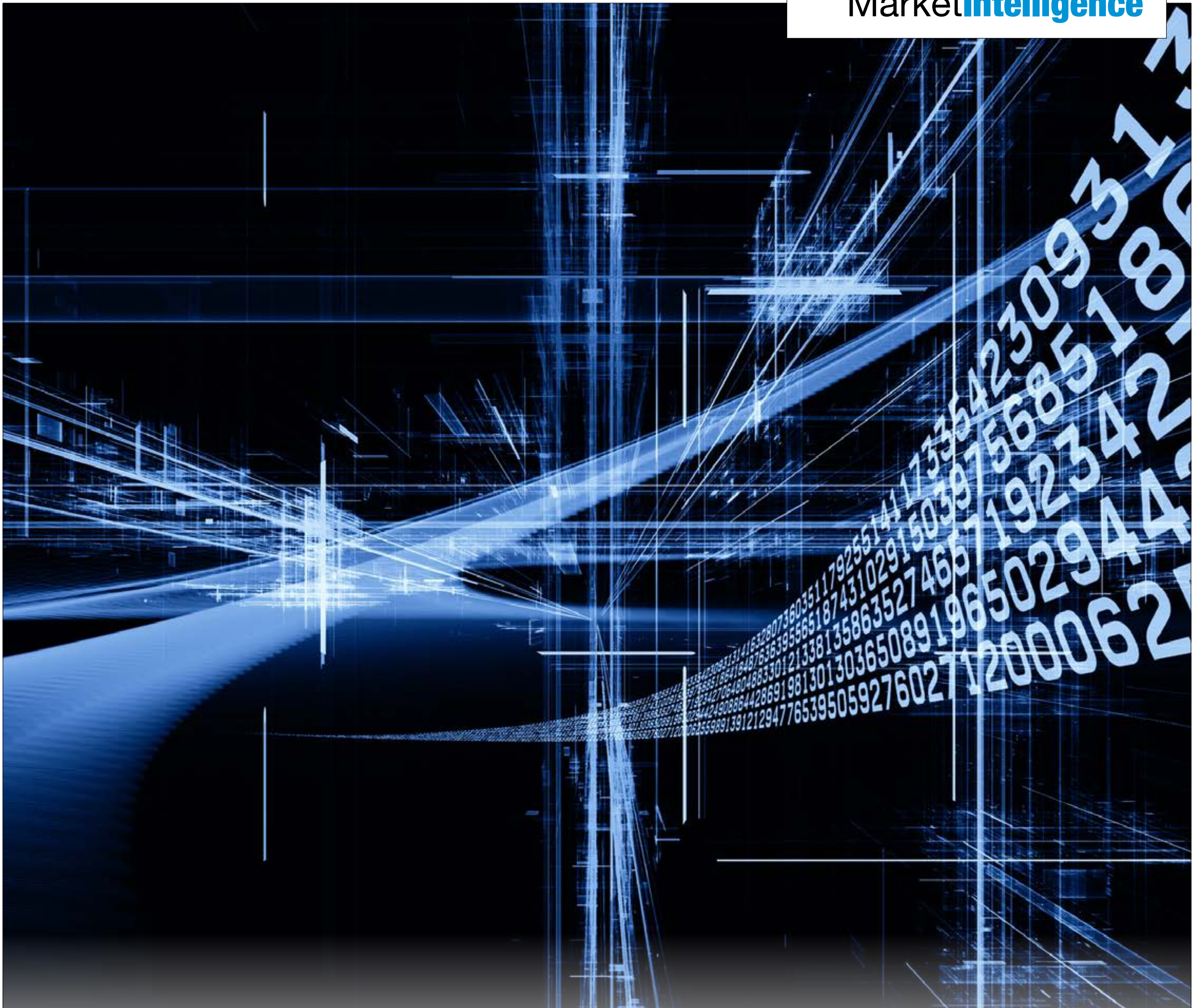
Does it have any competition elsewhere in the industry?

SwapOne is in the unique position of being the only built-for-purpose swaps processing and reporting platform available in the marketplace. SwapOne is a sixth generation global swaps lifecycle processing engine that was lifted out of a global investment bank by PrimeOne Solutions in early 2012. The system is currently in place at a number of global banks and financial institutions, as well as a number of large institutional hedge funds.

Will market feedback play a role in its development?

This is where our strategic hedge fund and bank partnerships will continue to play an important role in the build-out of this industry-wide platform. Customisation and modifications of SwapOne are part of a collaborative process, unless otherwise requested by our partners. **SLT**

Chris Chanod
Global head of business development
PrimeOne Solutions



Qualitative easing

Dealreporter's Alessandra Castelli gives an overview of how qualitative data can improve securities lending models, for the benefit of everyone

The 24th ISLA conference is finally here. What does this securities lending event mean to Dealreporter?

For a start, we're delighted to be hosting the networking lunch on 24 June. We've been a fixture at the International Securities Lending Association for some years and have partnered our subscribers through tricky times from a regulatory perspective. Through our coverage of this terrain and examination of bank capital positions, we've followed the impact of leverage ratio changes in the wake of Basel III/Capital Requirements Directive (CRD IV) particularly closely.

But that landscape is settling, in our view, and with greater visibility comes the opportunity for securities lenders, beneficial owners and hedge funds to have confidence in their roles in this new world—and to benefit from the yield deriving from borrow plays around corporate events.

'Corporate events' is a broad landscape. What is your core coverage?

We are of course best known as a mergers and acquisitions (M&A) risk arbitrage market intelligence service, tracking shareholder stances, competition and other regulatory approvals and management friction—any and all risks that could see a deal come unstuck, or that could be overcome to unexpectedly see a merger close successfully.

Our core coverage areas also include special situations and equity capital markets (ECM) activity, including rights issues, block trades, convertible bond issuance and initial public offerings (IPOs), so essentially any corporate or shareholder exit situation that might create price moves and liquidity events. Our subscribers need to be ahead of the pack with such information to secure the best yield, regardless of their role within the securities lending universe.

Do you believe a qualitative approach is a route to yield in securities lending?

Of course. We know there are securities lenders tracking borrow availability, inventory and price signals. This is an essential and necessary precondition of operating in this space.

But it's not enough. Having insight into potential corporate events before others in the market can price them in leaves you more yield on the table. It allows the price of a borrow to be established or secured more advantageously.

Knowing the lie of the land in securities lending is one thing. We provide insight and intelligence on those factors that will see that market topography shift. The first roundtable on 23 June will explore which markets and strategies will help generate incremental yield. Greater awareness of corporate and shareholder intentions is a vital tool in that arena.

Forward-looking insights are valuable by their nature. How do you aim to deliver them?

At Dealreporter, we have built editorial strength in depth—for Europe, this means a London headquarters, journalists in all financial centres, an additional layer of sector and transaction specialist reporters, and a team of analysts modelling the impact of our market intelligence. We are of course a global product, so our North America and Asia networks are built in the same image.

We provide our journalists with the skills, resources and freedom to investigate, with the proviso they come back bearing fresh intelligence that advances market understanding. Analysis can be helpful, but we major in news, which is why we are called Dealreporter. We report and break news.

Is negative news on a potential M&A deal the most valuable intelligence for securities lenders?

It's certainly very actionable. In February, Dealreporter reported potential suitors for online gaming group Bwin.party appeared to have lost interest in buying the whole company. The story received widespread attention and the stock fell 20 percent. But our readers saw it first. We've followed up as the process revived amid moves by rival 888. Bid targets remain in the crosshairs even when one deal looks like it might fall through. That's why we stay with a situation.

But hedge funds short on a stock need intelligence on stocks moving up as well as down, of course. Short covering ahead of competitors is preferable to doing it with the herd.

In April, we reported that Elliott Advisors was stake building in German-listed bid target DMG Mori Seiki AG, which saw that stock rise. This exclusive is typical of our journalists' attention to detail. Chasing down that kind of information requires lightning speed and a cultivated source base. You need the movers and shakers at the end of the line and willing to talk shop in the 30 seconds they may have for you. Relationships matter enormously.

Rights issues can be hugely dilutive, but issuers are cagey about discussing them pre-event. How do you approach sourcing information on these transactions?

A transaction involves a buyer and a seller, and their intermediaries. At any given point, it will be in someone's interest for more parties to be aware of the deal going ahead, even if not the seller's. This is why we have a multi-layered editorial team with many different areas of expertise covered.

We cannot rely on company sources, deal advisors and shareholders or bondholders. We must triangulate between them all constantly to get the full picture.

An example of this approach was our multiple-sourced 28 May scoop on a potential capital increase at Italian energy services player Saipem. We reported that cash call pitches were coming from investment banks into the group's oil major parent Eni, and flagged the share sale could climb up to €2.5 billion. Local press picked that up on 4 June, which saw the stock fall 13 percent, the shares suspended on Borsa Italiana and a short selling ban imposed by market regulator Consob.

Our subscribers had a whole week to adjust to this information before it broke.

With IPOs, the stock is not listed—presumably, your ECM coverage dovetails with fixed income lending strategies?

Plays on the credit quality of an IPO candidate naturally make our pre-listing ECM coverage highly actionable for securities lenders active in the fixed income space.

A lot of IPO reporting goes straight from the mouths of the syndicate desk offloading the stock onto the page: pilot fishing went well, it will price at a premium to peers, the book is multiple times covered, and so on. Again, by casting the net wider among our sources, targeting sector experts and advisors alongside buysiders, we can tell if an IPO is going well or badly.

French energy and engineering services player Spie is a private equity portfolio company. Its listing attempt in October 2014 saw Moody's place its ratings under review for upgrade, given the capital raising IPO issuance it had planned. But we exclusively revealed the IPO was not finding traction with investors, even before the price range had been set. During bookbuild, we followed up with intelligence backing that initial view. As conditions improved, we had pre-event intelligence that investors were interested in putting their money to work in Spie in 2015 via a revived IPO, and that was borne out with a successful IPO earlier this month.

Our IPO intelligence offers numerous entry points for the securities lending universe.

Block trades are significant liquidity events, even if they are notoriously done and dusted in a matter of hours. How can market intelligence offer a route to play these situations?

Dealreporter is proud of its record innovating coverage to fill these sorts of gaps. This month, we launch an ECM Europe lock-up database, highlighting when stock post-IPO or secondary placement is free once again to be sold into the market. Running internally for some months, our analysts and reporters have already used the lock-up database to file previews where a stock placement looks to be on the cards.

On 19 May, we ran a piece highlighting outdoor goods manufacturer Thule Group's private equity shareholder Nordic Capital might take advantage of an upcoming lock-up expiry, pointing to rationale given the stock price and the private equity firm's recent outgoings.

At the time of writing, Nordic Capital has issued the final pricing statement on an accelerated placement of Thule stock, which is very pleasing for us and proves the value of this content.

Our proprietary analytics team had already successfully launched an IPO valuations pipeline, built with details gathered from our reporters' market intelligence. This is emblematic of our pitch to the securities lending space.

In summary, we firmly believe the addition of our qualitative information into data models adds considerable value in the hunt for yield. **SLT**

Alessandra Castelli
Europe editor
Dealreporter

EU update: more regulations to come

Experts discuss the European markets and what to expect from regulators

How are European trading trends shaping up this year?

Mark Jones: European equity markets have performed well to-date, drawing strength from the European Central Bank's quantitative easing (QE) programme. This injection of cheaper capital has been a catalyst for a regional rotation of hedge fund capital into Europe, helping support hedge fund growth in the region. However, sustained growth in Europe's equity indices have seen hedge funds maintain a net long bias, constraining significant growth balance in the region.

On-going regulatory scrutiny around capital adequacy levels in Europe's banking sector continues to be catalyst for capital raising across the sector. Hedge fund demand has been driven by arbitrage opportunities associated with resultant rights or convertible bond issuances. Regulatory pressures, coupled with Europe's low interest rate environment, are expected to see this theme continue.

Regulatory change continues to influence execution decisions for both lenders and prime brokers alike. Balance sheet and capital cost sensitivities continue to act as a catalyst for the industry to explore more efficient routes to market.

The introduction of new technological efficiencies, such as EquiLend and BondLend's Next Generation Trading (NGT) capabilities, due later this year, will play an essential role in helping achieve some of these efficiencies.

Laurence Marshall: The European securities finance industry is vibrant. DataLend shows $504 billion in total on-loan value, $3.6 trillion in total lendable value and more than 10,000 unique securities currently out on loan in Europe. As far as automated trading on EquiLend and BondLend, trading activity has steadily increased in Europe over the past several years. In fact, the number of European securities trades on EquiLend and BondLend has doubled in the past five years alone, from May 2010 to May 2015.

Fixed income corporate securities, in particular, have seen incredible growth on our platform in Europe, with a ten-fold rise in BondLend activity in Europe since 2010. On June 4 this year, we hit a record high of 31,775 trades on EquiLend and BondLend overall (counting one side of each trade), indicating that automated trading remains healthier than ever.

Maurice Leo: We see two key trends. The move toward non-cash collateral has been well underway for more than two years. Many borrowers see beneficial balance sheet treatment when trades are transacted versus non-cash. Balance sheet usage is obviously important in the context of calculating many ratios under Basel III. The other major trend is evergreen and extendable structures on collateral transformation trades, for which borrowers receive relief under liquidity coverage ratio requirements and, to a lesser extent, net stable funding ratio requirements.

What are the most pressing regulatory burdens right now?

Jones: While hardly a new topic, the most prevalent issue in the regulatory space at present is capital and balance sheet usage and the way that recent regulatory changes have influenced the way that the market approaches almost all its activity. Virtually all market participants have been affected by these changes and have to rethink and adjust the way they do business as a result.

This represents the biggest challenge for borrowers and lenders alike at the moment, and adding into the mix macro themes such as market transparency, financial transaction taxes, and other jurisdiction-specific regulation such as UCITS and the Alternative Investment Fund Managers Directive (AIFMD), and there clearly remains a heavy regulatory agenda for the market to contend with.

Leo: Regulation is the all-consuming issue for most practitioners in our business right now. Aside from the usual risk-weighted asset and return on capital headwinds, numerous regulations in the pipeline will impact how the industry conducts business.

In the Europe, the Middle East and Africa region, we have the Securities Finance Transactions Regulation (SFTR). UCITS V, expected by March 2016, will also bring new lending challenges for funds already facing the implementation of the European Securities and Markets Authority (ESMA) UCITS guidelines. A big challenge is the restriction on collateral pledge arrangements. Because UCITS funds won't be able to accept collateral via pledge, they also won't be able to undertake securities finance with North American counterparts under master securities lending agreements that use pledge for collateral. The AIFMD asset segregation consultation could lead to additional challenges for managing and holding collateral for alternative investment funds. The results of this consultation are anticipated to be added to the UCITS regulations and the impact could be much broader.

Solvency II comes into force January 2016 and presents challenges for insurers, particularly those in the UK looking to adopt matching adjustment structures that could limit an insurer's lending activity. However, the Prudential Regulation Authority appear to have adopted a more benign approach if the insurer satisfies the eligibility criteria. We also have the Markets in Financial Instruments Directive (MiFID) II, the implementation of the Resolution Stay Protocol, the Transparency Directive and

"Balance sheet and capital cost sensitivities continue to act as a catalyst for the industry to explore more efficient routes to market"

Mark Jones
Head of product management, securities lending
Northern Trust

> While the securities finance industry is facing an unprecedented level of regulatory impacts, participants in this market are resilient, so we expect they will adapt to the new landscape

Laurence Marshall
COO and managing director
EquiLend Europe

the Financial Transaction Tax (FTT), which all have the ability to fundamentally affect the way we do business.

Marshall: While burden may not be the most appropriate term, there are indeed a number of regulations in the pipeline that will have a significant impact on the securities finance industry both in Europe and globally. Regulators are becoming more interested in and engaged with the securities finance industry. One significant example is the Financial Stability Board (FSB), which is currently advising on increased transparency in the securities lending market. We have been actively engaged in these conversations and believe increased transparency will have a positive impact on the securities finance industry.

Securities lenders and borrowers are also facing the impact of Basel III, the European Market Infrastructure Regulation (EMIR), the US Dodd-Frank Act, MiFID II/MiFIR and others, which will affect counterparty risk, liquidity risk, leverage ratios, transaction reporting, and so on. While the securities finance industry is facing an unprecedented level of regulatory impacts, participants in this market are resilient, so we expect they will adapt to the new landscape.

How are regulatory pressures changing collateral habits in Europe?

Jones: There is much more focus on ensuring that collateral is being used in the most efficient manner. This has led to demand for a broader range of collateral to be accepted and different ways of structuring trades to give lender and borrowers as many options as possible to achieve their aims—we believe flexibility is required.

The onset of EMIR is also driving significantly more discussion with participants who previously have not had to pay so much attention to the way they manage their collateral options.

