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Deutsche Börse businesses offer combined securities lending service

Clearstream, Eurex Repo and Eurex Clearing have merged their agency lending services to enhance Deutsche Börse Group's overall securities lending programme for clients.

The combined service, which is already available, offers customers greater capital efficiency and straight-through processing, according to Deutsche Börse.

Lenders may also be able to achieve higher returns as they can maximise the yield on their assets in a low-risk environment.

Clearstream is set to manage the transaction between the lenders and the borrowers as the agent lender and triparty collateral agent, via the Global Liquidity Hub.

Eurex Repo's SecLend market will manage the trading venue through its GC Pooling client base, while Eurex Clearing will provide clearing services as the central counterparty (CCP) to both sides of the transaction.

"This new agency lending service via CCP offers lenders an additional source of revenue by reaching out to different borrowers compared to our well-established principal model ASLplus," said Pascal Morosini, global head of global securities financing sales at Clearstream.

"Our joint agency lending service is perfectly suited to large, fixed income lenders who are looking for a secured and centrally cleared solution."

Matthias Graulich, chief client officer of Eurex Clearing, added: "Eurex Clearing's innovative membership model allows Clearstream's customers direct CCP access under our specific lender licence providing the basis for improved economics for lenders and borrowers by reducing capital cost."

Fed finalises bailout reforms

The Federal Reserve has agreed on a final ruling on its procedures for offering emergency monetary aid to failing financial institutions, under Section 13(3) of the Federal Reserve Act.

The Dodd-Frank Act, established in 2010, has limited the Fed's powers on offering financial aid to programmes and facilities with "broad-based eligibility" that have been established with the approval of the Treasury.

The act's current conditions also prohibit lending to financial entities that are considered insolvent.

"Emergency lending is a critical tool that can be used in times of crisis to help mitigate extraordinary pressures in financial markets that would otherwise have severe adverse consequences for households, businesses, and the US economy," said chair Janet Yellen.

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Hong Kong proposes short selling reporting changes

The Hong Kong Securities and Futures Commission has proposed expanding the scope of short position reporting to all securities eligible for short selling on the Hong Kong Stock Exchange.

The SFC launched a consultation on the proposed changes on 27 November. Under the changes, short position reporting will be extended to all 889 designated for short selling, which currently accounts for 44 percent of activity in Hong Kong.

Currently, 127 stocks are subject to short position reporting. The SFC anticipates that expanding coverage to all designated securities will reveal aggregated short positions of more than HKD 100 billion (USD $12.9 billion).

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Fed finalises bailout reforms

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The final rule defines ‘broad-based’ to mean a programme or facility that is not designed for the purpose of aiding any number of failing firms and in which at least five entities would be eligible to participate.

Crucially, this definition crystalises the point that, under the revised Dodd-Frank Act, a lending programme should not be for the purpose of aiding specific companies to avoid bankruptcy or resolution.

The final rule also broadens the definition of ‘insolvency’ to cover borrowers that fail to pay undisputed debts due during the 90 days prior to borrowing or are determined by the Fed or lending reserve bank to be insolvent.

All emergency lending programmes under Section 13(3) must also be approved by the Treasury.

The Fed’s board must also still find that “unusual and exigent circumstances exist as a pre-condition to authorising emergency credit programmes”.

Finally, regarding the inclusion of interest on any emergency loans, the Fed concluded that, unlike the original proposal, the interest rate for lent credit will be set at a premium level compared to the normal market rate.

Setting a premium rate “encourages repayment and discourages use of the programme as circumstances normalise”, according to the Fed.

The new conditions will come into effect on 1 January 2016.

Hong Kong proposes short selling reporting changes

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The reporting threshold trigger for designated securities that are stocks will remain unchanged, at the lower of 0.02 percent of the stock’s market capitalisation, or HKD 30 million (USD $3.87 million).

But for collective investment schemes, which include exchange-traded funds, real estate investment trusts and other unit trusts/mutual funds, the reporting threshold trigger will be set only at the HKD 30 million threshold.

Ashley Alder, CEO of the SFC, commented: “We have seen growth in short selling since the short position reporting regime was introduced in 2012. The expanded regime will help improve monitoring and enhance market transparency, and this will be conducive to the long-term development of the industry.”

The SFC is inviting public comments on the consultation, with a deadline of 31 December.

China opens up to Credit Suisse

Credit Suisse Founder Securities (CSF) can now expand into China after receiving a business permit from the country’s Securities Regulatory Commission.

The company can now offer securities brokerage services in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone.

This is in addition to its existing capital markets activities, which includes sponsoring and underwriting of A shares, foreign investment shares, and government and corporate bonds.

CFS, founded in 2008 as the first Sino-foreign securities joint-venture company, is one now one of the first joint-companies able to offer securities brokerage services in Asia’s biggest market.

