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Quadriserv grows relationship with SunGard and rebuilds board

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SunGard has built on its relationship with Quadriserv and will now provide hosting services, operational support, and software development for Quadriserv's AQS platform. The platform is a central counterparty-based securities lending marketplace.

This expanded relationship builds upon the prior integration of SunGard's Loanet securities lending processing technology and Quadriserv's AQS automated trading system, which supports STP of price discovery, central counterparty clearing, settlement and open loan contract maintenance.

"Over the years, we have enjoyed a productive and highly constructive relationship with SunGard based on the shared belief that technology, transparency, and a commitment to client service can drive meaningful change in the securities lending industry," said Pasquale Cestaro, Quadriserv's CEO.

"We've made great strides in this respect, and look forward to an expanded relationship moving forward. Of equal significance, Quadriserv's ability to leverage SunGard's infrastructure, technology, and network resources will help us to achieve a key goal of reducing our operating costs."

SunGard first collaborated with Quadriserv in 2009, when both companies foresaw the opportunity for positive change in the securities lending industry, said John Grimaldi, executive vice president of SunGard's capital markets business.

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SLTINBRIEF

State Street freshens up collateral services

State Street has enhanced its financial reporting and collateral services to help clients comply with regulations, manage risk and automate their disclosure requirements.

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CFTC allows some relief for prime brokerage arrangements

Gary Barnett of the US Commodity Futures Trading Commission (CFTC) has penned a letter in response to requests for relief from oversight of prime brokerage arrangements.

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Quadriserv grows relationship with SunGard and rebuilds board

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"Since that time, our two companies have continued to integrate services to deliver innovative, productivity-enhancing technology and managed services to the securities lending industry, enabling our customers to operate smarter by helping increase efficiency and reduce costs."

Gregory DePetris, Quadriserv's co-founder, said: "Since its inception, Quadriserv's goal has remained constant: to bring transparency and efficiency to the securities lending industry. Our efforts in pursuit of this goal have included working with industry participants, both lenders and borrowers alike, to streamline and transform trading procedures while offering financing tools that can best benefit their firms. We are confident that our expanded relationship with SunGard will bring new energy, resources, and operational infrastructure to the AQS marketplace."

Quadriserv also announced a new investor and changes to its board of directors. Joining a roster of institutional investors that includes Bessemer Venture Partners, Interactive Brokers, International Securities Exchange, and Renaissance Technologies is private investor Rohit D'Souza. D'Souza, former CEO of Citadel Securities and former head of Global Equities at Merrill Lynch, will join the board.

Greg DePetris and Brian Traquair, president of SunGard's capital markets business, will also be joining the remaining directors Pasquale Cestaro, Rob Stavis, Paul Brody, and Thomas Ascher.

State Street freshens up collateral services

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State Street's new ProNavigator solution enables asset managers to automate their registration forms (including the prospectus and statement of additional information) in multiple formats.

"The new solution enables auto-composition and helps to streamline disclosures that are required across multiple fund registrations," said a statement from the firm. "It provides clients with one source document that reduces the risk of regulatory reporting errors, lowers typesetting and EDGAR conversion costs and streamlines production review and sign-off."

As for managing counterparty risk, State Street pointed to US Dodd-Frank legislation that enables collateral to be held by independent third-parties such as themselves.

In response, the firm has expanded its triparty collateral custody capabilities to all clients and broker-dealers to help mitigate risk and maintain control of pledged assets.

"The new solution, Collateral Custody Service, provides a segregated account structure and can be offered as an independent, stand-alone service or as a component of broader solutions."

"It compliments State Street's DerivOne suite, an end-to-end derivatives solution that includes servicing, custody and accounting, collateral management, valuation, and risk and analytics."

Finally, in the wake of global derivatives regulation, State Street has also strengthened its collateral management solution to incorporate margin automation technology. "As the amount and frequency of required collateral increase, automation will be essential for clients to achieve timely and accurate messaging to increase operational efficiencies," said the firm.

CFTC allows some relief for prime brokerage arrangements

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Some industry employees had asked for leeway on the Division of Swap Dealer and Intermediary Oversight of the CFTC regarding business conduct standards for swap dealers with counterparties in the context of prime brokerage arrangements relating to swaps and certain foreign exchange transactions.

Barnett was hired as swaps division director for the CFTC as part of the agency's restructuring to fulfill its expanded responsibilities under the Dodd-Frank Act, whereby the CFTC is trying to regulate the swaps market under the law.

"Barnett comes to the CFTC with a vast knowledge of the swaps market," said CFTC chairman Gary Gensler at the time. "His derivatives expertise will be essential to leading the CFTC's new division, which will be integral to implementing the Dodd-Frank provisions that will lower the risk of the swaps market to the overall economy. The division also will provide necessary oversight of this market."

In the letter, Barnett said that the division had been informed by market participants that it would be difficult or impracticable for prime brokers and executing dealers to fully comply with the External Business Conduct Standards, as each entity has access to different information at different points of time.

"Conversely, the executing dealer, but not the prime broker, often will have access to timely trade information and information about the inherent risks relating to both the ED-PB Transaction and the Counterparty Mirror Transaction. As a result, market participants argue that the executing dealer is in the best position to take responsibility for compliance."

Based on the representations made by market participants, Barnett stated that he believed no-action relief is warranted.

He went on to say that the commission would not recommend enforcing action against a swap dealer for failure to comply with certain commission regulations so long as the prime brokerage arrangement fulfilled certain descriptions, explained at length in the letter.

However, he warned that: "The relief issued by this letter does not excuse the affected persons from compliance with any other applicable requirements contained in the CEA or in the commission's regulations issued thereunder."

ICMA European Repo Council: FTT will be disruptive

A paper from the ICMA's European Repo Council (ERC) explains the importance of collateral while highlighting how the proposed Financial Transaction Tax (FTT) would affect its movement, posing significant systemic risks and interrupting the flow of money between banks, to governments and to the real economy.

The paper noted that global regulatory initiatives such as Basel III are built on the even more extensive use of collateral. "Collateral is essential to the intermediation of credit through the financial system to the real economy, which makes it of macro-economic importance. Furthermore collateral is also the link between the financial markets and central banks and therefore crucial to the conduct of monetary policy."

The paper, produced for the ICMA ERC by Richard Comotto, an academic from the ICMA Centre at Reading University, suggested that regulators, central banks, financial intermediaries, investors and borrowers should be seriously concerned by the prospect of the FTT, as one of its major effects would be to make collateral movements prohibitively expensive and, by extinguishing the repo market, it would disrupt the matching of supply and demand for collateral.

The paper questioned why the European Commission is proposing to replace repo with secured loans when repo is "already doing the job very well".

Godfried De Vidts, chair of the ERC, said: "Every single home owner understands the value of collateral, as home loans are only available from mortgage providers against the security of bricks and mortar."

"Similarly, for today's financial markets, collateral represents the raw material underpinning the G20 regulatory requirements for safer centralised and bilateral clearing, as well as the implementation of central bank monetary policy. The current FTT proposals would paralyse the movement of collateral, damaging its essential role at the heart of markets."

DTCC slaps lawsuit onto 'anti-competitive' CFTC rules

The Depository Trust & Clearing Corporation (DTCC) and the DTCC Data Repository have filed a lawsuit challenging three interrelated actions from the US Commodity Futures Trading Commission (CFTC). The corporation is also asking a federal court to vacate the commission's approval of Chicago Mercantile Exchange (CME) Rule 1001 and IntercontinentalExchange (ICE) Rule 211.

