SLT
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# Nokia wrings out short sellers

Short sellers of the Finnish stock entered into the market to cover their position as Nokia struck a $7.2 billion deal with Microsoft on 3 September.

Microsoft will acquire an extensive portfolio of patents for $2.2 billion and will pay $5 billion for all of Nokia's cellphone units. Nokia has struggled to gain a foothold in a smartphone market that Apple's iPhone has dominated.

It has also faced fierce competition from the manufacturers of Android devices, including Motorola Mobility, which was bought by Google in 2012 for $12.5 billion.

Demand for the stock forced the share price to rise 40 percent on 3 September, with some of this attributed to short sellers rushing into the market to cover their positions.

Data provided by Markit Securities Finance shows that Nokia stock was heavily borrowed, with 11.9 percent of its shares out on loan on 30 August, and this has fallen to 7.8 percent based on trades which settled on 10 September.

Even though short interest has come down from a high of 21 percent, the stock remains one of the most shorted in Europe, said a spokesperson at Markit.

The spokes person added that demand to borrow has been very heavy, with two-thirds of the shares that can be borrowed from lending programmes being out on loan.

"This short squeeze highlights the risk of large short positions in stocks which become 'takeover' targets," said the spokesperson.

US Discovery Capital Management, Viking Global Investors, Maverick Capital, Blue Ridge Capital and Lone Pine Capital were reported as among the biggest shortsellers of the Finnish firm's stock.

However, David Lewis of SunGard argued that the frenetic nature of a short squeeze was not apparent in this particular deal.

read**more p3**

## Olivetree selects Markit for securities finance data

Olivetree Financial Group and Markit will provide their joint customers with securities lending data through Olivetree's OTAS platform.

OTAS provides equity analytics and trading indicators that aim to help asset managers optimise their portfolio's performance and improve their execution. It is used to actively complement the investment process of global funds with more than $5 trillion in assets under management.

"The breadth, depth and accuracy of Markit's global securities finance data and analytics will enhance OTAS users' trading decisions and alert them to changes in sentiment and supply risks," said a statement.

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## SGX and Clearstream offer collateral solution

Singapore Exchange (SGX) and Clearstream are to jointly offer a collateral management solution that aims to enable customers to easily use assets held at SGX's securities depository, CDP.

Under the agreement, SGX uses Clearstream's collateral management infrastructure, the Global Liquidity Hub, and offers its Liquidity Hub global outsourcing service, to enable collateral to be allocated, optimised and substituted on a fully automated and real-time basis. Singapore's market infrastructure remains strong as the service ensures collateral remains within domestic jurisdiction.

read**more p3**

## Nokia wrings out short sellers

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"There was certainly a lot of short covering, but I'm not convinced that it was an actual squeeze in either the ordinary domestic Finnish share or the US ADR. Looking at the securities lending volumes in the Finnish stock (as a proxy for short interest), it does remain one of the highest volume borrows despite volume on loan being on steadily decreasing for many months. It has got cheaper to borrow as a result, and the level of short interest seems to have waned in a stock that had been at relatively high levels of short interest for some time."

Lewis attributed the steady decrease in short interest to improving sentiment for the stock and sector overall. The Microsoft announcement did cause what he considered a small upward movement in volume on loan and fees, more for the American depository receipt, which is higher utilised in general than the domestic line, but not enough to be termed a short squeeze.

"When the purchase was announced, there was a little flicker upwards in the volume and fee, but not very much at all. Both balance and fee levels dropped off rapidly as people closed their short positions as the price was rising on the back of the sale announcement, viewed broadly as positive news for Nokia."

## Olivetree selects Markit for securities finance data

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Charlotte Wall, head of sales and marketing, Olivetree Financial Group, said: "The ability to offer our joint customers access to Markit's securities lending data within our OTAS interface is a compelling workflow advance for clients of both Markit and Olivetree. It is a continuation of our work with best in class providers to enhance our OTAS platform".

David Carruthers, managing director and co-head of securities finance at Markit, added: "The decision by Olivetree to integrate our securities finance data within their flagship OTAS product is an endorsement of the breadth and quality of our global offering. It is consistent with our approach to provide clients with flexible delivery options that reflect their workflow requirements".

## SGX and Clearstream offer collateral solution

Continued from page 1

Muthukrishnan Ramaswami, president of SGX, said: "We are pleased to partner Clearstream in providing our customers a collateral management offering which meets their needs at a time when they are increasingly concerned about risks and regulatory changes. We will also work with Clearstream to expand this offering to other markets in the region. By becoming the first Asian securities depository to offer this service, we strengthen and enhance Singapore's position as a leading financial centre."

Jeffrey Tessler, CEO of Clearstream, said: "We are delighted to expand the Liquidity Hub GO partnership model to Singapore Exchange and to bring our unique collateral management outsourcing solution to Asia. Together with SGX, we will be able to develop a tailor-made collateral management solution for Singapore in a very short time-to-market. High quality collateral is scarce and increasingly expensive—making it available is also a top industry priority in Asia. SGX and Clearstream will soon be able to jointly address this major industry challenge for the Singapore and Asian markets."

Clearstream's Liquidity Hub GO service went live with the Brazilian central securities depository (CSD) Cetip in July 2011 and will be launched with the ASX Group, Australia, the South African CSD Strate and Spanish CSD Iberclear in the course of 2013. The Canadian CSD, CDS, has also signed a letter of intent with Clearstream.

## Lombard Risk refreshes collateral solution

Lombard Risk Management has released a new

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version of COLLINE that promises enhanced and new functionality for collateral management, clearing and regulatory demands.

The clearing module has been developed to support both house and client-clearing for direct and indirect clearers, and offers flexible functionality with rule builders to enable clients to manage their on going requirements.

The clearing functionality includes configurable cash flows; a new clearing dashboard supporting flexible views and drill-downs; and new eligibility and haircut templates, among other features.

John Wisbey, CEO of Lombard Risk, said: “Our V12.3 release is another example of how we have extended and adapted earlier versions of COLLINE functionality to support the growing and evolving needs of our clients, across bilateral, cleared and cross-product businesses.”

“This release maximises the functional configurability available to enable users to view, manage and report on, their global collateral requirements across products and CCPs, on a single platform, according to their individual business models and needs.”

## Consultants outperforming fund of hedge funds

Investment consultants oversee approximately $830 billion of the assets invested in hedge funds, a new study has revealed.

The Barclays Prime Finance study, Battle for the Middle: the Evolving Landscape and Value Proposition of FoHFs and Consultants, found that investment consultants and fund of hedge funds oversee more than $1.5 trillion of asset flow from investors to hedge fund managers.

Some $700 billion of assets go through fund of hedge funds, but their average AUM has decreased 5 percent since 2010, while investment consultants’ AUA increased 30 percent.

The investment consultant industry has a “quasi-oligopolistic market structure with one player having a particularly strong market position”, said the study.

Albourne Partners has a 35 percent share of the investment consultant market, according to the study. It has $288 billion in hedge fund AUA.

“While most oligopolies enjoy fairly strong pricing power, the pricing power of hedge fund investment consultants is constrained due to (1) Albourne’s fixed fee model, and (2) services offered by investment consultants increasingly becoming commoditised. Most top hedge fund consultants appear to be fairly similar in their hedge fund investment philosophy and approach (they do differ, however, in their organisation structure and distribution models).”

The study said that investment consultants need to “proactively address certain stumbling blocks”, including building a credible track record of making and managing investments, establishing appropriate infor-

mation barriers between the advisory and discretionary businesses, and recruiting quality talent.

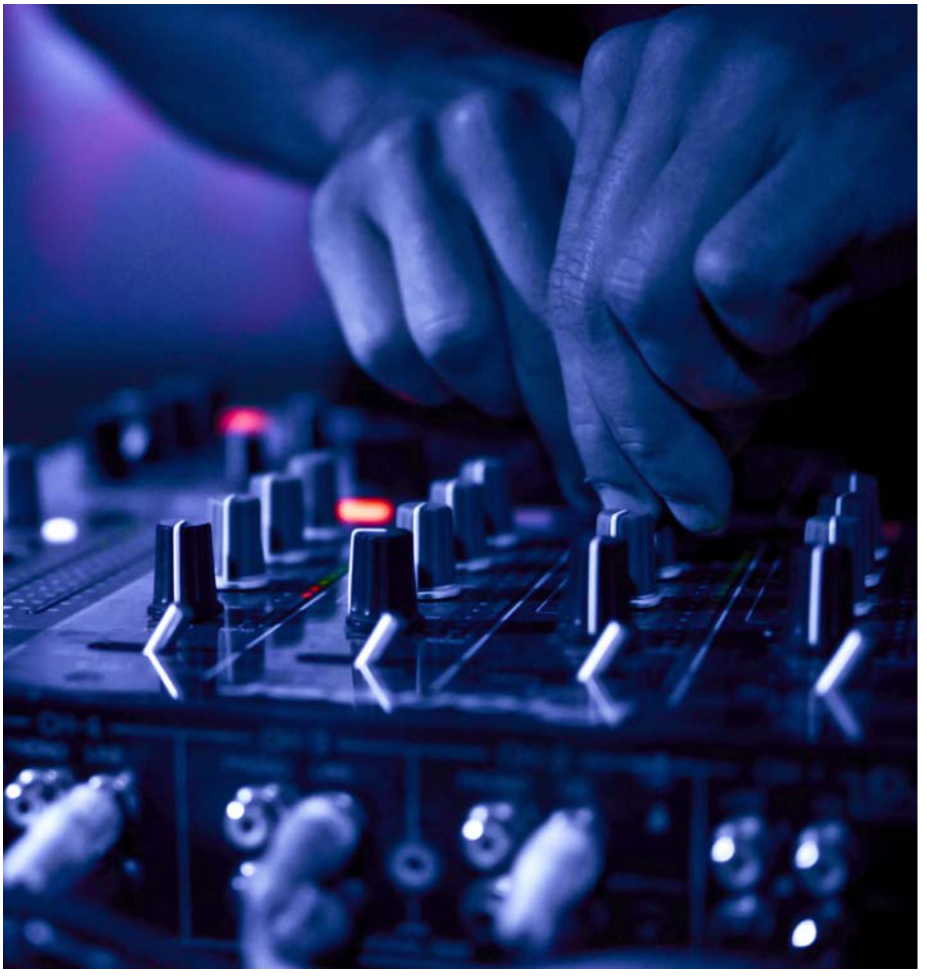
Fund of hedge funds have been "under stress for some time", according to the study. In response, they "have adopted changes on a number of fronts to stay relevant and competitive".

These include offering lower volatility and more diversification than single managers, and reducing average fees on single client vehicles, from the traditional 1/10 model to 80 basis points/5 percent.

The Barclays study added that fund of hedge funds can go further. "By our estimates, even at a 60bps/5 percent fee structure, large fund of hedge funds still can maintain relatively healthy margins (35 percent+)."

During the next 18 to 24 months, the Barclays study predicted that the investment consultant fee pool will grow 15 percent to $1.6 billion, while fund of hedge funds' will shrink 10 percent to $5 billion.

"Despite all the challenges, we expect that fund of hedge funds will not all be impacted adversely—select [entities], particularly the large ones, will fare better in the face of industry headwinds."



## BCS Prime Brokerage twiddles knobs on risk system

BCS Prime Brokerage has appointed Succession Systems to launch a pre-trade market access risk system, TripleCheck.

The system aims to delives ultra-low latency risk management for direct market access clients including proprietary and algorithmic trading firms.

Succession Systems was selected from more than 15 vendors to implement the TripleCheck system and develop custom functionality for BCS. The system is designed to fully comply with the SEC Rule 15c3-5 and the variations needed by different venues and geographies around the world.

Tim Bevan, head of international prime sales, said: "To remain at the forefront of what we do, and to continue to exceed our clients' expectations, BCS is committed to bringing innovative solutions to the market to capitalise on the growing demand for fast and efficient trade flows with Russia."

"We are currently looking to add markets, specific asset classes, client-oriented functions and liquidity services, and our appointment of Succession Systems will ensure we are able to consistently deliver cost-efficient, fast, flexible and comprehensive solutions."

Vladimir Pozdnyakov, head of risk and liquidity services, said: "BCS treats risk management systems not only as internal

broker security tool but also as a keystone for a number of unique client-oriented products which will allow our clients to benefit from more efficient risk off-setting and improved funding."

## Eurex aims for the Dutch buy side

Eurex Clearing has added another member to its interest rate swaps service, bringing the number of members up to 16.

KAS Bank NV, based in Amsterdam, is the new member of EurexOTC Clear for Interest Rate Swaps (IRS). The Dutch bank aims to execute self-clearing transactions in a first step.

"The admission of KAS Bank NV further increases the attractiveness and distribution of the EurexOTC Clear IRS service to Dutch buy-side firms," said a statement from the firm.

The service was launched in November 2012, offering integrated clearing and collateralisation of OTC transactions and listed derivatives in a single clearing house and under one legal framework.

