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ESMA bows to market pressure on SFTR

The European Securities Markets Authority (ESMA) has avoided creating a "major liquidity issue" by revising the Securities Financing Transactions Regulation's (SFTR) collateral reporting rules.

The SFTR level-two consultation, published on 30 September, revealed that regulators had listened to market participants' concerns relating to the requirement to report on collateral used as part of a securities finance transaction (SFT) on a T+1 basis.

In the second consultation paper from ESMA, the deadline for reporting has now been pushed back to the day after value date.

"Clearly you don't know what you're going to use as collateral until the value date of the collateral requirement," explained Ben Challice, COO at Pirum Systems. "ESMA seems to have listened to the market and now acknowledge that to lock up collateral before moving it would create major liquidity issues in the market."

"They have now proposed that it can be reported on value date plus one for non-cash trades, pending further consultation."

ESMA acknowledged that it had learned much since it first began drafting the reporting standards for the European Market Infrastructure Regulation (EMIR), on which SFTR's own requirements are largely based. It now saw the need for improvements as a result.

"[The authority] understands that with the exception of trades against a collateral basket both counterparties will have agreed the collateral for an SFT at the time the SFT is concluded or at the latest at the end of the day on which the SFT is concluded. For repo trades against a collateral basket, the counterparties would report the collateral allocation as soon as it is known, but at the latest at the end of the value date + 1."

The first phase of SFTR came into force in January. The final technical standards on reporting are not expected until the start of 2018.

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ESMA bows to market pressure on SFTR

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US will feel it too

ESMA also used the second level consultation to reiterate its aims to "ensure a level playing field" for market participants' access rules and "align reporting standards to the maximum extent possible" across the various EU reporting regimes.

According to ESMA, this required two amendments to EMIR's technical standards on reporting and detailing the operational standards for data access, comparison and aggregation. Although SFTR and EMIR are primarily EU-focused, the nature of the reporting requirements will affect global entities that interact with the EU market for securities lending activities.

Fran Garritt, director of securities lending and market risk for the Risk Management Association (RMA), said: "The RMA Securities Lending Committee is monitoring SFTR as many US agent lenders and beneficial owners will be impacted by SFTR reporting rules due to the global nature of the business."

"Most US agent lenders service European clients, and both US agent lenders and beneficial owners lend both to European counterparties and European securities."

ESMA has now opened itself up for feedback on this paper until 30 November.

The feedback from this second stage will be used to finalise the draft technical standards, which will be submitted to the European Commission by the end of Q1 2017. The final version of SFTR will then come into force from 2018.

Steven Maijoor, chair of ESMA, emphasised the need for more transparency in securities finance, stating: "Regulating securities financing is important as it will reduce financial stability risks from financial market activities, which so far only faced little to no regulation."

"The SFTR will provide transparency to regulators and investors on the use of SFTs, and will better allow to identify risks associated with collateral and its reuse."

Leverage woes

ESMA followed up the draft consultation with a report on securities finance, in which it claimed that SFTs lead to a build up of leverage that could threaten financial stability.

According to the ESMA, this increase in market leverage has not yet been addressed by the existing regulatory framework in Europe.

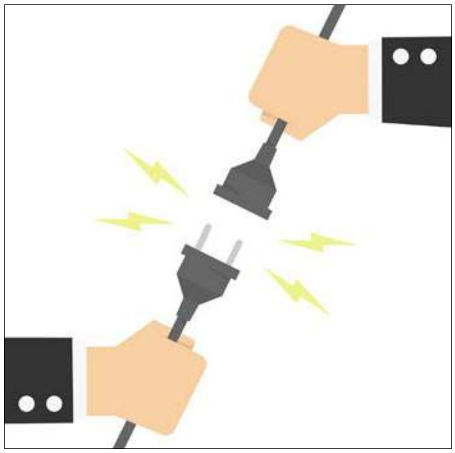
The authority highlighted a highly-leveraged system can be "vulnerable to runs", generate contagion risk and increase procyclicality.

ESMA acknowledged that a lack of granular industry data did limit its ability to pass sound judgement on potential risk, which will continue to be a problem until the SFTR reporting standards are in effect.

In light of the potential leverage issue the industry presents, ESMA endorsed the Financial Stability Board's (FSB) qualitative standards on the methodology used to calculate haircuts in non-centrally cleared SFTs, which should be introduced as a first step to improve the transparency and stability of haircuts, and the resilience of financial institutions.

Additionally, the procyclicality of collateral haircuts used by central counterparties should be addressed in the context of the European Markets Infrastructure Regulation review.

ESMA noted, however, that a haircut floors for non-centrally cleared transactions can only be introduced and calibrated following



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a thorough analysis using granular SFT data and “following careful assessment of the scope, considering in particular the size and relevance of EU government bond markets”.

“Other macroprudential instruments, including counter-cyclical ones, should be agreed at international level first, and can only be introduced after a careful assessment that the already introduced measures are not sufficient to limit the leverage in the system,” ESMA added.

“Only subject to these two conditions can it be considered whether additional macro-prudential instruments would still be needed.”

HQLA demand is rising and rising, says ICMA

The impending implementation of money market reforms has already begun to change market behaviour by instigating a flight to quality, according to the International Capital Market Association (ICMA).

The results of the 31st ICMA European Repo Market Survey revealed that the share of collateral represented by government securities, which are considered high-quality liquid assets (HQLAs), jumped to 85.8 percent from 78.6 percent of the European fixed income collateral.

“The most likely cause [of the rise in government securities use] is the forthcoming implementation of reforms to money market mutual funds in the US in October, which is encouraging many prime funds to transform themselves into government securities funds in order to avoid more onerous operating conditions,” ICMA explained.

“Some European banks have been reliant on US funds for a significant share of their US dollar funding.”

“But money market mutual fund regulation may not be the only factor. Demand for government securities is also buoyant because of the need for HQLAs to meet liquidity requirements.

“This seems to have been driving a recovery in the share of German government bonds.”

For this survey, ICMA asked 67 offices from 63 financial institutions, mainly banks, throughout Europe for the value of the cash side of repo and reverse repo contracts still outstanding at close of business on 8 June 2016.

The survey’s results highlighted the continued downward trend of the overall value of the European repo market.

The baseline figure for market size hit €5.38 trillion, representing a 4.1 percent decrease on the December 2015 figure of €5.6 trillion and a year-on-year decrease of 1.6 percent from the survey in June 2015.

According to ICMA, the decline in the baseline figure largely reflects the reduced number of survey participants, of which there were five less. However, a comparison of a constant sample of survey participants shows a small, largely seasonal, rise of 0.5 percent since December but a year-on-year decline of 1.6 percent, confirming that repo activity continues to decline.


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ICMA also noted that although most institutions provided data for their entire European repo business, others only provided separate returns for one or more, but not necessarily all, of their European offices.

Godfried de Vidts, chair of ICMA's European Repo and Collateral Council (ERCC), said: "Repo markets have been subjected to regulatory and prudential measures that taken all together may jeopardise the real economic benefit of this product."

"But, as we embark on mandatory clearing for over-the-counter derivatives, adding buy-side clients, the impact of this regulation is not always clear. The ERCC has always encouraged transparency and we look forward to continuing our constructive work with regulators to make sure these market signals are captured correctly and appropriate measures taken."

Italy's Consob extends shorting ban

The Italian regulator Consob has extended the short selling ban on Banca MPS shares until 5 January 2017.

The ban, which has been in force since 7 July and was originally due to expire on 7 October, also applies to subscription rights and convertible bonds.

In order to facilitate potential capital actions, the prohibition has been modified to affect subscription rights, convertible bonds and other financial instruments that give claims to Banca MPS shares to be issued, according the regulator. The other terms of the ban remain unchanged.

The ban applies to all transactions, including BMPS single stock derivatives, irrespective of where they have been carried out, such as on an Italian or foreign trading venue or over-the-counter.

The European Securities and Markets Authority endorsed the decision, stating: "The current circumstances related to BMPS constitute adverse events or developments which constitute a serious threat to market confidence in Italy and that the proposed measure is appropriate and proportionate to address the threat to Italian financial markets."

Hazeltree and HedgeServ partner for treasury solution

Hazeltree, a buy-side treasury management solutions provider, and HedgeServ, a global fund administrator, have joined forces to deliver middle-office treasury services to alternative investment managers.

Hazeltree will enhance HedgeServ's cash management and collateral management services, while HedgeServ will host Hazeltree's technology.

According to Hazeltree, its cash management solution aggregates custodian, over-the-counter (OTC), money market and prime broker balances onto one set of dashboards, thereby providing HedgeServ's clients with a streamlined process to optimise their cash balances.

"Clients can automate the collapse of debit and credit spreads, sweep excess cash into investment accounts and manage foreign currency exposure with a fully integrated wire processing engine that integrates the workflow between HedgeServ and its clients," explained Hazeltree in a statement on the partnership.

HedgeServ's clients can track their OTC collateral across their counterparties to better understand their position.

HedgeServ's chair Jim Kelly commented: "Our clients are asking for a robust treasury management solution."

"We believe that Hazeltree offers an industry leading suite of treasury management solutions," he added.

Kelly said: "We are already receiving positive feedback from our clients about the value of our combined service offering. We are delighted to be working with the Hazeltree team."

OneChicago scores 11 percent in September volume

OneChicago achieved volume of 1,075,031 contracts last month, an 11 percent increase over September 2015.

Open interest decreased 20 percent at the securities finance exchange, with 421,206 contracts being recorded at close-of-market on 30 September.

OneChicago also revealed that 96 percent of September 2016 month-end open interest was in OCX.NoDivRisk, an equity finance tool that removes dividend risk for customers carrying synthetic equity delta exposure.

Albert Fried under new management

Canada's TD Securities is expanding in the US with the acquisition of New York-based broker-dealer Albert Fried & Company.

TD Securities's new US prime brokerage business will be led by David Santina, managing director of equities. Financial terms of the deal were not disclosed.

"Acquiring US clearing and a technology platform enhances our capabilities and lays a solid foundation for us to integrate prime brokerage into our client service offering and expand our US business," said Glenn Gibson, senior vice president and vice chair of TD Securities US.

He added: "Our plan is to complete the technology platform development with the aim to be fully operational in the prime brokerage business in 2017."

Albert Fried expanded into prime lending in 2013, giving the prime broker the capability to provide both securities lending and select prime services to hedge funds, traders and others.

Google Cloud and GFT partner up for blockchain innovation

GFT is utilising the Google Cloud Platform to rapidly deploy the code developed by its client development teams into GFT's blockchain incubator to simulate real-word scenarios.

In a statement on the partnership, GFT explained that "it is possible to simulate additional banks coming online to a distributed ledger, then rapidly gather and interpret the data using Google BigQuery".

"Disruptive business models, underpinned by distributed ledger technologies, typically enable banks that have an 'untrusted' relationship, to communicate with trust, but without a 'middleman' who traditionally provides the 'trusted' confirmation," the statement continued.

"This brings great potential to overhaul many of the core issues that have hindered the financial industry, such as costly and complex legacy infrastructure."

GFT recently created a test environment for a distributed ledger domestic and international payments solution on the Ethereum platform, working with a large European bank. Nick Weisfeld, head of GFT's blockchain and data practices, said: "Working with Google has enabled us to create a test environment for a new Royal Bank of Scotland application using real-world volumes, providing them with valuable information on how their solution operates detailed in a new technical paper."

"This ability to test at scale has enabled our client to bring their distributed ledger initiative out of the lab and into the real-world in record time, creating an industry-leading solution."

R3 members trial Intel's prototype

Financial innovation company R3 and eight of its largest consortium member banks including HSBC, Societe Generale and State Street, have successfully tested Intel's distributed ledger prototype for bond transactions.

The trial used US treasury bonds to demonstrate how distributed ledger technology can support trading in real-world financial markets, delivering the necessary scalability and supporting throughput of over 100,000 transactions per day.

The other bank's involved in the trial were CIBC, ING Bank, Scotiabank, UBS and UniCredit.

R3 and its consortium members built and used an implementation of Sawtooth Lake, Intel's proprietary distributed ledger platform, along with Intel's Software Guard Extensions (SGX), a technology that enables developers to protect select code and data from disclosure or modification.

The trial involved physical, non-cloud-based nodes hosted globally across the US, Canada, Asia, Australia and Europe to interact and simulate US treasury trading on the ledger.

Jerry Bautista, vice president of the new business group at Intel, said: "We believe collaborative exploration of blockchain usages is key to the development of this emerging technology."

"We are excited to show how Intel technologies such as SGX can improve the security and scalability of blockchain deployments."

Tim Grant, CEO of R3's lab and research centre, added: "Our goal at R3 is to bring our members together with the strongest technology players and work collaboratively to evaluate and accelerate this groundbreaking technology to production using real-world use cases."

"We are delighted to build on our strong relationship with Intel to demonstrate how distributed and shared ledgers can deliver material efficiencies throughout the full trading lifecycle of an asset."

Intel will be donating the bond-related transaction families (software code written to simulate the behaviour of bonds on an exchange) developed for this project to the Hyperledger Project and will be running live demos of the platform at the Hyperledger booth at Sibos this week.

R3 and Intel are premier members of the Hyperledger effort, and State Street is a general member.

LSEG must sell LCH SA, says EU

London Stock Exchange Group (LSEG) has been ordered to sell its stake in the French arm of LCH Group by the European Commission before its merger with Deutsche Börse can continue.

The commission ruled that LCH SA, the French subsidiary of LCH Group, of which LSEG is the majority shareholder, must be sold to proactively address anti-trust concerns, before phase two of the merger can begin.

Both LESG and Deutsche Börse have confirmed the commission's decision.

The merger of UK and German stock exchanges was first announced on 16 March and has received the backing of both exchanges' shareholders.

SEC agrees next step in T+2 transition

The US Securities and Exchange Commission (SEC) has voted in favour of shortening the standard settlement cycle for broker-dealer securities transactions from T+3 to T+2.

The proposed amendment aims to tackle credit, market and liquidity risks related to the value and number of unsettled securities transactions prior to the completion of settlement.

The current timeline for implementation of the shortened settlement cycle will see the amendment take effect on 5 September 2017. "Today's proposal to shorten the standard settlement cycle is an important step in the SEC's ongoing efforts to enhance the resilience and efficiency of the U.S. clearance and settlement system," said SEC chair Mary Jo White.

"The benefits of a shortened settlement cycle should extend to all investors, not just those directly involved in the trading, clearing and settling of securities transactions."

The vote in favour of the amendment was swiftly commended by the Options Clearing Corporation (OCC) and the Securities Industry and Financial Markets Association (SIFMA). OCC executive chair and CEO Craig Donohue commented: "We are pleased the SEC has approved the clearing agency rules, as this was an important priority for OCC and the US listed options industry."

"It also is a critical step toward an equivalency agreement between the SEC and the European Commission that will allow central counterparties (CCPs) such as OCC who are subject to SEC regulation to

be eligible for recognition by the European Securities and Markets Association and for attaining qualified CCP status for purposes of European capital regulation."

SIFMA president and CEO Kenneth Bentsen added: "Shortening the time it takes to settle a trade will bring numerous benefits to investors and the US financial system, including reducing operational risk, enhancing the overall efficiency of US securities markets and aligning the US with other international markets. This is truly a win for investors, the industry and all market participants."

"We also commend the self-regulatory organisations overseen by the SEC for their ongoing efforts to update their rulebooks to support a shortened settlement cycle.

