



CASLA Conference 2012

International Perspective

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Introduction

Euro Zone danger yes - but....

- Its not all about Europe
- Not all gloom and doom
- Find the silver lining !

Bring on Asia Pacific and Emerging markets

- Positive sentiment
- Regional growth
- Expansion of business models

Emerging Market's changing dynamic

- Looking attractive compared to Europe
- Redefining EM's as opportunistic
- Increasingly prudent monetary policy
- Increasing supply (from a SL perspective)
- Increasing # of participating Hedge Funds
- Increasing foreign Institutional participation



Reverse Supply / Demand dynamic



North America / Europe

- Supply side - healthy
- Demand side - soft (decreasing GC balance's)
- Few specials
- Focus on **Risk**



Asia Pacific

- Supply side - not as healthy
- Demand side - strong (Increasing GC balance's)
- More specials eg Hong Kong
- Focus on **Growth**

Asia Pacific SL Market Overview

Australia

- Stringent regulatory regime not supportive of short selling
- Efficient market
- Healthy supply & demand dynamic



Hong Kong

- Dominant location for Asian Hedge Funds
- Demand side outstrips supply side
- Lots of specials - lucrative
- Investors looking for exposure to China via H shares

Japan

- Robust regulatory regime supportive of short selling with uptick rule
- Traditional demand side trade driven strategies including seasonal flow
- Large balance's low spreads
- Bouncing back from impact of last years Tsunami

Asia Pacific SL Market Overview (cont.)

South Korea

- Operational challenges to lending eg IRC #
- Limited supply with selective demand
- Short selling rules recently relaxed



Singapore

- Operational challenges to lending
- Auto buy market
- Limited supply with increasing demand

Taiwan / Vietnam / Malaysia / India / China

- