SLT SECURITIES LENDING TIMES

ISSUE 133
25.08.2015 TUESDAY
securitieslendingtimes.com

Buy-ins will damage securities lending

The International Securities Lending Association (ISLA) "fundamentally disagrees" with the Central Securities Depository Regulation's (CSDR) implementation of mandatory buy-ins for securities lending transactions, which would negatively affect the lending market, it claims.

In a letter sent to the European Securities and Markets Authority (ESMA) on 6 August, the association cites "highly complex rules", "dramatically increased costs", additional risk exposure and a lack of supportive data as some of the reasons that mandatory buy-ins will deter lenders from making their securities available for borrowing.

ISLA goes on to clarify that despite its overall objection, its members favour "trading parties being responsible for executing the buy-in, either directly or by appointing agents for the purpose".

The fact that the securities lending is largely considered 'ancillary' to most investors' primary investment strategies leads ISLA to argue that the market would not benefit from onerous regulation and penalties, such as mandatory buy-ins, as investors would rather leave the lending space than comply.

The letter is the second scathing analysis of the CSDR by the association. The first response was published in February.

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Greece bans short selling again

Greece has instituted another four-week ban on short selling as its financial crisis continues, but this time with a new exemption for market makers.

The European Securities and Markets Authority (ESMA) has acknowledged that since Greek financial markets are now open, market making activities are important providers of liquidity for Greek shares, as well as for related warrants, derivatives, index derivatives and exchange-traded funds.

The renewal will run from 4 to 31 August and marks the fifth consecutive short selling ban for the Greek market.

The decision prohibits transactions in any financial instrument that creates or increases a net short position on any of the shares admitted to trading on the Athens Exchange and Multilateral Trading Facility.

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AIMA launches new Basel III impact survey

A new survey exploring the impact of Basel III bank capital rules on money managers and their financing relationships has been launched by the Alternative Investment Management Association (AIMA) and S3 Partners.

The survey, said to be first of its kind, aims to cast light on a complex aspect of the new Basel III rules and is open to all hedge fund managers globally.

The survey will assess how Basel III rules are affecting cost and capacity in the prime brokerage industry.

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Buy-ins will damage securities lending

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ESMA also published its own updated technical advice to the European Commission on 4 August, which called for standardised EU buy-in rates and the implementation of proportional penalty fees for failed deliveries.

Another major criticism that ISLA levels at the CSDR is that mandatory buy-ins for all lending activity will not take into account the fact that, in the event of a failure of delivery due to a securities recall, a buy-in could be activated despite evidence that recalls are "typically for reasons other than to execute a sale".

"A failed securities loan return here could result in a buy-in which in turn could lead to the failed to party receiving a cash equivalent if they or their agent cannot execute a buy-in," explained ISLA.

In this instance, a failed buy-in would contradict standard recall procedure as the lender might be provided with cash to re-purchase an equivalent security, which may have increased in price and therefore leave the lender with an overall loss from the transaction.

ISLA offers an alternative option to this issue, stating: "It would be better if the buy-in for a failing securities loan or return was remedied with a replacement loan. We believe that it may be possible to interpret the [first level] text in this way and this would have the advantage of allowing the settlement failure to be remedied, without creating the additional market exposures and risks associated with a purchased buy-in of the position."

The letter's closing remarks reiterated the association's previous request for a more detailed definition of terms such as "participant", as well recommending that, in response to ESMA's February advice on the first level text, "implementation of the CSDR regime should not occur before the T2S [Target2-Securites settlement] system is fully operational and thought should be given to whether a phased approach from that time would be preferable".

Greece bans short selling again

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The short selling ban was originally imposed by the Hellenic Capital Market Commission, under the EU Short Selling Regulation, and has been ongoing since 30 June.

In a statement on the decision, ESMA stated "that adverse developments which constitute a serious threat to market confidence in the Greek market still persist and that the proposed measure is appropriate and proportionate to address those threats".

AIMA launches new Basel III impact survey

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It will also establish standardised definitions for fundamental concepts such as 'optimisation', 'collateral management' and 'reconciliation', which are key to how hedge fund and asset management clients assess their commercial relationships with banks.

AIMA CEO Jack Inglis said: "While the impact of Basel III on banks may be well understood, it is clear that many hedge fund management firms are struggling to see how these capital requirements will affect the cost of doing business."

"With this survey, we are hoping to cut through some of the noise and better understand what managers have seen so far and how they expect their relationships with their prime brokers and other financing counterparties to change."

S3 Partners CEO Bob Sloan said: "Hedge funds and asset managers should be used to hearing their counterparties speaking about return on assets, optimisation and collateral management, but the surprising thing is that there's still no industry-wide understanding of what exactly these concepts mean."

The results of the survey will be presented in a research paper to be published later this year.

SLT IN BRIEF

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SunGard sells for $9.1 billion

Banking and payment technology provider FIS has signed an agreement to acquire SunGard for $9.1 billion.

