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# Fidelity criticises G-SIFI methodology

Fidelity has rubbished the Financial Stability Board's (FSB) latest proposed methodology for designating large individual investment funds as global systemically important financial institutions (G-SIFIs).

Fidelity responded to the FSB's second consultation on the methodology that should be used to designate non-bank, no-insurer G-SIFIs at the end of May.

The FSB wants to extend the SIFI framework that currently covers banks and insurers to other financial institutions, to reduce the "the systemic and moral hazard risks" that they pose.

In its comment letter, Fidelity said: "Investment funds and asset managers do not, and cannot, present the type and scale of risk required to justify a G-SIFI designation."

"And even if a single fund or manager were capable of presenting that kind of risk to the global financial system, designation would not effectively address the risk."

The FSB has taken particular issue with 'shadow banking' activities such as securities lending and repo, which asset managers engage in to boost returns.

"The significant number of funds available to investors, the intense competition in the industry and the high degree of substitution, mean that particular activities (securities lending, repo, etc) are not limited to a small subset of the largest funds, but, rather, are conducted by a host of funds and other market participants."

readmore p2

## Moody's offers CCP ratings

Rating agency Moody's has proposed a global methodology for rating central counterparties (CCPs) and invited market participants to provide feedback.

The proposed methodology considers CCPs' clearing member default-management capabilities and related structural protections, as well as their business and financial fundamentals and operating environments.

The new Clearing Counterparty Rating (CCR) will reflect Moody's opinion of a CCP's ability to meet its clearing and settlement obligations to its clearing members (probability of default) and the financial loss that would result if a CCP were unable to meet such obligations (severity of loss), according to the rating agency.

readmore p2

## SunGard's MarketMap to cover more ground

SunGard's MarketMap data solution has been enhanced to include additional social sentiment, reputational risk, short interest and research content.

The solution connects wealth managers, advisors and traders to service providers to help them find new opportunities and to react quickly to market changes and client needs. It can also help firms to differentiate their offerings.

New content includes: Heckyl, which tracks changes in the mood of the market, anticipating changes before price fluctuations begin to take effect; RepRisk Index, designed to quantify reputational risk exposure related to environmental, social and governance issues; and the BATS One Feed, which offers a view to reference quotes and trade data from all four BATS US equities exchanges.

readmore p2

## Fidelity criticises FSB G-SIFI methodology

**Continued from page 1**

"If the goal is to reduce risk across the global financial system, then regulators must deal with the activities that create that risk consistently across the system. Regulators must restrict those activities not only across all funds, but across all market participants."

Going on to defend its securities lending activities, Fidelity said that its mutual funds "engage in securities lending to a limited extent", and its securities lending programmes "do not pose material investment risk to the funds, let alone the financial stability of the US".

The asset manager lends equities through a third-party agency lending programme, which reinvests cash collateral in a Fidelity 2a-7 money market mutual fund.

For fixed income, Fidelity funds enter into loan agreements directly with counterparties and cash collateral is invested in overnight repo.

"Both our agency lending programme and our direct lending programme have a number of oversight and compliance features that illustrate our mutual funds' conservative approach to securities lending. These features help to safeguard the funds from potential losses and risks."

Instead, the FSB should adopt a "product- and activity-focused approach as a constructive alternative to G-SIFI designation", argued Fidelity.

Fidelity's defence of its securities lending activities follows BlackRock's bid to clarify its position in May, when it said policy makers have misunderstood securities lending practices and the associated risks.

These misunderstandings are centred around potential conflicts of interest, leverage, collateralisation of loans, use of cash collateral and cash reinvestment vehicles, the use of non-cash collateral and rehypothecation, and borrower default indemnification.

In addition, BlackRock claimed that there are many misunderstandings specific to its own involvement with securities lending, and these have "unfortunately" formed the foundation of recent policy discussions.

"We believe it is imperative for policy makers to have all the facts," said BlackRock.

## Moody's offers CCP ratings

**Continued from page 1**

CCPs began to play a critical role in financial markets since regulators made it mandatory to centrally clear over-the-counter derivatives.

"This increased channeling of financial market activity to the clearinghouse has made the role of the CCP critical to the health of the financial system."

Market participants have until 21 August to provide feedback on the proposed methodology.

## SunGard's MarketMap to cover more ground

**Continued from page 1**

It also offers access to SunGard's Astec Analytics Borrower Activity Rating, which identifies the most borrowed stocks using an indicator of short interest.

Douglas Taylor, founder and managing partner of Burton-Taylor International Consulting, said: "Market data is readily available. The differentiating value for a market data provider is to help its clients extract unique or unusual insights that enable them to uncover new market opportunities."

Harald Bina, head of product management for SunGard's global trading business, added: "There are enormous opportunities to dig deeper and wider to leverage broader access to unique value-add content and provide more value to customers."

## SLTINBRIEF

"Such insights can lurk in all sorts of places currently present in existing platforms but are yet to be discovered. SunGard's investment in unique content helps provide more advanced tools to make the data more relevant to meet more sophisticated client demands."

## Securities Financing Transactions Regulation almost here

The EU Securities Financing Transactions Regulation (SFTR) has moved a step closer to implementation after the law's final text was agreed.

The Council of the EU and the European Parliament—two bodies of the so-called 'trialogue'—came to an agreement on the SFTR's final text on 17 June in Brussels.

The council's permanent representatives committee will confirm the agreement within the next few days, before the SFTR is passed to the European Parliament for a vote at first reading. Implementation is expected to follow later this year.

Commenting on the agreement, Jonathan Hill, who is the EU commissioner responsible for financial stability, financial services and the capital markets union, said: "Today's agreement is an important step forward in bringing transparency in securities financing markets."

"These activities are important for the financing of the economy and the right kind of oversight will make it easier to monitor and assess the risks involved."