DTCC general counsel Larry Thompson said in a statement that the CME and ICE rules are anticompetitive and undermine the core pro-competitive principles of the US Dodd-Frank Act.

"By approving these rules, CFTC changed its original adherence to the pro-competitive principles of Dodd-Frank and instead sanctioned anticompetitive behavior that allowed these clearing houses to require reporting of cleared swap data to their captive swap data repository (SDR)."

"Under the threat of a CME lawsuit last fall, the CFTC ignored the Administrative Procedure Act (APA) and the Commodity Exchange Act (CEA) and took action that paved the way for approval of these rules."

"The commission failed to properly consider the anti-competitive effects of Rules 1001 and 211, and did not comply with the legally required administrative or cost-benefit analysis procedures."

These rules, added Thompson, jeopardised the underlying principles of Dodd-Frank, were inconsistent with the commission's own regulations, and compromised the ability of regulators and market participants to understand, assess and manage systemic risk.

"DTCC and DDR are market utilities and user-owned cooperatives and have now, after exhausting all regulatory channels, been forced to litigate to protect market participant choice, competition, and transparency and accountability in the global markets."

Collateral management at risk of becoming a commodity

Seventy-five percent of financial institutions believe collateral management has become, or is at risk of becoming, a commodity, said SIX Securities Services.

Data from a study done by the post-trade services provider found that 45 percent of respondees think that collateral management is at high risk of becoming a 'commodity', while 30 percent say collateral management is already considered a commodity.

However, 25 percent do not think collateral management will become a commodity.

The research also found that 56 percent of financial institutions have either replaced their collateral management systems in the last 18 months, or are in the process of doing so now.

"Commoditisation is the process in which products and services move to a market of undifferentiated price competition," said SIX in a release. "While commoditisation may be desirable for uniform items such as petroleum or electricity, collateral management offerings differ greatly in many other qualities besides price—such as risk mitigation, operational efficiency and ease of use."

Robert Almanas, head of securities finance solutions at SIX Securities Services, said: "Collateral management is at a crossroads today, with 75 percent of institutions believing it is at risk of becoming a commodity. Will it replicate the oil or gas industries and become a commodity product, or will institutions seek out providers with value add differentiators?"

"Collateral management is far more than just providing a view of, and netting, multiple streams of collateral across silos. Collateral management controls counterparty risk exposure more efficiently and ensures that market and operational risks are mitigated."

"Triparty collateral management systems completely ring-fence a financial institution's assets, protecting them from 'co-mingling' and, in the event of a default, allow segregated assets to be easily identified and returned to their owners."

The financial institutions interviewed were 55 percent buy-side intuitions and 45 percent sell-

side. Of the buy-side institutions interviewed, the average AUM was £56.7 billion.

Bank of England addresses CCPs

The Bank of England has released two papers on CCPs, which explain loss-allocation rules, and how to balance the costs of default resources with the expected losses.

Central Counterparties and their Financial Resources—a Numerical Approach maintained that new regulatory standards have required CCPs to have robust processes in place to mitigate their counterparty credit risk exposures.

"At the same time, the standards allow CCPs to tailor their risk management models. This paper considers how CCPs can optimally determine the relative mix of initial margin and default fund contributions in a stylised setting, by balancing the costs of default resources with the expected losses they protect against," it said.

Where members are of good credit quality and the probability of experiencing losses is low, the loss-mutualising properties of the default fund are favoured over the defaulter-pays properties of initial margin. Significant tail risks in the markets cleared by the CCP further favour the use of the default fund as a cost-effective insurance against potentially large losses.

By contrast, when members are more likely to default or extreme losses are unlikely, the CCP has incentives to maximise the defaulter-pays collateral it takes, and the benefits of the loss-mutualising default fund are reduced, it added.

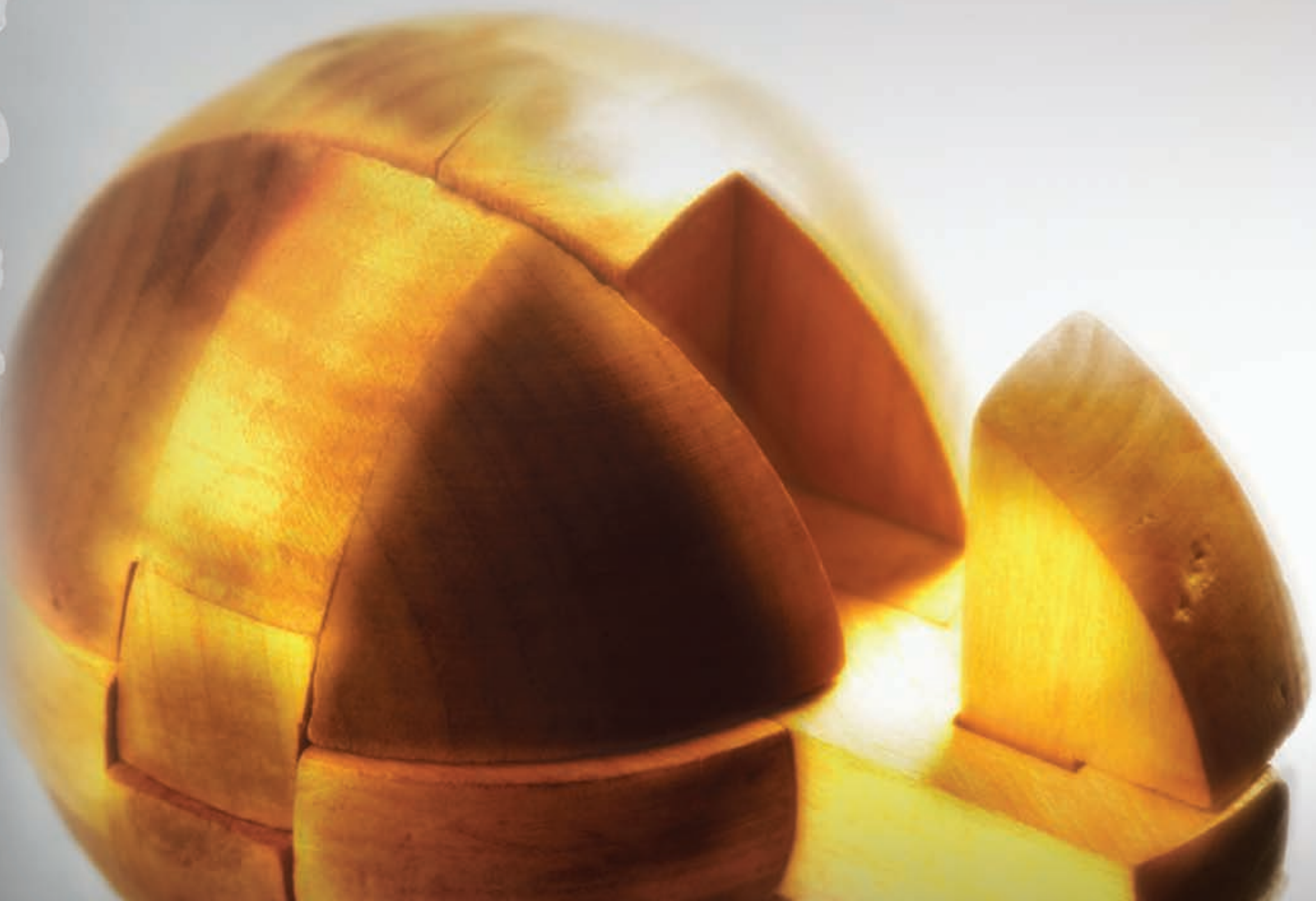
"Our numerical results support the recognition that CCPs should have some discretion over how they set the optimal level and composition of their default resources, based on the specific risks of the markets and portfolios that they clear."