SGSS secures T2S mandate

Societe Generale Securities Services (SGSS) has won a mandate to connect the Hungarian central securities depository (CSD) with the Target2-Securities (T2S) settlement platform.

Hungary's Keler CSD will be connected during the fourth migration wave in February 2017. As a participating non-euro country, SGSS will provide the Hungarian CSD with a single line of liquidity in euro currency to settle its transactions for both domestic and regional clients seeking access to European markets.

SGSS will provide Keler with liquidity provisions in central bank money through Societe Generale's dedicated cash account in T2S in euro, as well as cash pooling and netting services for securities settlement in multiple T2S markets.

The bank will also manage Keler's intraday liquidity usage and credit memorandum balances.

According to SSGS, the benefits for Keler include removing fixed costs linked to setting-up and running euro currency liquidity management in T2S and providing instant access to the euro markets in T2S on a pay-as-you-go basis.

CCB and SIX agree on renminbi repo

China's second largest commercial bank, China Construction Bank (CCB), and SIX Securities Services have expanded their partnership to include repo trading through SIX Repo.

Previously, CCB and its Zurich branch worked with SIX Securities Services entities Swiss Interbank Clearing for Swiss franc clearing, Swiss Euro Clearing Bank for euro clearing, and SIX SIS for global custody and asset servicing.

CCB Zurich, which is the only authorised renminbi clearing bank in Switzerland, also plans to seek direct membership of the SIX Swiss Exchange, leading to the potential for direct issuing in Switzerland for mainland Chinese companies to raise capital.

David Weyun Gong, general manager of CCB Zurich, said: "With SIX, the Swiss financial infrastructure provider, we have engaged with a valuable partner covering the entire value chain with its core competencies in pre-trading, trading and post-trading. We are very much looking forward to further expanding our activities in the Swiss market with the ongoing support of SIX."

Thomas Zeeb, division CEO of SIX Securities Services, said: "Our relationship with CCB highlights the importance of a strong local partner to build meaningful and mutually beneficial relationships for new market entrants."

"We are delighted with CCB's decision to work with us and look forward to even greater collaboration for the future."


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EU and China's central bank extend swaps deal

The European Central Bank (ECB) and the People's Bank of China (PBC) have extended their bilateral currency swap arrangement for another three years.

The arrangement has a maximum size of CNY 350 billion and €45 billion and can serve as backstop renminbi liquidity facility for euro area banks.

In a statement on the renewal, the ECB said: "Liquidity providing arrangements contribute to global financial stability. The arrangement with the PBC is a recognition of the rapidly growing bilateral trade and investment between the euro area and China."

The agreement's extension comes after the ECB and PBC conducted two tests in April and November 2015 that provided symbolic amounts of euro and renminbi liquidity respectively.

According to the ECB, these tests were successful and demonstrated the central banks' "operational readiness to activate the swaps if needed on the basis of bilaterally agreed operational procedures".

J.P. Morgan Asset Management joins Hazeltree LiquidityWeb

J.P. Morgan Asset Management has been connected into Hazeltree's partner network LiquidityWeb, an integrated cash management and sweep platform.

In a statement on the new partnership, Hazeltree explained that J.P. Morgan money market funds will enjoy straight-through processing to buy-side firms and will be provided with safe, liquid, and yield-enhancing opportunities. Instead of manual cash transfers with each counterparty, typically the most common practice today, LiquidityWeb provides secure, automated, rules-based 'sweep' access to a wide range of liquidity products through the partner network.

Sameer Shalaby, president and CEO of Hazeltree, said: "As we look to the potential for rising interest rates, we have been focused on providing our clients with integrated cash sweep capabilities that provide outstanding ease of access and selection of funds for the safe investment of unencumbered free cash, through a partner network of world-class financial institutions."

John Donohue, head of global liquidity at J.P. Morgan Asset Management, said: "J.P. Morgan always aims to support the needs of investors with comprehensive cash management capabilities, especially in light of the changing regulatory landscape. This relationship with Hazeltree will provide our mutual clients a streamlined way to manage their cash and sweep functions."

CME Clearing selects BNP Paribas Securities Services for custody

BNP Paribas has been appointed to provide custody services for CME Clearing, the clearing division of CME Inc.

BNP Paribas is now a CME Clearing-approved custodian for US Treasury and federal agency securities, through its New York affiliate branch.

The mandate means CME clearing members now have an additional option to diversify holdings of performance bond deposits, which are used for margin collateral, in a bid to improve operational efficiency.

Bruno Campenon, head of custody and clearing services for the Americas at BNP Paribas Securities Services, said: "We are delighted to add such a prestigious customer to our US client base. This is testament to the work we have been doing since launching custody in the US in 2012."

Sunil Cutinho, president of CME Clearing, added: "We're pleased to welcome BNP Paribas as a custodian in the US. With the addition of BNP Paribas, CME Group provides greater diversity of custodians to our global clearing members and clients to support their collateral management needs at CME Clearing."

Custody accounts are now open for clearing members of CME, and are available for collateral deposits.

AIFMs' queries on SFTR answered

The European Securities and Markets Authority (ESMA) has continued its campaign for clarity around the Securities Financing Transaction Regulation (SFTR), responding to a request for clarification on its effect on alternative investment fund managers.

In an ongoing Q&A on the applications of the Alternative Investment Fund Managers Directive (AIFMD), ESMA responded to a question on when UCITS management companies, UCITS investment companies and AIFMs will be required to report certain information to investors.

SFTR requires these companies and AIFMs to report their use of securities financing transactions and total return swaps in the annual report of every UCITS or alternative investment fund under management, and in each six-monthly report for UCITS. This requirement will apply from 13 January 2017, according to ESMA.

ESMA clarified that this information must be included in the first annual or six-monthly report published after that date.

It added that this may include a reporting period beginning before January 2017.

The response to this query is the latest in a continuing initiative to improve transparency into the securities finance industry.

In a recent report, ESMA raised concerns that securities finance transactions (SFTs) could lead to a build-up of leverage that could threaten financial stability.

ESMA endorsed the Financial Stability Board's qualitative standards on the methodology used to calculate haircuts in non-centrally cleared SFTs, which should be introduced as a first step to improve the transparency and stability of haircuts, and the resilience of financial institutions.

The authority also agreed to revise the SFTR collateral reporting rules, responding to concerns from market participants relating to a proposed requirement to report on collateral on a T+1 basis.

The reporting deadline has now been pushed back to the day after value date.

The post-trade always rings twice

A 'hard' Brexit will leave UK-based securities lending businesses in a regulatory no man's land, according to speakers at the International Securities Lending Association's Post-Trade Conference in London on 6 October.

Delegates heard that regulatory initiatives such as the Securities Finance Transactions Regulation and UCITS have no existing third-party contingencies to speak of, meaning the UK would be entirely detached from their oversight once Brexit is finalised.

The UK government has signalled its intention to formally begin exiting the EU in March 2017, meaning the union will lose one of its founding members by the spring of 2019.

This creates problems for UK entities looking to engage in the EU lending market, according to speakers.

The exact details of the terms on which the UK will begin the detach itself from the EU are yet to be confirmed but panellists at the conference outlined several reasons why some of the remaining members will seek a deal that clearly puts the UK in a disadvantaged position post-Brexit.

One speaker explained that, due to a number of other member states also acknowledging a high level of public dissatisfaction with the EU, Brexit would have to act as a case study that would go some way to dissuading other states from attempting to leave the single market.

A separate panel heralded the revenue opportunities that exist in optimising post-trade systems as far greater than those on offer in investing in pre-trade technology.

The panel made up of representatives from some of the largest banking entities in the securities lending market agreed that post-trade area is ripe for updating and can bring significant improvement to lending desks' bottom lines.