Leo: European trading is very much driven by collateral and balance sheet management. The move to equity collateral is a pronounced trend. The demand to term equity balances in evergreen and extendable structures is growing, which is similar to what we've seen in the fixed income space. Demand for European equities over record dates is predominately for short durations and rarely straddles month ends, again due to borrower balance sheet management in light of Basel III.

T2S is upon us—how will this affect securities finance and collateral?

Jones: Making-cross border settlement more efficient and consistent can only help our market in the long run. Clearly the burden of adopting new operational practices and making the necessary systemic adjustments has been challenging, but the benefits of enhancing efficiency and opening up more options in terms of sourcing collateral are clear to see.

Marshall: Target2-Securities will create a more harmonised settlement landscape in Europe, and organisations have now developed plans and strategies for implementation. It is anticipated that this will lead to an adjustment in the services provided and their cost. Creating a common standard across multiple European markets will create settlement efficiency that will benefit the collateral process by increasing netting opportunities, reducing dependencies that help to increase the liquidity of collateral. Clearly the biggest benefits will be achieved once the majority of European volume is achieved and all European central securities depositories commit.

> The demand to term equity balances in evergreen and extend-able structures is growing, which is similar to what we've seen in the fixed income space

Maurice Leo
Senior managing director and head of relationship management, EMEA
State Street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Leo: The more pressing issue under the Central Securities Depositories Regulation is the implementation of the penalties that ESMA is considering. Last year, we saw European markets move to a T+2 settlement regime. Now, the market will be subject to increased settlement disciplines through fines and buy-ins. The proposals implement a daily fine for failing trades, including securities finance transactions, with effect from S+1 through S+4 or S+7, depending on the security's liquidity.

Thereafter, the failing trade could be subject to a mandatory buy-in. The initial levels of proposed fines were pretty significant and have the potential to revise how a business is operationally managed.

Among beneficial owners, there's some concern they would need to withdraw from lending if they're affected by penalties on the back of failed recalls. The rules could present particular challenges for agent lenders that are not aware of or unable to react to client sale activity until T+1, which provides only a single day to return stock from loan to avoid a penalty. This is likely to have a significant impact on how the market operates and will require greater efficiencies within the operational framework that underpins trade notification and liquidity management.

The EU's SFTR is almost here—what does it demand from the market, and what can data providers do to help?

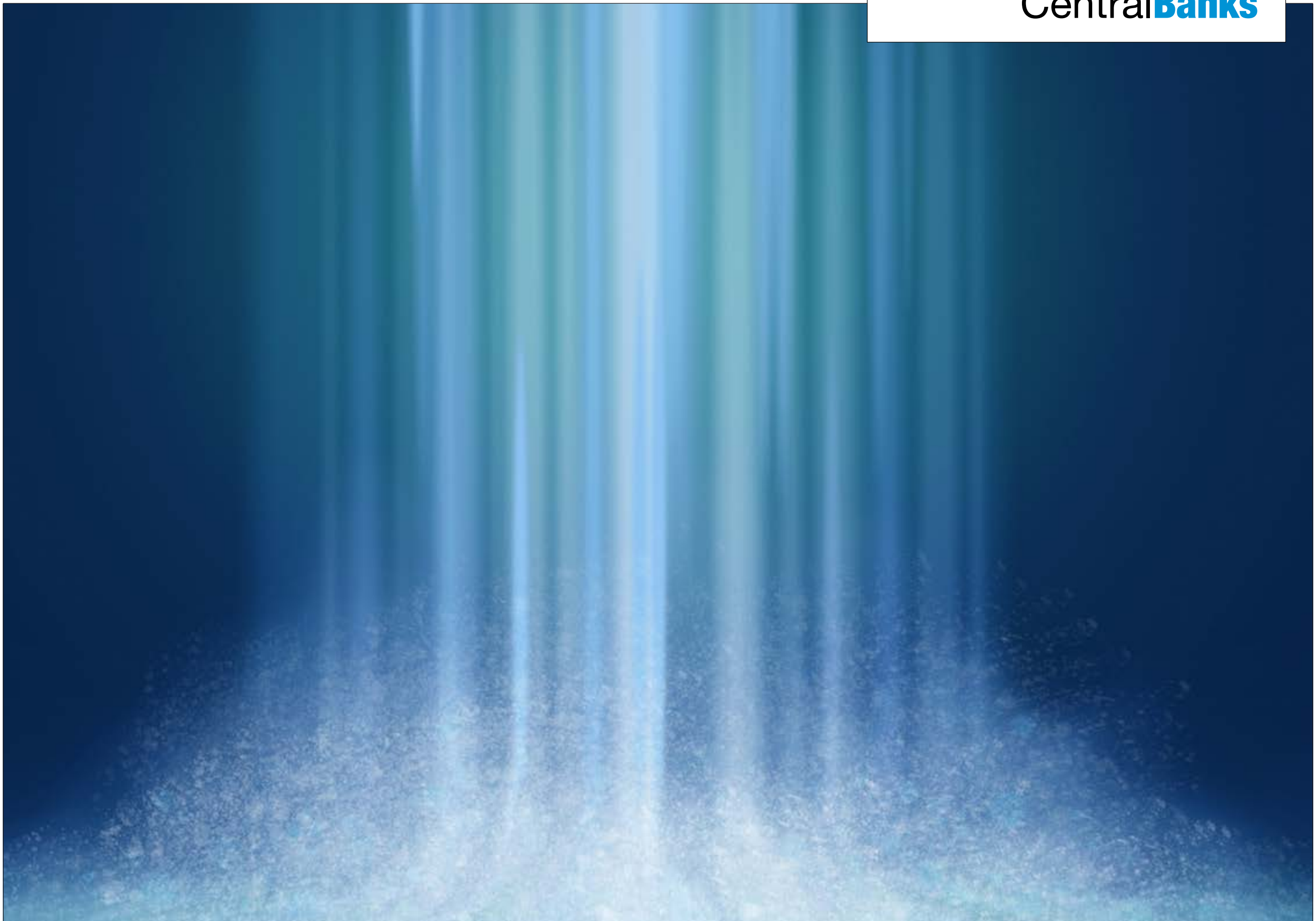
Jones: The broad theme of transparency under SFTR is one the market is generally well placed to address given clear direction as to what the regulation requires. As an industry we already pool and utilise a vast amount of data via data providers and that could be a useful position to leverage in trying to meet the new requirements. Data providers may be able to promote consistency in data provision to regulators should they choose to integrate themselves into this process.

Marshall: We envisage that reporting obligations are triggered when a securities finance transaction is agreed, terminated or modified for all principle entities that are subject to the requirements. The data providers are ideally placed to provide 'delegate' reporting services, but there will be additional data points that entities will need to provide, and we expect that the technical standards will require unique trade identifiers to be included.

Leo: SFTR will present a number of challenges. Various components could have staggered implementation dates, but by far the most demanding will be the mandatory reporting component. The regulation captures the reporting elements for the market from MiFID II and the FSB, and the EU is potentially looking to accelerate the adoption timeframe regionally.

Although final regulations are not expected to be published until later this year, some elements are becoming clearer. Reporting is likely to be required from both lenders and borrowers, and at a beneficial owner level where lenders transact through agents. Outside parties, most likely various trade repositories in the agent lender community, will be allowed to undertake reporting on behalf of their clients.

The definitions are fairly broad and may encompass many transaction types. Loans, collateral and cash reinvestment are all in scope, and reporting will likely have to incorporate legal entity identifiers, unique trade IDs and unique product IDs. Existing data providers have started to take an interest in this upcoming regulation and may be able to offer some solutions to market participants. For entities constrained by cost or size, an external data provider solution may be essential. **SLT**



Making financial markets flow

Clearstream's Alexandre Roques talks about the importance of securities lending to the eurosystem and the benefits of fails and strategic lending services to central banks and to the markets in general

When the European Central Bank (ECB) announced that it would be purchasing €60 billion of securities per month as part of its Public Sector Purchase Programme (PSPP) in January 2015, there were concerns from parts of the market that this would do more than just provoke fiscal stimulus. While the intention of the ECB was to push more cash to market participants in the hope that they would start hunting assets with a higher return, many dealers and securities houses were concerned that the removal of valuable securities supply would potentially dislocate settlement processes as a consequence.

The good news is that their fears have been largely unfounded to date. In April 2015, the ECB announced that each of the eurosystem's central banks would look to start lending securities obtained through the PSPP back into the market. This has already been evidenced by the fact that both the Banca d'Italia and the Bundesbank are using Clearstream as custodian and distribution agent for these assets. When you read the ECB's statement, they advised that a number of different distribution options would be available for use in the market, from automatic fails lending products such as the Automated Securities Lending (ASL) programme offered by Clearstream to bilateral and other agency lending facilities.