The results also show that changes in collateral costs and capital requirements can have a significant impact on a CCP's optimal risk management choices.

Central Counterparty Loss-Allocation Rules stated that the insolvency of a CCP could be highly disruptive to the financial system if losses fall on participants in an uncertain and disorderly manner. In contrast to most other financial firms, CCPs' obligations to their members, and vice versa, are governed by a central rulebook.

"[They] have the ability to include in this rulebook rules setting out how losses exceeding the CCP's pre-funded default resources are to be allocated between participants. Indeed, some CCPs have already done so. We term such rules 'loss-allocation rules'."

These could have the advantages, relative to the counterfactual of the disorderly insolvency of the CCP, of offering transparency and predictability to participants; providing for a quick



and orderly allocation of losses; and potentially allowing the CCP to continue to provide critical services to the market, added the paper.

"The detailed design of such rules has important implications for financial stability, as well as for the CCP and its stakeholders. Given these considerations, there is ongoing international work on the design of loss-allocation rules."

BlackRock's David Geffen goes it alone as a consultant

After departing BlackRock in 2011, David Geffen has officially announced the creation of his new consultancy firm for hedge funds.

Geffen Advisors is focused exclusively on the hedge fund industry, offering advice on treasury management, counterparty risk management, and fund launch. The firm will also provide outsourced COO solutions and specialised training services.

"The firm's treasury management and counterparty risk management offerings provide advice to hedge funds in managing their prime brokerage and related activities more effectively, while mitigating the counterparty risk inherent in those relationships," said a statement.

"The alternative investment industry is poised for significant growth and many fund managers will benefit from advice on how to successfully prepare their businesses to meet the best practice standards which investors now expect," said Geffen.

"The firm's goal is to provide guidance to hedge funds so they can be more rigorous in their decision-making and how they do business with their strategic business partners. The firm will work with its clients to enhance their success."

Previously, Geffen was a managing director at BlackRock and Barclays Global Investors (BGI), prior to BGI's acquisition by BlackRock, where he created and led the securities finance group that managed BGI and Blackrock's prime brokerage, financing, futures clearing and counterparty credit relationships.

Before joining BGI, Geffen was managing director of finance and chief credit officer at Amaranth Group, a hedge fund firm based in Connecticut.

His Wall Street experience includes positions at Goldman Sachs, where he managed all hedge fund counterparty risk globally as part of the firm's credit risk management and advisory group, and at Citibank, where he served hedge funds and investment banks. To find out more, turn to page 22 to read an interview with Geffen.

Open Interest at OneChicago up 66 percent

Equity finance exchange OneChicago celebrated an April 2013 volume of 567,897—an increase of 148 percent year-on-year.

Open interest stood at 646,573 contracts on the equity finance exchange at the end of April 2013, and 536,328 exchange futures for physicals (EFPs) and blocks were traded. April 2013 EFPs and blocks activity represented $2.1 billion in notional value.

Sixty-two percent of April 2013 month-end open interest was in OCX.NoDivRisk products, which remove dividend risk for customers carrying equity delta exposure.

Lastly, 147,093 of April 2013 futures valued at more than $587 million were taken to delivery, emphasising the use of single stock futures as an equity finance tool.

OCC's lending CCP sees 53 percent rise

OCC's securities lending CCP activities saw a 53 percent increase in new loans over April 2012 with 121,910 transactions last month.

Year-to-date stock loan activity is up 38 percent from 2012 with 408,486 new loan transactions

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in 2013. The average daily loan value at OCC in March was $48,863,005,728.

The equity derivatives clearing organisation also announced that cleared contract volume for the month was 376,392,187 contracts, a 17 percent increase from April 2012. OCC's year-to-date total contract volume is down half a percent from April 2012 with 1,383,287,827 contracts.

Exchange-listed options trading volume reached 371,147,433 contracts in April, a 16 percent increase from April 2012 and the highest April volume level ever recorded.

Average daily volume in April came in at 16,870,338 contracts, 6 percent more than the 15,982,030 contracts in April of last year. Year-to-date volume stood at 1,364,727,666 contracts, down 1 percent from the 1,380,749,815 contracts at the same point last year.

Futures cleared by OCC reached 5,244,754 contracts in April, up 123 percent from April 2012. OCC cleared an average of 238,398 futures contracts per day last month, a 103 percent increase from April 2012. OCC's year-to-date cleared futures volume is up 87 percent with 18,560,161 contracts in 2013.

Greece extends short selling ban yet again

Greece's capital markets regulator has decided to extend its ban on short selling until the end of July, stating that the decision was due to the country's recapitalisation plan.

In a statement, the Hellenic Capital Markets Commission (HCMC) said that its board considered "the process of recapitalising the lenders" in its decision—referring to the €50 billion set aside to inject capital into the country's four big banks, and to scrap some smaller lenders.

The European Securities and Markets Authority (ESMA) published its opinion on the emergency measure, stating that it was appropriate and proportionate in relation to the country's current situation.

"ESMA considers that the measure which is targeted at credit institutions admitted to trading on the Athens Stock Exchange remains appropriate and proportionate to address the above mentioned threats that persist in Greece. ESMA considers that the duration of the measure is justified and appreciates the HCMC's statement in its notification of intent whereby the measure may be lifted during the period of enforcement of the measure, if appropriate."

HCMC's previous ban, introduced in November 2012 for three months, was extended in February.

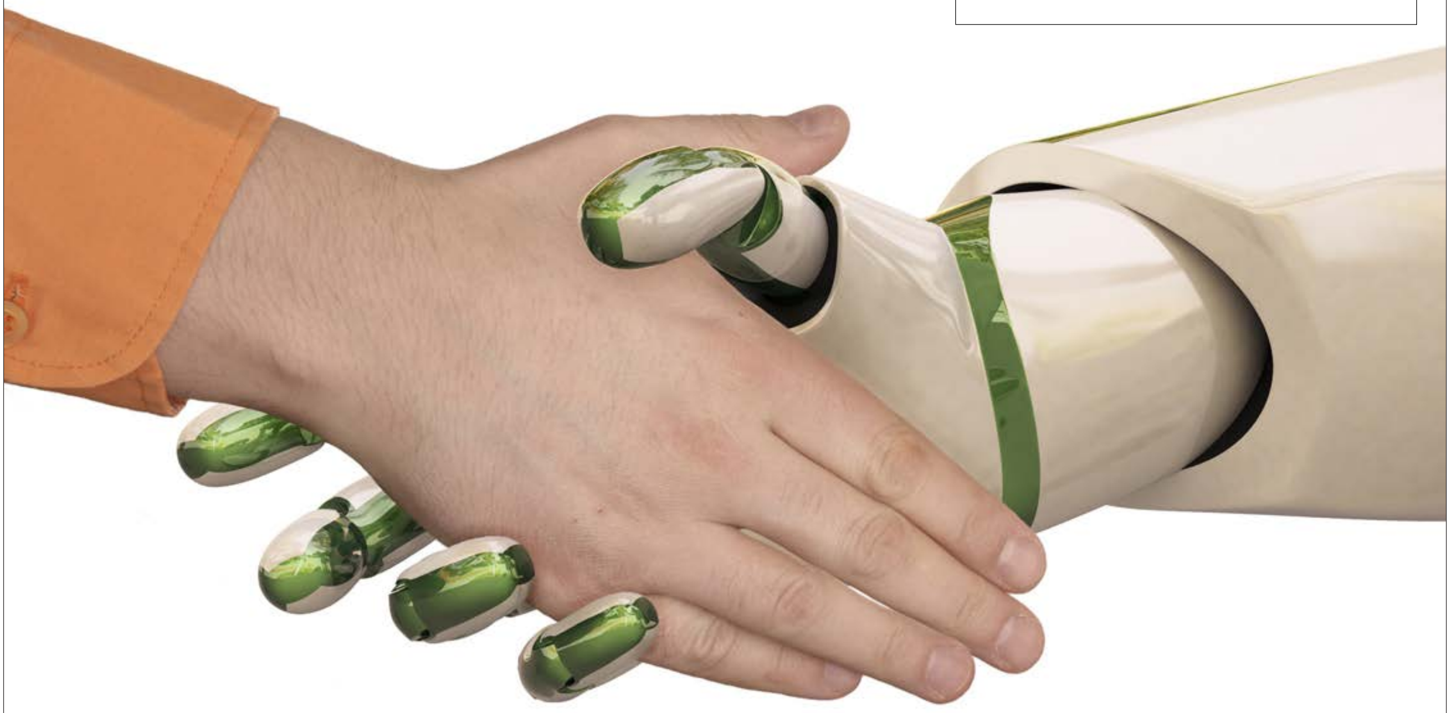
Pension funds fret over investment and regulation

There will be no let-up in the challenges facing pension funds, said respondents to a State Street survey.

A majority (81 percent) of responses from defined benefit and defined contribution pension schemes in Germany, Italy, Netherlands, the Nordics, Switzerland and the UK also predicted that investment decisions will become more complex in the coming years.

Seventy-five percent of respondents predicted that persistent funding challenges will accelerate the closure of defined benefit schemes and the transition to defined contribution vehicles, and 69 percent of the respondents said that national governments will take aggressive action in an attempt to close the retirement savings gap.

"These expectations and challenges will occur alongside strong regulation, explaining why 76 percent of pension schemes surveyed believe that smaller funds will look to outsource all aspects of fund management over the next five years," said State Street.



The research also found that since the financial crisis, one in three European pension schemes claims it is either "extremely difficult" or "difficult" to keep up with new regulatory developments in the pensions industry.

A further 46 percent find it "slightly difficult" to do this, with only one in five (21 percent) claiming it is not difficult at all. A further indication of the regulatory pressure pension funds feel under is that only 21 percent of those interviewed said that demands from regulators and ratings agencies were not a challenge. Some 31 percent said they were a "significant challenge".

Sven Kasper, responsible for regulatory, industry and government affairs for State Street in Europe, the Middle East and Africa, said: "Since the financial crisis, there have been substantial changes in the pensions industry in terms of regulation, transparency and reporting, and this has coincided with very volatile markets."

"Our research findings show that pension funds are under more pressure than ever before as they struggle to keep up with the ever changing landscape. "

Paladyne secures rights for Numerix risk offering

Broadridge company Paladyne Systems has secured the source code, development rights and unlimited distribution rights for Numerix Portfolio Risk.

Paladyne has completed the integration of Numerix Portfolio Risk into its front-office solutions. OMS, portfolio accounting, risk management and hosting are now provided in a single solution. It has also hired the Toronto- and Hong Kong-based development teams that built and support the product.

The solution, branded as Risk Master, is an enterprise or departmental solution for prime brokers, banks, broker-dealers, fund administrators and asset managers.

Sameer Shalaby, president of Paladyne Systems, said: "Data quality is one of the most important factors in the effectiveness of risk decisions. The combination of order management, portfolio accounting and front-office risk management with reference data provides a complete solution that will lower costs and help clients focus on growth."

"To support this product introduction, we have entered into a long-term strategic partnership with Numerix to use their CrossAsset library as our primary source of analytics. This gives us a strong foundation on which to develop and invest in our solutions, and to continue to meet the needs of our most demanding clients."

Steven O'Hanlon, Numerix CEO and president, added: "We are excited to enter into this long-term strategic partnership. We continually seek

innovative opportunities to accelerate the adoption of our core CrossAsset analytics."

"Paladyne's ability to integrate Numerix Portfolio and CrossAsset into their offerings, and Broadridge's global client base, provides this opportunity to expand our product footprint, while enabling us to align more resources to the development of our risk scenario and calculation platform."

Basel III beckons for securities finance

A new report from Finadium reviews the effects of Basel III on securities finance and looks at how banks are addressing funding considerations.

The report, which is entitled Bank Funding, Preparations for Basel III and Impacts for Securities Finance, reviews current bank funding preparations for Basel III on a regional basis and the effects for securities lending, repo and collateral management.

Using government documentation and data from selected major banks, the report looks at bank risk-weighted averages, capital ratios and gives thoughts about future planning.

It concludes with an analysis of how banks are addressing funding considerations for securities lending and repo activities and how businesses will manage most effectively in the Basel III regulatory environment.

Olympian pool of collateral for Euroclear and Standard Chartered

Assets for mutual clients held at Standard Chartered are now available for use as collateral using Euroclear Bank's global Collateral Highway. This is in order to meet collateral requirements in triparty deals managed by Euroclear Bank.

Standard Chartered is the first Asia-based agent bank to join the Collateral Highway. As a result, all equity and fixed-income securities held within the Standard Chartered custody network can potentially become eligible assets to be used as collateral when Euroclear Bank serves as the triparty agent.

"As a result, clients will be able to broaden the pools of collateral available to secure exposures arising from various types of transactions, while enjoying greater interoperability and choice as to how they can finance their assets," said a release from Euroclear.

Standard Chartered will continue to hold the assets as custodian while the securities move across markets and time zones via Euroclear's Collateral Highway. These assets may be transported as collateral to cover exposures arising from, for example, repos, loans, derivatives and CCP margins, as well as for access to central bank liquidity.

Olivier Grimonpont, general manager and regional head of Asia-Pacific at Euroclear Bank, said: "The agreement with Standard Chartered to make assets in their network available to the Collateral Highway will ease cross-border financing. Euroclear Bank is active in collateralising many types of transactions, including cross-border RMB repo deals."

"Access to assets held by Standard Chartered to collateralise these transactions will open the market even further. We are delighted to be partnering with Standard Chartered to add a triparty dimension to their collateral management service offering and to offer even deeper pools of liquidity to our mutual clients."

Alan Naughton, global product head of investors and intermediaries in transaction banking for Standard Chartered, said: "Today's partnership positions us as the first bank in Asia to offer mutual clients of Standard Chartered and Euroclear Bank the opportunity to mobilise their securities inventory through the collateralising of global exposures from a single collateral pool."

"This collaboration demonstrates our client-centric strategy, where we address our clients' challenges of collateral scarcity and fragmentation when operating across our footprint markets of Asia, Africa and the Middle East."

Clearstream welcomes GSF rise

For global securities financing (GSF) services, Clearstream recorded a monthly average outstanding of €583.8 billion in April 2013.

The combined services, which include triparty repo, securities lending and collateral management, collectively experienced an increase of 2 percent over April 2012 (€570.7 billion).

At €568 billion, the year-to-date April 2013 GSF monthly average outstanding is 3 percent below the same period last year (year-to-date April to April 2012: €584 billion).