CSF is 33.3 percent owned by Credit Suisse, with the remainder held by its partner, Founder Securities.

The joint venture is in the final stages of setting up its trading outlet in Qianhai, and is expected to commence securities brokerage services early next year.

Neil Harvey, CEO of Greater China at Credit Suisse, said: “We are delighted that CSFS has received regulatory approvals to expand into securities brokerage in Qianhai.”

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"Growth in China remains a strategic priority for the bank and we are committed to building out overall presence in China."

Nicole Yuen, vice chairman for China and head of China equities at Credit Suisse, added: "China is a key growth market for our business globally."

"Through our securities joint venture, Credit Suisse now joins the rank of a small select group of international banks which can provide onshore brokerage services to QFIIs, RQFIIs as well as mainland investors."

"We look forward to the opportunity to participate in the domestic secondary market and contribute more directly to the development of China's capital markets."

FIS finalises SunGard deal

FIS has concluded its acquisition of SunGard.

The US banking and technology provider first announced its intentions take on SunGard, which sees annual revenue of $2.8 billion, in August. The newly combined entity's estimated annual revenue rose to $9.3 billion and boasts 55,000 employees.

"At FIS, we are driving innovative solutions and delivering high-quality client experiences that move our clients' business forward each and every day," said Gary Norcross, president and CEO of FIS.

"This acquisition creates one of the broadest sets of technology assets and market expertise in the industry, and allows FIS to present new opportunities to our existing client base as well as to financial services markets that we have not historically served."

Fed admits to needing a fuller picture of securities lending

The lack of data on securities lending, bilateral repo and derivatives trading could prove "destabilising" to the market, according to Federal Reserve vice president Stanley Fischer.

Speaking at the 2015 Financial Stability Conference on 3 December, Stanley highlighted the need to continue the work done by the Federal Reserve and the Financial Stability Board (FSB) this year to bring more clarity to shadow banking and securities financing transactions (SFTs).

Stanley used the platform to announce Federal Reserve plans to avoid regulatory arbitrage in short-term financing by establishing minimum margins for securities financing transactions on a market-wide basis.

His speech aimed to highlight areas of the securities financing and shadow banking industries where further work needs to be done to gather a sophisticated picture of the market in order to apply appropriate regulatory standards.

"We gain some insights into these markets [securities financing and shadow banking] through our supervisory relationships with the largest bank holding companies, but the activates of important non-bank market participants, such as asset managers, and their interconnections across the institutions remains opaque."

"It is also true that little research has been undertaken that distinguishes between banks and non-banks, or highlights how their interactions are driven by economic incentives."

Fischer added: "Such research could guide regulator efforts to collect data and set policies to limit possible instabilities associated with interconnectedness."

The speech came in the wake of the news that the FSB had finalised its recommendations on increasing data reporting requirements for STFs.

The FSB stated that the extra reporting requirements will serve a wide range of market participants and improve market transparency.

The confirmed standards define the data elements for repo, securities lending and margin lending that national and regional authorities will be asked to report as aggregates to the FSB.

The FSB argues a greater detail of data reporting on SFTs is needed to detect market instability.

BME Clearing launches OTC interest rate swaps service

BME Clearing has introduced a new over-the-counter (OTC) interest rate swaps (IRS) service.

BME Clearing, the central counterparty (CCP) component of Spanish stock market operator BME, will cover all EU IRS transactions. Members of the new segment include existing members of BME Clearing from other segments.

The EU Parliament approved BME for OTC IRS swaps activities under the European Market Infrastructure Regulation in July.

Ignacio Solloa, CEO of BME Clearing, said: "With the creation of this segment, clients of BME Clearing stand to benefit as they will be able to comply with the clearing obligation at a reasonable cost while also achieving efficiencies in capital consumption derived from using a CCP for clearing their trades, instead of taking on counterparty risk in their bilateral transactions, which involves greater capital consumption."

Long road of regulatory reform ahead for US triparty repo

US triparty reform is just the first step in the evolution of wholesale funding markets, according to a new joint BNY Mellon and PwC report.

The Future of Wholesale Funding Markets: A Focus on Repo Markets Post US Tri-Party Reform report found that, while regulation and ongoing reform will continue to shape wholesale funding, strong market forces combined with the underlying structure and profitability of the business are set to affect repo volumes, participant interactions and views of risks in the system.

Market participants must recalibrate business and operational models if they are to accommodate and benefit from fundamental changes within wholesale funding markets, according to the BNY Mellon and PwC report.

Three-quarters of surveyed participants agreed that the wholesale funding markets are less vulnerable to a future crisis following the triparty reform initiative, which reduced the need for secured intra-day credit.

Reforms were also believed to have improved trading transparency and decreased operational risk through process improvements, such as automated three-way deal matching.

