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Fire sale mechanisms need strengthening, says Federal Reserve governor

Regulatory mechanisms “fall short” as a comprehensive, market-wide approach to fire sales that can result from securities financing transactions, according to Federal Reserve governor Jeremy Stein.

Stein was speaking at the Federal Reserve Bank of New York Workshop on Fire Sales as a Driver of Systemic Risk in Triparty Repo and other Secured Funding Markets in New York on 4 October.

He said that securities financing transactions are “a natural object of concern for policymakers” because the market sees a large number of borrowers finance the same securities on a short-term collateralised basis, with very high leverage—“often in the range of twenty-to-one, fifty-to-one, or even higher”.

“Hence, there is a strong potential for any one borrower’s distress—and the associated downward pressure on prices—to cause a tightening of collateral or regulatory constraints on other borrowers.”

He suggested placing a tax on securities financing transactions because “the goal of regulatory policy should be to get private actors to internalise these costs”, adding: “At an abstract level, this means looking for a way to impose an appropriate Pigouvian (ie, corrective) tax on the transactions.”

“Of course, the tax must balance the social costs against the benefits that accompany securities financing transactions; these benefits include both ‘money-like’ services from the increased stock of near-riskless private assets, as well as enhanced liquidity in the market for the underlying collateral...”

“So in the absence of further work on calibrating costs and benefits, there is no presumption that the optimal tax should be large, only that it may be non-zero, and that it may make sense for it to differ across asset classes.”

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Rule Financial opens in Costa Rica

Rule Financial has opened in Costa Rica after experiencing growing demand from clients in North America for nearshore delivery services.

Over a two to three year time period, Rule Financial expects to create over 300 new high-end technology jobs in the country.

The initial focus of the company will be to find and attract the best technical talent, especially those who are experienced in developing software using Microsoft Technologies, such as .Net, C#, WCF and WPF, among others.

Alex Fernandez, formerly of Microsoft and Oracle, has joined Rule Financial as its Costa Rica country head.

He pointed out advantages of opening a facility in Costa Rica, including a large pool of highly skilled graduates in strategic areas such as IT, software development and technical support.

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SocGen mandated for prime broker expertise

Societe Generale Securities Services (SGSS) in Ireland has been mandated by EQI Asset Management to provide fund administration, financial reporting, transfer agency, taxation, custody and trustee services.

SGSS Ireland was chosen for its recognised expertise in alternative investment funds and its experience of working with prime brokers, as well as for its ability to help clients become compliant with the Alternative Investment Funds Directive (AIFMD), said a statement.

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Fire sale mechanisms need strengthening

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In assessing whether the mainstays of the existing regulatory toolkit can act as the tax, Stein said that risk-based capital, liquidity, and leverage requirements "have a variety of other virtues, but none seem well-suited to lean in a comprehensive way against the specific fire-sale externalities created by securities financing transactions".

"The liquidity coverage ratio affects a subset of securities financing transactions in which a dealer firm acts as a principal to fund its own inventory of securities positions, but does not meaningfully touch those in which it acts as an intermediary."

"By contrast, an aggressively calibrated leverage ratio could potentially impose a significant tax on a wider range of securities financing transactions, but the tax would by its nature be blunt and highly asymmetric, falling entirely on those firms for whom the leverage ratio constraint was more binding than the risk-based capital constraint. As such, it would be more likely to induce regulatory arbitrage than to rein in overall securities financing transaction activity."

Other regulatory options are available in the event of a securities financing transaction-induced fire sale, but capital surcharges could create a tax that is passed on to the downstream borrower, leading to disintermediation.

Universal margin requirements, such as those proposed by Financial Stability Board in the form of minimum haircut requirements for certain securities financing transactions, have the potential to act as a restraint on transactions that are intermediated by regulated broker-dealer firms, but are vulnerable to the same evolution of the business—"away from this intermediated mode"—as capital surcharges, according to Stein.

Stein concluded: "I would guess that a sensible path forward might involve drawing on some mix of the latter set of instruments that I discussed: namely, capital surcharges, modifications to the liquidity regulation framework, and universal margin requirements."

"As we go down this path, conceptual purity may have to be sacrificed in some places to deliver pragmatic and institutionally feasible results. It is unlikely that we will find singular and completely satisfactory fixes."

He added a note of caution over money market funds, saying that they are "among the most significant repo lenders to broker-dealer firms, and an important source of fire-sale risk comes from the fragility of the current money fund model".

"I welcome the work of the Securities and Exchange Commission on this front, particularly its focus on floating net asset values, and look forward to concrete action."

Rule Financial opens in Costa Rica

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Rule Financial Costa Rica will serve global investment banks areas of their business including legal and compliance, prime services, risk management, securities finance, trading and operations.

SocGen mandated for prime broker expertise

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SGSS in Ireland provides a full range of administration, trustee and custody services to a client base of UCITS and non-UCITS mutual and alternative funds, either domiciled in Ireland or in other jurisdictions. Its offering also includes middle office services for OTC products, share class hedging, private equity and securities lending.

EQI Asset Management was established in London in 2009 as a limited liability partnership and is regulated by the Financial Conduct Authority. The firm specialises in market neutral strategies

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through equities, listed and OTC derivatives. It manages a regulated fund in Ireland.

Lending may follow for BNP Paribas mandate

BNP Paribas Securities Services has on-boarded the assets of Oxfordshire County Council's £1.5 billion pension fund as part of a mandate to provide global custody and valuation reporting services.

There is also scope to expand the relationship into securities lending and performance measurement.

Sean Collins, head of pensions for the Oxfordshire fund, said: "We were particularly impressed with the approach set out by BNP Paribas, to work with us to manage the transition, and then to develop their systems and reporting suites to meet our specific needs here in Oxfordshire. Their flexibility was a key differentiating factor, and we felt they were offering us a service rather than simply looking to provide an off-the-shelf solution."

Annalisa Winge Bicknell, head of institutional investor sales and relationship management, BNP Paribas Securities Services UK, said: "We are very pleased to have secured this mandate from Oxfordshire and we look forward to developing a long-term relationship with them."

BlackBerry on top of hot stocks yet again

SunGard Astec Analytics's top 10 hottest stocks from a securities lending perspective showed BlackBerry shooting back to the number one position, having seen a heavy week swinging its share price up to 13 percent.

The smartphone maker recently agreed to let a consortium of Canadian investors purchase the company for $4.7 billion in cash, said SunGard, adding that the company was later hit amid fears the deal would not actually be forthcoming.

BlackBerry finished on a low after it reported a $965 million Q2 loss, having already warned shareholders previously that the company could see a loss of up to $1 billion.