In the investment funds services business, 0.66 million transactions were processed, a 45 percent increase over April 2012 (0.45 million).

In April 2013, the value of assets under custody held on behalf of customers of Clearstream registered an increase of 4 percent to €11.6 trillion (compared to €11.1 trillion in April 2012).

Securities held under custody in Clearstream's international business increased 3 percent from €6 trillion in April 2012 to €6.1 trillion in April 2013.

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Straight to the basis point

CASLA's 3rd Annual Conference on Securities Lending saw the appointment of the association's new president, and some lively panel debates

JUSTIN LAWSON REPORTS

Anyone who read last year's report will know I spent too much time talking about the social scene and not enough time focusing on the reason for visiting Canada. This year it is all about the main event—the 3rd Annual Conference on Securities Lending from the Canadian Securities Lending Association (CASLA), which attracted more than 160 delegates.

The conference began with Rob Chiuch of BNY Mellon giving a brief overview of the work that CASLA has done over the past year. Chiuch then welcomed incoming president and conference chair Rob Ferguson of CIBC Mellon and shared a short story on how the two first met in the 1980s when he was a junior stock loan clerk and Ferguson was working for a technology company.

Once on the podium, Ferguson spoke briefly about CASLA's response to the Financial Stability Board's Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos and went on to welcome the first panel of the day covering legal and regulatory issues.

Christopher Steeves of Fasken Martineau, Bill Young of State Street, Mike McAuley of BNY Mellon and Margaret Grottenthaler of Stikeman Elliot ran through a Canadian tax update, the EU Financial Transaction Tax (FTT) and recent developments in securities lending coupled with Canadian regulatory concerns.

Drawing delegates' attention to the FTT, McAuley called it "a very far reaching piece of legislation". Eleven EU member states have invoked enhanced cooperation to push through the tax, which has been mooted in Europe before and is already active in France and Italy.

Young said: "Noticeably absent from the 11 members was the UK, Ireland and Luxembourg who are opposed to the legislation."

The Canadian securities lending industry should take note because of issuance and residency principles. The panel went over numerous examples of how a tax set at 10 basis points would be charged on the value of the trade to both borrower and lender. Both would be "joint and severely liable", according to one panel member.

David Kaufman of Westcourt Capital moderated a panel on the hedge fund space in Canada. Panellists included Tom Sabourin of Polar Securities and Les Marton of Scotia Capital.

The panel began with the question of what a hedge fund is and looked at how it is often misunderstood and assumed to be riskier than many other forms of investment. "A hedge fund is not just a compensation model," stated Kaufman. "What separates a hedge fund from a mutual fund or other forms of funds is typically ... leverage, swaps and derivatives. [They are] used to both leverage returns and minimise risk."

Moving onto challenges and opportunities in Canada, the overwhelming theme was intellectual talent. "Prop desks are being shrunk so for hedge funds there is real talent out there to recruit," said Sabourin.

Another observation about the market was the way funds are perceived in terms of their size descriptions, Micro cap in the US is $500 million or less, but with Canada's being smaller, they would not meet this description, When asked what the average size is on entering the market, the majority of the panel felt that it is likely to be around CAD $10 to 20 million.

The global equity update was chaired by William Mascaro of Citi. Panellists included Nathalie Bockler of Societe Generale, TJ Gilligan of Markit Securities Finance and Steve Schneider of Morgan Stanley.

Tackling a number of areas ranging from volumes to opportunities beyond 2013, it was observed that volumes are steady but spreads are contracting. According to Gilligan, the long-short indicator backs this up, but he questioned whether sentiment is dropping off. "It is when supply goes un-utilised that we all lose," added Schneider. "Furthermore, from what we have seen, gross exposure is at a five year high".

The panel looked at other trends and changes in the market. Bockler has observed pension fund managers trying to take a more active role, adding that many are bringing the functions that were previously carried out by asset managers in-house.

Discussing wider trends, use of single stock futures is on the increase in Europe and the US according to the panel. Collateral flexibility and expansion have been discussed with clients, but beneficial owners need to step up and embrace them.

For the first time at CASLA's securities lending conference, delegates were treated to a fixed income panel. Charles Lesaux of RBC Capital Markets took the lead. Oscar Huettner of BondLend was among the panellists.

He spoke about global trends affecting the business and one of the main difficulties: "Record interest rate lows around the world is a major factor in making it a difficult market for fixed income guys".

There is concern that the prolonged period of soft rates will affect how people will deal with rate rises and some could be caught off guard, said the panel. There are also fewer participants in the market, while most banks are working with less leverage, resulting in decreased liquidity. The fear is that interest rates will not go up and businesses will not have the balance sheets to cope, according to the panel. **SLT**

Just around the river bend

Securities lending in Norway is bobbing along nicely—just don't mention the energy industry, as SLT finds out

GEORGINA LAVERS REPORTS

"Quite buoyant" is how David Lewis, senior vice president of Astec Analytics for SunGard's capital markets business, describes the current Norwegian market.

"We are seeing improved balances compared in the first three months of 2013 compared with the same period in 2012—up around 75 percent overall by value with fixed income activity doubling," he says, adding that the weighted average fees for the same period are down by around 20 percent.

The only downside indicated is the rise of fee levels into the dividend season, which has been steeper than the prior year. This means that fee levels are higher as Norway approaches some busy dividend trades events, says Lewis.

It was not too long ago that the country was struggling with arguably much bigger issues, with the tax and legal reforms of 2004 having both good and bad ramifications for securities lending.

Proposals were passed by the Norwegian Parliament that confirmed that securities loans would be thought of as genuine transfers of title, but this would mean extra taxation. But it was also confirmed that borrowers paying manufactured dividends now had to withhold tax due on payments.

"On the one hand, the simplification of the tax rules allowed securities lending to be deemed a transfer of legal title, but not one which triggered a capital gains tax event," explains Lewis.

"On the other, legislation was also enacted to effectively block the dividend arbitrage trade, demanding that borrowers manufacturing dividends to the beneficial owner who lent them are obliged to deduct withholding tax as if they were a resident, removing any lending advantage."

The country has made other attempts to regulate the lending sector, with the usual banning and lifting of short selling. Though the country has been less severe than others in Europe—it lifted a short selling ban in 2009 post-Lehman Brothers before Belgium and Austria did—it cracked down on four banks when they were found naked shorting in 2010.

Norway banned naked short selling in July 2010, and on uncovering the activity, charged Nordea, Fondsfinans, First Securities and Svenska Handelsbanken a small fine of around $68,000 each, for providing and performing uncovered short selling in Reservoir Exploration Technology.

"Given the result of the process and the size of the fine, we see no reason to take this any further," said a Nordea spokesman at the time. During this period there also came the monumentous market events of 2008 and 2009, which affected cash collateral pools in the country significantly.

Lewis Comments: "Prior to the market events of 2008 it was not untypical for a Norwegian fund to lend assets on a principal basis to their group borrower—a sister company who then on-lends to the market. Collateral was rarely posted as it was not deemed necessary, by some, between group companies."

Popular stocks

As for some popular stocks to borrow in the country, Lewis comments: "On looking at specific sectors in Norway, the energy equipment and services sector accounts for 10 of our top 30 stocks in the country. Others in the top 30 include a handful of oil, gas and consumable fuels shares, which together could indicate a building negative sentiment in the Norwegian energy industry."

Though the energy industry seems, on the surface, alive and well, there have been proposals that could damage faith in the world's seventh-biggest oil exporter.