Three key drivers will shape the US market in the future, according to BNY Mellon and PWC's report.

Pending regulations on repo users will likely dampen repo volumes in the near term, most directly through the allocation of capital and liquidity ratios to the desk level.

Meanwhile, the increased demand for high-quality liquid assets (HQLA) and a potential further increase brought about by money market reform, indicate that the Federal Reserve will likely maintain its reverse repurchase facility (RRP) for the foreseeable future.

Finally, expanding cleared repo services in the US is now considered an imperative, given the need to address 'fire sale' risk and global systemically important banks' (G-SIB) search for balance sheet relief.

"This complex array of priorities increases the importance of a comprehensive collateral roadmap to guide firm strategy through interactions with market participants," said Brian Ruane, CEO of broker-dealer services and triparty services at BNY Mellon.

"The change we see coming to the wholesale funding markets and broader financial industry is profound.

He added: "Institutions must review their current position, understand the industry, revise business and operating models, and organise their collateral capabilities around this changing environment."

To date, the Federal Reserve has provided HQLA assets to support cash investing needs through its RRP facility.

"The RRP is now amongst one of the most important participants in triparty repo, an effective monetary policy tool and a buffer to market anomalies," says Ruane.

"While certain market developments, such as increasing G-SIB repo volumes following the expansion of cleared repo, may provide the Fed with an easy exit from the RRP, there was near unanimity across the firms we interviewed that conditions will demand its prolonged existence."

Taiwan and South Korea join ETF markets

The Taiwan Stock Exchange and the South Korean Exchange have signed a memorandum of understanding (MoU) to combine their exchange-traded funds (ETF) markets.

The two exchanges will also seek to jointly compile indices, conduct market promotion activities and engage in bilateral visits to share experiences. The MoU was signed on 11 December 2015.

It builds on an earlier memorandum signed by the two exchanges in 2000 and is part of an ongoing commitment by the two countries for economic cooperation.

Taiwan's ETF market has been growing at a fast pace, with total trading value exceeding NTD 1.47 trillion ($44.7 billion) between January and November 2015, equivalent to 7.13 percent of total trading value, compared to just 1.88 percent in 2014.

The exchange also recently launched a number of diverse ETFs that track international markets.

The South Korean ETF market has steadily grown and matured since its debut in 2002.

The South Korean financial authorities announced a development plan for the ETF market in October 2014 based on the deregulation of the listing and management of ETFs in order to further stimulate the ETF market.

The total size of the South Korean market recently reached a record high of KRW 21 trillion ($17.7 billion), sixty times the size of the market in 2002.

Currently, more than 200 ETFs are listed on the South Korean exchange.

Lee Sush-der, chair of the Taiwan Stock Exchange, said: "By focusing on indices and ETFs, this partnership will take advantage of the flourishing investment trend of global indexing."

"ETFs that track the [South] Korean equity market will soon be available in Taiwan, and similarly, we expect ETFs that track the Taiwanese equity market will be launched on the [South] Korean market in the future."

Choi Kyungsoo, chair and CEO of Korean exchange, said: "Taiwan and [South] Korea are both 'Asian Tiger' economies."

"Not only do both markets share similar social, economic and cultural development experiences, the industrial structure of both markets also resembles each other."

Evergreen Securities to use IPO to expand securities lending in Asia

Everbright Securities has valued its Hong Kong initial public offering (IPO) at $2.5 billion.

The Shanghai-listed company, part of the state-owned China Everbright Group, has stated the proceeds of the IPO will go towards expanding its securities lending and margin financing operations.

Everbright Securities saw revenue grow by almost five times in the first half of 2015, compared to the same period in the year before, to now stand at CNY 12.83 billion ($1.9 billion).

Moody's Investor Services recently gave China Everbright Holdings a "Baa2" rating and stated that: "China Everbright Holdings has a good position in the Chinese capital market reform, the growing cross-border investment and asset management products demand environment."

"China Everbright Holdings strong track record of business investment will support the company's fund-raising ability and toughness AUM."

Markit makes its ETF mark with big market players

BlackRock, BNY Mellon and State Street have approved Markit's exchange-traded fund (ETF) collateral lists for use in their collateral management schedules.

Markit's ETF collateral lists support the securities lending industry by identifying which equity and fixed income ETFs to accept or post as collateral.

Tim McLeod, director of securities lending and finance at BlackRock, commented: "Removing the need to assess the viability of ETFs individually, and instead analysing a broader set of common attributes, is a much more dynamic and robust model for lenders, borrowers and triparty agents alike."

Maurice Leo, senior managing director, securities finance at State Street, added: "We believe Markit's ETF collateral lists should facilitate greater adoption of ETFs as collateral by creating a recognised universe of ETFs that streamline trade execution and the collateral management processes for all parties."