SunGard sees annual revenue of about $2.8 billion. FIS will issue a combination of cash and stock amounting to an unaffected enterprise value of $9.1 billion, including the assumption of SunGard debt.

Combined, the companies anticipate annual revenues exceeding $9.2 billion.

As a result of the acquisition, FIS expects to be able to offer a broader range of banking and capital markets solutions for supporting financial solutions around the world.

SunGard offers a suite of services delivered through either hosted or on-premise deployments, and both companies' services extend to retail and corporate banking, payments, risk management, asset solutions and insurance.

Gary Norcross, president and CEO of FIS, said: "By bringing together two innovative companies with common business models, similar cultures, strong leadership and complementary solutions, we are enhancing our ability to empower our clients and deepen client relationships through an expanded full-service offering."

"Our focus has always been on championing the needs of our clients and we are excited about the opportunities this combination provides to further deliver on that commitment."

President and CEO of SunGard, Russ Fradin, added: "Our focus has always been on delivering more value to our clients and making decisions that achieve our growth and performance objectives."

"We are proud to become part of one of the financial services industry's most respected and solidly performing companies. We embrace this transaction and believe it is the best outcome for our employees and the clients we are dedicated to serving."

Subject to regulatory approvals and customary closing conditions, the transaction will be finalised in Q4 2015.

Hong Kong revenue boom

Hong Kong is enjoying a surge in lending revenues that has made the Asian jurisdiction the third largest equity lending market, behind the US and Germany, according to recent Markit data.

Asia as a whole recorded a 25 percent increase in total lending revenues compared to this time last year, which contrasts the negative growth seen in Europe, the financial information provider revealed.

Locally, Hong Kong equities topped the tables with a 57 percent increase in revenues generated for the year up to 10 August.

Growth was boosted by higher lending rates as the average borrow cost rose from 1.27 percent to 1.92 percent as a result of higher demand for select securities.

China's securities lending market is still in its infancy, but short sellers are flocking to the

country, which has many dually listed shares and less demanding regulation.

Total global securities lending revenues remains steady year-on-year at $6 billion annually.

But a flat aggregate number can hide significant inter-regional fluctuations, as short sellers shift their positions to react to global market forces. For 2015, strong US and Asian results offset struggling European revenues, which trail last year's regional total by 19.5 percent in dollar terms.

Overall, the current 2015 revenue total is 3 percent down from this time last year, at $4.13 billion.

European revenue figures are affected by the rising dollar, which has a negative effect on euro-generated revenues.

Europe's equities have suffered a 23 percent fall in revenues. The decline was not driven by the single market as seven European markets find themselves in the 10 global markets where securities lending revenue has fallen by the largest margin from last year's total to date.

Securities lending revenue in the Americas, which represents 46 percent of total global lending revenues generated so far in 2015, has built on last year's bumper total and is up by over 7 percent.

This increase was largely driven by big increases in revenues generated by US equities and US-listed exchange-traded funds, which generated $147 million more revenue in 2015 up to 10 August than they did in the same period in 2014.

ESMA issues advice on CSDR settlement fails

The European Securities and Markets Authority (ESMA) has issued its technical advice on appropriate penalties for settlement fails under the Central Securities Depository Regulation (CSDR).

The report also includes technical advice on determining the "substantial importance" of a CSD, all as a response to the European Commission's request to assist on the contents of the regulation.

Under CSDR, failed settlements will lead to penalties. The European Commission asked ESMA for technical advice on: parameters for calculating a cash penalty; the circumstances in which a penalty can be increased or reduced; and how to adapt the parameters for independent transactions, or in cases where a chain of independent transactions may not be visible.

Failed settlements can also lead to mandatory buy-ins, which act as additional security for the buyer. The ESMA advice suggests that failed settlements should be allowed a 15-day extension, after which a buy-in process would kick in, but the penalty for this should be specified.

According to ESMA's research, the preferred method of assessing the cost of a failure is using a reference price based on either the closing price of the most relevant market, the price of the most liquid trading venue for the particular financial instrument, or a pre-determined methodology based on criteria related to market data.

This method means that penalties will be proportional, similar instruments will be subject to similar penalties, and they can be applied using an automated system.

The ESMA report said: "This will ensure that all fails on the same instruments occurring on a particular date are treated equally, irrespectively of the trading venue or CSD used. This avoids potential regulatory arbitrage and provides for a clear methodology for determining the reference price with limited possibilities for conflicting interpretations of the relevant price to use in these situations."

There should be a distinction in rates between liquid and illiquid shares, while the rate for bonds should be lower, considering the larger size of related transactions. According to ESMA, if a failure is due to a lack of cash, the rate should be related to the cost of borrowing.

Rates should also be subject to regular recalibration in order to properly take in to account the changing market conditions, and also to monitor the overall efficiency of the measures.

On assessing the substantial importance of a CSD, the report concluded that if 15 percent of a CSD's services are deemed important, then the depository should be considered 'of substantial importance'.

It stated that if a CSD is established in an EU member state and has a physical presence, that doesn't mean it is of substantial importance. According to ESMA, there is no guarantee that such a CSD will see significant activity, and classifying all branches as significantly important would be too much of a burden for both the CSDs involved and the regulators.

Only those that end up generating significant activity should be subject to the advice designed to mitigate the risk of not meeting the measures of substantial importance.

Hedge funds' healthcare investment is on the up

Hedge funds are moving towards healthcare stocks and away from the technology sector, according to the S&P Capital IQ quarterly hedge fund tracker.

Healthcare drove the bulk of hedge fund buying for the second quarter in a row, seeing net buys of $7.2 million. This was still a

significant increase on Q1, which amounted to $4.8 billion.

The sector now represents 26 percent of the holdings for the 10 largest hedge funds. Baxter International was the largest healthcare buy of Q2, as a target of activist investing that saw $1.9 billion bought by Third Point. It now constitutes 18 percent of the Third Point portfolio.

Valeant Pharmaceuticals also saw $1.7 billion in buys, including $1.5 billion from Paulson & Co and $124 million from Viking Global Investors.

The information and technology sector had the most sell-offs, reaching a figure of $3.1 billion. Baidu was most sold at $1.3 billion, while Lone Pine sold out entirely.

Apple also sold $875 million worth of stock, Alibaba sold $644 million, and eBay sold $434 million.

The consumer discretionary sector saw the second highest number of total buys overall, at $2.4 billion, however some of these stocks were also the most sold off.

Some of the larger buys were JD.com with $1.8 billion and Amazon with $1.3 billion, while Netflix saw buys of $1.4 billion and sell-offs of $823 million.

Time Warner Cable and 21st Century Fox saw significant sell-offs of $751 million and $690 million, respectively.

Singapore Exchange consults on affiliate collateral segregation

Singapore Exchange (SGX) has proposed the introduction of affiliate segregation, a system designed to protect the collateral of an SGX derivatives clearing member's affiliates in the case of a default.

The collateral of an affiliate of an SGX DC member would be protected if the member defaults on its own contracts. The affiliate's positions could also be transferred to another member.

The system is optional for derivatives clearing members, and designed to complement any arrangements that they may already have in place to offer their bank affiliates better capital efficiency.

Under Basel III, banks must maintain a certain level of capital to allow for its exposure to a central counterparty. This depends on the levels of protection the bank already has in place, considering default or insolvency of the clearing member or the clearing member's other clients.

ConvergEx offers new risk controls to liquidity providers

ConvergEx, an agency-focused global brokerage and trading services provider, has launched its new Capital Commitment Crossing Algorithm for options facilitation trading.

The algorithm, which went live on 5 August, offers liquidity providers greater control when managing exposure when facilitating block trades for their options clients.

Liquidity providers can use the Capital Commitment Algorithm to customise their interaction with the marketplace by analysing factors such as the price committed to customers and the liquidity providers' existing positions or capital constraints.

The Capital Commitment Crossing Algorithm offers two different 'touch rate' paths, known as CapMax and CapMin, for liquidity providers to manage how much of a given block trade they internalise.

CapMax allows traders to sweep all protected quotes before facilitating the balance of a block order at one or more exchange auctions.

CapMin, meanwhile, utilises ConvergEx's Pulse options algorithm to source maximum liquidity from the open market before facilitating the balance of the block order.

Ben Londergan, ConvergEx executive managing director and head of options trading and technology, said: "This cutting-edge algorithm allows institutional desks to put up their customer facilitation options trades electronically with a new level of customisation."

Mixed figures for Clearstream

Clearstream's global securities financing business registered a 3 percent dip in its monthly average outstanding for July 2015.

The combined services of triparty repo, securities lending and collateral management reached an average outstanding of €600.8 billion in July, compared to June 2014's average of €619.5 billion.

The global securities financing monthly average outstanding has grown by 4 percent, reaching an average of €620.9 billion, compared to €595.7 billion in the same period in 2014.

Clearstream's overall assets under custody increased by 10 percent from €12.2 trillion in July last year to €13.5 trillion in July 2015.

The German central securities depository (CSD) processed 8.2 million settlement transactions, 6 percent more than July 2014's figure of 6.6 million. The international CSD saw a 1 percent dip from 3.7 million settlement transactions in July 2014 to 3.6 million in July 2015.

Year-to-date July 2015, the combined number of settlement transactions, taking in to account both OTC and stock exchange transactions and the German CSD and ICSD, reached 82.8 million.

This represents a 13 percent increase compared to the same period in 2014, which reached a total of 73.6 million transactions.

AcadiaSoft speeds to market with Xpress

AcadiaSoft, an electronic margining provider of over-the-counter (OTC) derivatives, has launched its latest platform offering, MarginSphere Xpress. The new system, released on 6 August, allows users to utilise the existing messaging service for OTC derivatives communications to contact counterparties not connected to the service.

The Xpress email messaging service builds on AcadiaSoft's MarginSphere 2 platform, launched in June, through AcadiaSoft clients' existing email channel in conjunction with MarginSphere, by utilising standard message formats and sophisticated data transformation.

By bringing email-based counterparts on to the service, MarginSphere 2 clients can automate their entire margin call process on AcadiaSoft's standard, secure and auditable solution. Xpress aims to provide clients with substantial cost savings and allow them to capitalise on AcadiaSoft's end-to-end margining capabilities, including initial margin reconciliation, margin calculation, disputes management and future TriOptima and DTCC integration, significantly improving their communication and processing capabilities.

David Radley, head of global sales for AcadiaSoft, said: "We expect Xpress to be a game changer for our clients. With Xpress, clients have the potential to reach virtually 100 percent of their client base."

"The MarginSphere community continues to expand rapidly with nearly 125,000 active agreements on the service."

"Xpress allows our clients to broaden their reach, enhance security and improve communication on a global basis—all factors improving their return on investment."

The launch comes off the back of recent news that ICAP is increasing its investment in AcadiaSoft in a joint venture between markets operator and post-trade risk mitigation service provider ICAP, DTCC and Euroclear, along with four banks and six additional investors.

Hong Kong Stock Exchange securities list updated

The Hong Kong Stock Exchange has revised its listed securities for short selling to add 76 and remove 11 existing securities, effective 14 August.

The newly listed securities come from a wide cross-section of industries and include state-owned China Chengtong Holdings Group, real estate developer Minmetals Land Limited, pharmaceutical provider NT Pharma and Canada's Sunshine Oilsands.

Of the 11 removed securities, the majority are Chinese industrial companies, with notable exceptions such as YuanSheng Tai Dairy Farm and CH Child Care.

The updated list now includes 883 securities for short selling.

Two new clients go live on Comyno's X-Repo Hub

Frankfurt-based consultancy and software house Comyno has successfully implemented its X-Repo Hub solution with Germany's Finance Agency and DekaBank.

Both projects were completed on time and to budget.

Based on Comyno's C-One system infrastructure, the X-Repo Hub has been developed to provide participants of the Eurex Repo markets with a cost-effective solution for connecting to Eurex Repo's new trading platform, F7. The C-One X-Repo Hub meets the needs of any financial institution active on all Eurex Repo markets, according to Comyno.

Markus Büttner, CEO and founder of Comyno, said: "We are delighted with the success of the implementations and the close working relationship we have established with our new clients."

"Our X-Repo Hub enabled the Finance Agency and DekaBank to migrate to the new trading platform without the need of costly and resource consuming internal developments."

Michael Cyrus, head of short-term products at DekaBank, added: "The Eurex Repo markets are a significant source of liquidity for any market participant."

"For us, it was important that the internal migration to the new trading platform took place in an efficient, diligent manner and with a focus on providing us with full transparency during the transition and implementation. With Comyno's X-Repo Hub, we experienced a smooth transition process."

Northern Trust chosen to serve City of Tallahassee

Northern Trust has been chosen by the City of Tallahassee to serve as global custodian for its $2.1 billion in assets.

The bank will also provide securities lending and performance reporting and oversee assets for the city's pension, other post-employment benefits, and treasury portfolios.

"The City of Tallahassee is excited with the appointment of Northern Trust as our master custodian," said Kent Olson, deputy treasurer-clerk for the City of Tallahassee. "The selection committee was impressed with the depth of knowledge of Northern Trust's staff and the technological capabilities of its financial products."

Marc Cosentino, head of Northern Trust client services for public funds, said: "Tallahassee will benefit from our global operating model and technology-enabled client reporting, allowing convenient and efficient access to pertinent data. Our ability to offer customised solutions that fit each public fund's unique needs and objectives enable them to focus on their vital mission of empowering communities."

Markit secures purchase of CoreOne Technologies

Financial information provider Markit has acquired CoreOne Technologies, a global provider of regulatory reporting index management, data management and prime brokerage services.

The acquisition, to be finalised in Q4, is valued at approximately $200 million and will be funded using cash and Markit's credit facility.

Following closing, CoreOne's four core products, RegOne, DeltaOne, VistaOne and PrimeOne will be integrated into Markit's information and solutions divisions.

PrimeOne's prime brokerage services will extend Markit's software offerings.

DeltaOne's index and exchange-trade product (ETP) coverage and user interface will enhance Markit's index and ETP data management business.

Lance Uggla, chairman and CEO of Markit, said: "CoreOne is a great fit for Markit. Their services will strengthen our offerings and will allow us to better serve our customers."