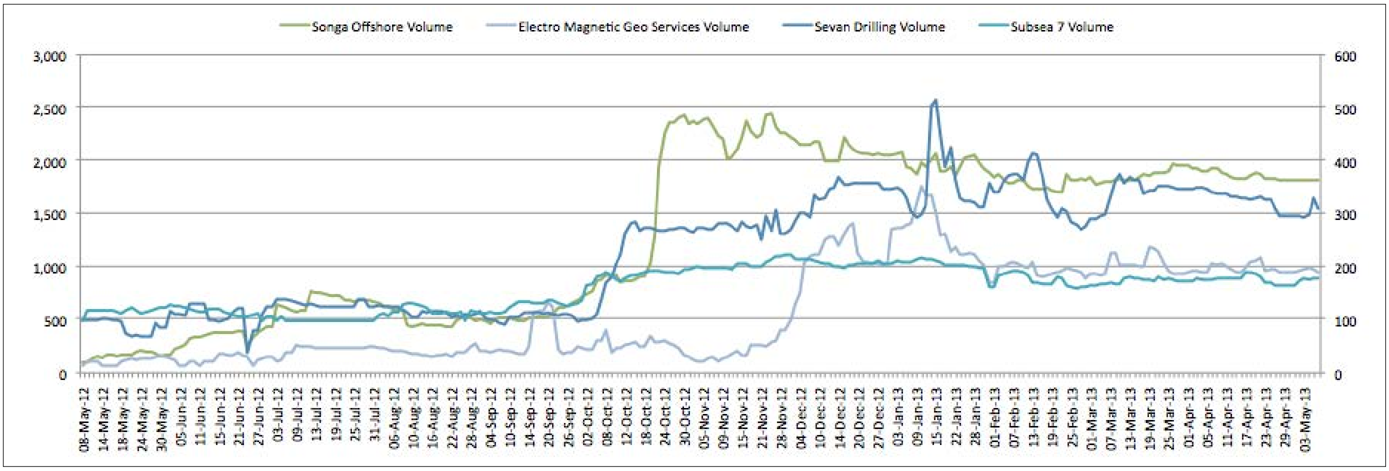
Recently, the government recommended raising taxes for the oil and gas sector from 2014, lowering them for traditional industries and closing a loophole for multinationals that move profits to lower-tax countries.

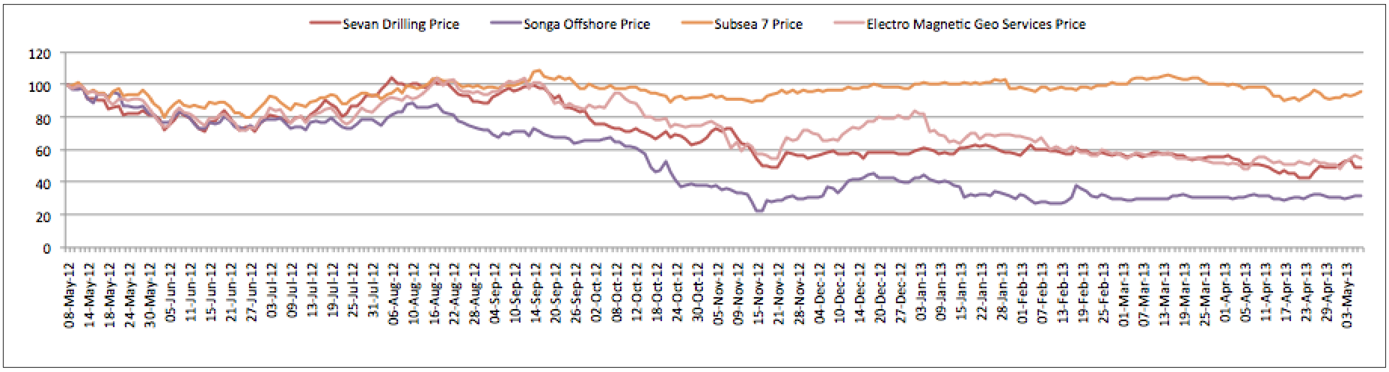
This could mean a smaller amount of investment costs that can be written off—down from 30 to 22 percent.

"We must increase the industry's cost-consciousness," Prime Minister Jens Stoltenberg told a news conference. "We see big cost overruns and the state ends up paying for most of it."

The tax rise for the oil sector will average about $520 million a year through 2050, while the corporate tax cut will lower revenues by a similar amount, the prime minister said. **SLT**

The top four shorts in Norwegian energy and equipment services





Mud and mire

A panel at SWIFT's London forum attempted to wade through the swamp of regulations affecting collateral and found very few routes through

GEORGINA LAVERS REPORTS

The SWIFT conference proved crucial to the discussion of collateral, as the response of the global regulators to the financial crisis has catapulted its management process into the spotlight. "As a result, collateral management has taken on a new and profound significance globally," SWIFT organisers declared, adding that it has led to unintended consequences, while also offering up new business opportunities on a platter.

Moderator for the session Justin Chapman—the global head of industry management for operations and technology at Northern Trust—kicked off the discussion with some facts, explaining that pre-crisis, $10 trillion of collateral was available, with a steep falloff in 2008 to $5.8 trillion.

He reiterated that derivatives regulations such as the European Markets Infrastructure Regulation and the US Dodd-Frank Act, as well as shadow banking and T+2 may drive demand for collateral up, and asked if the industry could reuse that collateral in same way as they have before in terms of rehypothecation.

Staffan Ahlner, the managing director of global collateral services for BNY Mellon, stated that one challenge people are seeing is from a macro perspective—is there enough collateral out there, and is it sitting in the right place.

Philip Brown, a member of the executive board at Clearstream, added that if the world is viewed in aggregate, then there is a collateral shortfall—but added that if it isn't viewed as such, then there isn't. He cited a study by the Dutch National Bank that sought to debunk the myth of a collateral shortage.

The global head of fixed income finance at Citi Global Markets, Greg Markouizos, said that by definition, there is not a massive collateral deficit, and that the markets would "adjust to where collateral is".

Though he admitted that at the moment, there was a lack of infrastructure to shift collateral from "have-nots to haves", Markouizos stressed that by putting in place local regulation, infrastructure will have to change—either willingly, or by imposition.

Of the buy side, Markouizo stated that serious thought will have to go into what services they will need that don't impact their investment strategy—or indeed, if they will they have to change their requirements somewhat, so they don't require as much high-grade collateral.

Jörn Tobias, vice president of agent fund trading and collateral services for State Street Bank, said that one service firms definitely needed to invest in was collateral management.

Brown added that custodians have already taken advantage of this need by expanding their offerings to middle and back office outsourcing, so stepping in and offering the buy side collateral management help is a natural step—assuming, of course, that the buyside continues to hedge, and regulations don't change.

Ahlner commented that in order to run some of these collateral operations, a heavy technology investment would come in handy, to oversee a multiple account structure.

The conversation then turned to technical standards; specifically, Article 47.3 of EMIR where the European Securities Markets Association endorses the idea that initial margins for derivatives trades be held with securities settlement systems to ensure the "full protection" of those financial instruments.

As part of the new central clearing requirements, pension funds have urged CCPs to hold their collateral in segregated accounts with a custodian bank or a central securities depository—which could force traditional custodian banks to register as CSDs if they want to keep offering segregated accounts.

"For custodian, that is clearly a concern," said Tobias. "At the moment it is just implication of guidelines, and hopefully there will be a different interpretation of that."