Meanwhile, data from SunGard's Astec Analytics showed borrowing levels continuing to climb recently, although having dipped a little lower following the initial news of the cash bid, edging 3 percent higher as those on the short side seemingly continue to build positions.

Flurry of activity for OCC's lending CCP

OCC's securities lending central counterparty (CCP) activities saw a 21 percent increase in new loans from September 2012 with 87,792 transactions last month.

Year-to-date stock loan activity is up 28 percent from 2012 with 957,152 new loan transactions in 2013. The average daily loan value at OCC in September was $65,617,688,082.

But OCC also announced that cleared contract volume in September reached 321,604,328 contracts, a 4 percent decrease from the September 2012 volume of 333,832,141 contracts.

Exchange-listed options trading volume reached 315,911,302 contracts in September, a 4 percent decrease from September 2012. Average daily options volume this year stands at 16,355,717 contracts, 1 percent higher than 2012. Year-to-date total options trading volume is up 1 percent with 3,074,874,727 contracts in 2013.

Futures cleared by OCC reached 5,693,026 contracts in September, a 35 percent increase from September 2012. OCC's average daily cleared futures volume this year is 237,349 contracts, up 67 percent from 2012. OCC's year-to-date total cleared futures volume is up 67 percent from 2012 with 44,621,604 contracts.

'Volume begets volume', says OneChicago

OneChicago, an equity finance exchange, announced September 2013 volume of 1,264,283. Open interest stood at 669,479 contracts on the equity finance exchange at close-of-market, September 30, 2013, up 36 percent year-over-year.

Year-to-date volume, as of September represents a record for the exchange, insofar that the volume of 6.9 million has surpassed all of 2012.

"It is a truism in the markets that volume begets volume. Our year over year volume trends have caught the attention of not only commodity traders looking for synthetic access to the equity markets without any dividend risk but also to equity participants looking to reduce balance sheet prior to Basel III implementation," said David Downey, CEO of OneChicago.

Some 1,224,885 exchange futures for physicals (EFPs) and blocks were traded. September 2013 EFPs and blocks activity represented $5.6 billion in notional value.

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

Slight dip in daily volume at Eurex

In September 2013, the international derivatives markets of Eurex Group recorded an average daily volume of 9.1 million contracts, a decrease of 1.1 million year-on-year.

Of those, 6.7 million were Eurex Exchange contracts (September 2012: 7.5 million), and 2.4 million contracts (September 2012: 2.7 million) were traded at the US-based International Securities Exchange (ISE).

In total, 140.4 million contracts were traded at Eurex Exchange and 48.1 million at ISE.

At Eurex Exchange, the equity index derivatives segment totaled 61.8 million contracts (September 2012: 68.9 million). The future on the EURO STOXX 50 Index recorded 28.1 million contracts.

The options on this blue chip index totalled 20.3 million contracts. Futures on the DAX index recorded 2.4 million contracts while the DAX options reached 3.6 million. The Eurex KOSPI Product recorded 1.7 million contracts.

Eurex Repo, which operates Swiss Franc Repo, Euro Repo and GC Pooling markets, reported in September 2013 for all Eurex Repo markets an average outstanding volume of €227.3 billion, an increase of €200 million year-on-year.

Former DX execs invest in DealVector

Former Data Explorers CEO Donal Smith and founder Mark Faulkner have invested in DealVector.

The Credit Benchmark co-founders, who sold Data Explorers to Markit in April 2012, took stakes in the company, which matches qualified counterparties trading collateralised debt and loan obligations, derivatives and hedge funds, for undisclosed sums.

DealVector revealed on 23 September that it exceeded its fundraising goal of between $500,000 and $750,000, surpassing the $1 million mark.

DTCC completes Omgeo acquisition

The Depository Trust & Clearing Corporation (DTCC) has completed its 100 percent acquisition of Omgeo, with the hope of fostering increased collaboration among the buy side, sell side, and custodians.

With the addition of Omgeo, DTCC now has offices in 14 countries worldwide.

Michael Bodson, DTCC president and CEO, said that by working together with Omgeo under a single integrated global strategy for post-trade processing, DTCC will leverage the strengths and breadth of both organisations to reduce related costs and risks.

With the closing of this transaction, Omgeo becomes part of DTCC's portfolio of businesses. Marianne Brown continues to serve as president and CEO for Omgeo, reporting to Michael Bodson.

The Omgeo subsidiary will continue to be overseen by the current board of managers, which is the governing body comprised of mostly industry representatives.

European specials losing their luster

While European specials shares have increased in number, the same cannot be said for the fees they command, said a Markit securities finance analyst.

A report by Simon Colvin, an analyst at the financial information services company, said that the fee commanded by specials in Europe has fallen below the four year average.

However, specials have seen a resurgence among the most borrowed European shares, with UK and Germany seeing the largest increase.

Colvin noted that the surge in new supply has not been met by a matching rise in demand to borrow, meaning that fees commanded by equities have dropped since the start of the year.

The 1000 most borrowed European equities currently have an average benchmark fee of 73 basis points (bps), a number that has fallen by 6 bps since the end of last year.

"This fall in average fees is driven by a drop in the fees commanded by the most expensive shares," said the report, adding that the value weighted average specials fee—for shares with a benchmark fee greater than 100 bps and demand to borrow over $10 million—has held consistently below the 4 percent level since the start of the year.

Global Prime Partners uses Liquid for P&L

Global Prime Partners will offer a new platform to its portfolio of existing European clients, as well as all new prime brokerage clients.

The platform will be provided by Liquid, which provides trade order and execution management, real-time risk, reporting and shadow accounting solutions for financial services firms.

Global Prime Partners has now become the

exclusive prime brokerage partner of Liquid in Europe. Global Prime Partners has also selected the Liquid platform to monitor its firm-wide risk exposure to its prime brokerage clients, including hedge funds and other asset managers.

It hopes that the platform will provide Global Prime Partners's clients with technology to help decide what to trade, place the trade, monitor compliance and risk, aggregate exposures, track and report profit and loss and performance, and reconcile trades in one place.

"Global Prime Partners has significant penetration with emerging hedge funds and will be a premier partner for Liquid going forward. We are thrilled to be working together as we are both uniquely focused on providing comprehensive and secure mission critical services to help accelerate the growth of hedge fund managers with a strong pedigree," said Brian Storms, CEO of Liquid.

Securities financing services rise for Clearstream

Assets under custody increased by 5 percent year-on-year and securities finance services increased by 4 percent, in a fairly good batch of September figures for Clearstream.

