

The Business of Asset Management and Asset Servicing

global investor **istf**
incorporating

SUNGARD SUPPLEMENT

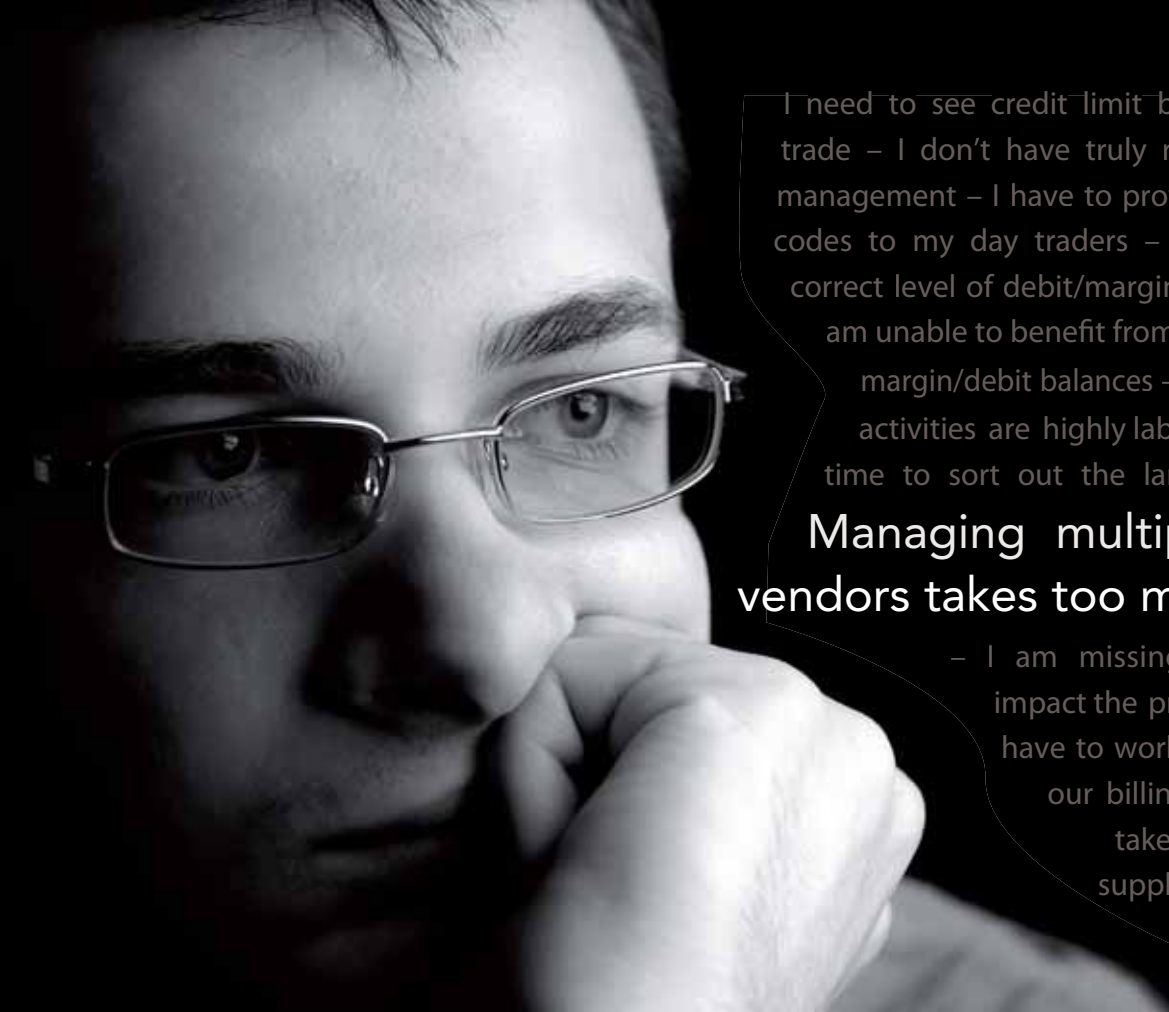


TRANSPARENCY SURVEY

Into the future

SUNGARD[®]

FOR BREAKING NEWS AND PEOPLE MOVES VISIT ► WWW.GLOBALINVESTORMAGAZINE.COM



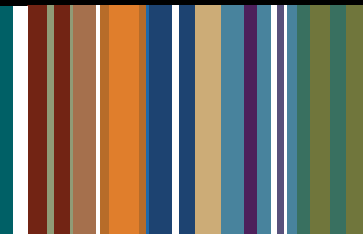
I need to see credit limit breaches when I book a trade – I don't have truly real-time global position management – I have to provide locate authorization codes to my day traders – I have to maintain the correct level of debit/margin balance all the time – I am unable to benefit from hot stocks tied up in my margin/debit balances – Many of my operational activities are highly labor intensive - I only have time to sort out the large billing discrepancies

Managing multiple technology vendors takes too much of my time

- I am missing corporate actions that impact the profitability of a trade – I have to work very long hours to sort out our billing discrepancies – I can't take risks when choosing the supplier for my mission critical solutions - I don't have truly real time global

SUNGARD[®]

SECURITIES FINANCE



For all your Securities Finance needs SunGard has a Solution

Rely on our Strength. Take Control
www.sungard.com/securitiesfinance

©2010 SunGard

Trademark Information: SunGard, the SunGard logo and the products listed in this document are trademarks or registered trademarks of SunGard Data Systems Inc. or its subsidiaries in the U.S. and other countries. All other trade names are trademarks or registered trademarks of their respective holders.



The Changing Landscape of Securities Finance

The global securities finance landscape is changing at a faster rate than ever before. As a solutions provider, SunGard recognises the need for the securities finance industry to respond and for systems to change in order to address the new demands. But how far have the changes reached? Are firms ready to change? If so, how dramatic will the change be?

SunGard and *Global Investor/isf* conducted a survey to gain better insight into the current state of the securities finance industry, focusing on a number of key areas including Transparency, Risk/Reward Ratio, Consolidation and Efficiency, Legal and Regulatory, and Collateral Management. More than 120 individuals from firms around the world participated in the survey, with responses fairly evenly

split between the Americas and EMEA, and about 5% from Asia. Respondents ran the full gamut of securities finance market participants including Broker-Dealers, Investment Banks and Global Custodians/Institutional Investors, each representing around 25%.

Following the survey, representatives from a number of leading firms were invited to participate in a roundtable to discuss the survey's outcomes and dive deeper into some of the key points raised.

Further details of these conversations are published separately.

Transparency

Post crisis, it has become even more obvious that a global, holistic view of data is required for position and risk control. Information is in greater demand—and considered an imperative rather than a luxury. But do market participants have the data they need to be able to provide the new level of transparency their clients demand?

SUNGARD SURVEY RESULTS

The first series of survey questions focused on participants' ability to get the data they need, and whether the data available is sufficient to fulfil their commitments to internal and external clients.

The results were interesting. Only 22% indicated that the data available to them 'Fully' met their needs, with the largest percentage (70%) saying that their data needs were 'Somewhat' satisfied. Of those who said that their data needs were not satisfied or only partially satisfied, the majority of respondents came from the Investment Bank and Broker-Dealer communities. This result is surprising given the number of data service providers available in the industry, SunGard included.

Other questions associated with transparency explored whether or not the introduction of the central counterparty (CCP) model would have a significant impact on market transparency, and if trade associations should play a more proactive role in the collation and distribution of information. Again, respondents did not draw a clear correlation between the introduction of CCPs and increased transparency, with 58% suggesting that the introduction of CCPs was not likely to lead to a significant change. This result was surprising, since increased transparency is considered a fundamental premise behind the introduction of CCPs. Only 24% of respondents believed that it was incumbent upon trade associations to assist in gathering and distributing market data.