Fails lending programmes seemed an obvious choice and have been important to the historical development of the securities lending market. They are offered by international central securities depositories such as Clearstream and underpin wholesale settlement processes. Banks have always accessed fails lending programmes to complement their strategic lending relationships and therefore maximise their access to all types of inventory. Moreover, fails borrowing programmes are simple to use.

In Clearstream's ASL programme, the settlement platform automatically identifies those bilateral securities deliveries that are unsettled because of failing incoming receipts. It then looks to automatically source sufficient securities from its lending clients to cover these deliveries at the earliest opportunity on value date. Any incoming receipts that subsequently settle are automatically used to close out open loans without any borrower intervention. This makes the service both operationally light and also cost conscious, with fails lending facilities traditionally being free to access if borrows are collapsed on the same day.

Loan positions that remain open at the end of each day are charged in line with rates that are reviewed on a monthly basis. The price of the service has historically been aligned with money market rates to allow borrowers to re-invest the cash received from their bilateral deliveries into the money markets, thereby offsetting their costs. However, in a low or even negative interest rate environment, it is actually the lender that now earns a premium for its participation as fails lending facilities guarantee lenders a minimum fee for their loans.

While yield is not the primary incentive for central banks, their ability to lend assets back into the securities markets is critical and something which custodians and lending agents alike encourage. A large number of central banks all over the globe already use Clearstream as their custodian and the opportunity to complement fails lending with strategic lending opportunities was a common-sense decision. In fact, it was for this reason that Clearstream launched its own strategic lending programme, ASLplus, eight years ago and the benefits for all parties are clear.

On the one side, borrowers get the opportunity to access high-quality portfolios for both short-term fails coverage as well as for longer-term borrowing needs. On the opposite side, lenders can generate increased revenues from longer-term lending activities as well as offset the custody costs associated with the portfolio—and all of this with no increase in operational administration or overhead.

In the case of the redistribution of the PSPP assets, combining strategic lending and fails lending services certainly seems to make sense. Under the terms of the PSPP, each of the eurosystem's central banks has the ability to determine the individual terms at which they would lend their PSPP holdings. This includes decision-making around collateral and counterparty eligibility criteria as well as pricing, term and haircut, although it seems likely that the criteria may converge to a harmonised standard in the longer term. The large majority of strategic lenders, including Clearstream, have the ability to cater for customisable options and this gives borrowers different options as to how they wish to access the supply.

However, what is compelling about Clearstream's offering is that it offers both fails and strategic lending as a combination. Going forward, when you add Eurex Clearing's Lending Central Counterparty into the mix, it only increases its attractiveness even further. To complement its flagship ASL and ASLplus products, Clearstream will be launching two agency lending services in 2015. In addition to a classical agency lending product, it will also be offering an agency lending service that uses Eurex Clearing as the central counterparty and Eurex Repo as the third-party flow provider. In both cases, Clearstream will manage the collateral on behalf of both the lender and the borrower using its triparty collateral management services.

As a starting point, however, the focus of the eurosystem has simply been to ensure that liquidity could easily flow back into the markets and specifically to the market makers. The fact that the large majority of this segment already use both the ASL and ASLplus programmes presents a significant time-to-market advantage for central banks. Moreover, the fact that both programmes use a common securities lending and settlement infrastructure has meant that the assets can be lent appropriately in accordance with market demand.

From an asset safety perspective, Clearstream has always worked with central banks across the globe to ensure that we can help to create robust market solutions. In a changing regulatory climate, access to liquidity remains of paramount importance and whether within the context of securities lending or the wider world of collateral management, Clearstream will continue to help central banks to make financial markets flow. **SLT**

Alexandre Roques
Securities lending trader
Clearstream

Front-to-back: the technology shapers

Laura Allen has more than 25 years of experience in the securities finance industry. This year she made the move from front office trading to software sales at Trading Apps. She discusses the move, and more

MARK DUGDALE REPORTS

Why did you decide to make the move from trading to software sales?

I thought long and hard before making the transition, as system sales was not on my radar.

Before committing, I spent time with key clients of Trading Apps and was sold. The company really transforms front-end processes and creates efficient workflows. I couldn't sell something that I didn't believe in.

Why Trading Apps?

Trading Apps has the best technology to find solutions to our market's challenges. The team has an open, collaborative and constructive approach, and is focused on transparency and teamwork, all of which are required for success. The other element that drives a highly productive team is its size. Trading Apps has a small team of highly experienced developers and analysts with a clear focus and enough autonomy to make decisions in a timely manner, which is key.

What role does technology play in securities finance?

Getting the right technology solutions in place for today's securities financing participant is paramount. Tighter margins and the growing costs associated with increasing regulation means that the market needs cost-efficient solutions.

Many firms have made expensive mistakes in the past, deciding to go for the 'big bang' approach. In these situations, they look to replace existing infrastructure with an internally built system, or one bought from a vendor, only to discover that upon delivery it's already outdated or doesn't fulfill the original brief, meaning it doesn't bring a tangible benefit.

In a constantly evolving market existing infrastructures aren't dynamic enough to adapt quickly so traders rely on Microsoft Excel to meet their demands, which is neither robust nor scalable. Consequently, there is now more focus on external vendors, which are seen as valued partners in driving the overall strategy.

What is expected from a software provider?

Software providers should immediately add value, offerings should be customisable and flexible in their design, and most importantly, deployment should be rapid.

Trading Apps manages, designs and delivers technology solutions to help improve performance. Our apps sit on top of existing infrastructure and are relevant, contextual, and most importantly, clients can pick and choose which solutions they want to add to their infrastructure as they evolve.

Is securities lending getting closer to a trading platform?

Personally, given the multi-faceted nature of a securities borrowing and lending trade, I don't believe in its current form it will ever be a screen-based trading product. However, the market is under pressure: peer-to-peer trading is threatening the status quo, beneficial owners are dealing directly with hedge funds, and the credit risk inherent in stock lending has been resolved with the introduction of central clearing.

It's the higher spread business that will grow and it's where participants should concentrate their technology build. The ability to show full availability, accurately price and trade quickly will all be key. To maintain current revenues, participants need to be able to increase volumes, which means more efficient trading in the general collateral, warm and hot spaces.

Automation is inevitable. EquiLend's Next Generation Trading platform is a solid step in the right direction, but it has to be fully integrated into participating firms to really add value and truly change the trading landscape. Also, it's only one source of locates. The majority of hot stocks are still traded via Bloomberg or over the phone. Aggregating locates will afford traders full transparency, enabling them to quickly identify trends in their market or sector and react accordingly.

A trader shouldn't be looking at multiple screens to determine demand, current availability, supply sources, collateral eligibility, corporate events, news or indicative bid/offer rates. Technology should eliminate the inefficiencies of our market.

I strongly believe that the ability to offer a real-time automated solution will be the differentiator in terms of securing market share.

What's going to be important in the next 12 months?

The most important function in any securities finance business, be it asset manager, pension fund, prime broker or hedge fund, is the ability to gather, analyse and interpret data. I expect to see more emphasis on data analysis competencies in high-functioning organisations going forward. Trading Apps allows users to look at different cuts of data that are relevant to their unique workflows rather than providing a box solution that forces users to change the way they work.

Could you describe Trading App's philosophy in a few words?

Innovative and invaluable. We have a unique blend of business knowledge, strong technologists and first-rate developers. We don't look to re-invent the wheel but choose to examine how our client works then develop individualised apps that provide a quickly discernable return on their investment. Simply put, Trading Apps is your business, only better. **SLT**

The choice is yours

There are three strategies at play in securities finance right now. Tom Dibble of SunGard's Apex Securities Finance finds out which one will stay the course

The securities finance industry is currently digesting the heavy meal that has been Basel III, Capital Requirements Directive (CRD) IV , the Dodd-Frank Act and related regional regulatory initiatives affecting the global market. These are not light appetisers at all. Rather, financial intermediaries are facing tough questions about how they will move forward in their business models. We see three options on the buffet table for market participants in their business decision-making: the 'get out now' strategy, the 'wait and see' strategy, or the 'double down' strategy.

Get out now

Leaving any marketplace is a difficult decision, taken only after substantial soul searching. Leaving securities lending or repo is even more difficult given the fundamental impacts that these businesses have on financial intermediary business lines. Leaving securities lending may mean a loss of inventory for prime brokerage clients, or exiting a matched book programme. Exiting repo could affect government bond trading at a basic level. Taken as standalone businesses, securities finance may look unattractive. Their roles are well known, but this is the decision that some firms have come to or are actively considering.