Although the actual text of the SFTR has never been published, the trialogue says that it aims to improve transparency in securities finance by enabling regulators to monitor for a potential build up in systematic risks, requiring the disclosure of more information to the underlying investors whose assets are being lent, and curbing collateral rehypothecation.

The International Securities Lending Association said in a statement that political agreement on the SFTR means that the European Securities and Markets Authority and the European Commission will soon begin work on the next stage of the regulation.

"We (and the International Capital Market Association) will be looking to engage with regulators on this soon. There are some formalities that will take place over the next few months before the regulation is officially published (which we expect in October or November)."

"The new rules will certainly require some additional reporting for our market, over and above what firms may be producing today. Whilst some of this detail won't be known until Level 2 is nearer completion, some aspects are already clear (such as the need to have legal entity identifiers for all clients and counterparties). We will be considering how best to support members in the coming months as they consider implementation."

## Smooth start for T2S

The Target2-Securities (T2S) platform launched successfully on 22 June, as planned.

Four central securities depositories are now connected to the platform for settlement of euro transactions. Bank of Greece Securities Settlement System (BOGS), Depozitarul Central (Romania), Malta Stock Exchange, and SIX SIS (Switzerland) all went live.

Yves Mersch, an executive board member of the European Central Bank (ECB), said: "This is

a tangible step forward for financial integration in Europe."

He added: "After seven years of hard work to make this happen, T2S will benefit people in 21 countries and will support the creation of a true single capital market in Europe."

Between now and 2017, 17 more countries will connect to the platform, covering almost all euro-denominated transactions. The platform intends to reduce the cost of cross-border securities transactions in Europe, while making them more secure and increasing efficiency.

Italy's Monte Titoli was also scheduled to go live on 22 June, but, while a solution has been put forward, it was not deemed ready for migration and the ECB has approved an extension of the testing time. Monte Titoli is now scheduled to migrate on 31 August.

This delay should aid the migration process for the Italian market, and will make sure that any issues with the new solution cannot affect the other markets on the platform or the market as a whole.

A detailed plan for Italian migration is now in development, taking in to account any potential effects to the live platform.

## SGSS: institutions need to be bold

Asset managers and financial institutions will have to make bold decisions in order to adapt their collateral and liquidity management functions to global investment activities, according to Clement Phelipeau, product manager for derivatives and collateral management services at Societe Generale Securities Services.

As the landscape of financial markets shifts, market participants are being prompted to adapt their strategies in order to support growth, enhancing processing capabilities to cope with regulatory requirements and to manage associated costs.

Phelipeau said: "Efficient collateral allocation will give asset managers and financial institutions significant competitive gains."

He cited the European Market Infrastructure Regulation (EMIR), the Dodd-Frank Act, the Markets in Financial Instruments Directive (MiFID) II and Basel III's capital requirements and margining requirements of OTC derivatives.

Transactions will need to be increasingly collateralised in order to mitigate credit risk, and it will be important for firms to implement new collateral management strategies, maximising the use of eligible assets.

## New collaboration for Grant Thornton and Foley O'Neill

Grant Thornton UK has agreed a new collaboration with Foley O'Neill that will see the two firms working together to offer specialist securities finance and collateral management consultancy services.

Foley O'Neill provides specialist, independent financial solutions across a range of financial products, including securities finance, collateral management, foreign exchange and cash or treasury management.

The firm is led by Bill Foley and Sean O'Neill, who each bring more than 25 years of market experience, gained at financial institutions.

Foley commented: "We are delighted to announce this strategic tie up with Grant Thornton. Securities finance and collateral management continue to be hot topics in the sector, with the current rate of change

unprecedented in the industry. We look forward to working with Grant Thornton and delivering an excellent product offering to our clients."

O'Neill added: "The firm's expertise and resources allow us to jointly accelerate the product offering and ensure that it's in line with client needs. Our asset deployment diagnostic has the capability to ensure clients are aware of changes required to remain compliant and make optimal use of their inventory."

## Murex overhauls MX.3 for Collateral Management

Murex has released a fully overhauled version of MX.3 for Collateral Management, designed to better support sell-side and buy-side financial institutions in optimising pre- and post-trade collateral.

Available as an enterprise standalone solution or integrated with MX.3 trading, risk and back office solutions, MX.3 for Collateral Management provides a single framework for the support of listed, over-the-counter, cleared and securities finance margin process and collateral optimisation. Fifteen banks are currently deploying the solution worldwide.

Etienne Ravex, Murex collateral product manager, commented: "Legacy systems cannot adapt fast enough to challenges such as real-time initial margin calculation or funding valuation adjustment for pre-trade decision making, collateral inventory optimisation or exploding volumes of calls to be processed. Practitioners need adaptable real-time solutions along the full value chain."

Regulatory developments such as Basel III have reinforced collateral management as a core function of the capital markets value chain, requiring a centralised and unified infrastructure to overcome internal and external inefficiencies.

The new solution introduces a flexible margin engine supporting pre-trade initial margin, a real-time and settlement-aware collateral inventory, an optimisation engine for cheapest-to-deliver determination and collateral assets rebalancing, automated portfolio reconciliation, as well as native connectivity with recognised servicers such as AcadiaSoft, Swift for collateral messaging suite, and TriOptima.

"The main purpose of our innovation strategy is to derive intricacies of technology evolution so our clients can focus on remodelling their business strategies," said Maroun Eddé, Murex Group CEO.

"Our collateral management solution is designed as a transformation trigger to convert costs and constraints into value creation while delivering compliance as a standard."

## Pirum enhances pre-matching service for quick solutions

Pirum has enhanced its Real-Time Pending pre-matching service to enable users to identify issues minutes after the loan or return is booked, leading to reduced fails and improved settlement times.

The service allows users to pre-match new loans, returns, collateral and repos across all asset classes.

With changes such as the regulation on settlement and central securities depositories imposing increased costs of failed settlements, coupled with the implementation of shortened

settlement cycles across Europe as a result of the Target2-Securities roll-out, Pirum has claimed that timely pre-matching is critical.

The enhancement of the Real-Time Pending compare service will enable Pirum clients to manage mismatches on their transactions prior to settlement with the ability to prioritise these on a number of key criteria such as trade value, quantity and settlement date.

With Pirum's existing suite of real-time comparisons, the Real-Time Pending comparison enables clients to manage the full tradelife cycle from the initial booking of a loan to the return, on a real-time basis.

## BM&FBovespa records fewer deals in May

BM&FBovespa, Brazil's central counterparty (CCP), recorded fewer securities lending transactions in May than it did the month before.

The CCP saw 117,292 transactions in May, which was down on April's 122,240.

Trading value amounted to BRL 58.62 billion ($18.97 billion), compared with BRL 62.01 billion ($20.06 billion) in April.

## CloudMargin on the horizon for Metro Bank

Metro Bank has selected CloudMargin to provide collateral management technology for its OTC derivatives and repo portfolios.

The collaboration between the two firms means Metro Bank will have greater control and visibility of its counterparty risk, with ability to challenge and validate their collateral positions and balances.

Alex Cockerell, head of treasury at Metro Bank commented: "CloudMargin offered a cost-effective; pay-as-you-go; plug-and-play cloud-based system, so there was no need for IT hardware, software or implementation spends.

Most importantly the tool is simple and intuitive to use, and saves us time."

## SS&C forward redemptions up

SS&C GlobeOp's Forward Redemption Indicator for June 2015 has shown notifications of 4.72 percent, up from 4.68 percent in May.

Forward redemptions as a percentage of SS&C GlobeOp's assets under administration on the SS&C GlobeOp platform have trended significantly lower since reaching a high of 19.27 percent in November 2008.

"SS&C GlobeOp's Forward Redemption Indicator for June 2015 of 4.72 percent reflects normal seasonally-elevated redemption requests, but viewed year-over-year it is an improvement from last June when the same indicator was 4.80 percent," said Bill Stone, chairman and CEO of SS&C Technologies.

"Though this represents only a small gain, it is the first positive monthly comparison since January and suggests that investor sentiment may be turning more optimistic regarding prospects for hedge fund performance."

The SS&C GlobeOp Forward Redemption Indicator represents the sum of forward redemption notices received from investors in hedge funds administered by SS&C GlobeOp on the SS&C GlobeOp platform, divided by the assets under administration at the beginning of the month.

The data on the GlobeOp platform represents approximately 10 percent of the hedge fund industry.

## Clearstream's global securities financing average climbs

Clearstream saw a monthly average outstanding of €622.5 billion for global securities financing last month.

The combined services of triparty repo, securities lending and collateral management collectively beat May 2014's €593.7 billion by 5 percent, although they were down on April of this year, when they had a monthly average outstanding of €628.4 billion.

In May 2015, the overall value of assets under custody held on behalf of customers increased 10 percent to €13.4 trillion, beating May 2014's €12.1 trillion.

Securities held under custody in Clearstream's international central securities depository, meanwhile, increased to €7.2 trillion last month—an 11 percent increase over May 2014's €6.4 trillion.

The German central securities depository saw its securities held under custody climb 9 percent over 12 months, from €5.7 trillion in May 2014 to €6.2 trillion in May this year.

Clearstream also processed 3.6 million international settlement transactions, which was slightly down on the previous year at 2 percent. On the German domestic market, settlement transactions in May reached 7.2 million, beating the same month in 2014 by 10 percent.

## ETF investors poised in Russia

Exchange-traded fund (ETF) investors continue to position themselves to benefit from a recovery in the Russian market despite continued unrest and sanctions, according to Markit.

Net long inflows into ETFs have totalled $406 million so far this year.

The largest Russian exposed ETF by assets under management at $2.1 billon is the Market Vectors Russia ETF (RSX), which benchmarks the DAXglobal Russia+ Index, tracking the 30 largest and most liquid Russian companies trading as global depository receipts.

The ETF's net asset value is up by 29 percent this year, despite falling 9 percent in the last month, according to Markit.

Short interest in RSX has also been volatile, with short sellers covering over the last six months as the ETF rallied.

Shares outstanding on loan has spiked as high as 16 percent in December 2014 but has declined throughout 2015 to 3.5 percent.

## SunGard's hottest stocks

SunGard's top short pick for Europe, the Middle East and Africa region for the week beginning 22 June is UK confectioner Thorntons (THT.L), after Italian chocolatier Ferrero made a £112 million takeover bid for the company, sending its share price surging more than 40 percent.

Astec Analytics data suggests that short sellers have been growing more optimistic for Thorntons since the beginning of June, with the number of shares being borrowed falling 11 percent.

Elsewhere in the Europe, Middle East and Africa region, CNH Industrial (CNHI) recently reshuffled some of its most senior staff. Mild short covering has taken place over the past two weeks, according to Astec Analytics, with the number of shares borrowed falling 6 percent.

In the US, Apple (AAPL) is SunGard's top pick, after its new music streaming service came under criticism from artist Taylor Swift, who blasted the tech company's plans to not pay artists for their music during the first three months of its new service's operation, so that it could attract users.

June has generally seen Apple shares sliding lower in the cash market, although Astec Analytics data suggests that this has also been bringing with it some short covering, with borrowing volumes recently falling 8 percent.

Also in the US, pharmaceutical company MannKind Corporation (MNKD) saw its cost of borrowing plummet recently as some lenders were able to make higher volumes of shares available to borrow, in order to meet the continued strong demand from short sellers.

Astec Analytics data shows that having peaked at more than 110 percent, the average cost to borrow MNKD stock has now fallen below the 30 percent mark, even as the actual number of shares being borrowed has climbed about 9 percent in that same time.

Finally, in the Asia Pacific region, Hong Kong-listed luggage maker Samsonite International (1910.HK) is SunGard's top pick, following news that its outlook in China has improved dramatically due to a switch of focus to cheaper products.

Despite this, and some positive earning numbers earlier this year, Astec Analytics data hints at growing short selling activity in Samsonite during June, in which time borrowing volumes have doubled.

## 2017 debut for T+2 in the US

The T+2 Industry Steering Committee (ISC) has released a suggested timeline for implementing a two-day settlement cycle in the US, with a plan to make the move by the end of Q3 2017.

The T+2 ISC is organised by the Depository Trust and Clearing Corporation (DTCC) and includes members from the across the securities finance industry. These include the Securities Industry and Finance Markets Association and the Investment Company Institute (ICI) which both hold positions as co-chair.

According to a whitepaper, a move to T+2 in the US could reduce operational, systemic and counterparty risk while also lowering liquidity

needs and providing greater efficiency and safety for investors.

It would also align the US with other T+2 settlement markets around the world and enhance the US market structure.

The US is currently on a three-day settlement cycle for equities, corporate and municipal bonds, and unit investment trades. A plan to move to T+2 was recommended after input from more than 600 industry participants representing 12 segments of the market.

The whitepaper also includes industry-level requirements, considerations, leading practices and other initiatives that organisations will have to asses, including configuring reference data and trade processing systems; matching trades in Real Time Trade Matching by 11.30am on Eastern standard time (EST); affirming institutional equity trades by midday EST on T+1 for straight-through processing; and aligning physical securities processing with T+2 settlement timeframes.

Market participants will also have to consider how T+2 could affect the resolution process for failed trades. It could also have an impact on securities lending, liquidity and collateral management, multi-listed securities processing, foreign investment or cross-border transactions and secondary insurance for municipal bonds.

Tom Price, co-chair of the T+2 ISC, and managing director of operations, technology and business continuity planning at SIFMA, commented: "After rigorous analysis, the T+2 ISC determined that a move to a T+2 settlement cycle is achievable by the end of Q3 2017. The move to T+2 will yield critical and immediate efficiencies that will help mitigate operational risk and keep the US competitiv."

He added: "The establishment of this timeline is a critically important step toward T+2, and much work remains to be done. Continued communication, socialisation and transparency with the broader industry and regulators will be essential to making T+2 a reality."

Implementation still depends on support from the regulators to amend the applicable rules quickly, and on successful testing in Q2 and Q3 of 2017. However, SIFMA and ICI have submitted a letter to regulators outlining the specific regulatory changes that would have to be made.

The T+2 ISC will now drive regulatory outreach, communication, planning and industry-wide testing, while DTCC will provide project management support throughout the migration.

## Asset managers mistrust their own numbers

More than half of asset managers do not wholly trust their own investment performance figures, according to a survey by SimCorp.

In a survey conducted in a webinar, 53 percent said that they are not confident that the figures they report are correct, while 80 percent said they do not receive investment portfolio numbers based on intra-day position calculations.

Less than 60 percent said they are able to see the trades, prices, FX rates and classifications that drive their portfolios' performance numbers.

According to SimCorp, a lack of accurate information could lead to asset managers misreporting performance data to investors and regulators. It could also mean they make ill-informed decisions on trades, potentially putting them at a competitive disadvantage.

Marc Mallett, vice president of product and managed services at SimCorp in North America, said: "The investment process should be seen as an opportunity—the differentiator which enables your firm to add value for your clients. If performance data is not up-to-date, there is an inability to see what's actually driving the performance. This casts a large doubt on the

accurate tracking of investments which does not inspire investor confidence."

"There is a critical need for asset managers to have access to real-time and accurate performance data, and these survey numbers show a significant gap between the tools asset managers have available and what they require to make high-quality investment decisions,"he added.

The survey included 88 asset managers representing about $22.5 trillion in AuM.

## Banks should capitalise on regulatory change

More than 80 percent of financial institutions are failing to capitalise on regulatory change, according to new research from GFT.

Although 95 percent of respondents agreed that they operate in a constant state of regulatory change, 82 percent are not capitalising on it to drive strategic investment and business change.

The research project was aimed at understanding the investment banking's attitude towards the environment of regulatory change. More than half, 53 percent, said they still regard regulatory projects as a box-ticking exercise.

Although 89 percent of respondents said the 'tipping point' in attitude and approach passed more than two years ago, a massive 86 percent said they still use tactical 'work-arounds', or short-term solutions.

Most agreed that regulatory change has increased focus on compliance, rather than driving innovation, however 53 percent said regulation has helped drive consolidation of their business functions.

Many organisations have been able to make better business decisions based on the data provided by reporting requirements—85 percent of respondents said this was the case. Only 55 percent, however, said they reassess their business with every new regulatory change.

Also, while 85 percent of firms said they measure the impact of regulatory change, only 48 percent of these said they act on findings.

Gareth Richardson, managing director for the UK at GFT, said: "Banks realise that being aware of, and prepared for, regulatory change is the only way to effectively manage it."

Joan Carles Fonoll, managing director for GFT in the US, pointed out that the research shows how different jurisdictions approach regulation.

"In the US, for example, regulations tend to be more prescriptive, whereas in Europe they are usually subject to interpretation by the organisation in question. This is evidenced in the research, whereby US banks tend to view regulation more from a compliance perspective, rather than as a driver of consolidation and innovation."

GFT surveyed 66 organisations including global and domestic investment banks, as well as central counterparties from the UK, Europe, North America and Asia.

## Russian and Chinese CSDs team up

Russia's National Settlement Depository (NSD) and China Central Depository and Clearing (CCDC), which services governmental securities, have agreed to work together to boost participation in both markets.

The parties agreed to share experience and information, to develop cooperation in the sphere of depository and settlement operations, operational interactions using corresponding accounts, corporate actions processing and information services.