Rob Flatley, CEO of CoreOne, said: "We're excited about joining Markit and the benefits this will bring to our customers and employees."

"We look forward to enhancing our offerings with Markit's datasets, analytics and global distribution capabilities as we continue to deliver best in class services to our customers."

Markit's most shorted

Short sellers are circling large retailers in North America ahead of earnings announcements, according to Markit.

The most shorted ahead of earnings in North America recently was specialty food retailer Fresh Market.

A fifth of available inventory was out on loan and shares in the company were down almost 30 percent since the beginning of the year.

Department store chain Stage Stores had 16 percent of shares out on loan, a rise of 130 percent in the last three months, according to Markit.

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Get outta town

It's been a long, lonely winter for ETFs as collateral, but Markit's newest initiative means many are shaking off their dowdy feathers and emerging as swans

STEPHANIE PALMER REPORTS

Exchange-traded funds (ETFs) are the ugly ducklings of the collateral world—shunned, mistrusted and, overall, avoided.

But in a world where collateral is becoming scarce and efficiency is everything, many of these mallards are proving themselves to be not so ugly after all—many more are veritable swans.

The problem, until now, for collateral managers has been deciphering the bad eggs from the good, a time consuming and inefficient task. But in August, Markit released its ETF collateral lists function in order to take care of some of the hard work for collateral managers and encourage use of ETFs as securities lending collateral.

The lists filter ETFs and highlight those that track assets in short supply on the collateral market. They pick out fixed-income and equity ETFs that track liquid indexes in developed markets, and hide any subscale funds, and those that have a market value deviating more than 1 percent from the value of assets held. Essentially, they pre-select those ETFs that are suitable, and safe, for use as collateral.

It's a simultaneously high-tech and simple response to reluctance from money market participants to accept ETFs as collateral. At Markit's London Securities Finance forum, 43.9 percent of attendees said they do not accept exchange-traded products (ETPs) as collateral, and 12.2 percent said they would like to, but cannot. Only 31.7 percent answered with a straight 'yes', and the other 12.2 percent said they do accept ETPs as collateral "on very few occasions".

Markit put this down to a lack of standardisation in the criteria of ETFs and a lack of transparency in the markets, as well as the lengthy management process for risk departments and triparty agents.

Mark Schaedel, managing director of indices at Markit, adds to this, saying that although collateral managers can see the benefit of ETFs, they are often deemed more effort than they're worth.

He says: "One of the issues is that ETFs don't meet that criteria for liquidity, but actually they're misunderstood—that measure is inappropriate for an ETF asset class."

"Collateral managers understand this, but the tedious process of having to evaluate and assess each fund individually is unmanageable. Therefore, the managers don't bother, and ETFs remain underutilised."

On top of this, while ETFs may be generally desirable in the market, underutilisation has led to a reduced presence.

Andrew Jamieson, global head of broker-dealer and market-maker relationships for iShares at BlackRock, suggests that lenders have a perception that there isn't demand from the buy side to put up ETFs as collateral, and conversely, borrowers don't see the opportunity from lenders to pledge ETFs, either.

"You end up having that self-fulfilling prophecy where people think there's no supply and people think there's no demand, and as a consequence, nothing much happens," he says.

"The Markit collateral filter process will bring a much greater transparency and an understanding of the product. Adoption by the triparty agents will also automate the process for the first time, making it much simpler, so it's a win-win."

Even if collateral managers wanted to make proper use of ETFs, and if borrowers and lenders were on the same page, the process would have previously involved significant manual efforts to wheedle out those that are worth accepting or posting as collateral.

Keshava Shastry, head of ETP capital markets at Deutsche Asset & Wealth Management, says: "There was a lot of manual work done on checking every ETF that had to be approved as collateral. Any initiative that helps to reduce the work and resource spent by collateral management teams, by outsourcing to an independent firm that then publishes a list of products meeting certain criteria, is helpful."

The new Markit tool removes some of the complication, facilitating the risk management normally conducted by the collateral taker.

Essentially, according to Jamieson, it's "allowing a trusted third party to do a lot of the heavy lifting with regards to the initial due diligence".

Schaedel explains: "We provide tools to analyse the fund compositions and their exposures."

He adds: "These tools can be used to further customise these collateral lists or to create new collateral lists, which we would be happy to publish as well."

For now, the solution is focusing on the European markets. Although use of ETFs has seen a slight increase in popularity in the region, and the consensus seems to be that the intentions are there, according to Markit's data, utilisation is significantly lagging.

In the US, lendable ETF assets equate to about $90 billion, a figure that has doubled in the last five years, and utilisation levels tend to be between 20 percent and 40 percent. In Europe, however, the total figure for lendable ETF assets has stayed fairly flat for the last five years at $26 billion—even seeing a decline of about 10 percent. Utilisation levels are consistently below 5 percent.