The rationale for exiting the market is driven by regulation that has made spreads, factored after internal liquidity or collateral costs, untenable. The liquidity coverage ratio, coupled with a lack of counterparty interest in accepting equities as collateral, may create inflow and outflow ratios that do not add up to firm-wide requirements. In the meanwhile, capital costs are a reality and returns on securities lending transactions are unproven and may not hold up in the new frontier of securities finance.

In repo, the leverage ratio has already pushed government bond repos to unusual spreads at quarter end. As financial intermediaries need to report their figures and require a best possible leverage ratio, repo is a logical target. Is it any wonder that a financial intermediary may choose to exit the market?

Wait and see

The 'wait and see' crowd may have the right idea: do nothing for now and see how the market develops. Although costs are increasing, these firms know that they can pass on costs to clients when needed and can seek cost-effective alternatives where possible, often looking at cost efficiencies in technology and business processing outsourcing. These firms are typically balancing multiple product lines, including synthetic prime brokerage and futures.

In response, SunGard has launched Apex Securities Finance 2015 to enable firms to undertake their securities finance activities, efficiently and within the changing regulatory environment.

Double down

The 'double down' group is the most dynamic in securities finance these days. They recognise that while securities lending or repo might be difficult, the economic need for similar transactions stays the same.

The 'double down' group is the most exciting to watch, and with good reason. These firms are typically first to join new central counterparties (CCPs) and other market initiatives, because they have less to lose than their competitors in trying new routes to market. They are also looking at cost rationalising with the goal of preserving and growing their market while competitors pull back. These firms are also looking at various combinations of outsourcing and reorganisations to keep their franchises healthy.

One option considered lately is merging securities lending and repo into one business unit. SunGard recently investigated this idea, and found that approximately 50 percent of our customers were already running repo and stock borrow/loan/securities lending under one organisational unit. Another 20 percent were actively considering merging business lines, while 30 percent are planning to keep their lending, repo and derivatives businesses separate.

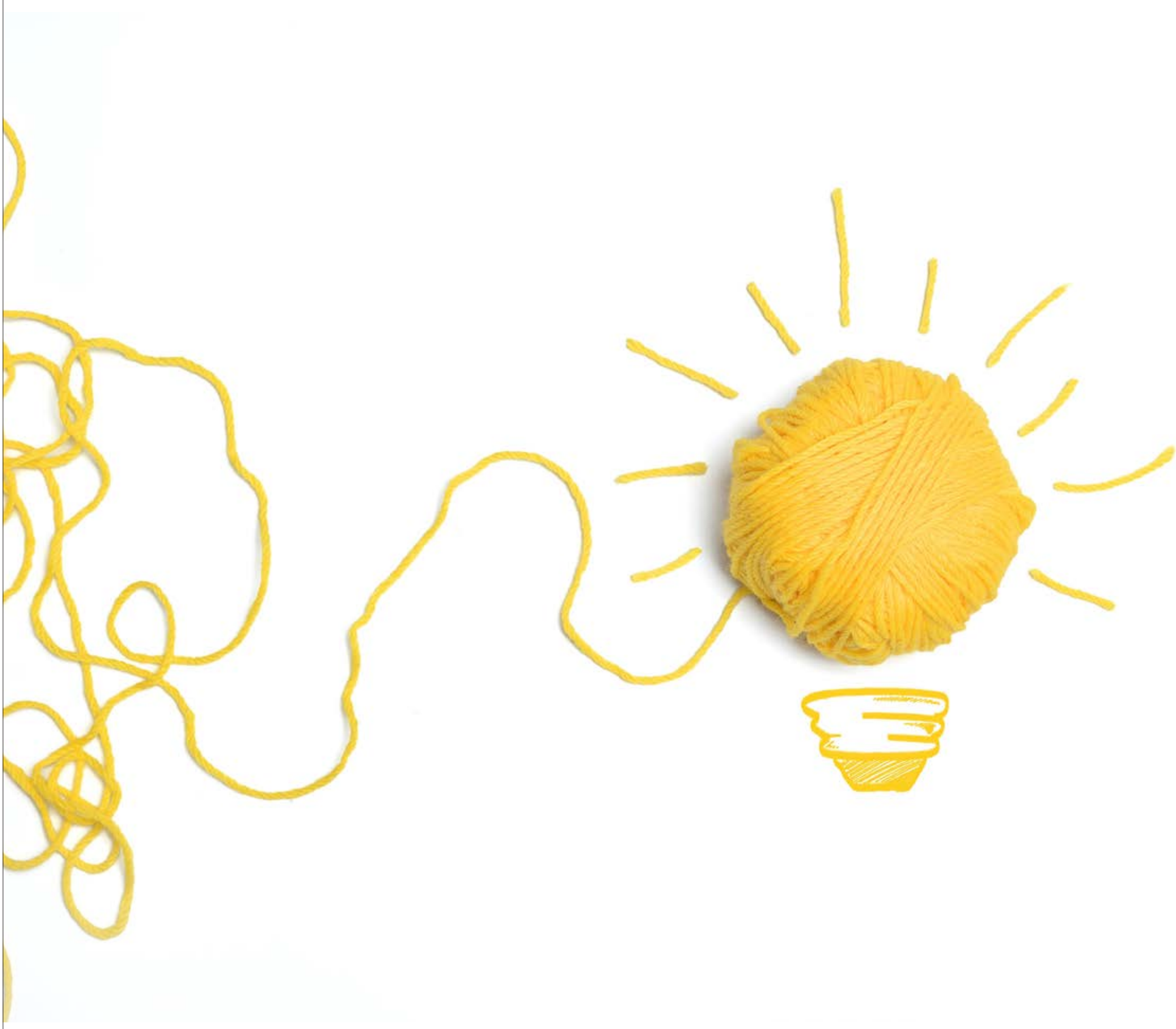
Making your choice

There is no question that now is a difficult time to be in securities finance. As with any transition, it can be expected that there will be a shakeout, then market participants will find routes and operational processes that lead to greater profitability. We see two main options that could assist financial intermediaries in managing the transition:

- Industry utilities: financial intermediaries have substantial fixed costs and transaction processing does not need to be one of them. A move towards outsourcing securities finance operations can reduce total cost of ownership while keeping intact the software and services that clients need.
- Product consolidation: SunGard recognises that our customers' businesses are changing, and we are merging, consolidating and adapting our solutions to suit the shifting business and operational requirements of customers in securities finance.

Securities finance has a long life ahead of it—of that we are certain. Financial intermediaries must adapt to new pressures in order to sustain their businesses. While some firms will choose to exit the market, others will wait to see what comes next or are investing in their securities finance franchises for greater growth. The next several years will see continued change in the securities finance marketplace. How financial intermediaries act now will determine their future standings in this evolving space. **SLT**

Tom Dibble
Head of product management, Apex Securities Finance
SunGard



Innovation as a competitive factor

Thomas Book and Matthias Graulich on why Eurex Clearing's Lending CCP has been embraced by borrowers, agent lenders and beneficial owners alike

The financial services industry has been in a process of constant change since 2008. This has created both opportunities and risks for market participants. What is your take on the current situation?

Thomas Book: The G20 commitment in 2009, to strengthen the international financial regulatory system, changed our industry. Since then, this change has been forcing all financial market players to make substantial adjustments to their business models and everyone is feeling the impact of these adjustments. With the US Dodd-Frank Act and the European Market Infrastructure Regulation, regulators have initially been focusing on lowering risk in the most obvious market segments, such as credit default and interest rate swaps. However, Basel III goes one step further and encourages the central clearing of bilateral transactions.

Driven by these frameworks, an entire industry started to adapt their business models, practices and offerings. Deutsche Börse, and in particular Eurex Clearing, have reacted by designing new solutions to help the buy and sell sides improve capital and operational efficiencies. This strategic approach

comprises all areas: clearing technology, risk management and functionalities, as well as new service offerings.

Matthias Graulich: Europe is still lagging behind with implementing regulatory requirements for our industry. The implementation of the clearing obligation for over-the-counter (OTC) derivatives is still to be finalised. At the same time, the introduction of the new capital rules has moved centre stage and they are a great challenge for the industry. This environment has led us to reassess our business offerings and further leverage our strong trading, clearing and risk management capabilities.

In addition to the convergence of listed and OTC derivatives markets, we have more recently seen this convergence between derivatives and securities financing, with the critical role of securities financing to provide cost-efficient funding for derivatives' margin requirements.