NSD and CCDC intend to cooperate bilaterally and within the Association of Eurasian Central Securities Depositories, Association for Corporate Growth and World Forum of Central Securities Depositories.

Eddie Astanin, chairman of the executive board at NSD, commented: "Russia's post-trading infrastructure integration with the global market and with the Chinese market in particular meets our clients' interests and expectations."

# ISLA in pictures

## The International Securities Lending Association's Securities Finance and Collateral Management Conference was held in Lisbon, Portugal, and a good time was had by all

Borrowers, lenders and everyone in between came together in Lisbon for the annual International Securities Lending Association's Securities Finance and Collateral Management Conference.

In excess of 600 attendees discussed the future shape of the industry, including the multiple routes to market and a changing demand profile, dealing with regulation and what it means to the market, and where securities financing sits within a broader liquidity and collateral management world.

And, as you will see across the next few pages, a good time was had by all.



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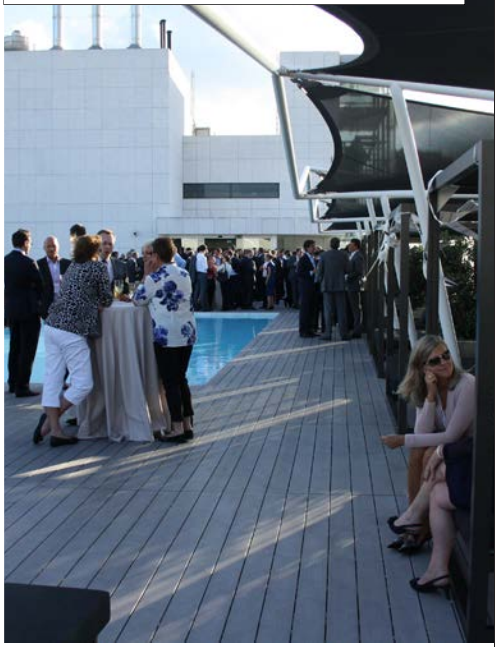


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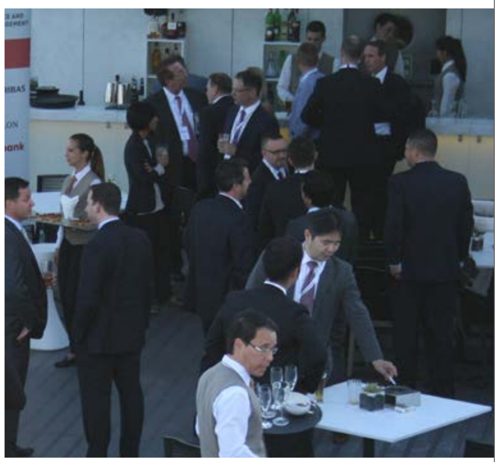


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# Fire hazard

There is still work to be done to reform the triparty repo market in the US

MARK DUGDALE REPORTS

The warning from Fitch Ratings that the repo market is still at risk if a 'fire sale' of assets hits financial markets appears to have prompted the Federal Reserve Bank of New York to issue an update on triparty repo reform—its first since February 2014.

The rating agency's study of corporate bond liquidity, released in the middle of June, focused on the characteristics of corporate bonds pledged as collateral in the triparty repo market.

Corporate bond collateral characteristics such as long-dated maturities, low trading frequency and wrong way risk could raise risks of a forced unwinding of repo-funded trades in a scenario where risk aversion increases sharply, according to Fitch.

"Such risk aversion could limit the ability of dealers to finance securities in the repo market. Cash investors such as money market funds could also be forced to sell collateral in the event of a dealer default."

On top of this, maturity mismatches between short-term repos and the long-term corporate bond collateral that they finance could exacerbate fire sale risk if trades are unwound quickly, argued Fitch. "Over 90 percent of the bonds in our collateral sample have maturities of one year or more. These bonds carry greater interest rate risk, and could be more difficult to sell in a period of market dislocation."
The effects that a fire sale could have on repo have long been mooted, with the Financial Stability Oversight Council commenting in its latest annual report on financial markets: "Previous annual reports have highlighted structural vulnerabilities in the triparty repo market."

"Significant progress has been made in this market in recent years, in particular reducing market participants' reliance on intra-day credit from clearing banks. The risk of fire sales of collateral deployed in repo transactions remains an important financial stability concern."

According to the Federal Reserve, up to $250 million per day in corporate bonds can be liquidated without negatively affecting bond prices. But total corporate bond triparty repo collateral averaged approximately $75 billion in 2014. "Forced selling of even a small fraction of that amount could accelerate price pressure during periods of market stress," added Fitch.

## Triparty update

Then, having heard nothing from the Federal Reserve Bank of New York for more than a year (publically, at least), it provided an update on the implementation of the now-disbanded Tri-party Repo Infrastructure Reform Task Force's seven-point roadmap for reform on 24 June.

A key aspect of the reform roadmap, finalised in 2012, was to drastically reduce the share of triparty repo volume that is financed with intra-day credit from a clearing bank. BNY Mellon announced in early May that this had been achieved: the secured credit extended in the triparty repo market was reduced by $1.44 trillion, or 97 percent, resulting in the practical elimination of such credit in its programme.

BNY Mellon also introduced a range of enhancements including Automated Deal Matching, which captures instructions independently from repo counterparties and ensures all parameters of a triparty repo trade match prior to settlement. Meanwhile, Auto Collateral Exchange now allows triparty repo trade collateral to automatically substitute securities for cash, significantly upgrading the way collateral is optimised and allocated.

Other enhancements such as rolled trade functionality, rebalancing capabilities and a new settlement algorithm have also been introduced.

"As the market leader for triparty collateral management, we embraced the task force recommendations and proactively addressed the necessary changes without disrupting the market," commented Brian Ruane, CEO of broker-dealer and triparty services at BNY Mellon, in May, when the bank made its announcement.