In September 2013, the value of assets under custody held on behalf of customers registered an increase of 5 percent to €11.7 trillion, compared to €11.2 trillion in September 2012.

Securities held under custody in Clearstream's international business increased by 2 percent from €6 trillion in September 2012 to €6.2 trillion in September 2013, while domestic German securities held under custody increased by 7 percent year-on-year.

However, international settlement transactions decreased by 1 percent over September 2012.

Of all international transactions, 85 percent were OTC transactions and 15 percent were registered as stock exchange transactions.

For global securities financing (GSF) services, the monthly average outstanding reached €575.2 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced an increase of 4 percent year-on-year.

But at €571.3 billion, the year-to-date September 2013 GSF monthly average outstanding is just 1 percent below the same period last year.

Philip Brown, head of global client relations and member of the executive board of Clearstream, said: "The 5 percent rise in the volume of our assets under custody compared to the same month last year offers us reassurance that customers have trust in our business model, service suite and our strategy. This vote of confidence comes at the time when financial institutions and corporates have to select the providers, which will best help them navigate the current regulatory complexity. Many of the regulatory initiatives call for radical changes to their business models and our customers are gearing up in time to be well-positioned for the emerging market landscape."

Switzerland is self-regulating its shorting

The Swiss stock exchange SIX has announced its intention, alongside Scoach Switzerland and Swiss regulator FINMA, to add to regulations concerning short selling.

"In Switzerland, there are no provisions to regulate short selling in terms of laws or stock exchange regulations," said a release from SIX Swiss Exchange.

In 2008, an announcement was made by the then Swiss Federal Banking Commission (SFBC) and SIX Swiss Exchange imposing certain restrictions on short selling.

But now, according to the regulations of SIX Swiss Exchange and Scoach, short selling will be permitted if the selling party is able to deliver the securities on time.

The exchange specifically mentioned that it is expanding Section 9 (Market Conduct) of SIX Swiss Exchange's and Scoach Switzerland's rule book, to include information on the powers of the stock exchange to regulate short selling.

Directive 3 (Trading) of SIX Swiss Exchange and Scoach Switzerland will each be supplemented with provisions dealing with this (new Section VI: Short Selling). These new regulations will enter into force on 11 November, and replace all previous announcements made on the matter.

The new regulations provide the management of the exchanges the flexibility to react to changing market situations. Following consultation with FINMA, the exchanges may, if required, implement market-based restrictions on short selling, with notice.

Section 9 also contains provisions requiring participants and traders to comply with the market conduct rules. It also forbids unfair trading practices.

"As before, these restrictions shall still apply to carrying out short sales," concluded the release.

Dubai and Clearstream cooperate in collateral

Clearstream's global liquidity hub has its first Middle Eastern central counterparty (CCP) link.

The Dubai Commodities Clearing Corporation (DCCC), which is the CCP of the Dubai Gold & Commodities Exchange, has agreed to cooperate on collateral management for CCP margining.

By the end of the first quarter of 2014, Dubai's exchange customers will be able to use the collateral pools of Clearstream and its partners to meet margin requirements at DCCC through the hub.

The hub aims to enable market participants to manage a growing number of worldwide exposures on a fully automated basis out of a single, global collateral pool, which consolidates assets held at Clearstream and with its partners.

Gary Anderson, CEO of Dubai Gold & Commodities Exchange (DGCX), said: "Partnerships like these are key building blocks in our efforts to transform the Middle East's derivatives marketplace and become a key hub in the global liquidity infrastructure map. Demand for collateral is expected to grow significantly, driven by both market forces and regulatory reform, and DGCX is keen to support its members in deploying collateral optimally without fragmentation."

Gaurang Desai, COO of DCCC, said that the partnership with Clearstream strengthened the overall offering for DGCX members with a service that promotes significant efficiency gains in managing and transferring collateral.

"This alliance takes our strategic efforts of being the CCP of choice in the region a notch further by providing products and services of international standards to our customers. The Clearstream alliance not only allows us to help our members in addressing key liquidity requirements but also in creating new value and revenue opportunities through improved collateral management."

Stefan Lepp, head of global securities financing and member of the executive board of Clearstream, said that its strategy is to grant the market access to a growing number of exposure locations such as globally fragmented CCPs while at the same time connecting to an increasing number of collateral locations.

"The most important and unique feature of our open model is that the collateral remains in its current environment and with our partner CSDs, with agent bank and with global custodian partners."

Initial margin fears are realised

A recent paper has explored the regulatory drivers for the implementation of initial margin and the challenges that institutions face from a systems, organisational and modelling perspective.

InteDelta, a risk management consultancy, has collaborated with BNP Paribas Securities Services, Lombard Risk and TMX Technologies to produce the whitepaper, entitled 'Initial Margin: a commentary on issues for centrally cleared and non-centrally cleared business'. The paper was released at Fleming Europe's 7th annual Collateral Management Forum in Amsterdam.

David Beatrix, business development, market and financing services at BNP Paribas Securities Services, said: "The new rules and practices in relation to initial margins of cleared and bilateral OTCs impose new requirements to financial institutions, both in terms of liquidity and asset protection."

"As a leading custodian, we continuously develop solutions to help our clients to meet these challenges, keeping a constant focus on risk management."

Michael Bryant, the managing director of InteDelta, added that the introduction of mandatory initial margin requirements is going to have a major impact on institutions for both cleared and non-cleared business.

"Institutions will need to respond by adapting their organisational structure and processes and ensuring they have in place adequate systems, methodologies and policies."

BNY Mellon picks up lucrative Hawaii mandate

BNY Mellon has been named global custodian by the Employees' Retirement System of the State of Hawaii (HIERS), encompassing more than $12.3 billion in pension fund assets.

BNY Mellon will provide global custody, securities lending, foreign exchange, cash management, and a wide range of global risk solutions services to HIERS.

HIERS provides retirement, disability, survivor, and other benefits to more than 112,000 members. Its membership is comprised of retirees, beneficiaries, inactive vested members, and active public employees working for the State of Hawaii and its counties.

"BNY Mellon is a market leader whose team can help us implement best practices that enable us to be more efficient," said Wesley Machida, HIERS executive director.

"This appointment extends our existing relationship with BNY Mellon's investment management and corporate trust businesses. As global custodian, we'll get a partner with a robust set of products we can leverage both now, such as securities lending, and in the future."

"Our relationship with HIERS is a stellar example of how BNY Mellon can deliver a total package of investment services from across the company to large plan sponsors," said Samir Pandiri, executive vice president and CEO of Asset Servicing at BNY Mellon. "We'll continue to work closely with HEIRS to support their needs in managing and administering their pension fund assets."