Clearinghouses have become much more significant, particularly in terms of how they are perceived by politicians and regulators. How much has this affected Eurex Clearing's overall focus?

Book: The new landscape has had a strong impact on us. Clearing Eurex Exchange derivatives remains a core strength and important part of our value proposition. Simultaneously, we started to look at the whole market. Eurex Clearing Prisma—our portfolio-based risk management methodology—is one outcome of this holistic approach.

It provides a consistent risk management framework across all asset classes and enables us to offer cross-margining of listed and OTC products along the full rates euro curve. Our customers directly benefit from higher margin efficiency and lower funding costs.

C7, our new clearing infrastructure, is a second element of our strategic roadmap. And last but not least, we launched our Lending Central Counterparty (CCP) in 2013 to provide capital and operational efficiencies specifically for securities lending market segment.

Eurex Clearing was the first CCP in Europe to offer the safety and efficiency of central clearing to the bilateral securities lending market. Could you summarise your Lending CCP offering?

Graulich: We provide market participants with choices, as both bilaterally negotiated transactions (OTC) and transactions concluded on electronic trading platforms are supported. As a CCP and single counterparty to all trades, we reduce counterparty risk exposure and eliminate the need for multiple credit evaluations. Banks, for example, can optimise their regulatory capital usage while retaining their bilateral trading relationships. In addition, our services reduce post-trade complexity, which subsequently results in reduced costs and improved efficiencies for all members.

I believe that the unique combination of the technology-driven efficiency benefits, without disrupting the existing bilateral business relationship of the borrower, the agent lender and the beneficial owner has been the key reason for the wide acceptance of the CCP model in securities lending.

Book: Also, the Lending CCP should not be looked at independently from the other financial market segments where we are the CCP, such as our GC Pooling and Eurex Repo offerings. All are based on the same infrastructure and legal framework.

In 2014, the Lending CCP introduced a specific lender licence to allow the direct access to the CCP for beneficial owners. How has this offering evolved, and what additional benefits can the buy side expect?

Graulich: The specific lender licence preserves the relationship-driven business structure and at the same time delivers the capital efficiency and safety associated with central clearing. This structure allows banks as counterparts of lenders to significantly reduce capital requirements by reducing risk weighted assets and improving the leverage ratio. As a result of these costs reductions, beneficial owners and their agent lenders benefit from better lending terms then if the transaction stayed traditionally bilateral. Additionally, our aim has been to provide the buy side with more flexibility through tiered membership, which increases the liquidity available to clients.

Moving forward, our goal is to expand the Lending CCP by bringing further innovation to the marketplace. One of our latest initiatives, for example, has been to develop a cash collateral solution for specific lenders in conjunction with agent lenders to allow their beneficial owners to accept cash collateral using the specific lender licence, and enable multiple loan allocations to accommodate agent lenders' pooled loan models.

What can your customers expect in terms of the geographical reach of these services and initiatives?

Graulich: We are extending our reach as we will add new equity markets in Europe and North America. The specific lender licence will also allow extensions to non-EU participants in Asia, the Middle East and North America. To leverage our new markets and offer our global customers further services and opportunities, we are also entering into strategic partnerships with leading borrowers and agent lenders.

In addition, we aim to further facilitate simplified access to our services, and therefore develop additional partnerships to facilitate the capture of trade flows and assist market participants in their ability to select from a range of collateral locations.

What was the overall feedback from market participants—has innovation paid out?

Book: Innovation always takes time. Over the last three years, we closely worked with our customers to further develop the service. Nowadays, we receive very positive feedback from market participants. Eight clearing members have already joined our Lending CCP and started to actively clear posting substantial volumes in April and May this year. Even more importantly, we have a full onboarding pipeline—further market participants have made the decision to use this service offering and are in the process to become a member. With these initiatives, the geographical expansion and the addition of further participants, we are poised to continue our success story—a story of innovation. **SLT**

Matthias Graulich
Chief client officer
Eurex Clearing

Thomas Book
CEO
Eurex Clearing

Align and centralise: turning cost into opportunity

Markus Büttner of Comyno discusses recent developments in securities finance and how regulatory challenges can be turned into new opportunities

MARK DUGDALE REPORTS

With the first half of 2015 drawing to a close, what has characterised the marketplace for you in the past six months?

Regulatory changes remained at the forefront of everybody's mind, just like they have for the past few years. With certain regulations becoming more pressing, this will remain unchanged for the foreseeable future. Despite this, we have observed market participants changing their approach towards complying with new regulations.

Compliance has naturally been the primary concern, but, with a better understanding of the regulatory landscape, market participants have begun to combine regulatory compliance with a repositioning of certain business lines to benefit from opportunities that have presented themselves in the post-regulatory world. Many internal projects launched in the last six to 12 months aim to increase competitiveness while complying with new regulations.

How does Comyno support clients in ensuring future competitiveness?

We are in a position to offer our clients integrated advisory, programme management, business

analysis, and software and technology, with a focus on securities finance and the various areas that it is closely connected with, such as trading, treasury and collateral management. Working with buy- and sell-side clients alike, we have a global view on what matters most to a variety of market participants. This allows us to directly align our service offering to the needs of our clients, enabling us to define clear project goals that go well beyond meeting market standards or complying with regulatory requirements.

Last time we heard about Comyno's new securities lending software solution C-ONE. What is the latest news on this?

A lot has happened since then. Software and technology have become important parts of our overall service offering. We can proudly announce that we have successfully implemented our software solutions such as the C-ONE X-Repo Hub with an increasing number of clients.

We have forged strong relationships with our existing client base allowing us to further develop our range of software offerings. C-ONE is evolving into the realms of collateral and inventory optimisation as we are closely working with a client to implement an optimisation tool based on our C-ONE framework.

We are excited about the challenging future ahead of collateral management and trading and the new dimension this brings to our C-ONE software platform.

What are the most important requirements that the market is currently looking for in a software solution and how does Comyno meet these demands?

We believe that technology solutions, now more than ever, need to encompass not only data collection but also: analysis and reporting; help to automate tasks for increased efficiency; be flexible and scalable; and be able to easily integrate with the legacy systems in an existing software environment.

All of our software solutions have been specifically designed to satisfy these requirements. For instance, C-ONE's data model allows for consolidated views of positions, trades and associated collateral. We offer a variety of import and export adapters such as XML and CSV, as well as direct database connections. Offering easy integration into our clients' existing software framework is a key feature for us during the development process.

A number of market participants are struggling with collateral optimisation. What is your take on this?

Developing an operating model for a collateral optimisation process is one of the most complex topics that the industry has come across in recent years. First of all, the system frameworks currently in place mostly allow only for a decentralised view on certain aspects of the overall trading operation. However, gaining a centralised view across business lines such as repo, securities lending and cleared and uncleared derivatives is crucial. Ideally, this is achieved in real time.

> "the level of engagement on this topic has been increasing and we expect that market participants will continue to explore the potential role that central counterparties (CCPs) will play in the future"

Secondly, static data requirements need to be met. Information from the suite of collateral schedules needs to be extracted and stored in a centralised place so that it can be accessed easily.

Once these prerequisites are met, optimisation algorithms need to be defined. This is where most mistakes are made. Market participants have to ensure that the optimal collateral allocation is determined under realistic market conditions, taking into account practical considerations such as opportunity costs, settlement deadlines and costs, bilateral counterparty relationships, and much more.

Last but not least, I cannot think of any system that even comes close to delivering all of these requirements out-of-the-box, meaning the specification and development of a client -specific software solution will be a significant part of any collateral optimisation project.

Overall, this is a good example for the holistic approach that Comyno takes when working with clients. From the initial business analysis and requirements gathering exercise, to the definition of optimisation algorithms all the way to the execution of an optimisation process via tailored software solutions, we offer support during every single phase of the project.

Finally, centrally cleared securities lending has gained momentum during the last year. What is your position on this controversial topic?

Central clearing has been a discussion topic within the industry for the last several years. Lately, the level of engagement on this topic has been increasing and we expect that market participants will continue to explore the potential role that central counterparties (CCPs) will play in the future.

At Comyno, we see the CCP as a crucial tool to actively manage and mitigate liquidity, credit and regulatory risk. We identified the emerging significance of CCP-based models relatively early and positioned ourselves accordingly.

With more market participants now looking at this topic, we have been approached a number of times to support clients' activities.