"Eurex Clearing's members and their clients benefit from capital efficiency via portfolio margining of listed and OTC transactions alike (cross-margining) as well as a wide range of eligible collateral compared to other CCPs," continued the statement.

"There are also a variety of segregation solutions, including an individual clearing model that offers maximum protection of client assets and full portability of their positions and collateral."

## BondLend see record trading for the summer

BondLend, the fixed income securities finance trading platform, experienced record trading by volume and value across June, July and August 2013.

A total of 172,100 fixed income trades were made via BondLend across the three months, at a value of $316 billion.

That compares to 134,328 fixed income trades at a value of $188 billion in June, July and August 2012.

In the rolling 12 months to August 2013, a total of 601,778 trades at a value of $1 trillion had been made via BondLend, another record for the platform.

Brian Lamb, CEO of EquiLend, said: "BondLend continues to hit historic milestones as the client base continues to grow, particularly in Europe and the United States. I am very pleased with the progress our sales team continues to make and am particularly excited about the future prospects for BondLend's growth into the US Treasury and sovereign space."

BondLend launched in 2010 and aims to provide clients with a single point of access to the global securities financing community for the fixed income and repo markets.

## Clearstream's GSF inches up

Clearstream released its August figures, which slowed a slight rise in securities financing services year-on-year.

For global securities financing (GSF) services, the monthly average outstanding reached €562.5 billion. The combined services, which include tri-party repo, securities lending and collateral management, collectively experienced an increase of 1 percent over August 2012 (€557.7 billion).

The value of assets under custody held on behalf of customers registered an increase of 4 percent to €11.6 trillion.

Securities held under custody in Clearstream's international business increased by 2 percent from €6 trillion in August 2012 to €6.1 trillion in August 2013, while domestic German securities held under custody increased by 6 percent from €5.1 trillion in August 2012 to €5.4 trillion in August 2013.

In August 2013, 3.1 million international settlement transactions were processed, a 3 percent decrease over August 2012 (3.2 million). Of all international transactions, 83 percent were OTC transactions and 17 percent were registered as stock exchange transactions.

In investment funds services (IFS), 0.61 million transactions were processed, a 3 percent increase over August 2012 (0.59 million).

## FSB addresses comments on lending

In November 2012, the Financial Stability Board (FSB) published its consultative document, A Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos, identifying the financial stability issues (or shadow banking risks) in securities lending and repo markets, and set out 13 policy recommendations to address such risks.

These included: improvements in regulatory reporting and market transparency; regulation of securities financing, as well as policy recommendations related to structural aspects of the securities financing markets such as central clearing.

The FSB also invited views on the possible introduction of a framework for numerical haircut floors for certain securities financing transactions, which are intended to limit the extent to which financial entities, including non-banks, can use securities financing transactions to obtain leverage.

Consultation responses generally agreed with the analysis of the FSB but cautioned against possible negative impacts and unintended consequences on repo and securities lending markets that function as the core funding market for financial institutions and promote price discovery for other related markets.

"The FSB has endeavoured to ensure that its recommendations minimise the risk of regulatory arbitrage as well as undue distortion of markets, and are consistent with other international regulatory initiatives," said a statement.

In particular, the board launched an impact assessment in April to assess the potential impact and unintended consequences associated with its recommendations on minimum haircut methodology standards and numerical haircut floors.

As well as this, a new FSB data experts group on securities financing markets has been established to develop proposed standards and processes for data collection and aggregation at the global level to ensure consistent data collection by national/regional authorities by the end of 2014.

## Ramped up collateral at Bank of Russia

The value of securities used as collateral for the Bank of Russia's OTC repo transactions as of 4 September 2013 is more than RUB 120 billion.

The National Settlement Depository (NSD) provides collateral management services for the Bank of Russia.

Since the launch of the service, over 1000 transactions have been held, and more than 110 banks have joined the system.

On 15 April, NSD together with the Bank of Russia and Bloomberg began providing services allowing commercial banks to conclude the Bank of Russia's repo transactions with a basket of securities.

As part of servicing these transactions, NSD provides collateral management services, clearing services and securities and cash settlement services to market participants.

The collateral management system created by the Bank of Russia and NSD allows for the selection of securities used as collateral for repo transactions automatically, to assess them regularly, to submit and pay margins, and to replace collateral securities.

Owing to these features of the Bank of Russia's repo transactions, the banks can increase their asset management efficiency and decrease costs associated with the receipt of the Bank of Russia's liquidity.

## OCC's lending CCP sees rise in loans

The Options Clearing Corporation (OCC) celebrated a slight rise in the number of contracts cleared, with total volume in August reaching 326,697,656 contracts.

This was a 4 percent increase from the August 2012 volume of 313,781,757 contracts.

OCC's year-to-date total cleared contract volume is up 3 percent from 2012.

OCC's securities lending central counterparty activities saw a 21 percent increase in new loans from August 2012 with 111,786 transactions last month.

Year-to-date stock loan activity is up 30 percent from 2012 with 873,414 new loan transactions in 2013. The average daily loan value at OCC in August was $60,482,388,417.

Exchange-listed options trading volume reached 321,976,044 contracts in August, a 4 percent increase from the August 2012 volume of 310,936,920 contracts.

Average daily options trading volume for the month came in at 14,635,274 contracts, 8 percent higher than August of last year. Year-to-date options trading volume is up 2 percent from 2012 with 2,758,963,425 contracts.

Futures cleared by OCC reached 4,721,612 contracts in August, up 66 percent from the August 2012 volume of 2,844,837 contracts. OCC cleared an average of 214,619 futures contracts per day last month, 74 percent higher than August 2012.

OCC's year-to-date total cleared futures volume is up 73 percent from 2012 with 38,928,578 contracts.

## OneChicago take advantage of deep pools

Equity finance exchange OneChicago announced that August equity futures volume was up 45 percent year-on-year.

"Our efforts to introduce the managed futures markets to the deep liquidity pools in the equity markets continue to pay off," said David Downey, CEO at OneChicago.

"Customers looking to carry equity exposure synthetically via the security futures are benefitting from the competitive interest rates provided by the equity financing desks."

Open interest stood at 623,762 contracts on the equity finance exchange at close-of-market, 30 August 2013, up 19 percent year-on-year.

Some 598,646 exchange futures for physicals (EFPs) and blocks were traded. August 2013 EFPs and blocks activity represented \$2.9 billion in notional value.

Sixty percent of August 2013 month-end open interest was in OCX.NoDivRisk products. The OCX.NoDivRisk product suite is an equity finance tool that removes dividend risk for customers carrying equity delta exposure through derivatives.

## Deflated August volume at Eurex

In August 2013, the international derivatives markets of Eurex Group recorded an average daily volume of 6.6 million contracts, a drop from the 7.2 million seen year-on-year.

Of those, 4.5 million were Eurex Exchange contracts (August 2012: 5.1 million), and 2.1 million contracts (August 2012: 2.1 million) were traded at the US-based International Securities Exchange (ISE). In total, 98.9 million contracts were traded at Eurex Exchange and 46.4 million at ISE.

At Eurex Exchange, the equity index derivatives segment totaled 44.1 million contracts (August 2012: 56.8 million). The future on the EURO STOXX 50 Index recorded 16.7 million contracts.

The options on this blue chip index totalled 17.2 million contracts. Futures on the DAX index recorded 1.9 million contracts while the DAX options reached another 3.0 million contracts. The Eurex KOSPI Product recorded 1.8 million contracts (August 2012: 1.8 million).

Eurex Repo, which operates Swiss Franc Repo, Euro Repo and GC Pooling markets, reported in August 2013 for all Eurex Repo markets an average outstanding volume of €218.7 billion, a drop of nearly €10 billion year-on-year.

# MXCorner

## An independent perspective

It can be difficult to understand the opportunities and risks in the securities lending market. The market is facing an unprecedented time of change with evolving regulation, changing borrower behaviour and appetite. It is critical to the ongoing success of lending activity that the beneficial owner is able to understand the changing landscape and consider how its business model and approach may need to change to maintain profitability.

The IMN's European Beneficial Owners' Securities Lending conference in London goes a long way to helping, but every beneficial owner is different and they will have their own issues to consider, as well as their own nuances, and their own regulatory change challenges. Predicting the future landscape and ensuring you are best positioned to optimise opportunities can be complex and confusing.

Many rely on their agent lenders to advise, and it must be said that agent lenders are generally excellent at this. However, sometimes independent help and opinion is needed, especially when the regulatory change isn't just affecting demand for securities lending, but also the agent lenders, which provide market access and expertise to beneficial owners.

As an example, the IMN conference has a panel session discussing the economic viability of securities lending going forward, and while I have no doubt that it will remain viable, it is clear that the economic model will change. Trade types and structures will change and with it the types of portfolio that are most attractive to the market.

However, other changes will affect the economic model too: with agent lenders facing capital restrictions, the future of lender indemnities, in their current form, is already being scrutinised. How to continue lending with either no indemnity or a significantly reduced one will be a fundamental concern for many beneficial owners and it puts them in a potentially conflicting position to their agent lenders. Understanding the drivers behind the agent lender decisions, how this changes their risk profiles and the potential options available both from their agents and the market more broadly, will be key to beneficial owners continuing in and maximising their lending activity.

At MX Consulting Services, we are confident we can help. Specialising in securities finance, our consultants are all ex-practitioners and so have a unique insight into the challenges and drivers that the industry faces. Whether it is a strategic review of activity or simply a tactical review of one particular aspect of a programme, MXCS works alongside beneficial owners to define risk appetites, review activity and prepare for the future to ensure they are well positioned to maximise future opportunities.

**Sarah Nicholson**
Senior partner
MX Consulting Services

# Behind the scenes

## Matthew Harrison and SLT look back on the creation of his technology firm Trading Apps—and address lethargic change in the sector

GEORGINA LAVERS REPORTS

### What's the background behind Trading Apps?

I have now worked for a total of 23 years in securities finance IT (Lehman Brothers, Credit Suisse, and Deutsche Bank). In 1996, I was the CEO of RTFM Ltd, which developed a securities finance system called Martini, which I then sold to SunGard in 2004. Many institutions still use Martini or its rebranded version, which has been known as Apex since 2008. Martini was an enterprise proven, global multi-asset system that was designed to do what I now consider as the core functions in securities finance—trade entry, position keeping, and feeding to settlement systems, and it had a very similar functionality to the other major vendor systems: Global One, 4sight, Anvil, and Loanet.

After selling the company, I had three years away from the securities finance business, working, with the intention of taking my technology skills into other industries with similar characteristics, but missed the dynamic pace of the financial services industry, when compared to other traditional industries.

I came back into the market in 2008, working on a part time basis for IT consulting firm Rule Financial, assisting the securities finance practice and also as board director. As a consultant I found it much easier to engage with my previous customers and discuss what was happening in the markets.

Having had three years off, I expected to find the technology and business had progressed in what they were looking for. In hindsight, I probably shouldn't have been surprised to find that very little had changed!

When talking to the front office, they were concerned about the same problems that they had eight years prior (in many cases 20 years prior). People who had older systems hadn't taken the opportunity to build out or replace them, which struck me as interesting.

In 2009, my ex-colleague at Martini, Jeff Lloyd, who is now the chief technology officer of Trading Apps, contacted me.

Jeff is a true 'garage engineer', and always tinkering with software. In his spare time and using his experience installing Martini for 10 years, he had written a set of software to build applications (at Trading Apps, we call it GLASS). I wasn't attracted straightaway, but after he went to work with a German investment bank and built the desk a new position screen using his software in such a short time frame, I became interested. At this point, I helped him to commercialise the product.

Three months later, he contacted me again to say that the bank would like to buy another IT solution, this time to create and send daily push lists. It was at this point that I got the idea of creating apps that solve specific problems and that can sit on top of existing systems. The front office can get the tools they need without the usual method of ripping out an old system and installing a new system (which ends up at the same place—except years later and millions poorer).

So what we needed was ideas for apps from real market experts. Fortunately, at precisely this time I was contacted by Jean-Paul Musicco, who had been global head of securities finance at Deutsche Bank and had just left his position as head of desk finance at SAC Capital.

So we formed an equal partnership with Jeff providing the IT skills, Jean-Paul the business ideas, and me translating between IT and business speak in the middle. Roy Zimmerhansl also joined us for a time to provide further exceptional business knowledge.

That was the foundation of Trading Apps, which officially launched in 2011. It is a very different beast to Martini, in which you either bought the whole system or nothing al all. With Trading Apps, on the other hand, you can pick which functional gaps you would like filled by our apps. We have apps for investment banks, agent lenders and hedge funds.

By providing solutions that can sit on top of existing systems we offer a much more cost effective approach to providing the front office with effective tools.

The other vendors and in-house IT staff tend to want to reinvent the wheel. They take out old technology, and put in a new system that will give you some slightly better technology but often pretty much the same functionality. This is always offered as the 'stepping stone' to providing the tools being asked for by the desk. Unfortunately, years later and millions in the red, the new tools usually never materialise because other priorities take over.

One of the biggest changes I have seen over the last 20 years has been the shift from a small team of developers often sitting on the trading desk and directly accountable to that desk, to a centralised IT structure where the IT department might not report to the investment bank management at all, but instead to a group level operational report. This has led to a focus on operational and compliance issues to the detriment of the revenue producers. It has also led to a massive increase in red tape.

Trading Apps's approach is to say, leave the core systems as they are and if necessary, make peripheral changes to hardware to increase performance. There may have been tens of millions of dollars put into the existing system, so there is no point removing it. Instead, we will put the front office functionality you need on top of it.

This is exactly what we did at a major agent lender. They had Global One as their core processing system and various sources of third party data and market information, only accessible via different screens. We wrote a suite of apps to sit on top of Global One, which gave a completely new way of trading. Our solution has proved to be much more automated and more focussed on generating revenue out of their current portfolio with their counterparts. That has proved to be very successful, with the idea of putting Trading Apps on top of existing infrastructures definitely resonating with the front office guys, who ultimately have to foot the bill for all of the IT costs, so they are delighted to see a tangible return on their investment as well as in a much shorter time frame to production.

Whether this is the start of the revolution to revitalise the front office, we'll have to wait and see.

## Given that sales is based on maintaining relationships, do you follow IT individuals as they move from bank to bank?

We do get referrals from people who have moved on, but we are not aggressive from a traditional IT salespersons' point of view. We have more than enough interest from people who have heard of us through word of mouth. If we make our customers happy, they spread the word. We currently sell to three types of clients: agent lenders, investment banks and hedge funds. Between those three we have a large potential customer base. In the future, we will also be building solutions for beneficial owners such as asset managers or pension funds.

Especially from the agent lender and the investment banking customer base, the business can be divided many different ways depending on the structure of how a firm manages their clients, regional reporting lines, not too mention their products. International securities finance desks can include both cash and swap products, which can include a European/UK trading location as well as various Asian trading hubs. Then you have the high volume US equity business that has totally different demands on the systems. Fixed income financing desks can also include corporates, treasury, and collateral management, so where there are probably around 200 reasonable size financial institutions active in securities finance around the world, you can then multiple that by five or six times and they can all be different customers of ours. From the hedge fund perspective, again there are hundreds of reasonably sized institutions that consider desk finance in one way or another.

We are talking to a bank at the moment where we are in discussions with the US equity desk, the London fixed income desk and the agent lending desk all independently and for different apps. Unlike Martini, which was often considered as a 'strategic' purchase requiring many layers of authorisation, our apps have a pay back for the initial investment in less than a year, sometimes in as little as three months, so they can be purchased as a 'tactical' solution that provide an immediate impact to your current fiscal year.

## You mentioned that a front office had problems with position screens and triparty. What were other specifics that they wanted to change?

The big thing we're moving to now is pre-trade, and this is resonating well with the market. Pre-trade means all the negotiating activity that happens before a trade is booked.

Martini started from trade entry, and in our arrogance had many checks and balances in the trade entry forbidding this and that. It then dawned on me that the trader had already agreed the trade with the other side, so what was the point of all this validation after the trade had been agreed?

What would they do if they found out they couldn't do it? They would have to go back to the counterpart, eat humble pie and say they can't book this trade, which is not ideal.

One of the more significant changes that has occurred in the industry over the past ten years, is the ability to handle mass transactions via an AutoBorrow process for the general collateral priced transactions. EquiLend's AutoBorrow process handles an awful lot of transactions daily that are now booked automatically and require minimal trader interaction. We are actually working with EquiLend to build adaptors into their T2O product for both the borrower and lender. This will give seamless integration of T2O into the banks own systems, which has been the biggest barrier to using T2O since its launch some years ago for negotiating mid-tier and hard to borrow securities.

Outside of AutoBorrow though, the market works on Bloomberg and email. The traders are emailing transaction requests all day; sometimes sending Excel lists attached to them.

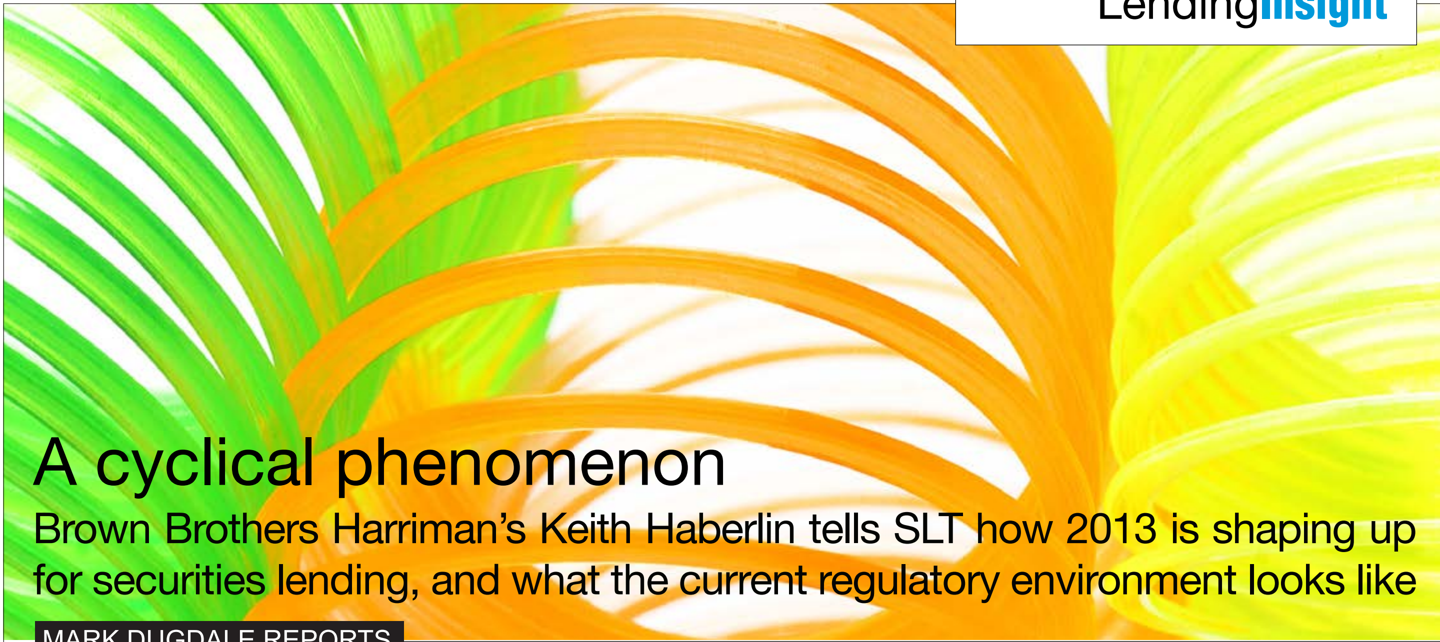
If you take, for example, an agent lender such as BNY Mellon, as a lender you are receiving requests to borrow securities all the time, and these are coming in via Bloomberg and email into the desks. These were processed manually.

What we've written is a tool that automatically reads these Bloombergs and emails, with no particular format that they have to be in.

It looks for any security ID, quantity, start date and end date, and creates a pre-trade record or a borrow request record. We then take that request record and compare it to their availability and also a set of validation rules—which is what the trader would have had to do manually—and then we present it to the trader: "You've just received this request, this is the availability you have: what action would you like to take?" They can then simply accept or reject it, or better yet, counter with another rate. After this, an automatic message is sent back through the same Bloomberg email channel back to the broker/borrower to say they've either accepted or haven't.

All of that process was manual from an agent/lender and borrower perspective. I see this as a big change in the market. Ultimately the process can become more of a black box, whereby it can automatically respond to the borrower request. It is an exciting area to be working in and I am really enjoying the challenges that our new approach presents. **SLT**

**Matthew Harrison**
CEO
Trading Apps



# A cyclical phenomenon

## Brown Brothers Harriman's Keith Haberlin tells SLT how 2013 is shaping up for securities lending, and what the current regulatory environment looks like

MARK DUGDALE REPORTS

**How is 2013 shaping up in terms of securities lending revenues and what impact will changes to monetary policy have on demand?**

Two thousand and thirteen will have been a challenging year for many investors as tax harmonisation starts to bite into revenues; the number of specials has been limited; and the reinvestment environment has offered limited opportunity.

However, we are firmly of the belief that these are cyclical factors. Uncertainty over monetary policy, in particular, has been hampering conviction in the hedge fund and M&A strategies, that drive borrowing demand. But as monetary policy becomes clearer, we should see less distortion in both interest rates and equity valuations and this will bring back the type of confidence, volatility and risk in the market that drive borrowing demand.

**We have seen some recent clarity in the regulatory environment. Which rules and proposals deserve focus right now and what will they mean for agent lenders?**

It's very difficult to single out any specific rule as there are so many that have some form of impact on securities lending. So, it's really the cumulative impact of all of the regulations that we have to consider.

While it is too early to predict their full extent, Basel III, US Dodd-Frank Act Section 165(e), the Financial Stability Board's shadow banking rules, and the EU Financial Transaction Tax, will in all probability have an impact on the profitability of the securities lending business for agent lenders and borrowers by virtue of higher utlisation of both capital and credit lines and potentially a greater tax burden too.

In light of this, we expect entities across the supply chain to place even greater focus on prioritising resources towards higher-margin activity and clients. In such an environment, we believe intrinsic value lending will remain resilient at the expense of lower margin general collateral lending and there will likely be changes to how indemnification is currently offered given the increased amount of capital it will attract.

**How would you respond to concerns over whether securities lending is worth doing given the twin challenges of regulatory burdens and muted demand?**

Front and centre of any strategic evaluation of lending must be the cyclical nature of the current demand and regulatory environment. It would therefore be a mistake, in my opinion, to make decisions right now about a product that should be viewed as a long-term investment overlay. If done correctly, securities lending is an activity that adds basis point returns to funds year after year, and with limited risk and effort. In addition to the positive impact that a more normalised interest rate and investing environment should have on demand, it's also important to note the secular growth that is continuing to occur in hedge fund assets under management. The fact that hedge funds and alternatives are becoming more mainstream bodes well for borrowing demand over the long term.

**How do you think BBH is positioned once the dust has settled on key regulations?**

I feel more confident than ever about BBH's position in the industry for a couple of key reasons. Firstly, I believe the shift to intrinsic value lending is likely here to stay because the profitability of general collateral lending stands to be most negatively affected by the cumulative impact of tax and regulatory change. So as an intrinsic value lending specialist since inception, we're well positioned to help clients execute upon that strategy.

Secondly, I think the impact of regulations will cause a certain amount of disruption to traditional securities lending arrangements. Clients will continue to push for greater levels of transparency, customisation and service, so I think there's opportunity for providers like us who are nimble of enough to meet these and are strategically committed to agency lending and prepared to continue investing in it. It's an exciting time to be part of the securities lending business at BBH.

**On a more personal note, you moved back to the US earlier this year. How are you enjoying it?**

I'm thoroughly enjoying it. It's helped that my family and I lived here before, so we knew what to expect and have settled in well. Of course, I miss aspects of living in the UK. But fortunately the job allows me the opportunity to return often so I can catch up with friends, family and have a decent curry! From a professional perspective, I now have the benefit of being in the head office but with a global remit, which helps to ensure we have an eye on the differing needs of our global client base. **SLT**

**Keith Haberlin**
Global securities lending co-product head
Brown Brothers Harriman

# All clear

## Gerard Denham of Eurex Clearing explores the core functions of a CCP that give key advantages for participants within the securities lending value chain

A central counterparty (CCP) plays an important role in the global effort to maintain stability in financial markets. At Eurex Clearing, we recognise our responsibility to help mitigate systemic risks in the overall marketplace. We manage financial crises effectively, not least because we have robust procedures in place to deal with a clearing member default and are prepared to act when the need arises. We maintain our readiness to act in these situations by continuously enhancing our risk management techniques and introducing innovative product offerings that increase the safety and reliability of the markets served.

Eurex Clearing ranks as one of the largest clearinghouses globally, offering fully automated, straight-through CCP and post-trade services for derivatives, equities, bonds, secured funding, securities financing and energy transactions. In November last year, our CCP service for the securities lending market was launched. The lending CCP covers international fixed income assets and European equities as well as exchange-traded funds. It preserves the key features of the current bilateral market for both lending and borrowing counterparties while being able to deliver significant operational efficiencies and cost reductions to all market participants.

### Increased profitability for beneficial owners

One of the core indicators that beneficial owners use to determine which borrowing counterparts are permitted to engage in their lending programmes is the use of counterparty credit ratings. This observing process, employed by their agent lenders, is a continuous task for the agent lender to monitor and update the risk profile for each borrower and can be a complex and drawn out process. The end result is that a limited number of borrowers can only be allowed to participate in a beneficial owner's lending programme.

This can be overcome with the credit intermediation as delivered by Eurex Clearing's lending CCP. By applying strict membership and margining rules, the CCP is in a position to mitigate the respective counterparty risks efficiently without adding further risk to the overall financial system.

This enables the beneficial owner to open up

to a wider range of borrower counterparts. Additionally, all of the multiple bilateral legal agreements would be replaced by one single agreement with the CCP.

In a nutshell, the lending CCP effectively protects the beneficial owner from the risk of the borrower defaulting and saves the beneficial owner and agent lender a lot of operational burden.

And, a wider range of borrowers transacting with the beneficial owners increases volumes, utilisation rates and ultimately profitability for their securities lending activity.

A further innovation is Eurex Clearing's pioneering specific lender licence, by which beneficial owners have direct access to the lending CCP. They can participate as CCP members by using a non-cash collateral pledge model, and they will not have any margin obligations towards the CCP, nor will they contribute to the clearing fund. As the CCP is able to adopt their existing bilaterally agreed collateral eligibility schedules, which are maintained by agent lenders and managed by triparty collateral agents, the beneficial owners are able to tap into the benefits of the lending CCP without any changes to their existing relationship or setup.

## Enhanced efficiencies for agent lenders

There are a number of aspects that highlight the vital role that agent lenders play in the securities lending value chain. Firstly, bringing the supply to the market via their beneficial owners and providing the expertise, market contacts and infrastructure available on behalf of its client base.

Two of the key areas in which agent lenders can make significant cost savings and efficiencies for their clients are in the provision of indemnification and also an increase in their beneficial owners' utilisation rates.

The lending CCP acts as a credit intermediary and takes over the counterparty risk. It guarantees the return of the loan securities and the collateral backed by a highly sophisticated and stringent margining regime and its lines of defence. This releases the agent lender from the need to offer indemnifications to beneficial owners—a very important aspect given the currently discussed capital cost increases enforced by regulators around the globe.

Additionally, a key aspect is improving utilisation of the beneficial owners' lending programmes. There are numerous funds or types of beneficial owners (eg, sovereign wealth funds) that can not be approved by borrowers, either from a legal or credit perspective, or the complex and time consuming nature of the approval process. With the lending CCP acting as the central counterparty, a wider range of lending participants are made available to the borrowers—thus increasing the utilisation and profitability for beneficial owners as well as their agent lenders.

## Capital cost savings for borrowers

In addition to the increase in the liquidity for the market, there are a number of features that borrowers are able to benefit from when using the lending CCP. Globally, banks are now facing the very real demands of capital regulatory directives and liquidity capital ratios. Banks' risk weighted averages are being pressured by the type and level of activities that they are currently engaged in. Under existing Basel II regulations, there is a 0 percent risk weighting for transactions cleared via a CCP. When new Basel III regulations begin to take effect, the existing OTC transactions will face much higher stringent capital charges than the 2 percent charge that will be applicable for exposures towards a CCP. This enables borrowers, by making use of centrally cleared transactions, to free-up capital currently used for securities lending transactions and optimise their use of capital across other business lines.

## Sophisticated risk and collateral management

One of the core functions of a CCP is to minimise counterparty risks and credit exposures for individual market participants. For the securities lending market, the lending CCP reduces the potential secondary effects of the failure of a major counterparty as the impact is mitigated and absorbed by the CCP's default protections.

As part of the service, Eurex Clearing's lending CCP—after novation—becomes the guarantor of the loan and collateral securities and as such is offering protection from counterparty default. Securities lending transactions are incorporated into Eurex Clearing's risk management methodology, which provides a robust and safe environment leading to an overall reduction in systemic risk for the market. The lending CCP undertakes near-time intraday risk calculations to ensure coverage of mark-to-market exposure, and in case of collateral shortfalls, intraday margin calls are initiated.

Also included in the offering are the services of triparty collateral agents. These specialist service providers are connected to the lending CCP in order to manage the collateralisation process for non-cash collateral on behalf of counterparties. This enables users of those triparty collateral agents to optimise their collateral usage to a further extent by adding CCP-novated loans. A wide range of equity and fixed income securities is accepted as loan collateral by Eurex Clearing, while the beneficial owner can still define its own collateral eligibility (as a subset of the CCP's collateral universe). The lender can re-use the non-cash collateral securities received according to the rules and regulations of the triparty collateral agent and the borrower still has the ability to substitute collateral.

## Comprehensive advantages for the customers of the lending CCP

Besides risk mitigation, Eurex Clearing's main objective is to reduce the post-trade complexity, through its integrated trade and position management process, the lending CCP delivers enhanced functionality for trade capture, loan management, billing and reporting services.

Increased operational efficiency is realised through the automated flows between the trade capture, clearing and settlement platforms that the lending CCP includes. In particular, links to leading service providers for the securities lending market have been incorporated with triparty collateral agents, electronic trading markets and real-time post-trade automation service providers.

The lending CCP is instrumental in achieving a strong and robust securities lending franchise and facilitates through its innovative and pioneering development a cost-effective structure to improve and optimise securities lending activity through:

- Enhanced efficiency and safety for the entire market place;
- An increase in supply to the market, improving liquidity;
- Standardised and transparent risk and collateral management methods;
- Improved efficiencies on trading and operations of securities lending transactions;
- Reduction of the overall legal and documentation workload;
- Integrated cross-product service offering, allowing for the netting of regulatory capital across all cleared products;
- Collateral efficiency—a wide range of customised choice on collateral eligibility paired with re-use capabilities; and
- Capital efficiency—0 percent weighting under Basel II, 2 percent weighting under Basel III.

The lending CCP has been developed to meet the new demands of the securities financing markets, further reducing credit and systemic risk and further increasing operational efficiencies while maintaining important bilateral market characteristics.

As we fulfill the ongoing commitment of safeguarding the marketplace, we continue to play an important role in helping the financial markets deliver their full economic benefits, thereby ensuring that our customers are always in a position to be clear to trade. **SLT**

**Gerard Denham**
Clearing business relations responsible for securities lending
Eurex Clearing

# Painting flowers

## Paul Fleming reveals how State Street's enhanced custody business compares to the bank's agency lending programme. SLT hears him out

GEORGINA LAVERS REPORTS

### Could you explain State Street's enhanced custody and how it differs from traditional prime brokerage?

Much like conventional prime brokerage, we provide financing and securities lending direct to the end users. This is different from our agency securities lending programme, in which we lend through the intermediaries or the other prime brokers to, and ultimately onto, the end users.

We have a direct financing and securities lending relationship with our customers, who are—in many cases—similar to the customers of all the other major prime brokers.

In many ways the product is similar, in the sense that what we are able to offer the customers a financing product that is similar to what they will get from one of the investment banks.

However, we do the financing and securities lending within the enhanced custody business, within the context of a custodial account. So the fund deals with the bank directly and they finance their portfolio out of their custodial account.

We lend securities into their custodial account, which is a little bit different from dealing with a broker-dealer and utilising a margin account. The assets are ring-fenced and the customer has full transparency into the account at all time because it is, in fact, a custodial account.

### How does rehypothecation play into this difference?

The way in which we use rehypothecation is different to the traditional model. We have to finance the customer's assets and there are a couple of ways we can do that.

Firstly, the customer can participate in our agency securities lending programme. That is a programme we refer to as self-financing; they can finance their borrows by lending in our agency programme. Rather than invest the cash proceeds in a collateral vehicle, they can use those cash proceeds to borrow securities from us.

They can also pledge their assets in a custodial account and we can use the liquidity on our balance sheet to support the transaction. Our customers value the liquidity on our balance sheet, particularly in times of market stress.

Our options differ from what I think of as a conventional margin account at a broker-dealer: where a customer puts their assets in the broker-dealer's name and the broker-dealer, in turn, rehypothecates those assets. The customer can use their assets to finance their borrows with us, but it's all done in and out of their custodial account.

### How does the enhanced custody lending business compare to the agency lending business at State Street?

Ultimately it rolls up into common management here at the bank, but it is a totally separate business. We are a top ten borrower from our agency's securities lending programme but it is a different business.

Our customers view this product as a complement to prime brokerage. There are many things that the investment banks offer that we don't and we offer a unique financing value proposition that is unrivaled.

Most funds today multi-primes and there are a lot of good reasons why they decided to use some of the different investment banks for prime brokerage services.

We are trying to be the fund's custodian, administrator, and alternative financing provider. We try to keep it simple and leverage what is good about State Street, and offer that to the alternatives community. We interact with the agency lending programme just like any other counterparty would.

### How have you seen the dynamic change between fund managers?

My perception is that investors are asking for a lot more transparency. Reporting requirements continue to get more complex over time, and there are more boxes to check. Clearly around the world we have a more active regulatory community, so all of this is making life more complicated for managers and driving up administrative costs. As a custodian and an administrator dealing with these issues is our bread and butter. To me, the problems are making the fit—particularly between those in the hedge fund space and the services we can provide as State Street—make more and more sense.

### A State Street report describes enhanced custody as providing solutions for hedged mutual funds. Is this a typical client for you?

Today our customers break down as 60 percent hedge, and the remaining 40 pretty evenly split between institutions—public funds here in the US, endowments, etc—and mutual funds.

Mutual funds—institutional investors who act under a '40 Act structure—are, from what I see, beginning to have more traction in the alternatives space. Because of our market share in the servicing business with mutual funds in particular, the relationships we have, and some of the operational efficiencies we can provide by allowing a mutual fund to do its financing and securities borrowing here within our custodial account, we are excited about the growth opportunities in that space.

We have seen a handful of launches over the last couple of years and some traction, like I said, with some of the customers, and that is a fast growing customer sub-segment in the mutual fund space.

### How has the US Dodd-Frank Act/ Basel III affected the business?

Some of the issues relating to Basel III such as the leverage ratio are going to be a top consideration for us as well as everyone else. If anything, in regards to Dodd-Frank I think the principal lending business here will provide some counterparty diversification and help mitigate some of the counterparty concentration issues that our agency programme faces under Dodd-Frank Rule 165 in particular.

The good news here is that we can diversify our exposure away from the 10 largest investment banks and spread some of that across many funds in the alternative manager customer segment. SLT

**Paul Fleming**
Senior managing director and global head of enhanced custody
State Street

euroclear

*Post-trade made easy*

# Get on the Collateral Highway

## Whatever your collateral destination

The right securities – at the right place – at the right time

# Short ban syndrome

## SLT takes a global view of short selling research, politics and lawsuits

GEORGINA LAVERS REPORTS

The practice of selling a security that you do not own has been the subject of numerous debates, speculation, and misinterpretation—particularly over the last five years.

The old adage of banning the practice when markets are in turmoil, only to lift the bank when recovery is imminent, has been taken up widely by Europe.

Greece, Italy and Spain were just three European countries that brought the shutters down and promptly lifted them, citing recapitalisation and an indecisive election as just some of the reasons for the bans.

Short selling has also been the subject of complaints and lawsuits, particularly in the US. The Chicago Board Options Exchange paid out $6 million in penalties for failing to enforce rules to prevent abusive short selling.

But research coming out of the US has also sought to dispel commonly held opinions about the practice. Below is a glance at the lawsuits, the bans and the studies on short selling from country to country.

### Europe

Greece's capital markets regulator lifted a short selling ban on 15 July, after the country's major banks were recapitalised.

It was in May that the Hellenic Capital Markets Commission (HCMC) decided to extend its ban on short selling until July, stating that the decision was due to the country's recapitalisation plan.

In a statement, 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 ... threats that persist in Greece."

"[The authority] 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."

In February, Italy banned short selling of shares in major Italian banks after an election result caused shares in them to drop sharply.

The country's general election results on 25 February pointed towards a hung parliament—where no single party gains a majority of cast votes and so one or more must team up to form a government—resulting in the departure of prime minister Mario Monti.

In a press conference, Monti said that he hoped the vote would benefit the Italian people and calm financial markets.

But shares in Italian banks on Milan exchanges fell sharply in response to the news that a hung parliament was likely in the country, leading financial markets regulator Consob to ban short selling of four of them on 26 February.

In statements, Consob blamed significant fall in prices of the shares.

David Lewis, EMEA head of SunGard Astec Analytics, said that short selling does not increase volatility in markets and that banning it can actually increase the practice.

“Bans on short selling are often politically driven and usually a sign of underlying economic problems. Many studies have shown that such bans do little to support share prices whilst damaging liquidity and widening spreads which are both bad news for investors. Short selling allows proper price discovery and is part and parcel of an efficient capital market.”

“They say in war that the wrong action is usually better than inaction. Perhaps this is the case here.”

“Many European countries have previously imposed bans on short selling. Our own study of the short selling bans in Spain (which were finally lifted at the end of January) showed there was no real change in the volatility of the market for the duration of the ban. It also showed little correlation between the direction of share price movement and the subsequent imposition of a ban.”

In the same month, Spain lifted its ban on short selling as markets rallied.

Spanish regulator Comisión Nacional del Mercado de Valores (CNMV) extended an existing ban on short selling for an additional week in October 2012 and submitted a proposal to the European Securities and Markets Authority (ESMA) to impose a further three-month ban, effective from 1 November.

Spain lifted the short selling ban as the IBEX 35 Index rallied and the country’s banks took steps to repair their balance sheets amid deep austerity measures.

## The US

A July report from Texas argued in favour of naked shorting, stating that accounting fundamentals were highly significant in explaining naked short sales.

The report, authored by Harrison Liu of the University of Texas San Antonio, and Sean McGuire and Edward Swanson of Texas A&M University, showed that—contrary to accepted belief—accounting fundamentals are highly significant in explaining naked short sales.

“Citing a widely held belief that naked short selling is not based on company fundamentals, the SEC (2008) has substantially tightened Reg. SHO close-out regulations in an effort to eliminate naked short selling,” said the report’s foreword.

It added that naked short sales contain incremental information about future stock prices.

“Abnormal returns from a long/short trading strategy that buys (sells short) shares with low (high) short interest are more than seven times larger using naked and covered short interest, compared to returns using only covered short interest (15.2 percent vs. 2.1 percent annualised).”

The study’s aim was to show that recent regulatory actions to eliminate naked short sales are likely to impede informed arbitrage and reduce market efficiency.

But feelings towards the practice were very different in Waco, Texas, as an illegal short-selling complaint was made to the US Securities and Exchange Commission (SEC) by Life Partners Holdings CEO Brian Pardo.

Pardo announced that evidence was found of “coordinated market manipulation” and naked short selling of Life Partners’s stock in and around 26 September 2012, and likened the practice to terrorism.

Pardo said that it was a “tragedy to realise that there are well-known financial entities that intentionally try to destroy companies with these abusive tactics, without any regard for the lives of the workers and the investors they ruin.”

“… This small group has hijacked our financial markets for their own gain. I just hope that the SEC will use the clear evidence we have provided to them to bring those who are working against our economy to justice. In my view, naked short selling is a form of financial terrorism.”

In Washington, the SEC fined the CBOE for short selling failures.

The Chicago Board Options Exchange (CBOE) paid a $6 million penalty and implement major remedial measures for “[failing] to enforce or even fully comprehend rules to prevent abusive short selling”.

The US SEC said at the time that the fine was the first to be levied against an exchange for violations relating to its regulatory oversight.

An SEC investigation found that CBOE failed to adequately police and control a conflict for one of its member firms, online brokerage and clearing agency optionsXpress, which the commission charged with engaging in an abusive naked short selling scheme in April 2012.

But, the SEC did take into consideration CBOE’s attempts to rectify the situation after the investigation began. The exchange reorganised its regulatory services division, hired compliance and regulatory officers, updated written policies and procedures, and hired a consultant to review its enforcement programme.

## Asia

In August, the State Bank of India recommended a shorting ban.

The State Bank’s chairman, Pratip Chaudhuri, told a crowd that the bank recommended to the finance minister in India that short selling should be banned. He made the comments while opening the 15,000th branch of the bank in Sooranam, Southern India.

It was only in July that India’s insurance regulator allowed insurers to lend a maximum of 10 percent of their securities, in rules hoped to revive the country’s market.

The Insurance Regulatory and Development Authority (IRDA) has been seeking comment as of August last year relating to insurers participating in a securities lending and borrowing scheme.

Comments were received over the course of a year from the various stakeholders including life insurers, general insurers and other entities, along with suggestions for the controls needed.

“After examination of the comments received, it is observed that insurers can generate extra yield on the securities held in their custody by lending securities through [the] SLB mechanism,” said an IRDA statement.

Kuala Lumpur’s stock exchange Bursa Malaysia released new guidelines for both securities lending and borrowing, as well as short selling.

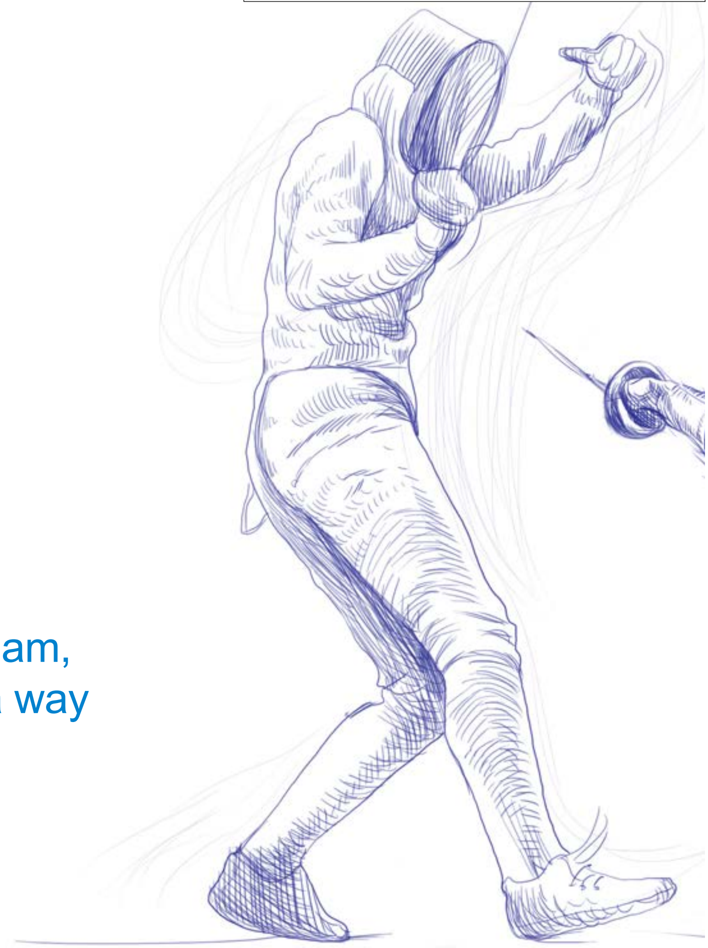
CEO of the stock exchange Dato’ Tajuddin said at the time: “We will continue to build for the future to further strengthen our breadth and depth of the markets. Amongst our focus areas will be the regulated short selling and securities borrowing and lending which is necessary for Malaysia to achieve developed market status.”

Short selling regulations were introduced in 1996, relatively early for what was then a very emerging market. The business didn’t last long. At the heart of the Asian crisis less than a year later, securities borrowing and lending was suspended on all shares listed on Bursa Malaysia.

In 2007, a new system was introduced. The Bursa SBL system, offered by Bursa Malaysia Securities Clearing, specifies which shares are currently eligible for borrowing and lending—the numbers vary, but most publicly traded shares are permitted.

In June, short selling in Japan was on the up. Shorting in Japanese equities showed signs of increasing in the last week of May as they moved into bear market territory amid concerns the US Federal Reserve would begin to taper its bond buying programme and the Bank of Japan will hold monetary policy where it is.

SunGard Astec Analytics statistics at the time showed that borrowing of Japanese equities has been on the increase, even as the benchmark Nikkei has been sliding lower. **SLT**



# Island rivalry

## Taiwan continues to be the most attractive emerging market, but Vietnam, Indonesia and the Philippines have a way to go, says Northern Trust in a conversation with SLT

GEORGINA LAVERS REPORTS

### Will growth in securities lending in Asia this year come from developed markets or will emerging markets increase their share?

Notwithstanding the untapped potential of the Asian emerging market space, which is unlikely to develop significantly in the short term, securities lending growth is likely to be driven more by demand from developed markets for the rest of the year.

Historically speaking and with the exception of Hong Kong, developed markets have been largely underinvested when you look at on loan volumes, driven by fewer corporate deals and a general lack of conviction for hedge fund funds to deploy risk and invest in size. However, the horizon looks more optimistic for these markets particularly Japan, as participants gear themselves for inflows of investment should the government's aggressive stimulus measures prove to be effective for the economy. There is also potential for growth in Australia should the resource sector be perceived to be over extended at some point.

Although Hong Kong's revenue stream has softened relative to last year following perceptions that China evaded a hard landing and is now poised for improved growth, we do expect volumes to remain robust relative to other Asian markets. Given lower levels of correlation, the environment is now more conducive for stock picking and we therefore expect long/short hedge fund demand to sustain volumes, albeit at weaker spreads compared to last year.

Certainly emerging markets such as Taiwan will continue to drive demand given its embedded intrinsic value, however, when we look at where overall growth is likely to emerge from in Asia in the short term, we understand this to be developed markets. In the long term, indeed the focus continues to be frontier markets such as China and India.

### Do emerging markets (such as Malaysia, Taiwan, South Korea, Thailand, Vietnam, Indonesia, the Philippines) offer significant untapped potential for securities lending?

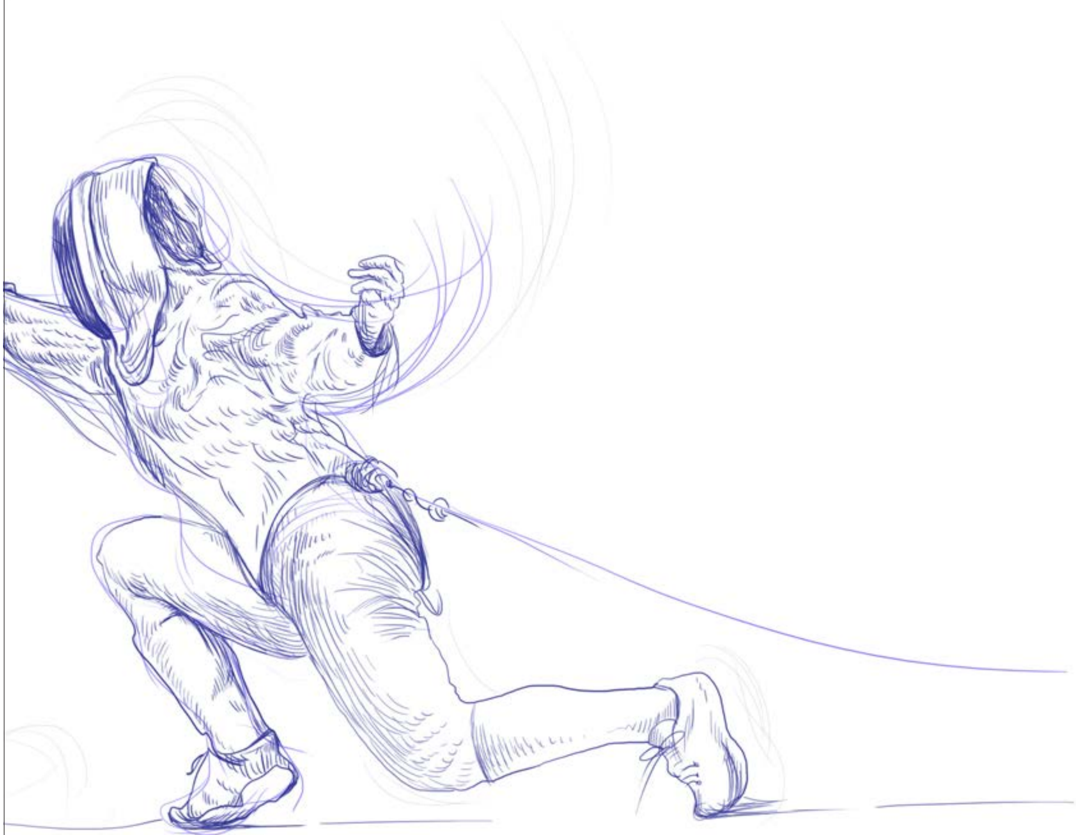
Taiwan continues to be the most attractive emerging market as robust demand outstrips supply. Although offshore inventory is growing, the pace of this growth is slow and inconsequential for market dilution. Thus, for any new untapped inventory, the potential revenue streams remain compelling for investors.

South Korea has matured such that supply is now relatively robust, apart from small to mid cap inventory. However, growth potential in Korea is more a function of demand rather than supply, as we continue to see a modest level of appetite outside of a selected few securities. This is partly driven by an existing short sale ban on financials, which continues to constrain demand.

Given the absence of workable models in Vietnam, Indonesia and the Philippines, it is hard to believe that there is a significant amount of untapped potential at this stage. In order for demand to flourish in these markets, there first needs to be growth in liquidity to allow hedge fund strategies to make economic sense. For this reason, agent lenders should be looking at getting into such markets in anticipation of demand, with an incentive that those who launch first will enjoy the benefits. Malaysia is a good example of this in that although various lenders are live, hedge fund demand is modest and concentrated in selected securities. However, in the long term as more agents open Malaysia, we are likely to see more interest from long/short hedge funds as the liquidity profile improves, thus offering higher returns.

Those emerging markets that offer the more obvious potential include China and India given the relative size of their economies. However, we are yet to see material progress for an offshore model in China, and India's current borrowing and lending framework is not conducive for offshore participants to launch.

### Do differences in regulation and tax laws between different Asian



### countries create opportunities in specific markets?

Certainly from a regulatory perspective, this remains a key factor in contributing to a market's overall growth profile. Those markets that operate with opaque and punitive settlement regimes constrain the ability of agent lenders to maximise inventory, thus hampering supply and liquidity, which ultimately determines the willingness for hedge funds to trade on occasions. For those markets with more transparent settlement structures, liquidity tends to be deeper and hence, attracts a wider source of demand.

Similarly, short sale bans have a direct consequence on demand and growth. This not only limits the ability of hedge funds to deploy their conviction on the short side, but also on the long, since hedging such long positions is also constrained.

### To what extent do these differences force you to change the way you operate in different markets?

From an agent lenders perspective, risk mitigation for the underlying client is of utmost importance. Particularly in markets where punitive regimes exist, it is critical that lenders adopt sound liquidity management policies to ensure a balance between maximising client inventory and protecting against settlement failure.

### What benefits do clients derive from custodians establishing securities lending operations into new Asian markets?

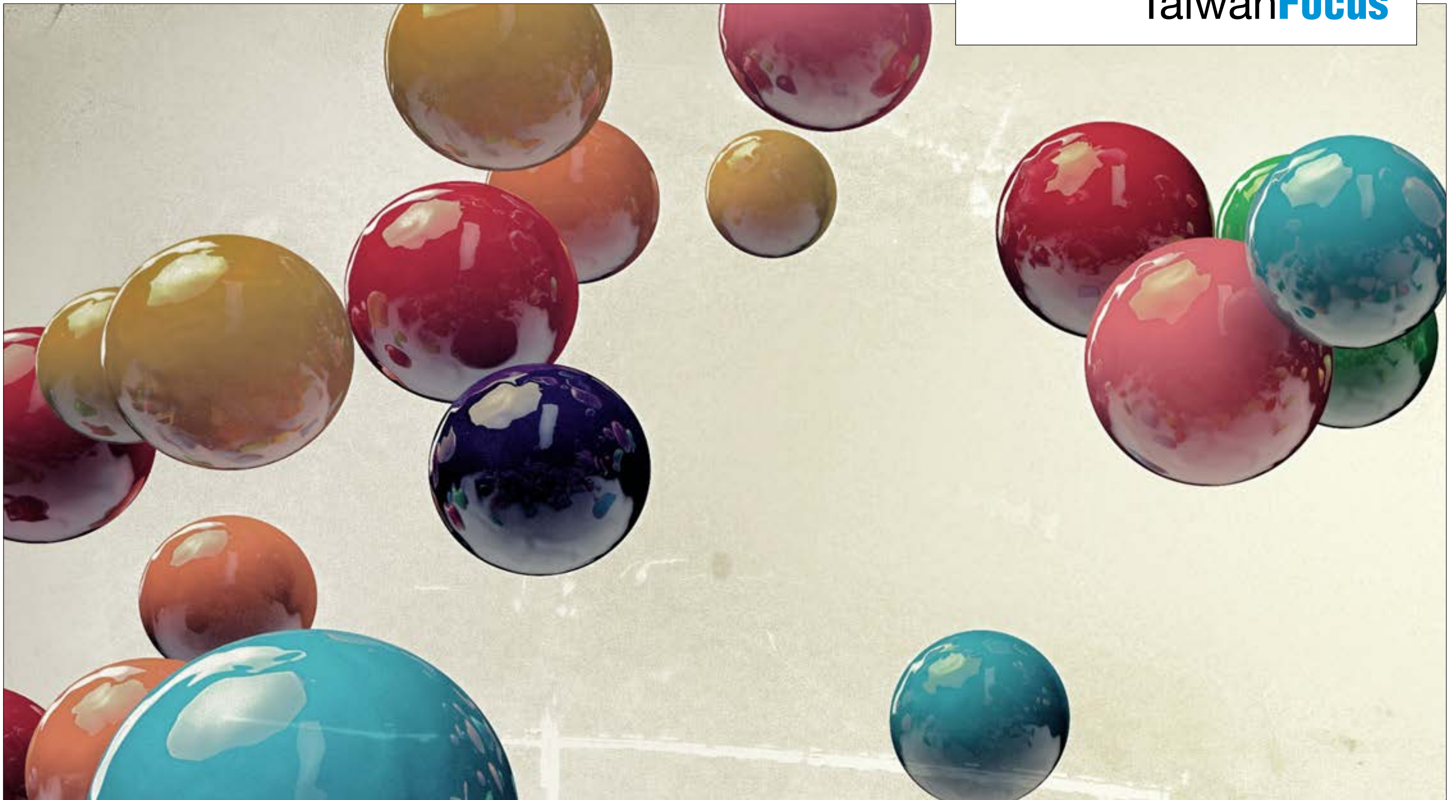
Those clients who are able to launch into key emerging markets earlier are those that will realise the greatest return, since spreads are likely to remain higher whilst liquidity remains limited during the infancy of a markets maturity cycle.

Furthermore, given the wave of regulatory measures being considered across Europe, it is important for clients to identify alternative sources of revenue from securities lending, given potential uncertainty surrounding the sustainability of existing revenue streams in other regions.

### What can custodians do to boost demand for securities lending in these emerging Asian markets—for example, do custodians have a role in educating beneficial owners on the merits of this type of transaction?

Given entry in most new markets for securities lending tends to require some form of client involvement in the lending process such as pre-notifications generally clients need to understand the additional nuances of these markets and if relevant any risks inherent in additional processes versus the additional revenue that can be generated. The onus of this due diligence and education would lie with the agent lenders to ensure that clients understand clearly the nuances of lending in new markets where the investment process for fund managers or clients may not be seamless when securities lending takes place as the case may be in the traditional developed markets. **SLT**

**Sunil Daswani**
Head of client relations, securities lending
Northern Trust



# Bouncing off the walls

## Sunil Daswani explains how best to take advantage of Taiwan

Taiwan remains one of Asia's most vibrant securities lending markets, as demand for borrowing securities continues to exceed the available supply, inducing wide trading spreads and thus providing beneficial owners with an attractive revenue opportunity relative to other regional jurisdictions. Currently, for every $100 million in Taiwanese securities lent, beneficial owners earn approximately $504,000.

The nature of demand is largely hedge fund driven with a particular focus on three dominant strategies. First, there is robust demand for long term directional strategies associated with the technology sector, which accounts for the majority of the market capitalisation on the Taiwan Stock Exchange (TWSE) index. Such trading strategies are typically structured to gain exposure to the supply chain for various global technology giants such as Apple Inc. or Lenovo Group Ltd, with particular focus on the smartphone and computer industries. Second, given an abundance of both ADR (American depository receipt) and GDR (global depository receipt) issuances, relative value strategies are frequently structured to capitalise on any arbitrage opportunity associated with the price of the foreign depository receipt and the local line. Third, the deployment of statistical arbitrage trading remains prevalent, typically used to capitalise on intraday pricing inefficiencies. Given the level of market volatility in Taiwan, this remains an attractive strategy used by dedicated 'stat-arb' hedge funds.

The TWSE created a centralised securities borrowing and lending programme in June 2003. All participants are subject to the Taiwan Stock Exchange Corporation securities and borrowing lending regulations and are regulated by the country's financial regulator. Although the market requires beneficial owners to work closely with agent lenders to enter this market, the potential revenue streams are compelling for investors.

To lend in the Taiwan market, a beneficial owner will need a local tax agent. Additionally, the beneficial owner will need to sign additional legal documents; an amendment to the securities lending authorisation agreement, a sub-custodian letter of authorisation and, if required, a multiple trading account request letter. A summary of these documents is provided below:

1. Securities Lending Authorisation Agreement (SLAA) Amendment—required to expand the existing SLAA between the beneficial owner and your securities lending agent to encompass the clauses required by the regulator to begin lending in Taiwan. The amendment consolidates the relevant points highlighted below, which are not currently covered in the SLAA.

a. Application of the TWSE rules for Taiwanese lending transactions
b. States that client is eligible to undertake Taiwan securities lending transactions which is approved and monitored by Taiwan regulators
c. Provides details of the account opening process
d. Explains the recall of lent securities and the manufactured dividend process
e. States the responsibilities of the client with regards to taxation
f. Provides your securities lending agent with the necessary authorisation to perform certain tasks on behalf of the client to ensure compliance with local regulations

2. Sub-Custodian Letter of Authorisation—this document is required by the sub-custodian to allow them to perform the required tasks to facilitate lending in this market. It states the following:

a. The applicable regulations relevant to lending transactions
b. Recognises sub-custodian as agent for the client in relation to lending transactions in Taiwan. This is necessary under Taiwan regulation although they have no discretionary role in lending activity.
c. Provides authority for sub-custodian to facilitate account opening and appointment of local brokers which must be completed locally in Taiwan

3. Multiple Trading Account Request Letter—your securities lending agent will typically operate a structure in Taiwan for clients with multiple investment managers for their Taiwanese assets whereby we will aggregate securities from different investment managers before delivering to the borrower in a single market transaction. It includes the following:

a. Name of FINI requesting account
b. Reason why account is being requested ie, to manage lending and borrowing activity. **SLT**

# On the horizon

## David Lewis of SunGard takes on the mammoth task of predicting the future of custodian banks—from a securities lending perspective

Like it or not, the role of a custodian bank has never sounded like an exciting one. Safekeeping of assets does not invoke images of the cutting edge of financial markets, the cut and thrust of the next big deal. Instead, they have always appeared to be the steadfast, stable service providers and cash cow segments of the world's dominant financial institutions delivering services to a large homogenous group of loyal clients. The turmoil of the last few years has not left this group untouched; they have had to change to align themselves with the rapidly changing environment in which they live, and that state of flux shows no signs of slowing down. In previous years a custody client would dutifully sign up to a veritable menu of services, a truly one stop shop; now it is a very different story. Increasing regulations and an ever greater aversion to risk are just two of the pressures that have led clients to be much more demanding across all the services they pay for. Custodians have had to respond and change their service models accordingly.

Today's clients demand the best in class for each and every service; securities lending makes a good example of how this has affected the business. In some cases, participation in securities lending and other relatively 'high margin' businesses such as FX or transition management, meant that custody fees themselves could be low or even free—services all tied together into a package. Now the competition is fiercer, revenues are lower some clients have broken their service buying into individually priced and delivered services, bringing price transparency and arguably more level playing fields upon which to compare the competition.

Clients are also more demanding in other ways. Gone are the homogenous pools of lending clients, all accepting the custodian's standard collateral and approved counterpart schedules, to be replaced by clients dictating their own custom collateral requirements and lending only to those they deem worthy. Gone are the automatic inclusions of all your assets—beneficial owners are now acutely aware of exactly where their incomes come from and, just as importantly, where their risks lie. As a result, general collateral (where volumes and values on loan are large and fees low) has fallen from favour and is longer providing the steady fee split incomes custodial lenders enjoyed. In are the intrinsic value programs, actively managed by their beneficial owners adhering to the old 80:20 rule. They have correctly identified that 80 percent of their income comes from 20 percent of their loan balances (generalised levels of course, but you get the picture) and 20 percent of their revenues come from 80 percent of their balances, those balances also accounting for the majority of their risk.

The result? Clients taking an active management role in their lending programs, dictating specific collateral requirements, who their custodian can lend to and in some cases, only above a minimum fee level. What does this mean for the custodian bank?

Their high margin businesses have been eroded to some extent whilst their costs have risen—indemnity policies for example, where they insure the beneficial owner against a Lehman Brothers-like counterpart default, will attract greater capital costs under Basel III regulations. Competition is fierce and clients are likely to be resistant to a change in fee splits to pay for such insurance. According to Finadium, 69 percent of lenders feel that indemnification is a very important factor in running their program and almost half of lenders would either not accept a change in their fee splits to pay for it or launch an RFP with a view to moving providers in response.

Squeezed from all sides, the custodian banks have had to adapt their existing models to suit their client's increasingly sophisticated and individual demands. Falling revenues have driven several of them into new markets; prime custody is, well, a prime example. The combination of their steadfast safekeeping services tied into the lucrative hedge fund space is a sign of the providers morphing their profiles to make best use of what they do well. This is only one step on a long journey for these organisations; much remains in flux and the need to focus on more lucrative markets and services gets ever more pressing.

Emerging markets will feature strongly in their search for new revenues, providing services to markets that are not only developing but have great ambitions for the future. Combining such markets, such as the United Arab Emirates, marries the demand for services with the solid, secure and experienced providers looking for new assets to keep safe. **SLT**

**David Lewis**
Senior vice president
SunGard Astec Analytics

# What are the odds?

## James Palmer of DataLend looks into the future of the UK gambling sector—from those who are leading the field to those in danger of getting boxed in

Last year was a good one for the UK's bookmakers. With the London Olympics, UEFA European Championship and Ryder Cup capturing the attention of the nation's media, opportunities to place a patriotic wager, whether an educated one or not, had never been so high.

The dominant bookmakers all exhibited very positive growth figures through 2012 and into 2013, as the UK industry generated a gross gambling yield estimated at £6.2 billion from October 2011 to September 2012, according to the UK Gambling Commission. While the non-remote betting industry remains the largest source of income, growth in online gambling has been particularly strong, exceeding the £2 billion milestone domestically over the same period.