CFH Clearing addresses broker needs

The interbank prime of prime solutions provider, CFH Clearing, has created new products aimed at tier one and two brokers.

The suite of products is called ClearVision, and is made up of tools such as ClearAllocate, a block trading tool for fund managers.

CEO Lars Holst said: "Over the past five years we have been fortunate to work closely with some of the leading brokers in the world and it became obvious to us that they were consistently looking for the same two things: control and transparency in both their liquidity offering and their technology partner."

ClearVision connects to CFH Clearing's pool of Tier 1 banking relationships, but can also be delivered with the broker's own liquidity and independently of CFH Clearing.

The ClearVision STP tools have been developed over the last five years, and were originally intended for internal use at the firm.

CFH Clearing rebranded from CFH Markets in June 2013.

A 1,000 metre vault

The MSCI upgrade of Qatar and UAE has put elementary structures for lending and short selling in place. But SLT finds out that there are still a lot of hurdles to jump before the region takes an active place in the world's markets

GEORGINA LAVERS REPORTS

The MSCI upgrade elevated the United Arab Emirates and Qatar from "frontier" to "emerging market" status after five failed tries by exchange officials, with official membership in the index expected to take effect in May 2014.

International institutional investors recognised the improvements made by the Emirati regulator (Security and Commodities Authority), the Dubai Financial Market and the Abu Dhabi Securities Exchange with respect to the delivery versus payment (DVP) model.

The majority of market participants have expressed no major concerns over the safekeeping of investors' assets and are starting to move away from the dual account structure, and a proper false trade mechanism was introduced in May 2013 on both exchanges.

Most significantly, a regulation governing stock borrowing and lending agreements has also been issued and the implementation is expected to be effective in the coming months.

This is not simply lip-service—or it shouldn't be, considering that MSCI slashed Greece's status as a developed market in part due to it failing to have proper securities borrowing and lending short selling or transferability facilities.

However, it must be taken into consideration that the two Middle Eastern countries are being upgraded from frontier markets, and may have a lot of work to do to make an impact in a specialist sector such as lending.

Mike Cowley, head of direct securities services (DSS) for MENA at Deutsche Bank, says that he believes the industry needs to be careful with the usage of securities lending in the Middle East.

"Whilst the UAE and Qatar are developing their lending capabilities they are for securities fails and not strategic lending. It is not the strategic lending you see in mature markets."

Short selling may be on the MSCI's agenda, but UAE and Qatar still do not really allow this in practice, he adds.

"You still have to have the assets in the account for the orders to go through to the market but we should note there is now more protection for security sales in that a level of asset protection now exists. The receive versus payment/delivery versus payment (RVP and DVP) and processes are recognisable, and as stated there is far more control for the global custodians and their clients than it ever has been. But, we still have a little way to go."

> "Wealthy GCC funds are already a prime source of lending from an international standpoint"

David Lewis, vice president of Astec Analytics at SunGard's capital markets business, agrees that it is possible to short sell in the UAE—in a kind of fashion. "It is feasible to short sell, but only with local securities. Its not really how we would recognise the practice in a developed lending market, because the structure is dominated by local investors and brokers who themselves cannot take principal positions."

As for an example of a Middle Eastern country that is active in lending, Lewis pointed to Turkey as an active market, despite the fact that it is quite small.

However, he states that wealthy GCC funds are already a prime source of lending from an international standpoint, and would be a good basis for activity on the local markets, if lending arrangements are put into place.

"Many of the GCC countries have substantial, well known and respected sovereign wealth funds, many of whom are active securities lending participants. This lending activity is currently restricted to their non-domestic or international assets only of course."

"The larger local funds are very experienced in securities lending and make significant returns, so I imagine they would be quite active in their domestic arrangements when rules do get put in place."

But, there are also cultural hurdles to vault before securities lending can fully develop. In opposition to the criteria of the MSCI Global Equity Indices, a paper detailing MSCI Islamic Index series methodology, released in May 2011, says that Sharia investment principles do not allow investment in companies that are directly active in securities lending.

"On principle, Sharia law is against the practice of selling something you don't own, and some will consider short selling to be an activity that can drive the price of the share downwards, an activity that could also be interpreted as contrary to acceptable behavior," says Lewis

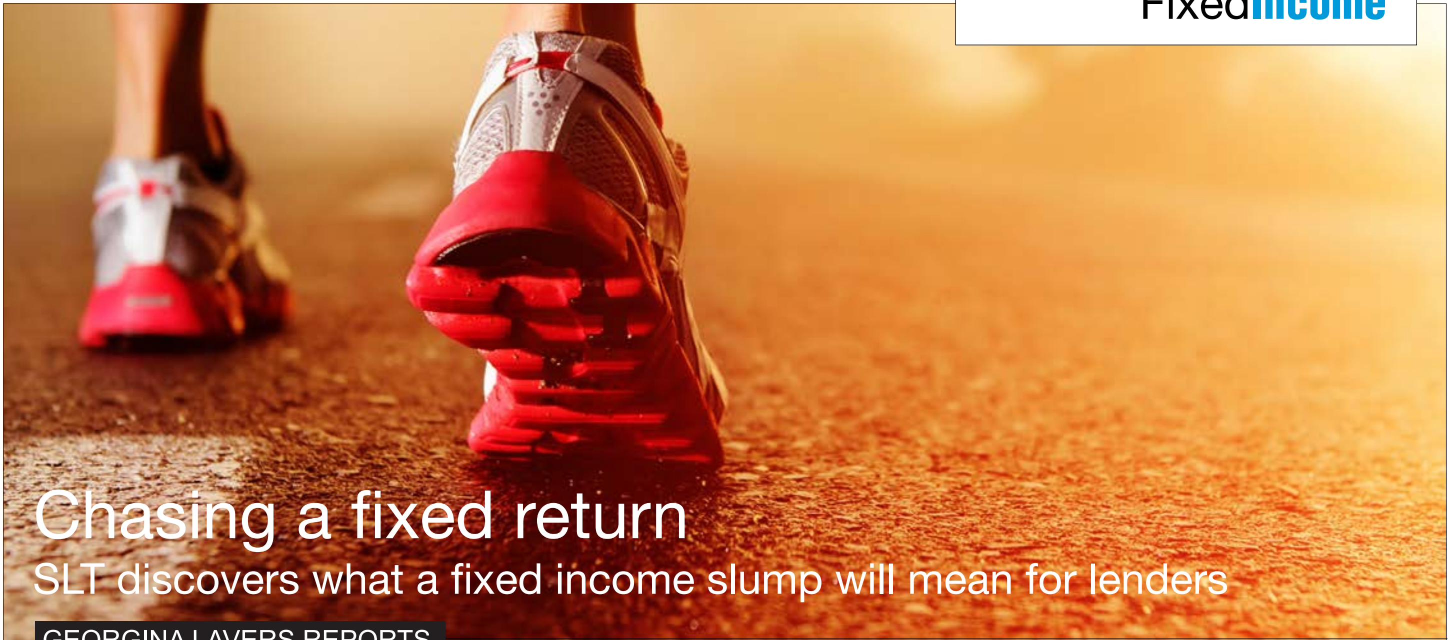
The fact and nature of Sharia law, a fairly small pool of available securities, and thin stock market volumes could all be possible downsides to the development of securities lending in the Middle East.