"Some of the biggest revenue opportunities I've seen this year have come from our joint operations with our back-office teams," explained one European banking panellist.

When asked what the biggest hurdles to achieving these efficiencies were, another panellist cited outdated legacy systems and improper use of data analysis as the most significant challenges that need to be tackled by institutional banks.

Sticking to post-trade, another panel said that the back office lacks the transparency enjoyed by the front and middle offices.

"Most of the time you know who your counterparty is but that's it," explained one post-trade representative.

"We have had to put probes into our post-trade business to really get a good idea of what is going on and it's been very interesting to see the results."

Another panellist added: "Post-trade teams are in the best place they have ever been because there is a lot of money to be made in having a good post-trade system."

It was acknowledged by panellists that regulation is a great motivator for change in raising the quality of post-trade systems and one that trumps the issue that securities lending operations are sometimes ignored when it comes to investment allocation.

"The nature of securities lending is that it is a small part of most businesses activity," stated one panellist.

"This means that businesses might be investing in data but that might not be securities lending data."

"Foreign exchange and derivatives will always take allocation until regulation means it's got to happen," the panellist added.

The flow of collateral in the securities lending market

Going forward, the choice of balance sheet—private or public—should be transparent and driven by market forces, writes Manmohan Singh of the IMF

Collateral flows lie at the heart of market liquidity and financial stability. Indeed, a great deal of short-term financing is extended by private agents against financial collateral.

Financial collateral doesn't have to be rated as high as AAA/AA. As long as the securities, which can be either debt or equity, are liquid, marked-to-market, and part of a legal cross-border master agreement, they can be used as 'cash equivalent'. In this way, collateral underpins a wide range of secured funding and hedging (including over-the-counter derivatives) transactions. Increasingly, collateral has a regulatory value in addition to being cash-equivalent.

The extent to which such financial collateral is used has not yet been quantified by regulators, nor is it yet part of official sector statistics. But it is a key component of financial 'plumbing'.

The collateral intermediation function is likely to become more important in the near future, given the new regulatory demand

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and the siloing of good collateral due to quantitative easing by some key central banks. Although there is a large issuance of good collateral (for example, $70 trillion of AAA/AA outstanding), only about 15 percent reaches the market. In the global financial system, nonbanks generally allow reuse of their collateral in lieu of other considerations.

The key providers of primary collateral to the large banks and dealers are hedge funds and securities lenders, via custodians, on behalf of pension funds, insurers, and the official sector, including sovereign wealth funds and central banks.

This article explains how this reuse rate can be measured and why this metric is increasingly important for policy makers to understand, especially when there is a collateral shortage in the market.

It also looks at the pledged collateral available for reuse in the market—with a special focus on the securities lending market, since much has already been written on the repurchase agreement (repo) market.

The suppliers of collateral

The supply of pledged collateral is typically handled by the central collateral desks of dealers, which reuse the collateral to meet the demand from the financial system.

Securities serve as collateral against margin loans, securities borrowing, reverse-repo transactions and OTC derivatives. This collateral is secured funding for the dealers and is received in lieu of borrowing and/or other securities given to a client.

Major dealers active in the collateral industry include Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America/Merrill and Citibank in the US. In Europe and elsewhere, important collateral dealers are Deutsche Bank, UBS, Barclays, Credit Suisse, Societe Generale, BNP Paribas, HSBC, Royal Bank of Scotland and Nomura (see Box 1).

The hedge funds are the main supplier of the collateral since they need financing, and thus, as a quid pro quo, they release collateral against such financing. The other key supply source of collateral is securities lending, which provides collateralised short-term funding, just as repo does.

In a repo there is an outright sale of the securities accompanied by a specific price and date at which the securities will be bought back. On the other hand, securities lending transactions generally have no set end date and no set price.

Borrowing is generally done with a specified purpose, and in many cases a legal purpose test is required. As such, securities lending markets are utilised to borrow specific securities, whereas repo markets are generally non-security specific.

Furthermore, with respect to legal rights, securities lending is effectively identical to repo, although some securities lenders view their clients' rights as more secure than through a repo—due to indemnification of the borrower's potential failure to return securities or default.

For example, both transactions include full transfer of title[1]. The asset management complex, which includes pension funds, insurers, and official sector accounts such as sovereign wealth funds and central banks, is a rich source of collateral deposits. The securities they hold are continuously reinvested to maximise returns over their maturity tenor.

Rehypothecation of a security

Some policy makers, especially those in the financial stability organisations, perceive 'rehypothecation', or the reuse of a security as collateral, to be systemically risky because of the way it can drive leverage. However, ordinary banking is not fundamentally different. In economic terms, the rehypothecation of a security is identical to the money creation that takes place in commercial banking through the process of accepting deposits and making loans.

So why is it that a $100 deposit at a bank can be loaned, but financial collateral that is marked-to-market at $100 is restricted for reuse by policy makers?

A bank such as Citi has capital, as do the shadow banks through haircuts and overcollateralisation whenever collateral is reused. Currently, central banks, through quantitative easing, are seeking to rejuvenate the credit creation engine—so far without great success. Monetary policy is ultra-loose. Restricting collateral reuse is an effective monetary policy that has a tightening effect that seems to be at odds with the current policies of key monetary authorities. In fact, the money metrics such as M0, M1, and M2 need to integrate the sizable pledged collateral metrics. Otherwise, the financial plumbing, which accepts both money and pledged collateral as lubricants, will not be fully understood.

In 2007, this global bilateral collateral market, where the plumbing operates, was $10 trillion in size; now it is well below $6 trillion (see Figures 1 and 2). It is standard practice to use title transfer in repo and securities lending activities.

In Europe, the securities lending is done through the global master repo agreement (GMRA) or the global master securities lending agreement (GMSLA).

In the US, the respective documents are the master repo agreement (MRA) and the master securities loan agreement (MSLA).

Also, OTC derivatives contracts under the International Swaps and Derivatives Association (ISDA) use English law, wherein title transfer is part of the credit support agreements. Note that the pledged collateral shown in Figures 1 and 2 is cross-border and allows reuse due to title transfer (unlike the triparty structure in the US) (See Box 2). According to 2014 data from the European Systemic Risk Board, about half the pledged collateral comes from the hedge funds industry. The rest is from pensions, insurers, central banks, sovereign wealth funds, and so on.

From Lehman Brothers's last annual report: "At November 30, 2007, the fair value of securities received as collateral that were permitted to sell or repledge was approximately $798 billion … The fair value of securities received as collateral that were sold or repledged was approximately $725 billion at November 30, 2007."

Typically, collateral with title transfer is pooled at the central collateral desks of large banks (the top-tier systemically important financial institutions that have a global footprint). This pledged collateral can enter the banks through reverse repo, securities borrowing, OTC derivatives margin posting, or use of client assets under a prime brokerage agreement.

Thus, any collateral metric should capture the typical documentation that underpins collateral use and reuse in contracts such as the GMSLA, GMRA, and ISDA. The documentation does not restrict collateral reuse to one jurisdiction or region. Hence, the collateral metric needs to be global.

Collateral sources, volumes, and velocity

The Risk Management Association (RMA) is the main data source for Table 1, which includes primary sources of securities lending from clients such as pension funds, insurers, official sector accounts, and some corporate and money funds. In 2007, securities lending volumes were $1.7 trillion. In recent years, despite collateral constraints, the volumes are flat at around $1 trillion, according to RMA, which, unlike many other sources, does not include reuse of securities in its data. RMA's data includes the largest custodians such as Bank of New York, State Street, and J.P. Morgan.

The declining values shown in the first row of Table 1 require some explanation. The US regulations that guide borrowers permit only cash and certain government securities and investment-grade corporates. Hence, the US developed as a cash collateral business, where the lending agent lends client assets versus cash and then reinvests the cash according to the client's direction in very short-term reinvestments. Outside of the US (the UK, for instance), regulations permit certain types of non-cash collateral that are readily available (such as FTSE equities).