"Through a comprehensive set of operational and technology improvements, as well as the strong partnership with our clients and other market participants, we have significantly reduced systemic risk and positioned our clients for success moving forward in this market."

Acknowledging this success, the New York Fed said in its 24 June statement: "As a result, the share of triparty repo volume that is financed with intra-day credit from a clearing bank has dropped markedly, from 100 percent as recently as 2012, to a level averaging 3 to 5 percent today (as compared with the task force's original target of no more than 10 percent). Clearing banks, dealers and investors all made changes to their practices and processes that helped to achieve this goal."

But, as Fitch warned, issues remain that could cause problems if markets are sufficiently shocked. The last leg of the task force's reform roadmap is the full alignment of general collateral finance (GCF) repo settlement with the new triparty settlement process.

"The settlement process for the majority of GCF repo trades that occur between dealers at the same clearing bank is largely aligned with the reform goals; minimal intra-day credit is used, and settlement occurs between 3:30pm and 5:15pm," explained the New York Fed.

"However, the subset of GCF repo transactions that occur between dealers at different clearing banks are still unwound at 8:30am, and still require uncapped, discretionary extensions of intra-day credit by the clearing banks to settle. This is a potential source of market instability in periods of stress."

"When triparty repo lenders reduce the provision of financing to a repo borrower, the borrower may seek to obtain funding in GCF repo, where trades are arranged anonymously by inter-dealer brokers. In a full-blown stress event, GCF repo usage, and the associated intra-day credit needed to settle that GCF repo activity, could balloon suddenly and significantly, to levels that a clearing bank is unwilling or unable to support through the provision of the necessary intra-day credit."

The GCF task was supposed to be completed this year, but the New York Fed admitted that "the work required to align settlement of these inter-bank GCF repo trades with the broader process will stretch beyond 2015, given the complexity of the reengineering challenge involved as well as the contention of this effort with other near-term changes that are required for other purposes".

Finally, the New York Fed admitted in its statement that the risk of a fire sale of collateral by a dealer that is losing access to repo financing (pre-default), or by creditors of a dealer once it has defaulted (post-default), are concerns.

"Substantial progress has been observed to date with respect to pre-default fire sales, due to capital and liquidity regulations that have prompted dealers to extend the tenor of their financing for less liquid asset," the New York Fed was keen to stress.

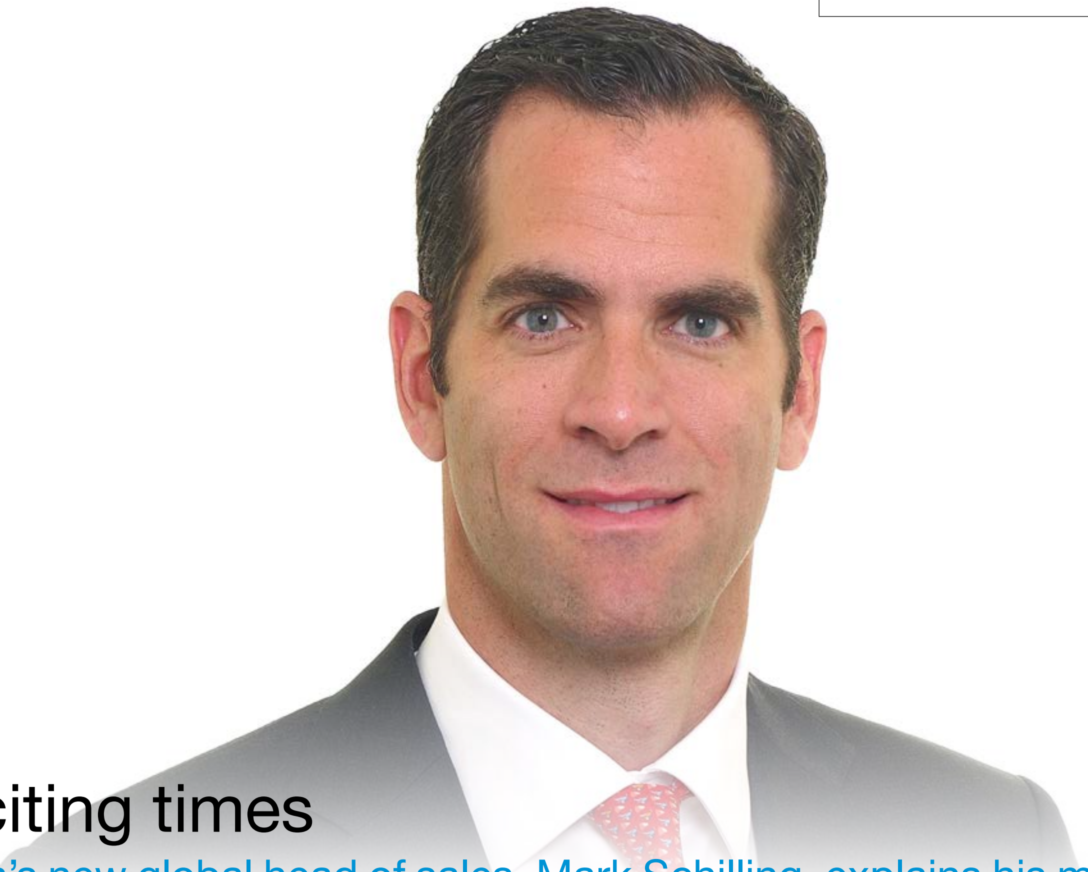
"But as yet, no mechanism exists to address the challenge of coordinating sales of collateral by the creditors of a defaulted dealer in an orderly manner."

"The New York Fed acknowledges current industry efforts to develop central clearing mechanisms for repo financing, which may offer opportunities to establish a process for orderly liquidation of assets of a defaulted member, which is a common feature of central counterparties in other markets."

Indeed, the Fixed Income Clearing Corporation (FICC), a subsidiary of the Depository Trust and Clearing Corporation (DTCC), confirmed last year that it wants to provide central clearing for the $1.6 trillion institutional triparty repo market. It is currently discussing its proposals with regulators. They would see the FICC process more than 70 percent of the market.

Murray Pozmanter, DTCC managing director and head of clearing agency services, said at the time that centralising the clearing and settlement of repo transactions through FICC could potentially "help to prevent another squeeze in triparty funding such as the one observed in 2008 when funds sharply reduced their lending during the run up to the Lehman failure".

"It would also provide regulators with a broader and more comprehensive view of the repo market for the monitoring and management of systemic risk as well as mitigate risks associated with a fire sale in the triparty marketplace." **SLT**



# Exciting times

## Pirum's new global head of sales, Mark Schilling, explains his move to the technology firm and what's in store this year and next

STEPHEN DURHAM REPORTS

### What prompted you to take the role of global head of sales at Pirum?

The chance to join Pirum Systems was an opportunity that was too good to pass up. It's no secret that our industry is going through a unique change specifically within the technology space, and Pirum has a reputation for delivering superior technology coupled with excellent customer service. Financial technology is clearly not a new concept, but it's continually gaining more attention. With financial institutions facing increased pressure both from a regulatory and financial perspective, they need scalable solutions to help them cope with the ever-changing environment.

This creates huge opportunities for firms such as Pirum. Given the competitive advantage that Pirum experiences with its Real-Time service as well as its Central Counterparty (CCP) Gateway, it is well positioned for exciting growth. This in and of itself is an attractive proposition. Streamlining of products and services is a trend that will continue and Pirum is at the forefront of providing high-quality technology solutions for its clients.

### What do the next 12 months have in store for Pirum?

The next 12 months promise to be an exciting and innovative time for Pirum. While we continue to focus on our core products and services for our existing clients, we are also experiencing an upsurge of going live with new clients. As a result, we've increased our headcount by 25 percent and will look to continue this trend as the client book expands.

We've stepped up our efforts in research and development as a result of conversations with our customers and have identified a few opportunities that are currently being explored in greater detail. From a sales and marketing perspective, we're looking to continue to increase our efforts across Europe as well as expand our sales initiatives in North America.

### What has changed at Pirum since Five Arrows Principal Investments and Camwell Management acquired a stake in the business?

The strategic investment from Five Arrows Principal Investments and Camwell Management has had an immediate positive impact on our overall business. Having such high calibre investors on side allows the management team to access unparalleled expertise and knowledge. Both Five Arrows and Camwell have extensive insight into the securities finance business, as well as strong competency in strategic planning. The investment also represents a strong vote of confidence in Pirum's prospects going forward as a leading technology provider.

### What work is currently being done with Eurex Clearing on the Lending CCP?

Our partnership with Eurex Clearing remains as strong as ever and the list of clients currently coming on board is continually expanding. This year has brought record flows through Pirum and volumes are expected to continue to grow as move toward the end of the year.

Pirum is working closely with Eurex Clearing and our clients on several enhancements to the service for delivery in both 2015 and 2016. These enhancements will provide additional ways to trade via the CCP, and will further advance our existing straight-through processing even further. The most notable recent enhancement to the service is the ability to trade versus cash collateral on a pooled basis.

Pirum is also working closely with clients to automate as much of the operational processes internally, downstream of the CCP. These include building custom feeds for statuses and settlement information, as well as automated bulked cash pool marks and reporting. SLT

# Short sellers wake up in Singapore

## With its heavy exposure to China and the energy sector, Singapore's equities market has seen shorting activity rise. Markit's Relte Schutte reports

Singapore has never been a hotbed of short selling activity, but the country's exposure to China, weak commodities prices and a successful activist investor campaign has pushed average short interest up sharply from the levels seen at the start of the year.

Average short interest, as measured by the percentage of free float out on loan, has increased by more than a quarter since the start of the year, currently reaching 1.2 percent for the Singapore Stock Exchange (SGX).

In terms of average free float out on loan, the larger blue chip companies that make up the FTSE Straits Times Index (STI) have seen relatively more shorting activity than the wider market, with an average of 1.5 percent shares outstanding on loan.

This figure has also been rising at a faster pace than the SGX, as the current level represents an almost 50 percent jump from the 1.02 percent average seen at the start of the year.

Short interest in the index has been heavily driven by energy and capital goods firms. Sembcorp Marine and Keppel Corporation are both involved in offshore and onshore infrastructure services that are heavily exposed to the energy and shipping sector. The current short interest in these companies currently represents 4.5 and 1.7 percent of shares outstanding.

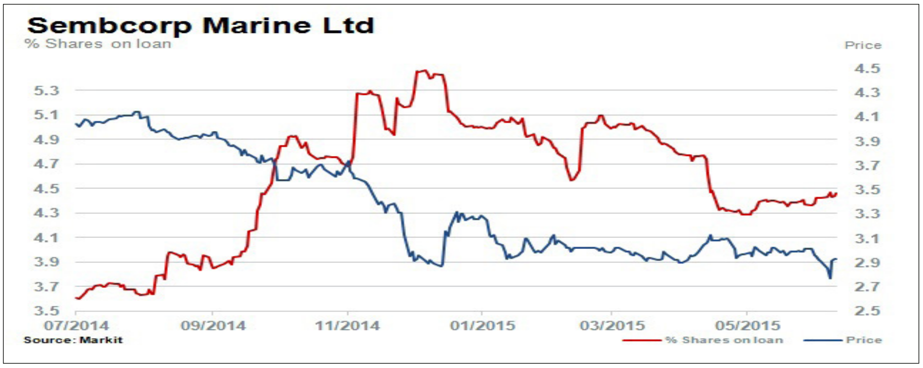
Demand to borrow Sembcorp shares has steadily increased throughout the year, driving the cost to borrow above 8 percent. This makes Sembcorp the most expensive name to borrow in the STI.

The largest movement in shorting activity in the STI by far has been in commodities group Noble Corp, which became the target of activist investor Iceberg Research in February.

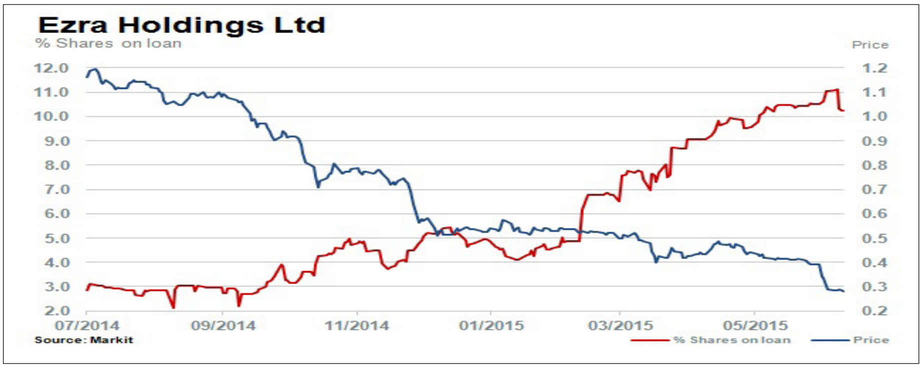
This has seen the shorting activity in Noble jump tenfold from the level seen on 1 January. Iceberg's research looks to have hit a nerve with investors as the shorting activity has jumped fivefold in the wake of the report, with more than 7 percent of the firm's free float now out on loan.

The problems for Noble look set to continue as Standard & Poor's has recently downgraded its outlook on the company to negative.

Outside of the STI, energy names have also been popular short targets. Offshore contractor and provider of integrated oil & gas services Ezra is the most shorted name on the SGX with 10 percent of shares outstanding on loan. The company has seen short sellers continue to gravitate towards the stock since the price of oil started to collapse in 2014. The increase in shorting activity has been spurred on by a falling share price as the company's shares have slipped by 70 percent year-to-date.








This pickup in short interest is helping reverse the revenue slide experienced last year. Total daily returns in Singapore equities more than halved from $150,000 per day at the start of last year to the $70,000 mark in January. This was driven in large part by the fact that the fees charged by lenders to borrow Singaporean equities trailed off from 150 basis points to less than 100 basis points over 2014.

The pickup in borrowing has seen lenders regain some of their pricing power as the weighted average fee for Singaporean equities has since climbed above the 110-basis point mark. This increased pricing power, combined with the increase in loan balances, means that daily securities lending revenues in Singapore now stand above $90,000.

**Relte Stephen Schutte**
Analyst
Markit Securities Finance

# Industry Events

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

**Date** 17-18 September 2015
**Location:** London,

In light of significant regulatory and market developments, IMN are proud to announce a new title - and expanded focus - for their Beneficial Owners' Securities Lending event series.

## 32nd Annual RMA Conference on Securities Lending

**Date:** 12 - 15 October 2015
**Location** Key Biscayne, FL

This conference brings together all the players involved in the business of securities lending. It is designed by securities lending and borrowing professionals for individuals from banks, brokerage houses, pension funds, endowments, and regulatory agencies in both the U.S. and Europe. Topics include collateral management, international market updates, performance measurement, and legal/regulatory updates.

# Industry appointments

J.P. Morgan's investor services management team has undergone a significant reshuffle, according to an internal memo.

**Teresa Heitsenrether** will become global head of custody and fund services, moving on from her post as global head of prime brokerage, which she held for three years. **Nick Rudenstine** is said to be exploring new opportunities within the bank, but will work closely with Heitsenrether.

**Jason Sippel** is moving in to the position of global head of prime services, including prime brokerage and equity financing, agency clearing and collateral management. Previously, he was head of American equities trading, and will now relocate to London.

**Paul Brannan** will now be head of prime brokerage for the Americas, and will report to Sippel. Previously, Brannan led the development of J.P. Morgan's investor services client service function, and he has also served as global head of account management for prime brokerage, and head of prime brokerage sales in the Americas.

**Emily Portney** remains in her position as global head of agency clearing, and will also report to Sippel.

Finally, **Patrick Moisy** is to take responsibility for capital and funding activities across investor services and equities, with the intent to drive balance sheet optimisation and funding.

Moisy has led equity financing within J.P. Morgan for the last two years, and has been credited with helping establish the bank as a market leader in this space.

London Stock Exchange Group (LSEG) has appointed **Donald Brydon** as its new chairman.

Brydon will succeed Chris Gibson-Smith, who announced in 2014 that he would retire after 12 years as chairman, effective 1 July.

Gibson-Smith commented: "I am delighted that Brydon will be joining the board of LSEG, and succeeding me as chairman. His significant board experience, knowledge of our dynamic industry and his personal qualities will be invaluable to the ambitious, competitive, global group that our business has now become."

Brydon said: "Being asked to become chairman is a real privilege. I am looking forward to working with a great team and playing my part in helping guide LSEG to further success."

Nasdaq has appointed **Stacie Swanstrom** as senior vice president to lead its global corporate solutions business.

Effective 1 July, Swanstrom will be responsible for leading the strategic direction of the business while managing the success and growth of Nasdaq's current investor relations, public relations, governance and multimedia offerings.

She will report to Adena Friedman, president of Nasdaq.

Swanstrom has worked at Nasdaq for more than 20 years, having held various leadership roles within the market services segment. She is currently head of global access services.

Friedman commented: "We are excited to be able to benefit from Swanstrom's technology expertise, customer focus and leadership skills as she takes on this role."

"[She] has a proven track record in delivering growth and profitability to our businesses, and we look forward to seeing her apply her home-grown experience in taking the corporate solutions business forward." **SLT**

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