Adding to this, there are detractors who say that the UAE and Qatar may be just ticking a box in order to get an upgrade. But, the fact remains that the two countries have agreed to put structures in place. Whether they turn out as we expect, remains to be seen. **SLT**

Middle Eastern countries

Simply defining which countries are part of the Middle East can be a bone of contention. This is a list as defined by the Central Intelligence Agency

Armenia
Azerbaijan
Bahrain
Gaza Strip
Georgia
Iran
Iraq
Israel
Jordan
Kuwait
Lebanon
Oman
Qatar
Saudi Arabia
Syria
Turkey
United Arab Emirates
West Bank
Yemen



Chasing a fixed return

SLT discovers what a fixed income slump will mean for lenders

GEORGINA LAVERS REPORTS

"The markets for repos and securities lending are crucial for the trading of fixed-income securities," said the New York Federal Reserve in a 2011 staff report.

And lending may be ever more crucial for the securities, as investors face losing out from them for the next few years.

Liquidity risk for lenders became a particular concern amid the volatile equity markets of the 2008 crisis period. Equity market declines exceeded 40 percent, borrowing demand dropped and the short-term fixed income market faltered.

"These developments exerted pressure on the liquidity of cash reinvestment pools by rapidly drawing down available cash from maturing assets and lowering the market prices of some of the pools' underlying assets," says Leslie Levine, a vice president in State Street's securities finance division

Scott Thiel, deputy chief investment officer for fundamental fixed income at BlackRock, said at a recent media briefing that overall returns of the market will continue to be negative as monetary policy shifts.

With everything from bonds, derivatives or repos in fixed income severely affected by regulation, and trading revenues down, the costs of this change is beginning to show.

The Federal Reserve has led a fairly confusing goose chase over these last few months with its he-said-she-said accusations of 'tapering'. Anticipating that the central bank would start winding down its longstanding quantitative easing (QE) programme (despite it insisting that the word tapering had never been used—nor that they had promised that September would mark the start of the process), markets panicked, and started to price accordingly in June.

However, at an 18 September policy meeting, the Federal Reserve decided not to strike off some $10 or $15 billion from its bond-buying programme.

"Taking into account the extent of federal fiscal retrenchment, the committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program a year ago as consistent with growing underlying strength in the broader economy," said its release.

"However, the committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases."

Accordingly, the committee decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term treasury securities at a pace of $45 billion per month.

It maintained its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing treasury securities at auction.

"Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the committee's dual mandate," added the release.

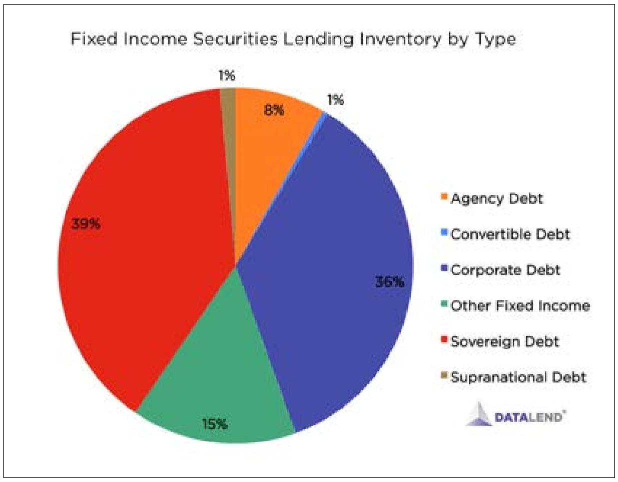
Though fixed income revenues declined in summer for most of the European banks, there has been other good news for the securities. Last year, the senior vice president of eSecLending Giselle Awad said that focus on the fixed income and repo space is occurring in Australia, which is being driven by both regulatory changes and economic forces.

BondLend, a 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. **SLT**



The price is not right

Given that fixed income is fairly illiquid compared to equities, it can be tricky to price mark-to-market if it hasn't traded in days, or sometimes weeks.

Mark Hepsworth, president of pricing and reference data at Interactive Data, says that one of the most significant issues is the lack of discernable 'market colour' around how the assets are actually priced, because they trade so infrequently.

"There are concerns that the current lack of liquidity in fixed income will exacerbate this problem as the sell side is dramatically pulling back on inventory. At the same time we are seeing that regulators around the world are looking at ways to increase fixed income transparency by scrutinising both the inputs and the independence of those sources used to price these instruments."

Asia is bright spot for specials

Specials have proven to be more resilient in Asia than in western markets, where fees are tracking below their average, says Simon Colvin of Markit Securities Finance

Our look at specials around the world makes for sobering reading to any securities lending market participant looking to increase revenue among the most borrowed names.

While fees in both Europe and the US are tracking below their recent average with little signs of recovery, Asia is living up to its billing by offering the key revenue opportunities in securities lending.

A first glance at the 1000 most borrowed names in Asia finds that loans across the continent command a much higher fee than in the west.

The average benchmark fee across these names is a respectable 1.07 percent on an annualised basis. By comparison, the top 1000 most borrowed European names have an average benchmark fee of 0.76 percent.

This average fee is lower than the start of the year when the same 1000 shares had an average benchmark fee of 1.4 percent. While this fall may look dramatic, the current average benchmark fee is still in line with the four-year average. The same cannot be said for western markets.

Partly behind the decline in fees is the reduction in specials, which command an average fee of more than 100 basis points (bps).

This now stands at 4.07 percent, roughly a fifth less than at the start of the year when the average benchmark fee was hovering at four-year highs. Again, this fall in specials fee is less dramatic than in the west as it is in line with the four-year average.

The proportion of specials in Asia has also held up really well as they now make up nearly a quarter of the most borrowed regional names, a four-year high for the region.