Following Lehman's bankruptcy and the liquidity crisis, borrowers in the US borrowed more hard-to-borrow stocks (known as 'specials') and less general collateral, which explains the declines evident in Table 1. Non-cash collateral deals (that is, collateral for collateral) effectively provide the lenders with a hard fee for the deal and do not give temporary cash to generate excess returns by creating a short-term money-market book. Initially, risk aversion due to counterparty risk immediately after Lehman's bankruptcy led many pension and insurance funds' official accounts to not let go of their collateral for incremental returns, and therefore supply was constrained. More recently, demand-side pressures, such as the regulatory squeeze on the use of balance sheet and low returns on cash holdings, have put a lid on this market. These numbers are not rebounding as per the end-2015 financial statements of banks.

Table 2 provides a succinct summary of the sources of collateral, the total volume received by the large banks, and the resulting velocity. The velocity is not an exact metric, but it gives an idea of the length of the collateral chains in that year. So we can infer that, on average, the collateral chains were longer in 2007 than in 2015.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Securities Lending v Cash Collateral	1,209	935	875	818	687	620	669	701	644
Securities Lending v Non-Cash Collateral	486	251	270	301	370	378	338	425	454
Total Securities Lending	1,695	1,187	1,146	1,119	1,058	998	1,008	1,137	1,098

Table 1: Securities lending, 2007 to 2015—collateral received from pension funds, insurers, official accounts (US dollar, billions)

Year	Sources			Volume of Secured Operations	Reuse Rate (or Velocity)
	Hedge Funds	Securities Lending	Total		
2007	1.7	1.7	3.4	10	3
2010	1.3	1.1	2.4	5.8	2.4
2011	1.3	1.05	2.35	6.1	2.5
2012	1.8	1	2.8	6.0	2.2
2013	1.85	1	2.85	5.8	2
2014	1.9	1.1	3	5.8	1.9
2015	2	1.1	3.1	5.6	1.8

Table 2: Sources of pledged collateral, volume of market and velocity, 2007 and 2010 to 2015 (in US dollar, trillions; velocity in units)

The securities lending market is unlikely to rebound to a level that approaches pre-Lehman levels in the near future, if ever. In terms of growth outside of the traditional model, various regulators will likely look to limit this growth as well, as it will be viewed—incorrectly—under the rubric of 'shadow banking

Box 1: The 10 to 15 banks at the core of global financial plumbing

Let the financial system that includes banks, hedge funds, pension funds, insurers, sovereign wealth funds and so on be represented by A to Z. Only a handful (say, XYZ) can move financial collateral across borders. XYZ also happen to be the large 10 to 15 banks discussed in the main text.

The rest of the financial system, A to W, that demands and supplies collateral needs to connect with one another through XYZ.

Entry into this market is not prohibited, but it is extremely expensive and difficult. It requires a global footprint and global clients, as well as the acumen and sophistication to move and price liquid securities very quickly—in seconds sometimes.

For example, a Chilean pension fund may want Indonesian bonds for six months, and W (for example, a hedge fund or a securities lender in Hong Kong) may be holding these bonds and willing to rent out to A for six months for a small fee.

But W doesn't know there is demand from A. Only through XZY can A connect to W. Since XYZ sit in the middle of the web, they have the ability to optimise in ways that give them an advantage: the Indonesian bonds may come into their possession because they've loaned W money, or because they have a derivative with W, or through a security lending agreement.

Such securities that need to move cross-border under a repo, security lending or a related transaction need to be legally perfected, and legal perfection entails rules such as title transfer and rehypothecation.

Perfection is also possible under pledge as documented in the MSLA. Similarly, for OTC derivative margins, there is an ISDA master agreement.

For prime-brokerage/hedge fund collateral, there is a similar master agreement that resonates easily between XYZ. Thus, it is not easy for all real-economy collateral to be able to move across borders. This market for bilateral pledged collateral is the only true market that prices at mark-to-market all liquid securities (bonds and equities).

Given that collateral is in short supply (as reflected by repo rates), one of two things is likely to happen:

Velocity of collateral comes back. This is a task that only XYZ can handle in bulk if more good collateral is sourced through them. However, regulatory proposals such as leverage and liquidity ratio have resulted in balance sheet constraints for XYZ in their efforts to do collateral transformation.

So the velocity or reuse rate is unlikely to come back (see Table 2).

- Central banks can make balance sheet 'space' to augment the balance sheets with XYZ (for example, the Fed's reverse-repo programme since September 2013 increased to almost $2 trillion in December 2015). But this programme does not release collateral to the market because it uses the triparty structure, so the Fed's counterparty gets ownership but not possession. This is one way to not let the collateral 'velocity' escape, which in turn would increase repo rates (and may create a wedge with the policy rate—so conservatively no leakage of duration to the market). Thus all maturing bonds bought under quantitative easing are reinvested.

The European Central Bank (ECB) type of approach (seen during the EU crisis with subsidised haircuts relative to market) may not be market-based.

More recently, in the aftermath of ECB's quantitative easing, since March 2015, its securities lending programme remains in its infancy.

On the other hand, the Reserve Bank of Australia will not issue new debt to meet collateral demand, but it will provide good collateral (or high-quality liquid assets) at the market price.

The intuition is that counterparty risk pre-Lehman was minimal. Post-Lehman, fewer trusted counterparties in the market, owing to elevated counterparty risk, led to stranded liquidity pools, incomplete markets, idle collateral and shorter collateral chains, missed trades, and deleveraging.

At present, the collateral landscape has changed even more due to quantitative-easing policies, new regulations, and so on.

Collateral reuse (or velocity) is at an all-time low of about 1.8 relative to 3 before Lehman's collapse (see the Appendix, overleaf) for calculations.

The securities lending market going forward

Although the large banks are unlikely to make room for the 'high volume, low margin' securities lending business given the leverage ratio, it is often assumed that the major custodians such as BNY Mellon, Citi, State Street, Euroclear, and Clearstream will have 'balance sheet space' to move collateral around[2]. However, the indemnification requirement to clients requires upfront capital provision, which is not cost effective.

Prior to Lehman's bankruptcy, dealers would oblige the custodians that would push out general collateral, such as IBM or Merck equities, along with specials that the dealers really wanted (and still do). In this era, custodians would set a general collateral/special ratio as high as 5:1 or even 13:1—there was less balance sheet constraint. For almost a decade now, there is no tying of general collateral to specials. Moreover, large holders of good collateral, such as US treasuries, in the Gulf region or some Asian countries cannot lend because their rules prohibit netting of their transactions[3].

Given the higher leverage ratio requirements for global systemically important banks, especially in the US, certain transactions do not make economic sense for some prime brokers to enter[4]. It should be noted that non-cash trades are off-balance sheet unless the collateral is rehypothecated, so the rehypothecation is what leads to a leverage issue under this scenario. Some suggestions for lifting up the securities lending market in the new regulatory environments include the following:

- Non-cash collateral markets in the US should work toward those in Europe. At present, the US has more attractive collateral rates than elsewhere, in part owing to the repo rates floored at 25 basis points since 16 December 2015 (Federal Reserve's liftoff), a result of the Fed's monetary policy (the floor was 3 to 5 basis points since September 2013 and increased as part of the Fed's liftoff in December 2015).

- Equities can be increasingly mobilised and swapped with US treasuries, but regulations may need to change here (for example, the Securities and Exchange Commission Rule 15c3-3). Some of the recent prime brokerage activity signals that equity long/short and associated netting is more balance-sheet-friendly than other collateral transactions.

- The securities lending market is unlikely to rebound to a level that approaches pre-Lehman levels in the near future, if ever. In terms of growth outside of the traditional model, various regulators will likely look to limit this growth as well, as it will be viewed—incorrectly—under the rubric of 'shadow banking'.