"These equity and fixed income lists will extend the universe of ETFs that State Street has historically accepted under its risk management policy."

Markit's ETF collateral lists are created using standardised filtering criteria, including geographic exposure, holding type and assets under management.

Markit applies a seven-tier filter to more than 6,000 global exchange-traded products to create lists of equity and fixed income funds that meet generally acceptable criteria for use as collateral.

Market participants can reference these lists in collateral schedules, streamlining assessments of fund characteristics and simplifying reviews of collateral eligibility by risk departments.

Pierre Khemdoudi, managing director of securities finance at Markit, said: "A lack of standardised criteria, market opacity and the onerous management process for risk departments mean that many market participants have historically not accepted ETFs as collateral."

"Our lists aim to bring transparency and simplicity to the market, facilitating access to ETFs for use as collateral."

OneChicago fails to capitalise in November

OneChicago recorded a 39 percent fall in securities financing volumes for November year-over-year.

In contrast, the exchange's year-to-date volume through to 30 November was up 4 percent compared to 2014, reaching over 10 million transactions. OneChicago, offers single stock futures, a Delta One product, on approximately 1,800 equities, including American depository receipts and exchange-traded funds.

Open interest decreased 13 percent year-over-year to 616,936 contracts on the securities finance exchange at close-of-market, 30 November.

Greece shorting ban holds firm

Greece's Hellenic Capital Market Commission has extended the ban on short selling on the Athens Exchange due to ongoing market volatility.

The ban was due to expire at midnight on 7 December, but it will now be maintained until at least 21 December.

Greece's short selling ban includes all shares of the credit institutions admitted to trading on the Athens Exchange and comprising the FTSE and Athex Banks Index. The ban once again excludes market makers.

The prohibition stands irrespective of the venue where the transaction is executed, whether it be a regulated market, multilateral trading facility or over-the-counter.

The European Securities and Markets Authority accepted the renewal of the ban, which has now been extended eight times since June.

Eurex Repo feels November chill

Eurex Repo saw its average outstanding volume fall by €52.4 billion in November, compared to the same time last year.

The drop meant its monthly total in all markets dropped to €148.8 billion from the €201.2 billion achieved in November 2014.

In a briefing document, Eurex explained: "This negative development was mainly due to the quantitative easing policy of the European Central Bank."

The secured money market GC Pooling's average outstanding volume also fell to €121.5 billion from €163 billion achieved last year.

The Euro Repo market reached an average outstanding volume of €27.3 billion, down from €38.2 billion in November 2014.

Eurex's recorded stock futures transactions equaled 4.1 million contracts. The interest rate derivatives segment totalled 39.9 million contracts, up from 29 million last year.

This broke down to mean that the new euro-bund-future reached 13.3 million contracts, the euro-bobl-future achieved nine million contracts and the euro-schatz-future totalled 5.9 million contracts.

The three euro-BTP-futures totaled around 2.4 million contracts.

The two euro-OAT futures recorded around 1.7 million contracts.

The Eurex Exchange segment dividend-based derivatives recorded around 634,000 contracts, while volatility derivatives totaled one million contracts.

OCC's securities lending activity jumps in November

The Options Clearing Corporation's (OCC) securities lending activity registered through its central counterparty (CCP) grew by 27 percent in new loans for November, compared to the same month last year.

Total loan activity is up 16 percent for the year-to-date from 2014, with 1.2 million new loan transactions in 2015.

The average daily loan value cleared by the OCC in November was valued at $166.5 billion.

OCC's cleared futures volume reached more than 4.9 million contracts in November.

This represented a 30 percent increase on last year, although year-to-date average daily cleared futures volume was actually down 3 percent.

Exchange-listed options and equity options for the month also increased by 10 and 9 percent respectively, with more than 323 million and 293 million recorded contracts.

Barbie has wind taken out of its sales

Barbie, the iconic children's toy, has not aged well in recent years and its producer, Mattel, is now the target of short sellers during the festive period, according to Markit.

The shift to electronic toys and missing out on lucrative merchandise licences has meant Mattel has fallen behind its rivals Hasbro and Vtech.

Hasbro especially has managed to take the wind of Mattel's sails this Christmas by signing a lucrative deal with Disney for the much sought after merchandise of the hugely success Frozen franchise.

The Barbie franchise has seen its annual sales figures fall for a third consecutive year.

Short sellers, according to Markit data, are predicting further problems for Mattel, as demand to borrow shares soared to an all-time high of 22 percent of shares outstanding.

This marks a staggering 20-fold jump in short interest from the same point last year.

SEC approves SS&C cloud-based trade network

SS&C Technologies Holdings has received approval from the Securities and Exchange Commission (SEC) to bring a post-trade matching service to the US market.