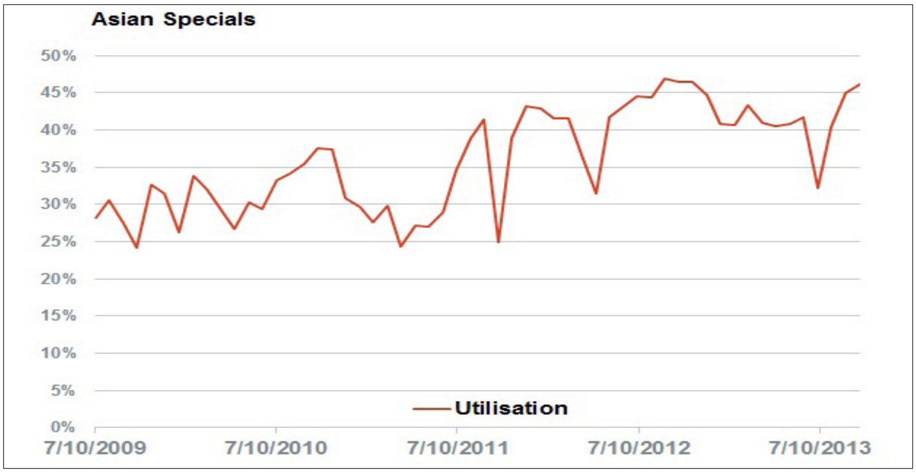
The growing prevalence of specials has ensured that the revenue figure from specials in Asia has remained resilient.

Demand to borrow these names is also driving this revenue figure as the utilisation of specials has actually increased to 46 percent, nearly equalling the recent high posted at the same time last year.

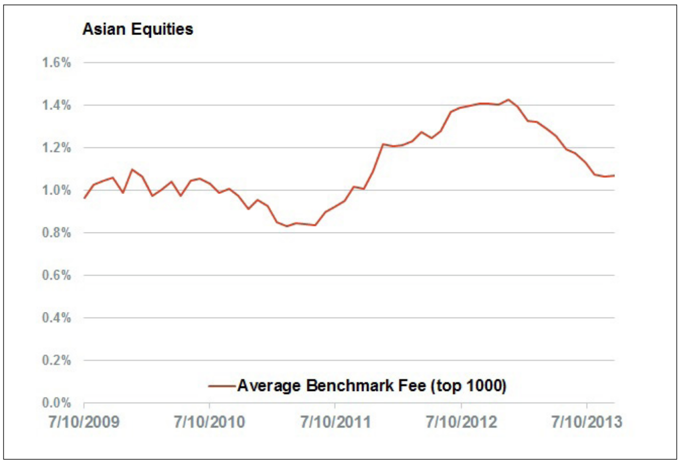
The country at the forefront of the growth in specials is Japan. The regional giant has seen the number of shares that trade special grow by a quarter since the end of last year. There are now 52 Japanese shares trading special among the top 1000 borrowed names, taking the country to third in terms of the number of specials.

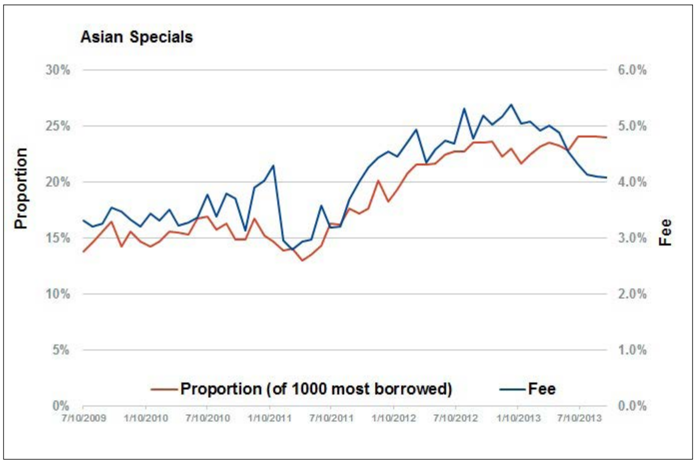
Interestingly, it is Taiwan and South Korea—economies that have struggled with the resurgence of Japanese competition—that have seen a fall in the number of shares trading as specials.

Yet, Taiwan is still the hottest regional country with 69 specials, which account for nearly three quarters of the 93 Taiwanese shares in the most borrowed list.