- While the supply side (central banks and sovereign wealth funds) may be eager to increase lending and the demand side (hedge funds) may be eager to increase borrowing, the intermediaries (large banks and agency lenders) will remain constrained by the regulations—for banks, by leverage and liquidity ratios; for agents, by single counterparty credit limits and conservative risk-based capital rules. If the market were to grow back to pre-crisis size, it would probably involve a much larger participation by non-regulated institutions and/or connect supply to demand without an intermediary. While this is possible (the Financial Stability Board already has a working group to look at non-bank-to-non-bank collateral moves), it will be a very different market from the one operating today, and one in which credit and duration management and intermediation would have to be assumed by a different group of players and, potentially, under a different set of rules.

Long-term asset managers (such as life insurance and pension funds) and sovereign wealth funds desire collateral that is of low volatility, but not necessarily highly liquid. These entities should

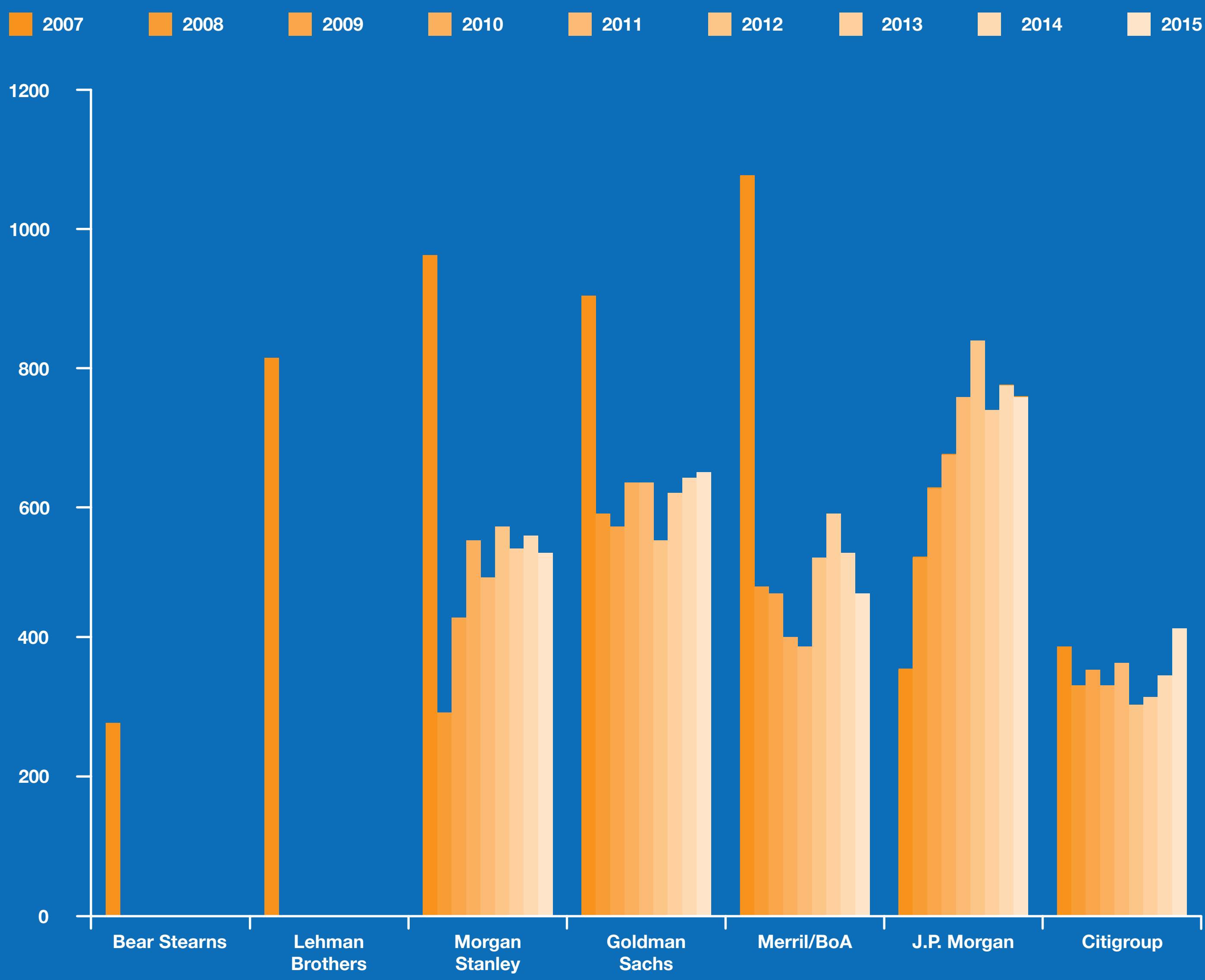

Figure 1: Pledged collateral use by US banks (2007 to 2015)

Box 2: The global bilateral collateral market (relative to US triparty repo)

Collateral use and reuse in financial markets is large. Before the Lehman crash, the volume of funding via pledged collateral (including title transfer) was about $10 trillion, higher than the US broad measure of money, M2. This box tries to summarise the difference between the much researched triparty repo market and the less researched bilateral collateral market. The latter includes collateral flows from not only bilateral repo but also securities lending, derivatives and prime-brokerage.

The US bilateral repo market is a subset for the market for collateral: securities for possession and use, (incidentally against cash)—the New York Fed estimates this market to be between $1 and $2 trillion. The triparty repo market in the US is a market for funding: money for broker dealers/banks (incidentally collateralised by securities). The triparty repo market is currently estimated at $1.6 trillion from a peak of almost US$3 trillion before the Lehman crisis. The triparty repo market provides banks with cash on a secured basis, with the collateral being posted to cash lenders (for example, money market funds) through one of the two clearing banks—Bank of New York Mellon and J.P. Morgan (Copeland et al 2010). The bilateral repo market is sizable and although no official statistics exist, some recent work at central banks suggests this market to be at par or bigger than triparty repo. (for example, the New York Fed estimates this market to be between $1 and $2 trillion in the US only).

Think of the bilateral repo market via the analogy for old clothing trade: typically, merchants in developed countries shrink wrap old clothes in shipping container-sized bundles (under pressure) and send the plastic wrapped block to poor countries. There, a clothing broker buys it, and resells it by weight to jobbers. So if the block weighs 500 pounds and they sell it in 10 pound lots, all 50 people gather around. But some people pay slightly more to be at the front of the crowd, and some pay slightly less to be at back. Then the jobber pops the bundle open with a big knife and the shrink wraps