We cover all services, from building, presenting or validating a business case, all the way through to its specification and implementation. We can also offer our clients a software package specifically tailored to the demands of a CCP-based model: our C-ONE Lending CCP Hub. This is another great example of how we can support our clients from start to finish. **SLT**

Markus Büttner
CEO
Comyno

Throwing caution to the winds of change

Chris Benedict of DataLend charts the rise of non-cash collateral and assesses beneficial owners' risk tolerance for alternatives to cash

'Cash is king' is a well-worn phrase we've all heard plenty of times, especially when it comes to collateral for securities finance transactions in the US. Unlike Europe, Asia and Canada, agent lenders in the US have long preferred to receive cash as collateral for securities finance transactions due to the possibility of yield pick-up in the cash reinvestment market, as well as regulatory restrictions such as the Employee Retirement Income Security Act or 1940 Act. But in the past few years, use of non-cash collateral has been increasing. The reasons for this increase can be boiled down to a few major factors:

- Interest rates around the world are at historic lows (or in some cases have gone negative). This makes obtaining a decent yield in cash reinvestment products while managing principal risk a challenging task.
- As a result of recent legislation, borrowers are engaging in more collateralisation with non-cash assets in an effort to take advantage of balance sheet netting.
- Prime brokers, third-party lenders, custodians and asset managers have invested in information technology to achieve improvements in their collateral allocation and optimisation abilities, allowing their clients to better use their assets as collateral.

Different types of non-cash collateral pledged by broker-dealers can have an impact on fees collected by agent lenders due to perceived collateral risk. This includes credit, liquidity and duration mismatch risk. That 'risk premium' can increase as beneficial owners allow less conservative (and potentially risker) forms of non-cash collateral.

With all of the different assets out there available to be used as non-cash collateral, we wanted to see where beneficial owners' risk tolerance stood in the middle of 2015. We reviewed beneficial owner data from the DataLend Client Performance Reporting suite, a securities finance performance benchmarking tool for agent lenders and their underlying beneficial owners, to see the state of allowable non-cash collateral by beneficial owner legal structure and region to gauge the current risk appetite of beneficial owners around the world.

We began this exercise by reviewing a risk hierarchy of non-cash collateral, starting with US treasuries (and equivalents) as the safest and most conservative form of non-cash collateral.

These asset classes appear in the legend of Figure 1, arranged by quality in descending order with lower-grade equities (ie, companies with smaller market capitalisations and more volatility) at the bottom as the riskiest form of non-cash collateral. We then reviewed those asset classes across the different legal structures of beneficial owners and their allowable non-cash collateral stored in DataLend to see what types of assets they would accept. The results were interesting, and at times, a bit surprising.

We were not surprised to see European beneficial owners exhibiting a little more leeway when it comes to allowable non-cash collateral types than their peers in North America. Non-cash collateral has long been the dominant form of collateralisation in Europe while the cash reinvestment market has had little opportunity to grow. Indeed, 73 percent of all European securities finance transactions booked in 2014 were versus non-cash collateral. As a result, beneficial owners in Europe appear to be more comfortable taking various forms of non-cash collateral that their North American colleagues might not accept.

Registered financial institutions in Europe appear to be among the more conservative beneficial owner types, with 35 percent accepting only US treasuries and equivalents, 40 percent accepting highly rated non-US sovereign debt and 25 percent accepting highly rated corporate debt as the riskiest form of non-cash collateral.

European government/sovereign entities appear to exhibit a relatively high-risk tolerance with 55 percent of them indicating they would accept high-grade equities as non-cash collateral.

Corporations in Europe seem to be a lot more risk averse than their North American counterparts. Ninety-five percent of them said they would accept highly rated non-US sovereign debt as the riskiest form of non-cash collateral, and only 5 percent said they would accept highly rated corporate debt.

European foundations and endowments exhibited a little more risk tolerance than their North American counterparts, with 65 percent accepting sub-investment-grade sovereign debt as the riskiest form of non-cash collateral.

After reviewing the whole of our global beneficial owner risk profile data, a few themes emerge:

- North American beneficial owners exhibit the most conservative stance overall. Their European counterparts appear to be more 'middle of the road', while Asia is more flexible with the non-cash collateral that beneficial owners will accept.
- Registered financial institutions appear to be among the most conservative beneficial owner types across the world with the majority accepting only US treasuries and equivalents or non-US sovereign debt.
- Asian trusts, Asian pension plans, North American corporations and European government/sovereign entities appear to be the most flexible.
- There is a wide variance exhibited between North American and European corporations. The former is flexible, while the latter is very conservative about which types of non-cash collateral they will allow.
- Pension plans globally exhibit some degree of flexibility. Roughly half accept US treasuries and equivalents or non-US sovereign debt as non-cash collateral, while others accept highly rated corporate debt, high-grade equities and sub-investment-grade sovereign debt.

As new regulation begins to take hold throughout the financial services world, it will be interesting to see how this landscape changes in the coming years.

If current trends are any indication, we may see most beneficial owners be more flexible about the non-cash collateral they will allow their agent lenders to accept. **SLT**

Chris Benedict
Director
DataLend

Figure 1: Allowable non-cash collateral by beneficial owner type in Europe

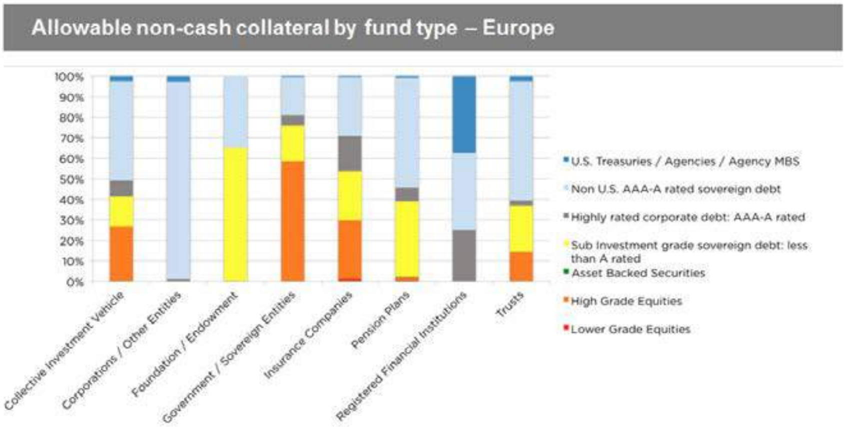


Figure 2: Allowable non-cash collateral by beneficial owner type in North America

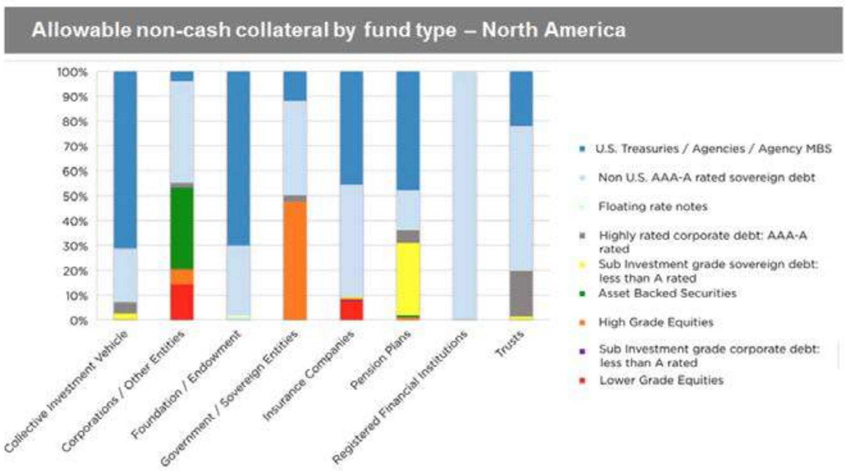
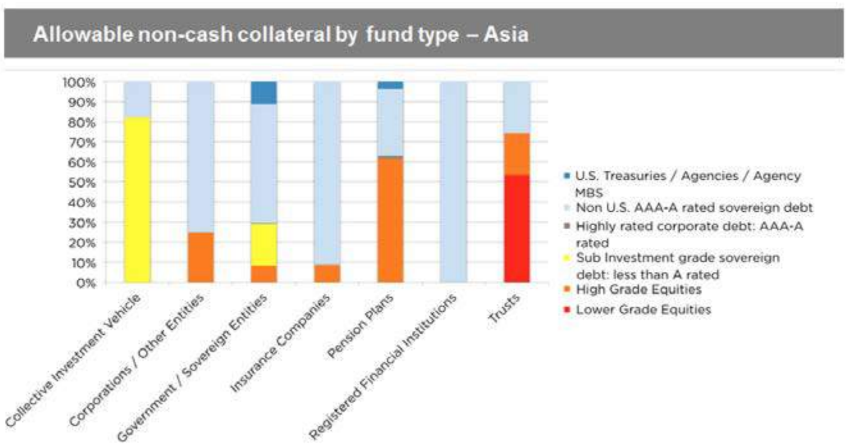


Figure 3: Allowable non-cash collateral by beneficial owner type in Asia



The successful appliance of the internet in business

Whether it's white goods or slippers, almost anything can be made available for sale online. But that's the easy part, says David Lewis of SunGard's Astec Analytics

Although I am not a big fan of Ali G, the British satirical character developed by comedian Sacha Baron Cohen, he did an interview series some time ago with two examples that still stick in my mind. The first was with David and Victoria Beckham and I remember it simply because, in my opinion, it was the funniest thing he has ever done. The second was with Professor John Galbraith, the famous economist. In this interview Ali G presented his plan on how to become a millionaire to the professor—an economist who served no fewer than four US presidents and was a Harvard University professor of economics for more than 50 years. Ali's plan was to use the internet to sell slippers, based loosely on the 'fact' (as he saw it anyway) that basing a business on the internet was in itself a guarantee of business success.