SSCNet is a cloud-based product that aims to offer an alternatives service for investment firms in the US as they prepare for moves to a T+2 settlement cycle, according to SS&C.

It will provide a real time interface for transmission of matched institutional trades from SSCNet directly into Depository Trust & Clearing Corporation (DTCC) for clearing and settlement.

"Proposals from regulators to shorten the securities settlement cycle from three days to two represent one of the largest challenges to face the North American securities industry in decades," explained Bob Shaw, director of SSCNet.

"Thousands of individual firms are being forced to examine the readiness of their securities settlement infrastructures."

"T+2 strategies can't be developed in isolation, and it's essential to have interoperability between countries. With direct access to the DTCC and Canadian Depository for Securities (CDS), SSCNet will offer market participants a giant leap forward towards T+2 settlement for all eligible equities and fixed income trades."

CME Group futures dip slightly in November

CME Group's treasury futures volume averaged 3.3 million contracts per day during November, down 1 percent from the same period a year ago.

Treasury options volume was also down 2 percent at more than 474,000 contracts per day.

Eurodollar futures increased 10 percent compared to November 2014, with a volume average of two million contracts per day.

Eurodollar options volume averaged one million contracts per day, up 70 percent in November, with 24 percent of the Eurodollar options volume traded electronically.

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Liars and tweets

Social media platforms are being used to disseminate stolen research and malicious information, all in a bid to manipulate company share prices

DREW NICOL REPORTS

The threat of identity theft in the digital world is a growing and real concern. Victims of these crimes can suffer significant financial loss as well as reputational damage that can be difficult to reclaim, even if the perpetrator is discovered—which is far from guaranteed.

A survey on cyber crime conducted by Get Safe Online in October 2014 showed that of the 51 percent of respondents had been the victim of cyber crime, such as fraud or theft, but only 14 percent ever discovered the identity of the person or people responsible.

As the risk of becoming a victim of cyber crime grows so does the cost of investment in protecting your business from the increasingly innovative methods used for fraud and theft.

For financial institutions, this includes closely monitoring social media platforms that are being used to share stolen research and malicious information, all in a bid to manipulate company share prices.

The explosion of social media use in recent years for both personal and professional purposes means it has become an invaluable resource for many but, at the same time, it has given criminals yet another avenue to exploit.

It is not unusual for a major companies to have dedicated LinkedIn, Twitter, Facebook and even Instagram accounts for posting content online and interacting with customers on a daily basis.

However, these platforms are built on attracting users through ease-of-access and the ability to quickly and efficiently set up an account with minimal checks or identity validation required.

The anonymity this offers is being exploited by cyber criminals who are using the lack of checks on user identity or posted content to increase their ill-gotten gains.

In November, James Craig, a 62-year-old trader living in a small town in Scotland was accused by the US Securities and Exchange Commission (SEC) of using Twitter to commit multiple cases of securities fraud.

According to the SEC, Craig created two false accounts in 2013 that mimicked the existing accounts of reputable securities research firms, Muddy Waters and Citron Research, and then published multiple tweets of malicious and entirely false information relating to two US-based companies, including a claim that one was under regulatory investigation, in an attempt to profit from the resulting market reaction through short selling.

The SEC alleged that Craig's tweets caused sharp drops in stock prices and trading in Audience, a technology provider, and Sarepta Therapeutics, a biopharmaceutical company.

Audience's share price plunged 28 percent after the first tweet and trading on Nasdaq was eventually halted. The next day, Craig's tweets about Sarepta Therapeutics, using a phony Citron Research account, caused a 16 percent drop in its share price.

Both companies' stock prices recovered once the fraud was revealed, but other shareholders caught up in the scam are estimated to have lost between $1 million and $1.8 million, according to official sources.

How do you kill a hydra?

"It [brand identity theft] is a significant problem because people trust brands and if you're a thief you're much more likely to be successful if you cloak yourself in a brand that's well known and trusted," says Larry McFarland, a trademark attorney and partner at Kilpatrick Townsend & Stockton in California.

The problem, as McFarland describes it, is two-fold. "It can either be fake reports where content is sent out using someone's reputable name without their permission or, even more common, is the improper distribution of legitimate and confidential reports to everyone in the world."

"My firm represents several large banks that have to deal with the problem of having their newsletters stolen and replicated under someone else's name. This comes across my desk at least once every week, where confidential research has been posted all over the internet."

The SEC's claims of market manipulation through social media are just the latest examples of rogue traders capitalising on the platform to potentially access millions of investors.

In June 2010, the SEC brought charges against Carol McKeown and Daniel Ryan, a Canadian couple who used Twitter and Facebook, along with their own website, PennyStockChaser, to spread information that inflated the stock price of microcap companies in which they were significant share holders. They then profited from selling their shares.