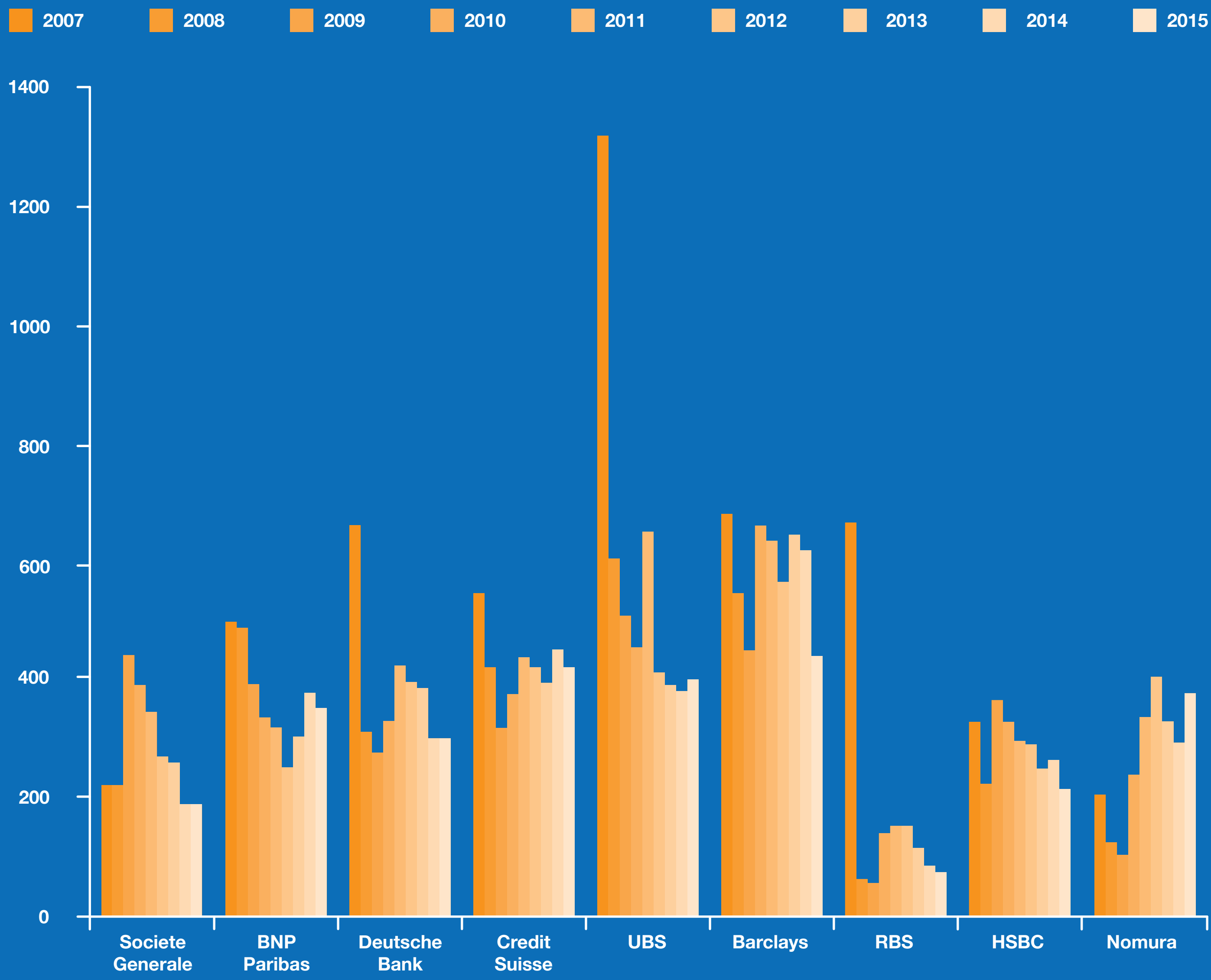

Figure 2: Pledged collateral use by European banks and Nomura (2007 to 2015)

literally explodes—everyone gathered around jumps for the best pieces. Collateral desks are a bit like those jobbers. Big lots come in from hedge funds and security lenders, and the large bank's collateral desk paws through it, searching for gems. Those gems go out bilateral to customers who'll pay a premium. The remainders go to the guys in the back of the line (for example, triparty repo). To the extent securities eligible for the triparty repo market that have demand in the bilateral market, banks will generally use them first in the bilateral market as it offers better price.

Figures 1 and 2, which depict the bilateral pledged collateral, do not count triparty repo-related collateral as it is trapped within the triparty repo structure. The operational structure of the reverse repo (RRP) facility puts practical restrictions on the reuse of collateral outside the triparty system. Collateral can only be used in a triparty repo liability (so a firm that is a 'dealer' in the triparty system such as J.P. Morgan Chase or Bank of New York Mellon could have as an asset a Fed RRP and as a liability a Triparty repo with a customer). Members of the government securities division (GSD) of the Depository Trust & Clearing Corporation (DTCC) can reuse the collateral within the General Collateral Finance (GCF) Triparty system. Here, we use the term 'banks' very loosely: for example, Citibank could take collateral from the Fed and give to a Fidelity mutual fund as a triparty investment, or could take collateral from the Fed and give in GCF to Credit Suisse to give to that Fidelity fund.

To be clear, members of the GSD may be classified differently: Goldman Sachs is actually Goldman Sachs & Co, Deutsche Bank is Deutsche Bank Securities Inc, and Barclays is Barclays Capital Inc. But members also include Pierpont Securities LLC, Jefferies LLC and Cantor Fitzgerald & Co. The important point is that reuse of collateral can only end in a triparty repo—it can have no other use outside this system.

The collateral intermediation function is likely to become more important in the near future, given the new regulatory demand and the siloing of good collateral due to quantitative easing by some key central banks

be net providers of liquidity, either in the form of cash or liquid collateral. But critically, their 'need' for collateral is relatively static (or, as providers of liquidity, they can dictate that counterparties take a fixed amount). However, hedge funds, money market funds, and, with the new regulations, the dealer banks, have a dramatically shifting need for collateral and a large number of counterparties. Their needs are for liquid collateral. So a market for collateral—in theory—could work.

Thus, the 'principal' model (that embodies the banking industry) shifts to an 'agency' model. However, it is not possible for non-banks such as pension funds, insurers, or central banks to deal directly with other non-banks such as hedge funds since the latter are not rated and such constraints will keep the global banks at the centre of financial plumbing (unless replaced by central banks).

Quantitative easing created excess reserves, but removing them from the financial system impacts elements of plumbing that will need to be incorporated in monetary policy decisions. The new regulations that constrain banks' balance sheets further impede market plumbing. However, given the role of banks as conduits for the collateral flows, the plumbing will always be available for privileged clients of the banks (or custodian banks), although not for everyone since the private balance sheet space is being rationed.

Going forward, the choice of balance sheet—private or public—should be transparent and driven by market forces and not by ad hoc allocation by central banks.

More importantly, monetary policy transmission is weakened if parts of the plumbing move to the central bank balance sheet. So far, the demand for and supply of financial collateral by non-banks (and other commercial banks) is intermediated by the large 10 to 15 banks and dealers that have a niche in this cross-border collateral market. However, as regulations kick in, some of the non-banks—Allianz, La Mondiale, Scottish Widows, SNS Real, Friends Life, VPV and Sun Life—may develop in-house teams to deal with central counterparties directly. They may consider liaising directly with banks (and not through agents and custodians). To the extent collateral moves skirt the large 10 to 15 banks' collateral desks, the reuse rate will be harder to determine. Similarly, central banks may become large conduits and alleviate collateral shortage to nonbanks by supplying high-quality liquid assets under the rubric of monetary policy (as with the Federal Reserve and its reverse-repo programme).

Somewhat counterintuitively, evidence suggests that, despite increased demand for collateral due to regulations, the securities lending business may not take off given the new regulations that will limit balance sheet space of the 10 to 15 institutions to undertake collateral transactions (such as collateral transformation, repo, and so on). In addition, some central banks—in cases where interest rates are moving higher—will provide collateral or variants thereof as part of their monetary policy framework, further reducing the securities lending business opportunity. This may be suboptimal on many fronts: for monetary policy transmission, for smooth market functioning, and, ultimately, for market liquidity.

Appendix: Methodology for calculating the velocity of collateral

It is generally recognised that 10 to 15 large banks are active in collateral management globally.

The analysis here may have missed a couple of banks, but it is believed to have picked up more than 90 percent of the pledged collateral received from primary sources such as hedge funds, pension funds, insurers and official accounts.