Simon Colvin
Analyst
Markit Securities Finance





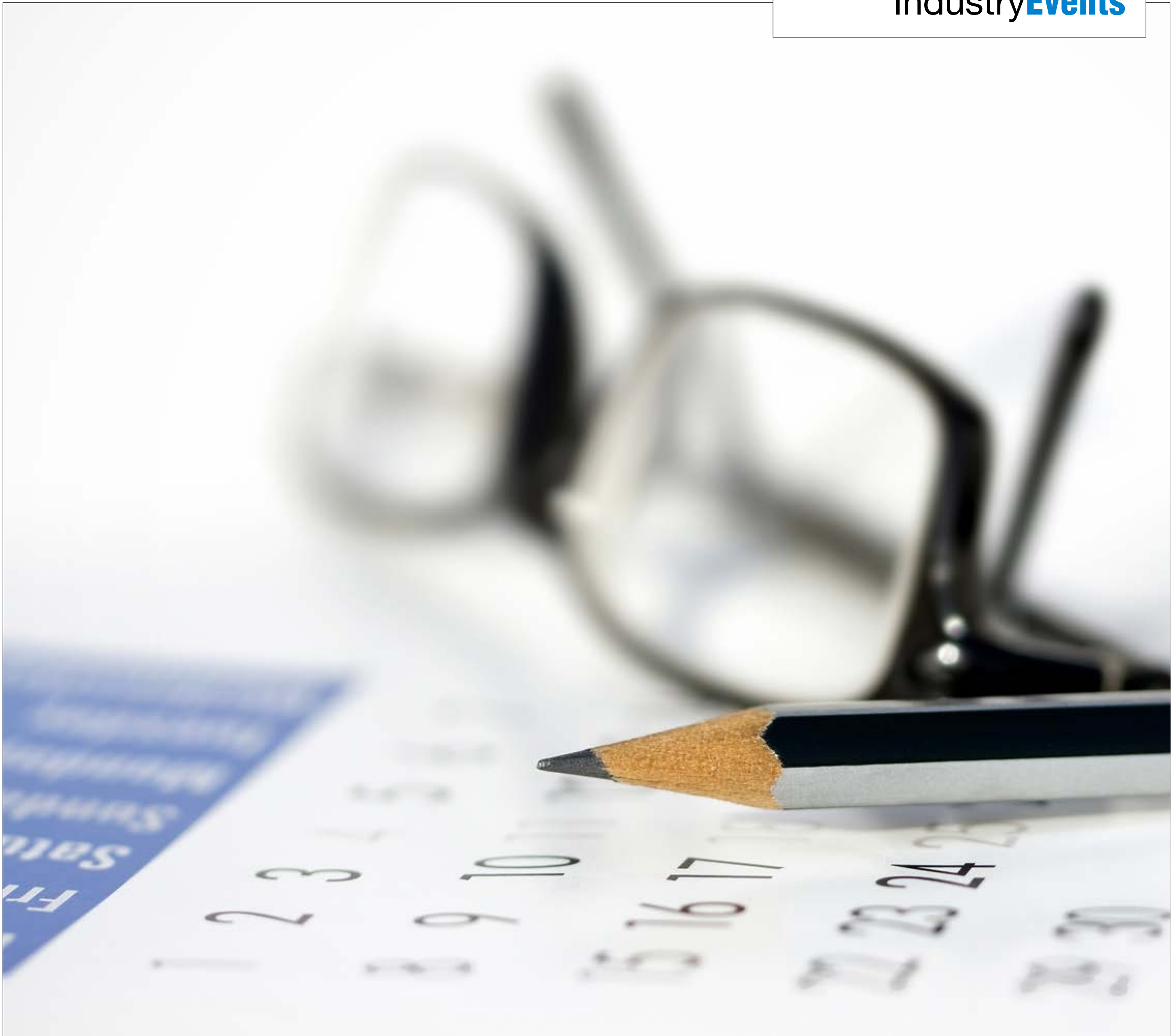
Get on the Collateral Highway

Whatever your collateral destination

euroclear

Post-trade made easy

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



RMA's 30th Annual Conference on Securities Lending

Date: 14–17 October 2013
Location: 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, 14 October with the welcome to Boca networking reception.

GFMI's 2nd Annual Collateral Management Conference

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

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

Securities Lending: 2014 Outlook

Date: 21 November 2013
Location: London
www.securitieslendingtimes.com

We are pleased to announce Securities Lending Times' first event in conjunction with Citi. Securities Lending: 2014 Outlook will be a forward thinking seminar looking at navigating in exceptional times

Industry appointments

Will Gow has resigned from his managing director role at eSecLending.

His resignation, handed to eSecLending bosses in the week ending 4 October, followed hot on the heels of the news that **Saurabh Seth**, managing director and co-head of securities finance at eSecLending, has also resigned from his position.

Before moving to eSecLending in 2002, Gow worked at Merrill Lynch for a number of years.

An eSecLending spokesperson confirmed that Gow has already left the firm, but would not comment further.

Seth had primary responsibility for fixed income and equities trading in Europe, the Middle East, Africa and Asia.

He previously worked as a director at Mitsubishi UFJ Securities International. Before that, he held roles at BNP Paribas and Citigroup.

eSecLending hired **Jeffrey O'Neill** as managing director and global head of trading earlier in October.

The former Brown Brothers Harriman global head of securities lending trading was brought in to drive business growth at the securities lending agent, which was bought by a private equity firm in August for an undisclosed sum.

Craig Starble, who was previously an executive vice president and head of securities finance at State Street as well as CEO of Premier Global Securities Lending, also invested in eSecLending, and joined the firm as CEO.

Of O'Neill's recruitment, Starble said: "It is fantastic to have O'Neill on our team. His depth of experience in the securities lending industry will further strengthen our ability to provide clients with market-leading trading strategies as well as superior execution via both our auction model and discretionary lending programme."

"O'Neill's securities financing background across traditional agency lending and hedge funds, combined with his ability to think outside the box, will serve our clients well as we continue to grow the business."

Commenting on his appointment, O'Neill added: "I am really excited to join such a dynamic team and company. I have always admired eSecLending's independent business model and I am a firm believer in using auctions as a price discovery tool."

Christopher Kunkle, formerly director of securities lending and market risk at the Risk Management Association (RMA), has joined Wells Fargo Securities as a managing director of securities finance.

He will report to Peter Abric, managing director and the head of securities finance, and will be based in New York.

Kunkle will continue to use his years of regulatory and relationship management experience to help the client trade services team, said a spokesperson.

"His focus will be on business development, relationship management and regulatory matters as it pertains to all securities finance issues."

It was announced in September that Kunkle would be resigning from the RMA after almost four years in the job. **Fran Garritt**, formerly the associate director, took over as director of securities lending and market risk.

Garritt has worked at the RMA since 2000, and has been instrumental in market risk as well as securities lending development over the past six years.

Mehtap Dinc and **Brendan Bradley** have been appointed to Eurex's executive board.

Dinc will take over responsibility for product research and development from Peter Reitz, who will remain on the executive board and continue to be in charge of European Energy Exchange (EEX) and Eurex Repo.

Bradley will be responsible for innovation management.

"I am looking forward to working with Mehtap and Brendan as both have deep and extensive knowledge of derivatives markets and products. The appointments highlight our strong focus on constantly delivered excellence in product and functionality innovation," said Andreas Preuss, CEO of Eurex. **SLT**

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Paul Kelly...

Meet Paul Kelly, an Englishman living in Brazil looking for his next role

Tell us a little about yourself

Bom Dia! My name is Paul Kelly. I was born and raised in Sheffield, completed my BA Business Studies at Sheffield Hallam University, before moving to London to pursue a career in financial services. When I first started working in the city, I really enjoyed the social aspects, and quickly learnt that building and maintaining good relationships was a solid foundation for a career in banking. More recently, my life has become much more family focused—I married a Brazilian national and I'm now the proud father of two children, Christopher and Jessica—and I have moved to São Paulo, Brazil in June 2013.

What industry qualifications or relevant certification do you hold?

At university, I was already leaning towards a career in banking, so the main focus of my chosen options was banking and financial services. At the time, like most young graduates in banking, I was keen to get into a trading role, but quickly realised that competition was fierce, so whilst working in a trade support role, I decided to take the SFA Securities Representative exam.

I then took the SFA Financial Derivatives module a year later. I think this showed initiative to prospective employers, and later that year I found myself working on the equity finance trading desk at Morgan Stanley, in my first securities lending role. I later studied for, and passed the IMRO Investment management certificate, in my time at BGI.

What was your last position in the industry and what did you enjoy most about it?