A district court ordered the couple and their companies to pay more than $3.7 million in disgorgement for profits gained as a result of the alleged conduct, and ordered the couple to pay $300,000 in civil penalties.

Lifting the veil

Between January and the end of June this year, Twitter received 12,911 trademark notices, affecting 938 Twitter and Vine accounts.

Although not all of these will relate to direct attempts at fraud or identity theft of financial institutions, as Twitter does not provide such granularity in its statistics, it does highlight the scale of the problem facing social media platforms today.

To deal with the problem, a spokesperson for Twitter highlighted information on the Twitter help centre, which states: "When there is a clear intent to mislead others through the unauthorised use of a trademark, Twitter will suspend the account and notify the account holder."

"When we determine that an account appears to be confusing users, but is not purposefully passing itself off as the trademarked good or service, we give the account holder an opportunity to clear up any potential confusion."

"Companies like Facebook and Twitter have very robust takedown policies and they respond very quickly to requests so they [social media platforms] aren't really the problem," explains McFarland.

The Twitter spokesperson also stated that the platform's policy on legal proceedings allows it to retain user information and tweets even after a user has deactivated the account, and it will release this information to law enforcement personnel if certain requirements are met.

McFarland says: "If you're the lawyer for a major bank and something gets on Facebook, it can be taken down extremely quickly. It's the obscure or smaller sites which are less organised to respond that make it harder."

"The big social media companies comply with laws such as the Digital Millennium Copyright Act, which mean they take down reported content in order to get legal immunity for potentially hosting fraudulent or stolen content on their sites."

Of course, an ounce of prevention is always worth a pound of cure, although that is an unrealistic prospect where social media is concerned. "Once it's out there on the internet it's out there for good," says McFarland, "but what you can do is get it taken down from sites where consumers go to the most often."

"A regular internet user isn't likely to scour obscure sites looking for your content so if it's down from the obvious places you've done a lot. But you can never have full protection."

The SEC's statement on its case against Craig showed that he was clearly aware of the odds of his being caught as, after his initial attempts at market manipulation, he allegedly created another Twitter account under new aliases to taunt law enforcement by claiming it would be too difficult to find the preparatory of the stock price crashes because no real names were used when creating the original accounts.

Once the SEC eventually came to point the finger at Craig, Jina Choi, director of the SEC's San Francisco regional office, couldn't resist a retort to Craig's challenge

He said: "As alleged in our complaint, Craig's fraudulent tweets disrupted the markets for two public companies and caused significant financial losses for their investors."

"Craig also said in later tweets that the SEC would have a hard time catching the perpetrators. As today's enforcement action demonstrates, those tweets turned out to be false as well."

What's to be done?

Once fraud has been identified and takedown notices have been issued to the relevant platforms, there are still some options left to financial institutions that have had their valuable research leaked or brands hijacked.

"Often times we try to go [to court] but it depends a lot on the circumstances such as quantity of the information leaked or whether the person is a repeat offender," says McFarland.

"The vast majority of cases filed end in a settlement. If you file a lawsuit your main aim is to get an injunction or a court order to get the person to cease their fraudulent action. That way if they repeat it they will be in contempt of court, which is a very powerful thing."

"The second aim is to get damages but often these people don't have a lot of money so you're not always going to be able to get everything you've lost."

Here lies the root of the problem with this brand of crime. Lost profits and damaged reputations are often impossible to reclaim or repair.

Craig reportedly earned less than $100 from selling the stocks of his targets short, which would be little compensation to other shareholders that lost significantly more from the affair.

At the same time, the two securities research firms, whose identities were hijacked to spread the false information, will have suffered reputational damage that is difficult to quantify and even harder to redeem in the short term.

For social media platforms, incidents like those involving Craig or McKeown and Ryan are also damaging as they undermine the credibility of news sources using the platform and may drive users away all together.

The problem for the likes of Twitter and Facebook is that they are, in a way, victims of their own success. The sheer scale of information that is uploaded to these sites on a daily basis makes vetting it before it is published an impossible task. "A gatekeeper function for social media sites would be crazy," comments McFarland.

Indeed, the rise of platforms such as Twitter and Facebook has been directly attributed to US law providing safe harbours from litigation. The Digital Millennium Copyright Act, for example, removes liability for copyright infringement committed by users if a platform responds promptly to takedown requests.

Following its allegation against Craig, the SEC published an investor alert outlining the most common risks of using social media as investment information tool.

"One way fraudsters may exploit social media is to engage in a market manipulation, such as spreading false and misleading information about a company to affect the stock's share price. Wrongdoers may perpetuate stock rumours on social media, as well as on online bulletin boards and in Internet chatrooms," stated the notice.