Schaedel says: "What we're trying to do is stimulate securities lending in the European market. There is an untapped potential for using ETFs as collateral, and when it's compared to the US market, it becomes clear that there is a link between the use of ETFs as collateral and the growth of AUM (assets under management)."

The lists aren't solely aimed at the European markets—only, as Schaedel puts it: "The campaign to raise awareness at the moment is focused on Europe."

Eventually, the function will affect funds all over the world, including those in Asia. But, the fact that the US and Europe are being used as the testing ground is, perhaps, only natural.

Steve Kiely, head of securities finance and new business development for the Europe, Middle East and Africa markets group at BNY Mellon, says: "New trends and trade types tend to be formulated in Europe or the US first, so it is natural that any development will take place there before being assimilated in Asia."

"I don't believe the Asian market is anti-ETF, it's just that they are still getting comfortable with equities, so it will take time before there is a natural progression to physical ETFs."

Shastry takes a similar, if inverse approach, suggesting that actually the listing processes should be finalised before they're extended further afield.

He says: "This is a work in progress. Over time there will likely be more collateral lists coming from independent parties that meet various criteria covering different requirements of collateral managers, as well as ETFs domiciled in various regions."

Jamieson takes an alternative viewpoint, citing the global nature of ETFs and the various exposures included. He calls the US '40 Act and the European UCITS range the "two major manufacturing hubs" that represent domiciled funds used by investors worldwide.

He says: "Asian investors can typically buy globally listed products and gain exposure that way, so in terms of actual product usage, the US and the European product domiciles represent the vast majority of assets under management."

"The important point is that Asian clients are able to, and do readily, buy both UCITS and '40 Act products so they're not disadvantaged in any way by the initial Markit filters focusing on these product domiciles. Therefore, hopefully the lists will encompass everything of interest to them."

What is interesting, and perhaps unusual, about this European 'campaign' is that it represents a fairly significant change in the culture of collateral that's driven purely by market initiative and innovation, rather than by regulation borne from market risk or from dire necessity.

Jamieson suggests that this is partly because there hasn't been a significant enough issue to justify regulatory oversight, because there is still plenty of collateral in the system, and not enough pressure to force the use of ETFs.

He says, however: "What the individual participants have felt is that they have an inefficiency around collateral that is not being utilised, and therefore commercial drivers have really pushed this forward."

Ultimately, it is in commercial interest to all securities lending players to tap in to a new kind of collateral, and to increase the total figures of AUM. According to Shastry, it's not necessarily something that falls under the regulators' responsibility. He says: "We are being proactive in addressing this, and once there is some momentum hopefully others will follow."

In more specific terms, Kiely says: "The solution is in the interests of all market participants and maybe the answer is in being more imaginative with this type of trade. For example, if 107 percent is the standard margin for equity versus equity, maybe ETFs could reach 110 or 112 percent."

"It is the responsibility of all protagonists to explore potential routes to market, and the financing of ETFs and their general use as a collateral asset class is something that should be widely discussed."

As far as Schaedel is concerned, however, the initiative is not only not mandated by the authorities, but successful by virtue of being industry-led. Rather than a reaction to market failures, the solution has come about from a roundtable of ETF market players and several discussions to determine the common objectives, and which are the most pressing.

A solution coming from within the industry promises to be organically suited to that industry and, perhaps more importantly, one that all participants will be likely to get behind. Schaedel says: "It's a thought leadership exercise, really. But it has got a great deal of support from the market, and we feel like everyone's intentions are very much aligned. The things that we can change, we are trying to. Those that we can't—that require more regulatory support—are still meaningful, but we choose to focus on things we can really be proactive on. And with this, the market is ready to engage, too." **SLT**

Shift and shake

Although total global lending revenues have remained fairly steady in 2015, aggregate figures hide dramatic shifts. Markit's Andrew Laird reports

Securities lending revenues created when beneficial owners or agents lend out holdings of stocks or bonds generate more than $6 billion annually and provide a unique view into macro lending and shorting activities globally. In 2015, so far revenues have held roughly flat year-on-year, with a total of $4.2 billion generated by securities lending transactions.

Equities generate significantly more revenue compared to fixed income securities, owing to their much greater demand to borrow and the fact that the fees generated by these loans are generally much higher. This holds especially true for specials shares, which command the highest fees. These have occasionally exceeded 100 percent in the most 'special' cases, such as recent initial public offerings.