My last role was as a collateral management consultant at Commerzbank, which lasted four and a half years until May this year when I left to move to Brazil. What I enjoyed most about this role was the diversity. During my tenure, Commerzbank merged with Dresdner, so I became involved in the migration process, training and developing staff, and departmental restructuring. I also enjoyed the fairly frequent trips to Frankfurt, for training, development and team building.

Tell us about some of your previous roles

My first role within securities lending, I was thrown in at the deep end. I worked as a non-cash collateral manager at Morgan Stanley on their equity finance trading desk, back in 1998. At the time, Morgan Stanley was at the cutting edge of securities lending…demands and expectations were high!

I had little experience but a willing attitude, and worked under Mark Barnard who was an excellent mentor (and he even had a full head of hair back then!). Despite long hours, we were actively encouraged to go beyond our daily duties, and push ourselves further to become more involved than just managing exposure, and started agreeing upgrade trades with counterparts, borrowing bonds against cheaper equity collateral.

Subsequent to that, I joined Barclays Global investors as a stock loan trader, working under Kevin McNulty and Andrew Speers. My role involved managing relationships with various brokers, maximising securities lending revenues, negotiating and agreeing dividend baskets, and allocation of hot stocks based on balances. I used my previous experience to help introduce a new collateral matrix to aid business development, and help increase balances.

I also spent time in Tokyo managing the stock lending desk for holiday cover, which involved a great deal of socialising with brokers.

I then spent time at Daiwa Capital Markets as a senior trader. I was brought in to develop the European stock lending business, and quickly turned it into an important revenue stream. I also became involved in the equity swaps and financing side of the business, spent time in New York developing the bond repo business, and gave presentations to buy-side clients in mainland Europe to help develop the lending business, and increase revenue on the equity sales desk.

Finally, I had a short spell at Deutsche Bank, before joining Commerzbank, and spent a year working within Deutsche client services. When I joined, the department had experienced a near 100 percent turnover of staff within a year, and morale was low. During my tenure, I not only focused on developing relationships internally, and externally with clients, I also focused on educating staff and developing their understanding of collateral management, and securities lending.

What area are you looking to get back into?

I'm certainly looking at staying within the securities lending arena. Whilst we've seen growth in the Brazilian market, it has still yet to fully mature. A complex tax system for offshore participants, and the fact that everything is done via the central counterparty (CCP) has put off some of the big foreign custodians and pension funds. With the growth of CCPs in other more developed markets, and as comfort levels grow, we may see more offshore participants entering the market here, which could mean interesting times ahead.

What do you feel you could bring to a future role?

I have 17 years of experience of working for some of the biggest investment houses in the world, 15 years of which has been in securities lending. I've worked with, and learned from some of the industry's top professionals, and my varied experience within the industry has given me a much broader view of the securities lending product. I have excellent communication skills and a strong focus on relationship management, both internally and externally. In previous roles, I've helped improve processes, develop business, and improve profitability, and feel I have an awful lot of knowledge and experience to bring to any future role.

What do you feel the industry needs most?

I think most will agree that the biggest threat facing the industry at the moment is the amount of regulation coming from both sides of the Atlantic, and the proposed Financial Transaction Tax, which if introduced next year, could hit the industry hard. Going forward, what the industry needs is more clarity and cooperation and a more rational approach from the regulators. Whilst they are right to focus on reducing systemic risk, if the regulatory and tax framework becomes too burdensome for participants, then they will simply cease to do business, reducing liquidity in the markets, which will of course have a knock-on effect on primary markets. **SLT**

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Jean-Marie Grandmont, director of collateral management transaction operations, Euroclear Bank

How did you get into the securities finance industry?

For many years, my interests and expertise were IT rather than financial services-based. When I joined Euroclear in 1989, I was attracted by the company's dynamism and its people. It was also a company with vision for the post-trade business, where IT was to play an important role in delivering it.

As a programme manager, I developed my knowledge of and appreciation for the securities industry, specifically in the areas of transaction settlement, money transfer, securities lending and borrowing, and collateral management. Over time, I led larger and larger projects, such as the successful launch of the platform consolidation programme that we put in place for the Belgian, Dutch and French markets, called ESES.

After 20 years in IT, I wanted a new challenge that enabled me to apply my programme management skills while getting closer to the business and to our clients. The opportunity arose in 2008, when I moved to my current position as head of the collateral management operations team, one of the fastest-growing business areas within the Euroclear group.

In fact, the first day in my new position was 15 September 2008, the first business day after the Lehman Brothers crisis. What a way to start!

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

As I was looking for a challenge, my expectations were easily met. Ours is a changing business, with new client and regulatory demands placing greater and greater emphasis on high operational efficiency, risk and cost reduction.

I am continuously learning and developing new ways to provide service excellence to our clients. Adding value and delivering solutions have always been my personal drivers. My current job responsibilities enable me to see tangible results quickly.

Moreover, the collateral management business is growing at unprecedented levels, which means that I always need to look ahead with my colleagues to prepare the team to manage more business volumes, while keeping client satisfaction levels at the top of the industry. It's an extremely exciting time in the collateral management business.

What do you see as the biggest challenge facing the industry right now, and why?

Managing securities inventories efficiently to cover exposures and complying with new regulations are adding stress to the capital markets and crediting a lot of uncertainty about the availability of sufficient collateral pools. There are large variations in supply and demand estimates circulating in the market, which makes the uncertainty even more perilous. So, the biggest challenge in my area of expertise is to prepare the market for the worst-case scenario in terms of collateral supply and demand.

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

I don't have individual role models per se. My inspiration comes from many sources both within and outside Euroclear, partly from senior executives whose experience and industry knowledge command respect. Also, I am inspired by my team members, who often have more helpful lessons to share than we think.

I also learn from successes and failures in the financial services industry and from history. It's surprising how often firms reinvent the wheel or repeat mistakes.

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

I would very likely work in research, analysing and innovating to deliver improvements.

What are your ambitions?

They are more centred on well being than materially driven. I strive to be happy at work, with my family and my friends. Later (hopefully much later), I want to look back at my life without any regrets. Enthusiasm, motivation, happiness, hard work and a sense of well being have shown to be rewarded with success and recognition.

What about regrets? If you could go back in time, what would you change or do differently in your career?

Life is about making choices and working hard to make those choices the best ones possible. I have no regrets, but plenty of experiences from which to learn.

What are your hobbies and interests?

I'm curious about everything to do with history, science and finance, which is an impossible set of interests to satisfy given the pace of change and creativity. **SLT**

"The first day in my new position was 15 September 2008, the first business day after the Lehman Brothers crisis. What a way to start!"

Jean-Marie Grandmont, director of collateral management transaction operations, Euroclear Bank