Recent results have been more of a mixed bag. While prominent market players excel and announce plans to expand into new markets, others are faced with downward pressure on profitability and a need to drastically address their online presences. The trends seen in DataLend and the securities finance market reflect this mixed investor confidence and highlights a disconnect between a successful historical performance and their short-term growth expectations.

### Bookies' favourites

The outlook from analysts going into 2013 was overwhelmingly positive. William Hill PLC proceeded to extend a leading position as market capital grew from £1.4 billion at the start of 2012 to more than £4 billion by mid-2013, breaking into the FTSE 100 for the first time. Expansion into the US, Spain, Italy and Australia continues to suggest that the going is good for what has become Europe's largest gambling firm. DataLend accurately highlights this bullish sentiment, showing short interest falling to a reassuringly low 0.6 percent following chief executive Ralph Topping's announcement in August that online revenue had grown by 18 percent this year.

Similarly, specialist online bookmaker Betfair Group PLC, buoyed by takeover rumours, has seen its share price almost double from January to August. After struggling through 2012, a new chief executive and a reviewed strategic approach to offer a simpler online service and pull out of unregulated markets are showing signs that they are beginning to pay off. On-loan quantities have come off significantly as a result; short interest recently came down to less than 0.5 percent of shares outstanding from more than 3 percent in January.

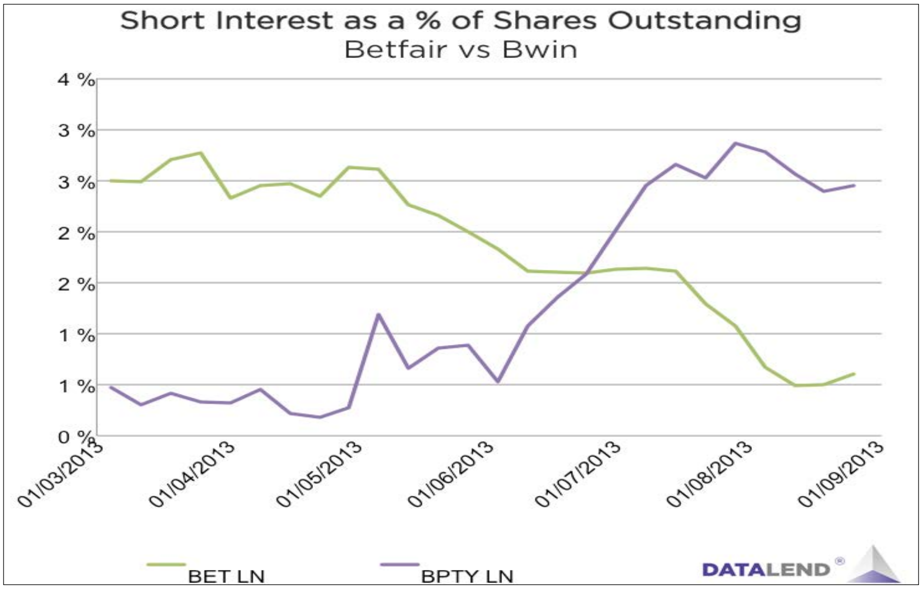
### Left at the gate

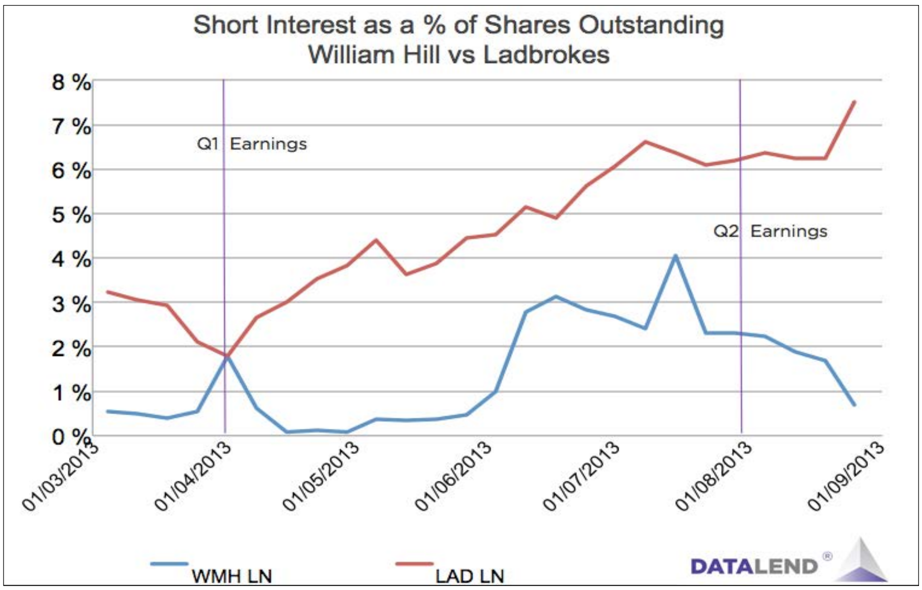
Contrast these positive stories to the recent performance and announcements from Ladbrokes PLC and one begins to understand the factors behind their success. A succession of quarterly and mid-year profit warnings from Ladbrokes has been attributed to a long-term revamp of the online model as well as a dearth of on-course revenue taking a toll on the firm's profitability.

Renowned for lagging behind in the virtual stakes, an announced partnership with internet gambling software provider Playtech PLC, former joint venture partner of William Hill's successful online model, has not managed to ward off short interest in the security just yet. Rather than pioneering ventures into new markets, the firm has needed to focus first on playing catch up.

Subsequently, on-loan values and utilisation both have risen steadily. More than 40 percent of inventory was out on loan in late August, with short interest reaching 7.5 percent. A 20 percent drop in operating profit announced in the firm's mid-year earnings report and a new UK tax ruling (effective December 2014) could continue to hurt Ladbrokes more than most. It is an uncertain time for the long-standing household name, but opportunity for international market share may not have passed just yet if the firm can keep up with rivals.

Bwin.Party Digital Entertainment has also been noted as underperforming in recent years. A move to focus on 'value' customers and out of unregulated markets (akin to the move made by Betfair a year prior) has seen the stock rebound in recent months. However, the quantity on loan has risen in tandem from less than £5 million in July to approach £32 million (30 percent utilised) at the beginning of August, iterating the sentiment that the first-mover advantage has been lost and may be difficult to recover from.






## A photo finish?

Expectations for the future of the industry remain high. The proposition of unlocking the expansive US market and a rapidly growing global online user base represent strong opportunities for those in the business. Analysts continue to tout remote gambling market share as the primary ingredient for future success. The way each player has responded and positioned itself online is seen as being directly related to their capacity to capitalise on opportunities internationally as and when they arise.

These prospects could also be a signal for increased M&A activity in the sector. William Hill has already shown its hand by acquiring Australian bookies Sportingbet and more recently online business Tomwaterhouse.com to diversify and build its international presence. The US casino and entertainment giants will also have identified the benefits of leveraging the experienced online models of the European specialists to get a head start. Investors could even view the renewed focus and strategies from Ladbrokes and Bwin themselves as being worth a punt, hoping that their discounted price is not predictive of further divergence to their rivals.

To date, the difference between those merely in the running and those coming out on top has been the ability to move quickly and adapt to changing conditions. Be it by expanding through acquisition or organically, the successful players are vying to position themselves for the finishing straight across the pond. While the question still remains as to whether the lagging names can recover before losing too much ground on the competition, the online dynamic and prospect of unlocking previously unreachable markets are certainly making it an interesting race. **SLT**

**James Palmer**
Sales
DataLend

# Studying the profits

## The lead up to school has seen education services shares outperform the market, says Simon Colvin, analyst at Markit Securities Finance

In the run up to the new school year, shares in US-domiciled educational services firms have posted a surprising 30 percent return year to date. Despite falling enrolment, many prospective students are rethinking their plans and going back into education in light of the recovering American economy. Fifty-two percent of respondents to a recent survey by industry consulting group Parthenon Group stated that an improving economy would make them more likely to go back to school.

This trend plays into the hands of for profit secondary education companies, which offer flexible professional qualifications sought by many working professionals looking to better their lots. To this end, analysts have been updating their enrolment expectations for the industry, which is expected to post a low singly figure revenue growth in the coming years.

### Investor reaction

Investors have taken well to these developments. Twelve US-listed for profit education companies are posting a 26.9 percent return year to date, putting the sector performance above the S&P 500 return of 16 percent.

Looking into the returns, the minority of shares posting disappointing results is dragging down the average. Omitting the five shares that have posted a price decline year to date, the seven remaining shares have posted a very healthy 59 percent price increase.

### Underperformers targeted

Short sellers have increased their positions in the five shares posting prices falls year to date. Demand to borrow these underperformers has jumped by 22 percent year to date to a very high 10.9 percent of shares outstanding.

Bottom of the class is Strayer Education, which has seen shares out on loan jump by nearly a quarter since January, as shares fell by 29 percent. Strayer is expected to post a 15 percent fall in revenue in this year, a trend that is expected to continue into 2014. Short sellers have redoubled their interest in the firm with demand to borrow now standing at 20 percent of shares, up from 16 percent at the start of the year.

Market leader Apollo Group has also seen a surge in demand to borrow to 13 percent of shares outstanding as it notched up a 9 percent year-to-date price fall.

### Outperformers see covering

Conversely, shares that have advanced year to date have seen a fall in demand to borrow. The seven shares posting positive price returns have seen demand to borrow fall 13 percent.

Its seems short sellers have been caught out by this price increase, as the shares that posted a price increase had the same average demand to borrow as their peers that went on to underperform the market.

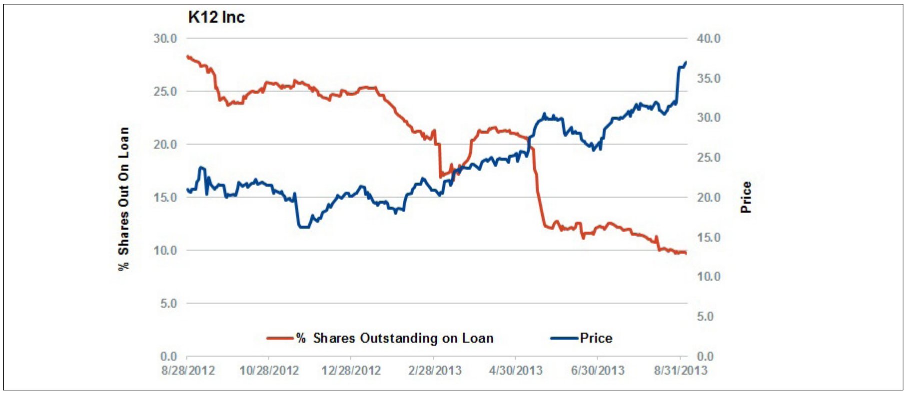
The one exception to this rule is third best performer ITT Educational Services, which has seen a 50 percent increase in demand to borrow to 28 percent of shares.