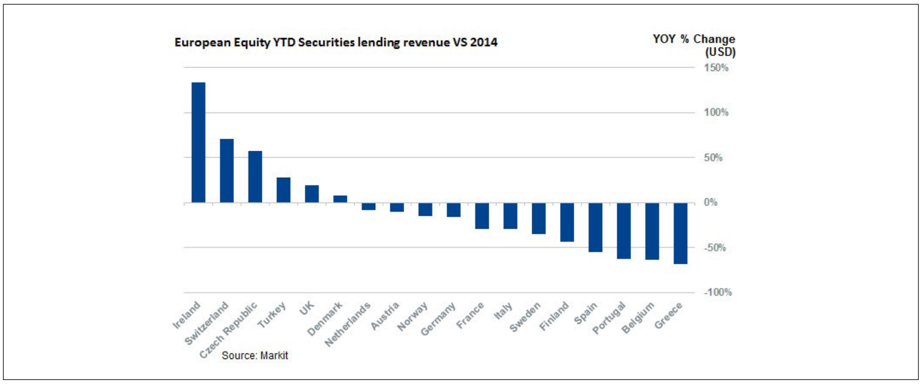
But the flat aggregate number does hide large interregional differences as short sellers shift their positions to react to global market forces.

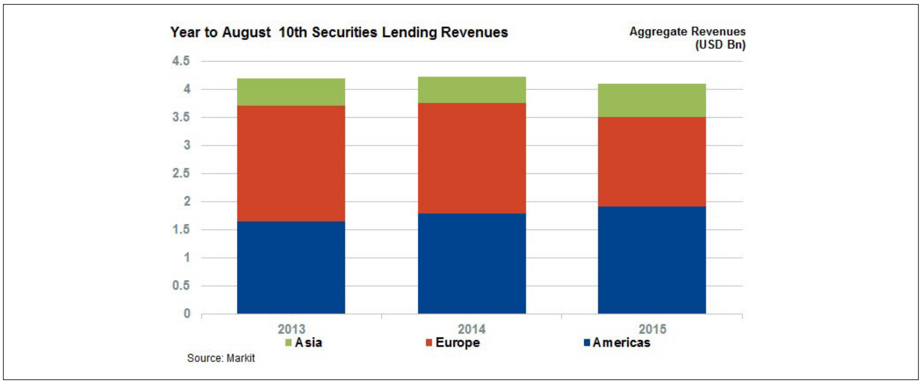
Securities lending revenue in the Americas, which represents 46 percent of the total global sum generated so far in 2015, has built on last year's bumper total and is up by more than 7 percent year on year. This increase was driven in large part by big increases in revenues generated by US equities and US-listed exchange-traded funds (ETFs), which generated $147 million more revenue in 2015 up to 10 August than in the same period last year.

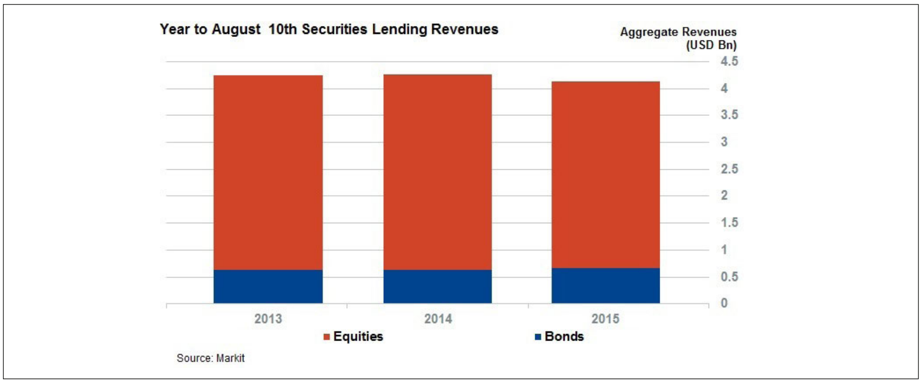
The strong revenues generated in the Americas contrast with weakness in Europe, where the aggregate securities lending total for the year so far is down by 19 percent from the same point last year. It's worth noting that this number is affected by the rising dollar, which has a negative effect on euro-generated revenues. While these numbers are reflective of this trend, they also highlight a general reticence to go short in the current market given European Central Bank quantitative easing policy, which has been supportive of asset values.

Europe's equities have led the trend with a 23 percent fall in revenues. This decline has not been driven by a single market, as seven European markets find themselves in the 10 global markets where securities lending revenue has fallen by the largest margin from last year's total to-date.

Greek equities saw the largest declines in lending revenues, which is counterintuitive considering the economic situation. Lending activity completely stopped in late June after a short selling ban came into effect and put a halt to Greece's lending revenues, but short seller appetite was very mooted leading up to the ban regardless.







All has not been disappointing in the region, however, as Ireland and Switzerland registered large increase in revenues.

Swiss equity saw the largest increase of the two in terms of revenues: with a $24 million increase, aggregate revenues hit $59 million for the year to 10 August. This was the result of a higher average lending fee, increasing from 29 basis points to just over 50 basis points. Average utilisation and average value on loan also increased marginally over the first seven months.

Asia has proven to be the success story of the year for the industry with securities lending revenues in the region ahead by more than a quarter compared to the same period last year. Hong Kong equities led this trend with a 57 percent increase in revenues generated for the year to 10 August. This was the result of higher lending rates as the average borrow cost rose from 1.27 percent to 1.92 percent, which is indicative of higher demand for select securities.