Risk/Reward Ratio

'Intrinsic Lending' is a topic that has emerged since the cash re-investment issues came to light, and there is certainly closer scrutiny on balancing the risk alongside the rewards gained from a securities lending program. In the survey, several questions addressed the demand for more detailed information around risk and reward, and also the impact that the move toward intrinsic lending would have on the appetite for accepting non-cash collateral in its variety of forms.

In one particular question, on the changing volume of business versus cash, 72% of respondents indicated that cash business was decreasing, with a fairly even split between those who felt it was decreasing rapidly and those who felt there was a gradual change. Broker-Dealers and Investment Banks saw the most rapid change, which is not surprising as they are the entities that have been seeking alternative collateral solutions for the sake of their balance sheets, and have been negotiating with multiple lenders in multiple locations.

'Intrinsic Lending' is a topic that has emerged since the cash re-investment issues came to light, and there is certainly closer scrutiny on balancing the risk alongside the rewards gained from a securities lending program.

Another question posed the relationship between General Collateral (GC) and specials and how it is changing. The most popular response was that any previous relationship between GC business and specials had now been broken. The general feeling was that GC business had declined while specials increased, although a reduction of business overall was indicated.

Consolidation and Efficiency

We hear much about breaking down silos within organisations. Some of the survey questions touched upon the current level of separation between equities and fixed income areas, and the desired future state. Responses were pretty evenly split between those who currently have separate business areas for each asset class, and those who do not.

Interestingly, firms that are currently separated into equities and fixed income areas do not demonstrate an appetite for further consolidation, with over 75% of the respondents indicating that they currently have no plans to consolidate. Among firms with segregated areas, 55% indicated little or no use of common IT solutions by each area.

This is interesting, as many firms are looking to drive down costs and increase the effectiveness of their collateral management. Both of these goals can be achieved by consolidating data and solutions; however, survey responses may indicate that the consolidation is being considered post-trade.

Legal and Regulatory

Regulation SHO, ALD, temporary (and permanent) short selling bans, Regulation 204, FINRA 1003, reinstatement of the 'uptick rule', Basel II & III, FSA Liquidity buffers, BIS collateral guidelines, Dodd Frank, AIFM... Securities finance is no longer a back-office business done primarily to lubricate the wheels of the market, and regulators have certainly taken notice. A potential tsunami of legislation is hovering in the wings, threatening to impact securities lending.

In the survey, participants were asked


their views on which areas of regulation were most likely to receive attention. Responses majored on the demand for greater transparency, investor protection and capital adequacy. Nearly 80% of respondents felt that the industry was moving towards greater standardisation than ever before between regulators. A high proportion (69%) of respondents also felt that a good level of commonality of process between the different regulatory regimes was likely, and several commented that this would be required in order to avoid 'regulatory arbitrage.'

Collateral Management

The final section of the survey focuses on collateral management. Since the credit crisis, a renewed focus on collateral management has resulted in an increase in collateralised business. Dependent upon firm type and size, this focus comes from either the perspective of risk mitigation and effective margin management, or the perspective of liquidity management and capital efficiency in the case of global banks. A further viewpoint is that the smaller institutional investor may now have additional responsibility understanding their collateral exposure on a real-time basis.

Eighty percent of firms said that collateral management was a 'hot topic.' About the same number of respondents said their main interest was in the use of collateral management for risk mitigation (40%) and asset optimisation (40%). Unsurprisingly, more Institutional Investors/Global Custodians respondents saw risk mitigation as the key driver, while a majority of Investment Banks/Brokers opted for the benefits of collateral management in optimising the use of inventory.

Forty percent of the firms surveyed currently have separate collateral management functions per business line. In cases where the function is consolidated, the responsibility for collateral management is handled as an Operations function by 19% of respondents, and as a Treasury function by 18%. Of the 64% of respondents who do not currently have a consolidated collateral group, 38% indicated that they were moving towards cross-product management of collateral.

The survey on the Changing Landscape of Securities Finance provided interesting insights into the views of market participants on both sides of the pond. You can explore additional viewpoints of market participants in the write-up of the roundtable held in December, as described in more detail within this publication. 