A panellist added that whilst the article was undeniably attractive to firms such as Euroclear, as custodians are already so highly regulated, the point of the article was passing him by.

After the panel talked around the Financial Transaction Tax, generally agreeing that it would "kill this whole industry", Chapman asked what other regulations will make collateral harder to rehypothecate, and CRD IV was named as one to watch.

In July 2011, the European Commission published proposals to apply international standards on bank capital requirements endorsed by the Basel Committee on Banking Supervision—Basel III.

The commission's proposals divide the current Capital Requirements Directive (CRD) into two legislative instruments: the Capital Requirements Regulation (the CRR) and the CRD IV Directive. The CRR contains provisions relating to the "single rule book", including the majority of the provisions relating to the Basel III prudential reforms, and the CRD IV Directive presents provisions on remuneration, enhanced governance and transparency and the introduction of buffers.

"The capital conservation buffer is designed to ensure that firms build up capital buffers outside periods of stress which can be drawn down as losses are incurred," said legal practice Norton Rose in a release. "A capital conservation buffer of 2.5 percent, comprised of CET 1, is established above the regulatory minimum capital requirement."

> By definition, there is not a massive collateral deficit—the markets will adjust to where collateral is

"The CRD IV will have a major impact," said Tobias. "The biggest finite resource is capital: at least the sell side has pretty happily capitalised over the last five years, and that is still continuing. But the capital hit will definitely affect collateral. A significant chunk of capital which is not tied into collateral management service will end up being tied up to it."

And as for advice about tweaking one's business to adapt to these upcoming changes, panellists gave the audience a few mottos to live by. Ahlner said: "If you're starting now—then you're too late," a truth echoed by others in the discussion. Brown advised that choosing the right partner for your business is critical, rather than going with a "popular" firm. Markouizos stressed that implications to business models must be considered—even if it meant rewriting investment mandates. But Tobias was more gentle on those late to the party, emphasising the difficulty of anticipating the twists and turns of the regulatory path, and that regimes would always have a little leeway.

"Clearly there will be firms out there who start late in the game because regulations have been pushed out and delayed … any regulatory regime that provides a fail-safe solution would be so restrictive it would prevent any meaningful dealing." **SLT**

Up for the challenge

David Geffen tells SLT why he decided to look past BlackRock and go it alone with the launch of his new hedge fund consultancy firm, Geffen Advisors

GEORGINA LAVERS REPORTS

How was the decision made to start Geffen Advisors?

Shortly after my departure from BlackRock, I had the opportunity to work on a hedge fund launch as an advisor. That project took place while I was beginning to consider my options for my next professional challenge. The advisory role I took on was a very positive experience and led me to explore opportunities in hedge fund consulting, among other opportunities. The more I explored this market segment, the more I was convinced that areas where I wanted to focus (treasury management, counterparty credit risk management, hedge fund launches) were not currently overcrowded, and I perceived there was room for another capable firm in each area. I became very enthusiastic about the idea.

After exploring the possibility of joining existing hedge fund advisory firms, potentially to start a new practice area, I concluded that the best route for me was to set up and lead a completely new specialist firm. I expect the hedge fund industry to continue to be robust, and I expect that hedge fund managers will look more than ever to external parties for advice and the outsourcing of functions so that they can keep their staffs lean and focus on what they do best—investing. The initial areas where I am focused are areas where I believe I can add significant value, where I know very capable people who can join me to build the business as it grows, and where I will enjoy what I am doing.

Did your Wall Street experience help in the firm's creation?

While I have had roles over the years that had tremendous amounts of infrastructure support, I have also had roles where I built completely new business groups within established firms. For me, building a business from scratch is in many ways similar to building a new business group in an established firm so I am applying those experiences to my current launch In addition, my decade of marketing to clients and prospects at Citibank, which included hedge funds, was excellent relevant experience.

While at Citibank, I also had many opportunities to work with my client base to address business challenges they faced. My time at Goldman Sachs, overseeing hedge fund credit risk and working very closely with the prime brokerage and OTC businesses, also was extremely relevant to what I will be doing as I proceed. At Goldman Sachs I collaborated with many internal business units to solve problems they faced in growing their businesses, as well as to tackle important issues for clients of the firm.

How can hedge funds manage their prime brokerage activities effectively?

Prime brokerage is complex. No matter how much you think you know, there are always additional levels of complexity to be explored. One of the most significant challenges that many hedge funds face is identifying areas in which outside expertise would provide value to their organisation. While some of the largest hedge funds have hired full-time treasurers or portfolio finance teams to focus on these issues, the number of funds that have the capacity to do this comprise a very small percentage of the overall hedge fund industry.

One of the products that will be a key component of my firm's offerings is a diagnostic review service that is targeted to firms that use prime brokers but don't have an in-house expert. As the product name implies, this will involve visiting a hedge fund, looking at the way it currently operates in this space and making recommendations on areas where it may want to improve its practices. A second challenge, even for the more sophisticated firms, is putting in place the right technology to consolidate useful information and provide for better analytics and decision making around prime brokerage activities.

Five years ago, a hedge fund would have needed to build its own technology tools to obtain and use relevant information on their desktops with some regularity, to the extent such information was even available. Thankfully, today there are very capable providers that can provide excellent information on a daily basis at less cost than the cost of building and maintaining such technology in-house. I am working closely with one such provider, HazelTree, and they have some sophisticated technology available in this realm for hedge funds.

Did the collapse of Lehman Brothers, etc make hedge funds and prime brokers reassess their relationships?

One major impact resulting from these events was that many hedge funds started to rethink who they do business with and how much credit risk they are willing to accept to any single counterparty. Certainly Lehman Brothers and MF Global, as well as Peregrine and even Refco, are all recent reminders of the importance of focusing on mitigating the credit risk inherent in a hedge fund's prime brokerage and broader trading relationships. Beyond the impact I mentioned already, many hedge funds have taken steps to investigate a broad set of options available to them to reduce counterparty credit risk, and then made thoughtful decisions about which options to implement.

Some firms now set limits on how much credit exposure is acceptable for each counterparty, actively monitor these exposures as well as the creditworthiness of the counterparties, set internal policies governing who is responsible for the monitoring and the relevant decision making, and do a deep dive from time-to-time to ensure they really understand the credit risk inherent in the PB and clearing structures they are using.

However, most hedge funds are still only doing some of this important work, either because they do not recognise its value, or they lack the expertise or the funding to do it more completely. I'm optimistic that Geffen Advisors will be well positioned to assist firms in both identifying areas for improvement and filling the gaps for some firms on an ongoing basis.

Are you seeing much of an increase in 'prime custody'?

'Prime custody' is an important option for hedge funds to consider as they investigate ways to reduce their prime brokerage counterparty risk. I believe prime custody is here to stay, but I don't believe there is widespread use of 'prime custody' models or that there has been much increase in usage recently. Why? While prime custody can work effectively for some hedge fund strategies, it doesn't work for all strategies. Additionally, prime custody is expensive, it is operationally complex, and many people still believe that prime brokers continue to do a better job processing corporate actions than custody banks. Having said all that, where a hedge fund's strategy is conducive to a prime custody solution, I always encourage the fund to explore the option to understand what is available and to determine if it is an appropriate choice for them to reduce their fund's counterparty credit risk. **SLT**

David Geffen
President
Geffen Advisors

Investing like a Baron

Take heed of the warning signs and get out while the going's good, says David Lewis of SunGard Astec Analytics (although Baron Rothschild said it first)

Sayings become sayings because they contain some proportion of truth, often based on experience or historical fact. Everyone has their favourites, but one in particular that lends itself well to market trading comes from Baron Rothschild (1840-1915) of the famous banking dynasty. There are various versions of what he said as the details have been lost in the retelling, but the gist is. "I made my fortune by selling too early". An intriguing statement from an enigmatic figure—but what exactly did he mean?