"The false or misleading rumours may be positive or negative. For example, in a pump-and-dump scheme, promoters 'pump' up the stock price by spreading positive rumours that incite a buying frenzy and they quickly 'dump' their own shares before the hype ends."

"Typically, after the promoters profit from their sales, the stock price drops and the remaining investors lose money. In other instances, fraudsters start negative rumours urging investors to sell their shares so that the stock price plummets and the fraudsters take advantage of buying shares at the artificially low price."

The SEC advises anyone who receives investment information through social media to verify the identity of the underlying source. They should look out for slight variations or typos in the sender's account name, profile, email address, screen name or handle, or other signs that the sender may be an imposter. "Determine whether information appearing to be from a particular company or securities research firm is authentic."

"When contacting a company or attempting to access its website, be sure to use contact information or the website address provided by the company itself, such as in the company's SEC filings. Carefully type the website's address into the address bar of your web browser."

The SEC also outlined common red flags for investors to look out for when using social media for market information. These include: looking out for a limited history of posts that may indicate the account was relatively new; receiving an urgent message stressing the need to buy or sell specific stocks, especially from unsolicited sources; and unmasking unlicensed sellers or firms using the SEC's Investment Adviser Public Disclosure website or the Financial Industry Regulatory Authority's BrokerCheck service. **SLT**

Key factors driving equities in 2015

Equities are set to post some of their most disappointing returns for several years, yet the disappointing headline number hides wide return differences across sectors and single names. Markit's Relte Schutte reports

The global market turbulence felt over the second half of the year saw markets give up much of the ground gained in the opening months. These relatively flat markets have been disappointing for passive investors yet the returns were not uniform across the board, as evidenced by the strong returns delivered through several of the Markit Research Signals factors since the start of the year.

One trend that is evident at first glance is the fact that factor returns this year were much more pronounced on the lower ranked tenth decile, rather than their peers on the opposite end of the scale. The key takeaway from this is that the current market favoured investors that avoided losers rather than the opposite end of the scale.

Factoring in US returns

Although the S&P 500 looks set to finish where it started at the beginning of 2015, it has been an eventful year in US and global equity markets. With large multinationals battling the strengthening dollar, a US recovery has been characterised by a narrow rally in the second half of the year, led by price momentum in key large cap names.

While price momentum-based strategies have been profitable, investors have been duly rewarded for holding quality, according to Research Signals's top performing factors of the year. Almost two thirds of top performing equity factors in the US are quality-styled factors, with 'momentum' and 'value' making honourable mentions.

The best performing factor so far in 2015 is 'order backlog', with an average monthly return of 1.55 percent. The factor is a gauge of future expected sales scaled by firm assets. Average monthly returns have been roughly double that of the current S&P 500's total yearly return trajectory.

While stocks with the highest levels of price momentum have been rewarded in 2015, investors have been strongly avoiding names with the worst ranked levels of price momentum.

Momentum-based factors across tenth-decile names—representing low momentum—crowd out the worst 10 performers of 2015 with an average monthly underperformance of -2.48 percent. The worst performers have been stocks that ranked the lowest according to the factor '39-week return with 4-week lag'.

Europe

Despite losing some ground due to market disappointment of further European Central Bank stimulus measures, European markets have performed relatively well so far this year, with the STOXX Europe 600 index up 7.6 percent.

Echoing trends seen in the US, top quality and momentum names feature predominantly in the top performing stocks.

Measuring price performance over a 10-month period with a two-month lag, the classic 'Fama-French momentum' factor delivered top 10 performances across stocks with the most and least levels of momentum in Europe. This is indicative of the laggards continuing to underperform during the year.

'Forward return on equity' in Europe has also been an indicator that investors have been rewarded, suggesting that investors favoured firms with positive analyst sentiment. On the flipside, investors have punished firms with the weakest 'time weighted earnings revisions, which ranks firms according to earnings downgrades.

Asia Pacific

In the Asia Pacific, 'momentum' has also been a winning trend, however, the lower ranked names have been the worst performers according to risk signals.