By Jane Milner, SunGard

Looking beneath the surface

In a search for the true meaning of transparency, *Global Investor/isf* has partnered with SunGard to create a survey of the market. The results were debated recently in a roundtable discussion in New York



Robert Cleasby,
director, Global
Markets Financing
& Services, Bank
of America Merrill
Lynch



David Martocci,
managing director,
global head of
Sales Securities
Finance/Global
Product Manager
Third Party
Lending, Citi



John Grimaldi,
executive vice
president & general
manager, SunGard
Securities Finance



Tim Smith,
executive vice
president, SunGard
Astec Analytics



Anthony Toscano,
head of North
American Trading,
Deutsche Bank
Agency Lending



Kenneth Ward,
director, RBS
Securities



Eugene Picone,
director, Global
Distribution,
Scotia Capital
Agency Lending

Chair: Has the table seen more of a transparency push by the beneficial owner community?

Tim Smith, SunGard Astec Analytics: We have seen a pickup in the demand for transparency particularly from the beneficial owner's side. There's always been a requirement to have transparency but there's certainly increased impetus there now. We probably should all remember that the beneficial owners have their own pressures.

We have seen a take up of interest in transparency by beneficial owners in three main levels. Firstly, accessibility, the beneficial owners that I've spoken to want to have better access to information. The second level is focusing on risk. Beneficial owners are now looking at where their risks are - which are mostly on the reinvestment side - and apply stable and correct reinvestment criteria for any cash collateral they're taking. Finally, they are looking at performance separately.

David Martocci, Citi: Are the beneficial owners looking for data for benchmarking to make sure they're not missing something?

Smith: That's a good question. They are looking not just for performance benchmarking data - which has been quite readily available either through independent providers like ourselves or through the agent lenders with their own performance benchmarking - but also they want to know a little bit more about the mar-

kets in which they're in. And indeed, even though a lot of them have counterparty indemnification they want to know who their securities are being lent to, and also the securities that are being lent.

Chair: Are you seeing the beneficial owner's getting a bit more aggressive in their investment strategies?

Eugene Picone, Scotia Capital Agency Lending: There hasn't been that many RFPs. And the RFPs we have seen have had extra indemnification requirements.

Anthony Toscano, Deutsche Bank Agency Lending: Clients break into two different groups; those that have continued to lend throughout the crisis, but are growing weary of the relatively low returns, the very narrow spreads, and are starting to discuss different things to do with the cash collateral. Then you have the clients who went to the sidelines and are just now thinking it's time to get back into securities lending, in a riskless way, focusing on intrinsic value lending versus highly rated repo or time deposits.

Martocci: In the first group, they want to look at one year and in, for the most part. The risk reward is not there because there's no curve. So yes, there's a few more basis points out there if you're going to take some risk, but it seems like they're trying to focus more on intrinsic value as well, or other forms of collateral.



Toscano: Some clients are actually looking to diversify their exposure given that their lending and reinvestment counterparties are often one and the same. You're right, it's more to put the cash collateral to work rather than to capture additional yield.

Chair: In the market, there is a continued trend towards tri-party repo. Do you think this trend will continue in 2011?

Toscano: In Europe we do a tremendous amount of lending versus securities collateral. We haven't seen the increase in borrow versus pledge in the States. Here in the States, securities collateral is subject to a SIPIC stay in the event of bankruptcy by the broker-dealer counterpart. What we do see a lot of is loans versus cash, and cash invested in a reverse repo, which is in effect the same thing without the risk of SIPIC stay.

Chair: We were speaking about RFPs earlier. Are new beneficial owners coming to market?