A simple maxim of any market one wishes to profit from is to buy low and sell high; while there are many more complex models and structures traded in today's financial markets, that basic premise remains the same. However, it is not that easy to call either the top or the bottom of any market. Again, the basic view is often that if you get in too late, you have missed the boat and it is certainly true that if you get out too late you can end up giving back all your gains. For instance, bear markets, on average, deliver a market correction in the region of 30 percent; clearly, this might vary significantly by individual securities, but in general indices retrench at this kind of rate.

Looking at a specific example, let's say that a share, bond or indeed pretty much any unhedged financial product demonstrates gains of 70 percent over the course of a bull market period. Logic suggests that taking a 30 percent hit when the bust comes is easily survivable. The investor would, in this example, remain ahead—but perhaps by less than one may think. A security value rising from £1 to £1.70 per unit falling back 30 percent from its peak is re-valued at £1.19, slashing the 70 percent rise down to a 19 percent return over the term of the bull market.

We don't know what Baron Rothschild would have done more than 100 years ago, but his rule would suggest that he might well have been thinking of getting out once this particular security had reached a point over £1.19. Not a stellar performance perhaps, but he would argue that it is a consistent one with lower risks. Given the fortune he amassed, I am not in a position to argue.

The unknown factor here, of course, is when to sell. Mathematically, it is simple enough as shown above: if your research shows that your target price is £1.70, then anything above £1.19 would be an outperformance over the bull and bear cycle. The extra gain over £0.19 can be maximised by pushing ever closer to the inflection point. Where should such investors look for such signals?

Bringing this proposition right up to date, social media has begun to play a part in financial investment decision making. A few years ago, Marshall Wace, a large and successful British-based hedge fund, employed data gathered from trade ideas posted on the internet to help guide its own investment decisions—a strategy that used cumulative intelligence and analysis from other investors to augment its own data to determine trading strategies and decision making.

While such resources are not available to all, whether you are on the long or short side of the market, there are other ways of identifying growing trends of positive or negative sentiment in the market—and this is where securities lending comes in.

Balfour Beatty (BBY) is a large infrastructure building company that acts globally but is based in the UK. No one would argue that construction of all types has suffered in the current economic climate, particularly if your business is heavily exposed to large capital construction projects, many of which are either delayed or even cancelled. Despite this, the share price of BBY has improved a little through the first few months of 2013, rising from £2.65 at the end of January to a high of £2.87 a month later at the end of February. However, as the red plot on Figure 1 shows, while the positive upward trend on the price advanced so did the share on loan volume. In the same period, shares on loan, used here as a proxy for short selling position taking, tripled, and by the end of April had more than tripled again.

Following the share price peaking at £2.87, some negative news about future earnings and profitability knocked the shine off the stock along with (as at the end of April) 70p or approximately 25 percent off the share price.

What is it then that the short sellers knew that the long investors did not? The answer to such a question is very hard to give, but one thing seems sure: anyone following the Baron's investment saying would have likely taken heed of the data and got out before the peak. **SLT**

David Lewis
Senior vice president, Astec Analytics
SunGard's capital markets business

Figure 1—Balfour Beatty shares on loan and closing share price

Industry appointments

After 25 years of service, **Gerry Degaute** has decided to step down as chief executive of the Royal Mail's pension trustees.

Head of funding **Chris Hogg** will take over the role at the end of May. Hogg has worked at the scheme since 2009 as part of the investment and funding team, and was involved with the pensions agreement concluded last year which resulted in the government taking on the historic liabilities of the Royal Mail Pension Plan (RMPP).

The executive of Royal Mail Pensions Trustees Limited (RMPTL) is made up of 15 members, with a mission statement of providing a service to Royal Mail Pension Plan Trustee boards that meets their requirements and enables the boards to achieve their objectives.

On top of that, it is expected that the executive should not merely be a conduit between the boards and external advisers but should add value.

Trustee chairwoman Joanna Matthews said: "[Hogg's] skills and experience will ensure a consistently high level of service to the trustee board and allow for a seamless transition."

"The trustee board would also like to thank Gerry Degaute very much for his 25 years of service to the scheme, a period that has seen many significant developments and changes to the plan, culminating in the pensions agreement last year."

Rule Financial has hired **Graeme Wood** as a principal consultant in its domain group.

Based in the London office, Wood joins Rule Financial from UBS, where he was an executive director of EMEA and head of derivative middle office risk and control.

Reporting to head of the domain group Jim Warburton, Wood will be working closely with securities finance clients to help them identify and mitigate the operational risks that arise as a consequence of implementing change for recent regulatory reforms.

Wood will also be working closely with clients to help them identify and implement process efficiencies and robust internal frameworks to address front-to-back risk and control issues.

Duncan Rawls is joining Doran Jones as managing director and chief information officer. Rawls joins Doran Jones from J.P. Morgan where he was most recently as managing director and global head of prime brokerage/equity finance technology.

In 2012, he delivered the $55 million international prime brokerage programme, one of Jamie Dimon's top three projects, resulting in dramatic growth in J.P. Morgan's EMEA and Asia prime services business with projections of global market share rising to 15 percent from 11 percent.

BOOST ETP has made a senior appointment to its sales team. **Robert Dickson** will focus on hedge fund and long only institutional clients.

Dickson has held recent senior appointments at Canaccord, where he was a sales trader and director, Chevereux as senior sales trader and Charterhouse Securities as director of UK equities.

Hector McNeil, co-CEO of BOOST ETP, said: "Dickson brings a wealth of experience in equity and sales and broking to Boost. His focus will be on institutional investors and hedge funds."

"Given short and leveraged ETFs are a relatively new innovation in Europe and we are extremely hopeful Boost can make significant in roads into these target markets."

Ashley Jarvis has resigned as global co-head of consulting for prime brokerage at Morgan Stanley.

Jarvis had been in this role for the last two years, before which he had been UBS's global head of business and capital consultancy for its prime services division. Morgan Stanley declined to comment on the move.

Andrea Angelone, a former global co-head of prime broking at J.P. Morgan, is set to leave the bank this month.

Based in London, Angelone was most recently global head of equity financing and equity treasury within J.P. Morgan's investment bank.

He is currently listed as inactive on the UK's Financial Services register, with his last activity being shown as a non-executive director at Equilend in Europe. All activities at J.P. Morgan are shown to have ended on 14 April.

J.P. Morgan restructured in December last year, integrating its equity financing and delta one businesses.

In March 2012, it announced Lou Lebedin as its global head of prime brokerage. Lebedin had been acting as J.P. Morgan's interim co-head of the unit since 2008, when J.P. Morgan bought Bear Stearns. The 54-year-old previously ran Bear Stearns's prime brokerage unit. It was announced that Angelone, who was J.P. Morgan's other interim co-head at the time, would take charge of equity treasury, with Lebedin reporting to John Horner, head of equity and fixed-income financing.

Two months after the reshuffle, the bank replaced Lebedin with Teresa Heitsenrether, who had been co-head of fixed-income prime brokerage for the last four years. J.P. Morgan had no comment on the move. **SLT**

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