What follows is a comparison of data between 2007 and 2013 to see how this market changed pre-Lehman bankruptcy through the financial crisis, which straddles monetary policy experiments. As a starting point, we take the total collateral received by the banks as of end-2007 (almost $10 trillion) and compare it to the primary sources of collateral (the two primary source buckets identified in Figure 1: hedge funds and securities lenders (on behalf of pension funds, insurers, official accounts, and so on). The ratio of the total collateral received/the primary sources of collateral is the velocity of collateral due to the intermediation by the dealers.

$$\textbf{Velocity of collateral} = \frac{\$10 \text{ trillion}}{\$3.3 \text{ trillion}} = \text{approximately 3}$$

Collateral sources as of end-2015

Similarly, for 2013, total collateral from primary sources that could be repledged by the large dealers from hedge funds was $2 trillion, plus $1.1 trillion through securities lending operations of custodians on behalf of pension funds, insurers, and official sector accounts, for a total of $3.1 trillion. The total collateral received by the 10 to 15 large banks was $5.6 trillion as of end-2015 (still sharply lower than the $10 trillion peak as of end-2007):

$$\textbf{Velocity of collateral} = \frac{\$5.6 \text{ trillion}}{\$3.1 \text{ trillion}} = \text{approximately 1.8}$$

Are your investments lemons?

Taking short positions is one thing, engaging the mob to help drive the price down seems to be another altogether, according to David Lewis, senior vice president at FIS Astec Analytics

Much has been written about the positive nature of short selling shares. Perhaps not as much as has been written from the negative viewpoint, but there is certainly much to be said for observing what trades are undertaken by investors that, theoretically at least, risk unlimited downside should they pick the wrong shares to short.

Getting it right relies on doing the right research and finding the companies that appear overvalued, placing your bets and waiting until the market or some other calamity exposes them. If you can't or don't want to wait, you could always give the company a little nudge, pushing them over the edge and onto the slippery slope. Not ethical perhaps, but not illegal either, as long as what you claim is true of course. Further, unless your research is absolutely right and you can press your message across effectively, then your capital, and potentially your freedom, is most definitively at risk.

Muddy Waters and Gotham Research became notorious for making their research very public indeed. This is a double edged sword of course—the target company, as part of its defence is likely to claim that the shouts of 'fire' from the research company are simply being made to spook the market and benefit the accuser that had taken up short positions ahead of going public.

In the case of Gowex in Spain, exposed by Gotham Research in June/July 2014, a robust response from the company lasted less than a week before the tearful chief executive admitted four years of false accounting, precipitating a swift bankruptcy. Quindell, described in April 2014 as "a country club built on sand", is one of many other examples that have come under similar scrutiny from Gotham Research and others like it.

Moving right up to date, Citron Research has launched a similar attack on Cyberdyne (7779), a Japanese medical robotics company. Describing a company as "the most ridiculously priced stock in the world" is pretty heady stuff, and Citron will need to be very sure about its accusations if it wants to benefit from its research in the long term. In the short term, the concerns raised wiped around JPY 500 ($5) off the share price, which had fallen to around JPY 2,000 ($19), from the June 2016 peak share price of JPY 2,550 ($25), by the time the report was published. With around 18 million shares borrowed for short interest positions at the time, the returns from such an impact to those shorting the stock appeared to be in the region of JPY 9 billion or roughly $87 million. With the stock now trading, at the time of writing, around the JPY 1,600 ($16) mark those gains have almost doubled.

Figure 1 shows the volume on loan for Cyberdyne, alongside a plot for utilisation of the shares. Note the sudden drop in volume in the first weeks of June, yet the continued advance of the utilisation numbers, soon exceeding 90 percent despite a drop of more than one third in borrower demand. This likely represents a sell off from the supply side, where one or more larger institutional investors has called time on its investments in Cyberdyne, just before the company shares began to reverse the near constant upward trend, which began last October at around the JPY 1,300 ($13) level.

Given that the report penned by Citron was not released until the middle of August, this pre-emptive move by one or more investors suggests that Citron was not alone in considering that Cyberdyne might be overvalued and that a fall was imminent. With utilisation exceeding 90 percent, it has certainly become a popular short trade, as more investors seek to make a return from the growing debacle.

However, herd mentality does not always pay. Those jumping into the Wirecard trade earlier this year may well have suffered for their mistakes.

Figure 1: Volume on loan and utilisation for Cyberdyne (7779)

Source: FIS Astec Analytics

A typically damning piece of analysis was released by Zatarra Research in February, alleging wrongdoing up to and including money laundering at the payments technology provider. Around €11 or 25 percent of the share price was wiped out almost overnight as investors took fright.

Short interest had, however, been ramped up significantly as far back as the previous November, when balances almost tripled for reasons that were not apparent to everyone at the time.

Once the report was released, however, balances jumped once more, pushing utilisation to almost 80 percent and the cost to borrow way into the special security zone. However, comprehensive rebuttals from the company appear to have won the day and, finally, at the end of August, the share price surpassed its pre-report levels for the first time. The short sellers that originally took up positions against the value of Wirecard will have lost money, but less than those that were late in and could only watch as the shares doggedly recovered.

Long investors in Wirecard also lost, of course, and this is where the ethics of this kind of publicity-seeking behaviour come into question. Taking short positions is one thing, engaging the mob to help drive the price down seems to be another altogether, and risks public humiliation as well as loss of capital. Whether Citron is right about Cyberdyne is yet to be proven, but when a stock valuation proves it to be a lemon, it depends which side of the trade you are on as to whether you end up bitter or making lemonade. **SLT**

CIBC Mellon, Barclays and State Street all feature

CIBC Mellon has appointed Steven Wolff as new president and CEO, effective 14 November.

He will replace Thomas Monahan, who is set to retire at the end of the year. Wolff will take on responsibility for strategy and performance, and will also take up a place on the board of directors for CIBC Mellon Trust Company.

Wolff has 30 years of experience in financial services and investment administration, and will join CIBC Mellon from the Nova Scotia Pension Services Corporation (NSPS), where he is currently CEO.

At Nova Scotia Pension Services Corporation, he is credited with leading the transition from a government to a non-profit organisation as well as with improving operating platforms and encouraging expansion into new alternative investment classes.

Before this, Wolff held several senior risk management and investment operations positions at State Street Bank and Trust company, leading teams in Canada, the UK, Cayman and Africa.

John Ferren, senior vice president for finance at CIBC, and a member of the board of directors for CIBC Mellon, said: “Canada is a complex and unique investment marketplace, and Steven Wolff’s deep and personal understanding of the challenges and opportunities ahead will no doubt prove very valuable for CIBC Mellon and its stakeholders.”

He added: “Steve joins a strong and dynamic team and has the vision to lead CIBC Mellon forward as Canada’s leader in asset servicing.”

Wolff said: “CIBC Mellon is well known and respected as a leader in its industry. As a client for many years, I know first-hand the importance the company’s highly engaged team places on putting clients at the centre of all they do.”

“I am looking forward to building on CIBC Mellon’s proud 20-year history of delivering strong service, operational excellence and continuous innovation for its clients.”

Wolff was a founding member of the Canadian Public Pension Leadership Council, and has sat as vice chair of the Actuarial Standards Oversight Council.

Former Barclays executive Saurabh Seth has returned to MUFG Securities, it has been revealed.

Seth left the Barclays investment bank business in the summer.

He joined Barclays in 2013 from eSecLending, where he was co-head of securities finance.

Before that, Seth held roles at Mitsubishi UFJ (as it was previously known), BNP Paribas and Citigroup.

Paul Fleming has become global head of hedge funds in State Street’s alternative investment solutions (AIS) business.

He previously served as global head of securities finance, a role he took over in July 2015 from Lou Maiuri.

As the global head of hedge funds in the AIS business, Fleming is responsible for the strategic direction of hedge fund services. Fleming has extensive asset servicing experience, having managed the enhanced custody business at State Street, as well as front-line agency lending trading knowledge, particularly in fixed income. He joined State Street in 2001.

Financial services technology consultant GFT has appointed David Collins as head of financial services for the pan-Atlantic region.

Collins will work on developing new products, engaging with new customers and improving relationships with existing ones, for the UK, US and Canadian markets.

According to GFS, the appointment is part of a strategy to improve services for clients in these regions. **SLT**

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