Martocci: We have seen some new participants in the business and the driver is portfolio return, so whether it's an equity portfolio or even a treasury portfolio, what are they really earning on it? They own bills, so what is the return there? So

"Then you have the clients who went to the sidelines and are just now thinking it's time to get back into securities lending, in a riskless way"

whereby spreads are down at the end of the day, if you have a bill portfolio and you can add a few basis points it's significant, on an equity portfolio or even an index; obviously dividends are down on the S&P so invariably if they can lend and earn something, there's one or two deal stocks that go on even in an index type portfolio. Obviously the return is going to be substantial. So people are looking at that more and more because money managers have to offset costs and they look at what's happening to the money fund structure; ultimately there's going to be a consolidation in that industry, how can people survive? People are reaching out and looking for yield and opportunity, so are they being conservative? Sure. Are they looking at intrinsic value? Definitely.

Smith: In terms of the actual number of shares that are being lent, we have seen an increase in 2010. We have seen a steady progression of new people coming to market.

Robert Cleasby, Bank of America Merrill Lynch: The market continues to evolve. The number and the depth of specials in the market today are not there. We see this daily with our retail fully paid lending product where a moderate increase in supply can bring about a dramatic change in the HTB value.

John Grimaldi, SunGard Securities Finance: The market has changed on the broker dealer side. Hedge funds are looking to lend their longs, and we have seen many of the broker dealers increasing their fully paid activities. More of the broker dealers are starting fully paid programs increasingly looking at internal supply.

It is about access to supply and wherever they can source the securities, so a lot of fully paid for programmes have been established over the last 18 months within the broker dealer community, to tap those specials when they can and where they can.

Kenneth Ward, RBS Securities: In our book, we've increased substantially our internal lending. We always access our internal books first. I'd say matchbook wise, a good 75% of our positions are internal that we are utilising.

Cleasby: There are two drivers at work here. From a lending perspective there

STRENGTHEN YOUR COMPETITIVE ADVANTAGE



www.globalinvestormagazine.com

global incorporating **isf**
investor

GLOBAL INVESTOR/ISF COVERS THE ENTIRE SPECTRUM OF THE INVESTMENT CHAIN, FROM FRONT OFFICE FUND MANAGEMENT THROUGH TO THE MID AND BACK-OFFICE FUNCTIONS OF ASSET SERVICING. ACCESS TO GLOBAL INVESTOR/ISF DELIVERS THE INFORMATION YOU NEED TO MAKE KEY DECISIONS FASTER AND MAXIMIZE COMMERCIAL OPPORTUNITIES – GIVE YOURSELF THE EDGE.

Subscription benefits include:

- Full access to subscriber only content at www.globalinvestormagazine.com plus your print issues
- Comprehensive coverage of the latest industry news, exclusive interviews, analysis and people moves
- Renowned industry surveys including the transition management survey, survey of beneficial owners, custody and sub custody surveys, survey of Nordic securities finance and the tri-party/repo survey
- Detailed asset management corporate strategies, investment strategies, alternatives, wealth management and regulations news
- Access to all our roundtable discussions
- All the latest asset servicing news, including transition management, trading and technology, fund services, custody and sub custody, securities lending and clearing and settlement
- Convenient daily and weekly email alerts customised to your region and sector preferences



ONLINE



MAGAZINE



SUPPLEMENT



MOBILE



ARCHIVE

For more information, a complimentary trial, or to subscribe: Visit www.globalinvestormagazine.com today.



was definitely a trend back towards intrinsic lending but the pendulum has started to shift back to balance allocation methodology as a determinant of HTB allocations. Our belief is in the current low return environment, lenders will continue to focus on intrinsic lending but as interest rates increase we will see a return to a balanced relationship business.

Toscano: This evolution is somewhat predictable with the transparency that we have from market data providers. That balance versus specials approach before was nothing more than the people with GCs being subsidised by those with specials.

Chair: Central Counterparties are touted as a tool for transparency. What are the panel's thoughts?

"People are reaching out and looking for yield and opportunity, so are they being conservative? Sure. Are they looking at intrinsic value? Definitely"



Grimaldi: CCPs are used to mitigate risk, facilitate settlement, and provide some efficiencies in the markets from a settlement perspective. But that's not transparency. So when you hear people associate transparency with a CCP, I separate the two.

Ward: This concept has been around for years and I think part of the resistance to it is the fact that it's all about control. I want to decide who gets my stock and at what level.