The mainland China securities lending market is still in its infancy, but short sellers have been flocking to the country, which has many dually listed shares and much less regulation.

This large increase in short selling has helped Hong Kong become the third largest equity lending market in terms of revenue, after the US and Germany. **SLT**

SLT SECURITIESLENDINGTIMES

In association with CONSololtd

Securities Finance Transaction Regulation 2016

Date: 12 November 2015 | Location: London, UK

SLT in association with Consolo Ltd will be putting on this one day event which is designed as a crash course in all the regulatory initiatives in progress that may have a direct impact on securities lending.

The agenda will include the following initiatives, although others may be included as the regulatory environment continues to evolve:

- Securities Finance Regulation
- CSDR and T2S
- Resolution stays
- AIFMD
- CASS
- EMIR
- Taxation
- Basel III
- CMU

Whilst this list is not exhaustive, it should be noted that these regulations are in development phases and not yet finalised. The presentation will provide up to date status reports for each regulatory initiative.

Attendees: This is intended for anyone directly or indirectly involved in securities financing.

Facilitator: Sarah Nicholson, Consolo Ltd

To register: Email Justin Lawson - justinlawson@securitieslendingtimes.com

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 is proud to announce a new title - and expanded focus - for its Beneficial Owners' Securities Lending event series.

32nd Annual RMA Conference on Securities Lending

Date: 12-15 October 2015
Location Florida

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 US and Europe. Topics include collateral management, international market updates, performance measurement, and legal/regulatory updates.

Industry appointments

DataLend has appointed **Robert Antelmann** as its vice president and product specialist in Hong Kong.

Antelmann was most recently a senior business analyst for Westpac, based in Sydney, working in global over-the-counter derivatives.

Before that, he spent more than 16 years at Citigroup in London, Frankfurt, New York, Hong Kong and Tokyo in securities finance trading and management.

He has been a representative of the Pan Asian Securities Lending Association, and has robust knowledge of the Asia Pacific securities finance market.

As DataLend's representative in Asia, Antelmann will be responsible for helping to work with new clients, supporting existing clients and gathering and documenting business rules and requirements.

He will also work closely with clients on adopting new functionality and provide quantitative support for the DataLend suite of applications.

Christopher Kunkle has joined BMO Global Asset Management as managing director.

He joins BMO Global from Wells Fargo Securities, where he was managing director of securities finance, a role he took up in October 2013.

Kunkle was also previously director of securities lending and market risk at the Risk Management Association.

Ray Hainsby has left his position as managing director and head of Europe, the Middle East and Africa (EMEA) securities finance at Jefferies International.

He is now on gardening leave after more than nine years at the firm. Jefferies declined to comment.

ABN AMRO Bank has appointed **Robbert Booij** to the position of country executive for the UK, and general manager of the UK branch.

He replaces **Paul Gallagher**, who is moving on to take up a new leadership challenge in risk management for ABN AMRO in the UK and internationally.

Booij will also maintain his current responsibilities as managing director and head of clearing in the UK, a role he has held since 2012.

Weeden Prime Services has expanded its sales and client services teams in response to market growth and increasing demand for its prime brokerage services.

Robert Jordan and **Andrew Brown**, previously of Wells Fargo Advisors, and **Robert Kalaf** of Jefferies Group, are the latest additions to Weeden Prime's team.

Jordan was a partner of Wells Fargo's prime brokerage division. He helped establish and expand Wells Fargo's presence in Boston and will play a similar role at Weeden.

Brown was also a partner in the Wells Fargo prime brokerage division and brings more than 20 years of sales experience to the firm.

Brown said: "This is a great time to be a part of Weeden as the firm has incurred tremendous growth in clients and team members."

Kalaf joins from the Jefferies prime brokerage services division.

Simon Kempton and **Daniel Caplan** have left Deutsche Bank and joined Citi.

Kempton was managing director of prime finance for Europe at Deutsche Bank and joins Citi as head of prime finance in the EMEA, responsible for driving the growth of the prime finance platform.

Previously head of global prime finance for the EMEA at Deutsche Bank, Caplan has taken on the role of EMEA head of investor services sales with a mandate to develop Citi's regional sales and client executive strategy across all the bank's investor services products.

Caplan will report to Alan Pace, global head of sales for investor services, and Murray Roos, who also moved to Citi from Deutsche Bank earlier this year.

Ashley Wilson is reportedly taking on Caplan's responsibilities at Deutsche Bank. He joined the bank in January 2014 as head of synthetic equities.

Delta Capita has hired technology specialist **Kevin Covington** as a non-executive director of the board.

Covington has 30 years of industry experience, including four years as head of ITRS, where he oversaw the company's growth to a private equity-backed business. **SLT**

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Company reg: 07191464