Galbraith very calmly indicated that the only way Ali could make himself a millionaire from selling slippers was to sell them more cheaply, or of better quality than anyone else, whether sold through the internet or not. A frighteningly simple approach, but one of great clarity and timelessness. Has anyone told AO World (AO.L) of this simple business strategy?

AO World sells white goods (larger ticket appliances such as washing machines and fridges, as well as smaller items, from irons to microwaves) solely through its website with the promise of next day delivery as a key selling point. Completing its stock market debut in London in February 2014, it was valued at an eye-watering 72 times projected earnings. AO World has just released its earnings report for the year ending March 2015 and it makes for some sorry reading. Announcing a pre-tax loss of £2.8 million caused the share price to dip a further 4p to close at £1.69 a share (1 June 2015).

Shares at the time of the initial public offering (IPO) were valued at £2.85 each, rising a further 30 percent in the early days and weeks until around one month on, when they dipped below their issue price. Despite a short recovery towards the end of 2014 into January and February 2015, the share price has continued in a downward spin cycle, closing almost 41 percent down overall to finish at £1.69 after AO World's earnings announcement.

Figure 1 shows the share price profile of AO World from IPO (February 2014) to 2 June 2015, as well as the market value of borrowing activity in those same shares. As the blue plot line demonstrates, borrowing of AO World, taken here as a proxy for short interest, has followed two distinct cycles. The first major spin came in June last year, just three months after the IPO, when AO World's first set of results as a publicly limited company were published. CEO and founder John Roberts was not in an apologetic mood when he stated that his investors were "not thick people" and pointed out his distaste for any speculators expecting to make a profit with a "flip" on their shares by suggesting that he did not care for them very much.

It is understood that the chairman of AO World, Richard Rose, sold the majority of his stake in the business just weeks after the launch, suggesting that he did rather better than some of his longer-term investors, but perhaps not so well as the investment angels Stoller and Hopkinson who each invested £1 million in AO World and saw a return of around 100 fold at the flotation.

The next blip was in February when analysts, such as Panmure Gordon, moved their stock rating to sell and recommended investors "capitalise on the unjustified level of price appreciation over the last quarter". Prices fell back towards the value of £1.52 but remain above this level so far.

However, the surge in borrow volumes, doubling over the space of one week at the end of February, indicated two things: first of all, a good portion of the short sellers in the market missed a significant pay day with the share correction that followed the broker downgrade; and second, that the same group believes there may indeed be further to fall for AO World.

The latest group of short sellers, paying what our data would classify as fairly hot rates, have held their ground and been vindicated—if not rewarded monetarily—by the latest set of annual results, which have once again failed to meet the market's expectation.

The researcher and author, Tom Peters, agreed with Galbraith in stating that the only valid way to make money is to sell something either better or cheaper than your competitors. In a highly commoditised industry such as white goods, I would suggest that price is king and that next-day delivery is probably neither here nor there. As Ali G found out, just because it is on the internet does not make your business a guaranteed success, be it selling slippers or fridges. So what will AO World do now in order to turn around its ability to make a profit? **SLT**

Figure 1: AO World PLC—Shares on loan volume and share price, March 2014 to June 2015

Source: SunGard's Astec Analytics

David Lewis
Senior vice president
SunGard's Astec Analytics

Industry Events

24th Annual Securities Finance and Collateral Management Conference

Date: 23-25 June 2015
Location Lisbon

Please join ISLA at their 24th Annual Securities Finance and Collateral Management Conference that will take place on 23-25 June 2015 at the Epic Sana Hotel in Central Lisbon, Portugal.

IMN's 20th Annual European Beneficial Owners' Securities Lending & Collateral Management Conference

Date: September 17-18, 2015
Location London

Bringing beneficial owners the latest information on securities lending as it relates to their programs and strategies. As such, we will also be addressing the critical elements of collateral and its management as it pertains to securities lending

Industry appointments

Raymond Blokland has returned to Bank of America Merrill Lynch to take over from Guy Knepper, who has left after only six months at the bank, according to multiple sources.

Knepper joined Bank of America Merrill Lynch as director and head of Luxembourg equity finance trading. He was previously head of securities lending at CACEIS.

Blokland has returned to Bank of America Merrill Lynch in the role he held before joining 4sight Financial Software as a senior consultant in September last year.

Blokland has also previously worked as global head of prime brokerage trading at Fortis Bank.

His expertise is in the securities finance, collateral management and synthetic prime brokerage business areas.

Bank of America Merrill Lynch declined to comment.

Colin Brooks, global head of sub-custody and clearing at HSBC Securities Services, has left after more than 25 years at the bank.

He joined HSBC in 1990 in Hong Kong and over more than two decades helped to shape the bank's securities services division into the global business that it is today, taking it from offering custody in half a dozen markets to providing a range of products and services in almost 40 jurisdictions worldwide.

Brooks is thought to be considering his next move following his departure from HSBC Securities Services. It is not clear who will replace him as global head of sub-custody and clearing.

Wedbush Securities has appointed **Anthony Monaco** as managing director, senior vice president and head of equity finance and prime brokerage.

He will be based in New York. Prior to his new role, Monaco served as a managing director at Newedge USA.

Meanwhile, **Michael Kelly** has left Wedbush to join TradeStation as director of prime services in New York.

Kelly previously served as a manager at Wedbush Europe.

Joseph Antonellis is to retire from State Street this summer, after almost 25 years at the firm.

He joined State Street in 1991 and held several key positions leading up to his role as vice chairman and head of Europe and Asia Pacific (APAC) global services and global markets.

Antonellis commented: "This has been an incredible journey for me and one that I have thoroughly enjoyed, particularly working with our outstanding team of professionals and clients globally."

His role will be filled by his leadership team, and **Jeff Conway** and **Wai Kwong Seck**, both executive vice presidents and members of the management committee, will lead the Europe, Middle East and Asia business and APAC business, respectively.

Jay Hooley, chairman and CEO of State Street, said: "I feel very fortunate to have worked with Joe for a large portion of his career, and what stands out the most for me is his passion for the business and concern for our clients. These qualities have made him successful in the significant responsibilities he's held here at State Street."

He added: "We thank him for everything he's done to contribute to our growth and wish him the very best for his retirement." **SLT**

SECURITIESLENDINGTIMES

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

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

Reporter: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
Tel: +44 (0)20 8663 9629

Editorial assistant: Becky Butcher
beckybutcher@blackknightmedialtd.com
Tel: +44 (0)20 8663 9649

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

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

Company reg: 07191464

DATALEND

ENHANCEMENTS NOW LIVE

DataLend has released the following enhancements, which are now live for all clients.

- Expand or collapse Pricing, Volume or Ratios graphs in the **Graph Builder** section of the Security Search page to help you focus on what's most important to you
- **New! Recalls** tab incorporates recall information on Security Search pages
- Added My Utilization (as percentage of book) and Total Lendable Value to the **Data Ribbon** on the Security Search page
- Improved color distinction between the industry and your performance on **Graph Builder** lines
- Now choose between displaying data in rebate rate or fee format in the **Counterparty Variance** tool on Security Search page
- Now switch between heat map and list view on **DataLend Target 50** and **DataLend Newly Hot** indices
- **Seamless rollover** as new data is uploaded throughout the day

For more information or to schedule a demo of DataLend's enhancements, please reach out to your DataLend sales rep or email sales@datalend.com