Cleasby: The CCP model has the benefits of dealing with a AAA rated counterpart, risk based margining, the ability for a sponsored firm to have multiple clearing member relationships and therefore offers a seamless way to conduct business in a risk reduced environment and the ability to access a market place via the AQS portal or bilaterally via the "Hedge" program.

Conversations often confuse CCP and AQS. Lenders and their beneficial owners definitely are interested in the auction platform and a number of them are currently participating. It is a platform they utilise for price discovery and access to a pool of demand.

Grimaldi: I call it risk mitigation because it

SUNGARD ROUNDTABLE

doesn't eliminate everything. There's still a clearing fund at the CCP that's going to be used to guarantee these transactions and that clearing fund is only so big.

Picone: At the end of the day, the same people you could be indemnifying overtly as part of your standard program are also potentially supporting this venture, and it's only as strong as its weakest link because we know everything that's led to ALD.

Smith: I think the conversation we've just had around the table rather proves the fact that the jury is still very much out on CCPs and our survey confirmed this. In the survey, a third said: "Yes it would increase transparency," another third said: "It wouldn't," and a final third said: "It would make no difference."

It was also very interesting to note that of the breakdown of those particu-

"At the end of the day the same people you could be indemnifying overtly as part of your standard program are also potentially supporting this venture"

lar segments it was pretty evenly spread amongst all of the industry participants apart from, interestingly enough, the ones that say it would increase transparency. Again we've got to think about transparency as mostly to do with rates. But the ones that said that it would, the smallest percentage, were the custodians, which surprised me.

Grimaldi: The question was asked the wrong way. The question that was posed on the CCP topic was about transparency, and as I said earlier I don't think it's about transparency for a CCP, it's about counterparty risk. So if you posed the question differently and said, "Is the market safer utilising a CCP versus a bilateral agreement from a counterparty risk perspective?" I would be interested to see what the responses would be, because it might flip the responses, knowing that with a CCP you've got a clearing fund, there's a guarantee, using the OCC CCP. When they step into the middle they're principal to the transaction. They're principal with a significant clearing behind them.

Chair: Do beneficial owners care about CCPs?





Toscano: We communicate with our clients a lot and CCPs have generated a good bit of curiosity. When we explain the current state of CCPs, however, they realise further work is needed by CCP organisations to dovetail into an agent lender model. Their interest, and ours, is looking at CCPs as an additional counterparty that brings new demand on-line, not a new paradigm for the industry.

Chair: Do the hedge funds care about the CCPs?

Cleasby: Yes most definitely from a price discovery perspective on short positions and the ability to lend their longs to gain addition “vig” on their long positions.

Grimaldi: It also allows them to finance their longs. In the model that’s currently in play in the US they have the ability and the infrastructure to be direct participants of the market going through their prime or clearing member to get access to the market, so price discovery is there for them.

Chair: Do you think the market is past the problems around cash collateral?

Toscano: The market is not past it, but I am optimistic it will recover. The back-drop of all these things will always make regulation one of the biggest risks; we didn’t talk about it, but if we are going about our business and the SEC decides that you can’t short a bunch of stocks or the list jumps from 18 to 2,000 stocks in a couple of months, it could create a liquidity problem. Then compound that with a borrowing counterpart under stress, you may have some real liquidity

“Asset managers are looking at the securities lending cash investment and stating: “That’s our job so why don’t we do it?”

concerns People need to recognise that the least volatile or the least risky securities are general collateral which tend to generate lending income by taking some risk with cash collateral. The irony is clients who take no risk and make a lot of money in lending are those that have the most risky assets to begin with, such as emerging markets, small caps, things like that.

Smith: What it comes down to therefore is an investment decision that the people have to make in the normal course of their business. They decide that they want



SECURITIES FINANCE ASIA PACIFIC

Gain an edge in Asia

>> *Securities Finance Asia Pacific*

Launching from the Global Investor/isf stable, Securities Finance Asia Pacific will be the market's first dedicated title for the region.