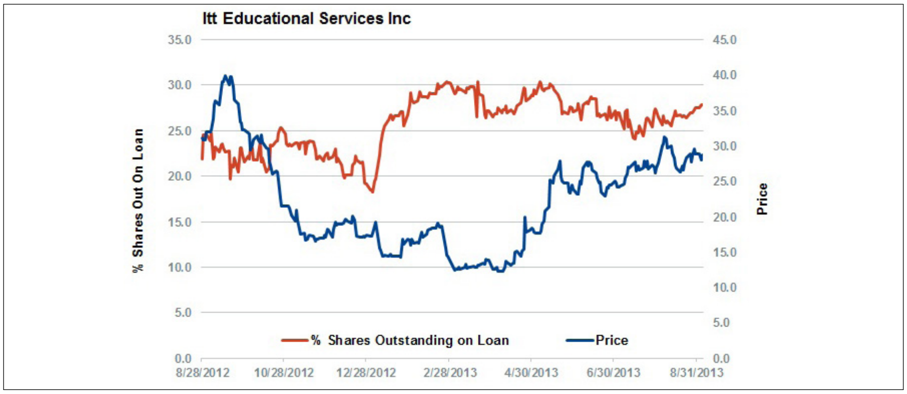
### Other firms performing well

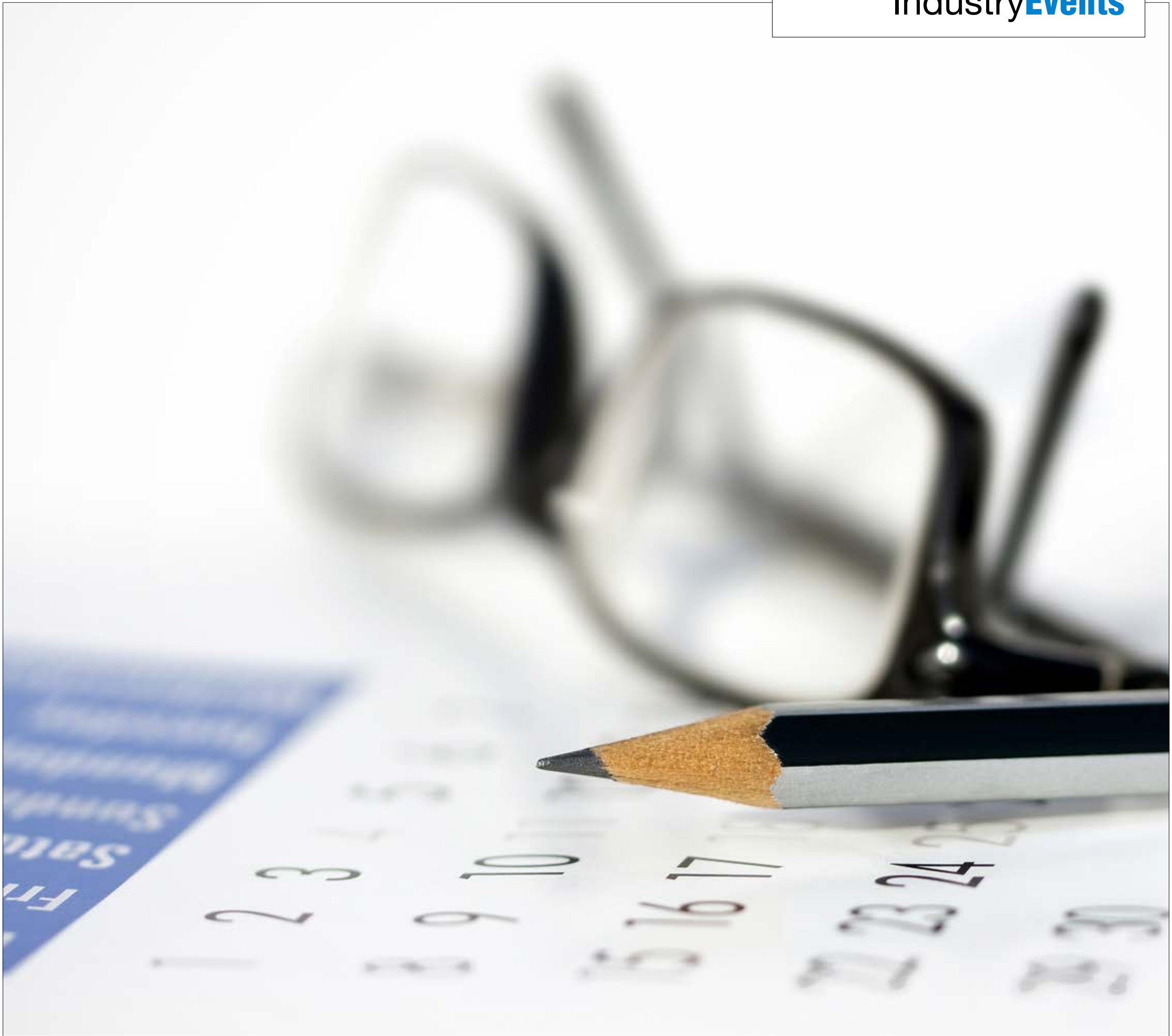
The three non-post secondary education US-listed educational services providers have outperformed their sector peers with a 40 percent year-to-date increase. Top performer in the field is K12 with a massive 81 percent return, its second consecutive set of returns to beat analyst expectations.

Short sellers have been caught out and have trimmed their positions in the firms from an extremely high 24.8 percent of shares outstanding to 9.7 percent. SLT

| Name | Ticker | YTD Share Returns | % of Shares Out on Loan | YTD % Change |
|---|---|---|---|---|
| Capella Education Co | CPLA | 103% | 1.3 | -59% |
| Education Management Corp | EDMC | 89% | 2.0 | -8% |
| Itt Educational Services Inc | ESI | 66% | 27.9 | 51% |
| Bridgepoint Education Inc | BPI | 66% | 4.8 | -46% |
| Grand Canyon Education Inc | LOPE | 53% | 3.2 | -78% |
| Devry Inc | DV | 32% | 13.7 | 2% |
| Universal Technical Institute Inc | UTI | 5% | 0.5 | -60% |
| Apollo Group Inc | APOL | -9% | 12.9 | 66% |
| Lincoln Educational Services C | LINC | -11% | 1.0 | -61% |
| Corinthian Colleges Inc | COCO | -15% | 19.5 | 17% |
| Career Education Corp | CECO | -28% | 1.3 | -9% |
| Strayer Education Inc | STRA | -29% | 19.9 | 23% |





## IMN's 18th Annual European Beneficial Owners' Securities Lending Conference

Date: 19-20 September 2013
Location: London
www.imn.org

Dedicated to meeting the information and networking needs of the beneficial owner community for nearly 20 years, IMN's European beneficial owners' securities lending conference attracts over 250 attendees annually, including more than 65 beneficial owners.

## Fleming's 7th Annual Collateral Management Forum

Date: 9-10 October 2013
Location: Amsterdam,
www.finance.flemingeurope.com

Europe's oldest, best known and most anticipated conference focused purely on collateral is back. The most prominent and the market leader, now more focused and innovative than ever.

## RMA's 30th Annual Conference on Securities Lending

Date: 14–17 October 2013
Location: Boca Raton, Florida
rmahq.org/securities-lending

Come out and join other industry executives, managers and experts at the RMA Conference on Securities Lending in October. The conference commences on Monday, October 14 with the Welcome to Boca Networking Reception.

## GFMI's 2nd Annual Collateral Management Conference

Date: 4-6 November 2013
Location: USA
www.global-fmi.com/CM2013_SLTlisting

The GFMI 2nd Annual Collateral Management Conference is a two-and-a-half day, educational focused meeting.

# Industry appointments

**John Bilello** has joined Citi's securities lending global product development team as a director.

He will report to Patrick Avitabile, the global head of product development and strategy for the securities finance division.

Bilello joins from Deutsche Bank Asset Management's securities lending team, where he was a director and responsible for portfolio management.

**Christian Oger** (pictured below) is the new head of equity lending for BNP Paribas Securities Services.

Most recently, Oger was head of relationship management for global markets at BNP Paribas Securities Services. He has also previously worked for Paribas, Societe General CIB and UBS Zurich.

In his new role he will manage the equities lending desks in Paris, London, Frankfurt and Milan and will report into David Raccat, head of global markets.

His role will include developing the equity lending franchise for securities services and strengthening the securities lending product globally, leveraging on his broad connectivity with the market.

He will be based in Paris.

**Felix Oegerli** (pictured below) has been named as the future trading, sales and capital markets head of Zürcher Kantonalbank (ZKB).

His position was announced on 30 August 2013, but he will only start the role in April 2014. A source at the firm said that Oegerli will be heading up to 200 people in his new role.

Oegerli joined ZKB as head of prime finance in 2008 to develop its securities lending and repo activities. He is currently head of liquidity management, short term interest rates and prime finance.

Prior to ZKB, he worked at International Financial Business Solutions, which he founded, and spent 8 years at UBS.

Zürcher Kantonalbank is the largest cantonal bank and fourth largest bank in Switzerland.

In February 2013, it released performance results for 2012, which revealed that trading income, including trading in structured products and securities lending and borrowing, contributed CHF 127 million.

**Stephen Kiely** has resigned from his current role as director of client and sales management at Citigroup. He is currently on gardening leave and will be taking up a new position at BNY Mellon in November.

Kiely will become head of new business development in EMEA. He will report to Jeannine Lehman, business head of global collateral services EMEA at BNY Mellon.

Prior to Citigroup, Kiely was head of securities operations at HypoVereinsbank.

In a recent spate of hires, ConvergEx Group announced that it has named **Gary Ardell** (pictured right) chief information officer. With this appointment, Ardell joins the company's executive committee.

He continues to serve in his previous positions as head of business strategy development and head of the financial engineering and advanced trading solutions unit.

As chief information officer, Ardell is responsible for the technical infrastructure, software development and business processes of ConvergEx Group and for directing company resources in support of accelerating new product development and innovation.

Prior to joining ConvergEx Group in 2006, Ardell served as the head of financial engineering at Fidelity Capital Markets. This group developed Fidelity's algorithmic trading products as well as operating one of the largest automated equity market making operations in the US. **SLT**

2ND ANNUAL

# COLLATERAL MANAGEMENT

## COLLATERAL OPTIMIZATION: MANAGING INCREASED DEMAND IN AN ILLIQUID MARKET

New York City, USA

4th - 6th November 2013

New regulatory regimes have put collateral management under sharp focus, highlighting the demand for a fundamental change to the way trades are executed among financial institutions. With collateral management shifting to the front office, banks have had to adapt their internal channels of communication with collateral.
The efficiency with which the buy and sell sides adapt to the changes will decide the profitability of collateral for the establishment.

This **GFMI** conference will divulge how financial institutions are managing the liquidity squeeze whilst achieving collateral optimization, the impact of CCPs now they have been live, and how to deal with the new regulatory environment.

## Transforming collateral from a cost centre to a **profit making tool** will be 2014's focus

### Key Learning Benefits:

- **Assess** the impact of CCPs and clearing risks
- **Ameliorate** swaps market issues under new regulatory guidelines
- **Recognize** the practicality and future of margin management
- **Discern** the impact collateral transformation and futurization will have on the liquidity market
- **Distinguish** the opportunities and benefits of collateral optimization
- **Align** infrastructure maximization alongside collateral optimization
- **Overcome** concerns regarding the buy side perspective

### Expert Speaker Panel:

**Richard Heckinger**
Vice President
and Senior Policy Advisor
**Federal Reserve Bank of Chicago**

**Jason Pietruski**
Director, Margin Services
**Barclays**

**Brian McLoone**
Managing Director
**State Street**

**James Wallin**
Senior Vice President
**Alliance Bernstein**

**Senior Representative**
**Deutsche Bank**

**Gerald D. Pucci Jr.**
Managing Director
Global Rates Trading
**BlackRock**

**Barry Seeman**
Global Head of Structuring
**Aegon USA**

**Sharif Ismail**
**Goldman Sachs**

**Michael J. Levas**
Founder, CIO
& Senior Managing Principal
**Olympian Group of Investment Management Companies**

**Jim Buckley**
Managing Director, Co-Head
Global Funding
**Scotiabank GBM**

**Houman Shadab**
Associate Professor of Law
**New York Law School**

**Abhijit Choudhary**
Global Head, Trade Management
**Goldman Sachs**

**Stephen Bruel**
Vice-President, Investor Services
**Brown Brothers Harriman & Co.**

**Atanas Goranov, CFA, FRM**
Managing Director,
Derivatives Risk Officer
**The Guardian Life Insurance Company of America**

### Full-Day Interactive Post-Conference Workshop on 6th November 2013:

**Repo: Borrowing in the tri-party repurchase market**

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## ......Marco Hefti

**SLT and Zürcher Kantonalbank's Marco Hefti talk financial crises, the industry's best role models and the travelling dream**

### How did you get into the securities finance industry?

Before I got into the securities industry in 2008, I worked as a key client manager for Zurcher Kantonalbank (ZKB). After three interesting and instructive years in a consultant position, I felt ready for a new challenge. Since I have always had a special interest in the capital market, I was happy and very lucky that my HR department was able to offer me the job of junior trader in the investment bank department of ZKB, on the prime finance desk.

### To what extent has working in the industry met your expectations?

The industry gave me the opportunity to better understand the capital market in general and especially the financing business. I was actively involved in the exciting and challenging task to expand what in 2008 was still a relatively small securities finance desk into today's well-known prime finance desk.

During the financial crisis, I appreciated working for a AAA-rated bank. During this interesting period of history, I learnt a lot about counterparty risk, collateral quality and regulation. Starting with plain vanilla securities lending in 2008, I broadened my knowledge step by step. I can now cover the whole range of repo and securities lending products, including term trades up to three years. Looking back, I can say the expectations I placed on the industry and my new job were fully met.

### What do you see as the biggest challenge facing the industry right now?

The planned Financial Transaction Tax is in my view the biggest challenge the industry is currently facing. The tax would negatively affect the volumes traded in the repo and securities lending markets.

### Do you have any role models in the industry who have helped or inspired you?

I do not have any specific role models, but I personally think there are many interesting people with different backgrounds working in this industry. All of those people inspired me over the last five years. With Felix Oegerli as head of short term interest rates and prime finance, our desk is proud to have one of the lifetime role models of the securities finance industry.

### If you were not in securities finance, what would be your dream job and why?

I have fulfilled my long-time dream in the last year by travelling around the world for the past 13 months. If I were not in the securities finance market, I would travel the world as a photographer or reporter for a major travel magazine. This would give me the chance to learn even more about new cultures, countries and different people. SLT

**Marco Hefti**
Prime finance trader and member of management
Zürcher Kantonalbank

> "If I were not in the securities finance market, I would travel the world as a photographer or reporter for a major travel magazine"