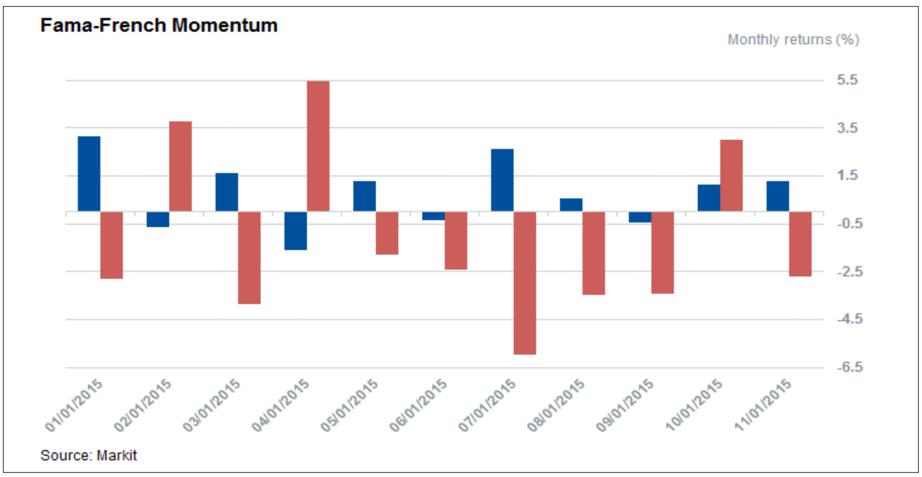
The top performing factor with a 1.14 percent average monthly return has been the 'visibility ratio', which is equal to a stock's most recent daily trading volume divided by the average daily trading volume in previous 50 trading days.

Correlation between this factor and the second best performing factor, '52-week high', increased during the start of the year, suggesting that stocks trading near their highs increased in unusually high volumes.

The selloff during the middle of the year in resource-based emerging markets resulted in the above relationship mean reverting.

Stocks that mostly ranked poorly according to risk factors on average underperformed in the Asia Pacific, indicating the effectiveness of these signals during a tumultuous year in the region's markets.

The worst performing names ranked poorly according to 'distress measure' and '60-day residual risk. Names ranking in the tenth decile across the 'distress measure factor' delivered -1.56 percent average returns per month during 2015. **SLT**



Source: Markit

Relte Schutte
Analyst
Markit

Industry appointments

Ian Hovey, head of Europe, the Middle East and Africa (EMEA) product development at State Street, is set to retire at the end of the year, according to multiple sources.

Hovey ran the securities lending product for Morgan Grenfell Asset Management, which later became Deutsche Asset Management.

He moved to State Street when the bank acquired the Deutsche Bank Global Securities Services businesses.

He has been in the securities lending business for more than 20 years.

State Street said it does not comment on individual employees as a matter of corporate policy.

Hovey could not be reached for comment.

ANF Capital has welcomed **Gregory Wagner** as a strategic advisor.

Wagner's role, which he took up in August, involves capital raising, board steering, business and sales strategy development planing, and brand development.

He will also advise ANF Capital on the formation of special-purpose vehicles and business structures, as well as securing strategic financing and structuring commercial partnerships.

ANF Capital offers M&A advisory services and is primarily based in South Africa, but also has offices in Toronto, Zimbabwe and Zambia.

Wagner is also the CEO of Aeonic Ventures, a New York-based financial advisory firm, which he founded in July after more than three years at Brazilian bank Itaú BBA, where he was global head of prime services.

Derryn Hobbs has joined Jefferies as head of securities finance in Europe, the Middle East and Africa. Hobbs joined the investment bank in December after spending 17 years at Credit Suisse, most recently as managing director.

James McDonald of State Street has taken over as chair of EquiLend Holdings.

He replaces William Marcoullier of J.P. Morgan. **Judith Polzer**, also of J.P. Morgan, has taken over as vice chair.

EquiLend Europe also has a new board, with **Matt Collins** of Morgan Stanley filling the vacant vice chair position, while Andrew Clayton of Northern Trust remains chair.

The chair and vice chair positions of EquiLend Holdings and Europe rotate on a two-year basis among representatives of the provider's 10 owner firms.

EquiLend's owners include BlackRock, Credit Suisse, J.P. Morgan Chase, Bank of America Merrill Lynch and Morgan Stanley.

AXA Investment Managers has appointed **Deven Chau** as senior trader in its trading and securities financing team in Hong Kong.

Chau will report into Laurent Bilard, head of trading and securities financing in Asia. Previously, Chau was a business manager and dealer at Hamon Investment Group.

The traders will operate in tandem with the rest of the trading and securities financing group at AXA.

Nicola Egan, head of trade execution for US and Asia equities, will oversee the equities side, while **Lee Sanders**, head of trade execution for foreign exchange and fixed income, will lead fixed income and foreign exchange.

Both Egan and Sanders retain the capability to execute Asian orders during European market hours to optimise trading options.

Paul Squires, global head of trading and securities financing at AXA, said: "The Hong Kong office is the hub for the execution of all Asian securities covered by our trading and securities financing team."

He added: "This includes fixed income, equities, exchange-traded funds, local foreign exchange and derivatives. It is fantastic that some of these orders can be received from our portfolio managers based in Tokyo, Paris and London, in addition to Hong Kong."

The US Securities and Exchange Commission has promoted **Katherine Martin** to the role of associate director of its office of international affairs. Martin will oversee the development of the commission policy on cross-border regulation, including its participation in multilateral standard-setting and negotiations with foreign authorities. **SLT**

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