Asia Pacific is THE region for growth. Its diverse mix of countries has both developed AND developing stock loan and borrow markets, each with its own nuances demanding individual editorial coverage.

Our all-encompassing website, magazine and event business will finally offer this market the voice it deserves.

Published quarterly, the new magazine will be available in print and digital format.

The magazine's dedicated website will be updated daily with market news, special features and data, PLUS daily breaking news alerts for registered users.



ONLINE



MAGAZINE



MOBILE

>> Be one of the first to use *Securities Finance Asia Pacific*

For a FREE 3 month trial subscription or for more information, contact

Jonathan Hodder on +44 (0) 20 7779 8216 or email jhodder@euromoneyplc.com



to invest in the securities that they buy, which may be the ones that people want to borrow. That's a risky investment decision. They decide on what they're going

"That has changed; even non-asset management clients are at times directing the money to a money fund or group of funds"

to do with the cash in terms of that, so it's always good to stress the fact it is about investment, not securities lending.

Securities lending's the mountain, the investment is snow on that mountain that turned into an avalanche two years ago.

Grimaldi: In our survey, there is some discussion around collateral management. What we're seeing in a lot of the organisations is they're centralising their whole collateral function across asset trading desks, which is the trend these days on the broker dealer side of the world.

Smith: In terms of the cash collateral from the lending side of the industry, I'd be interested to know on the agent lending side, are you seeing a push for people managing their cash themselves? Is there an unbundling of that service?

Martocci: Asset managers are looking at the securities lending cash investment and stating: "That's our job so why don't we do it?" In the past, asset management clients had the agent lenders lending the securities and managing the cash collateral.

That has changed; even non-asset management clients are at times directing the money to a money fund or group of funds.

Smith: Usually when the boards have been persuaded to take equity as this collateral it usually involves increased margins. And sometimes there is the argument that it's better to take equities against equities because they track each other, but on the other hand in a rising market not many counterparties fail. Any failure is usually in a falling market, in which case if you're lending equities wouldn't it be better to have bonds? So there are two sides of that argument.

Chair: How is the hedge fund market performing right now?

Cleasby: Like everything it's having its pains but it's pretty healthy. It's had taken hits (recent scandals of insider trading and non public information) but there's definite flow of funds into the hedge funds. The




SUNGARD ROUNDTABLE

“Everybody still has that wait and see mentality. Hedge funds are no different. They’re still hesitant to jump back in with both feet”

top hedge funds have grown significantly. The \$100 to \$500 million, or middle tier have suffered redemptions.

Grimaldi: The hedge fund market is coming back but at a slow pace. There’s stagnation in the market, possibly resulting from this whole regulatory uncertainty. Everybody still has that wait and see mentality. Hedge funds are no different. They’re still hesitant to jump back in with both feet.

Smith: The securities financing business has seen a significant increase in the awareness of and desire to have efficient use of assets in terms of securities lending and borrowing especially in the hedge fund space. It’s much greater than it ever has been; a part of that is to do with, many hedge funds recruiting from the available talent pool in the securities lending and borrowing market. A lot of the major ones have developed their own securities financing groups where they didn’t have them before. This will be a benefit to the market. 



SUNGARD®

AMERICAS

Apex/GlobalOne - Kathleen Leonard
+1 646 445-1202 • kathleen.leonard@sungard.com

Astec – Tim Smith
+1 646 445-1216 • tim.j.smith@sungard.com

Loanet - Dan Belluche
+1 603 898 5980 • daniel.belluche@sungard.com

EMEA

Apex/Global One/Astec: - Gary Ramsell
+44 (0) 20 8081 2054 • gary.ramsell@sungard.com

Astec: Madalin Prout
+44 (0) 20 8081 2057 • madalin.prout@sungard.com

ASIA PACIFIC

Apex/Global One - Todd Slater
+65 6308-8028 • todd.slater@sungard.com

Astec – Richard Allin
+852 3719 0861 • richard.allin@sungard.com

www.sungard.com/securitiesfinance • securitiesfinance@sungard.com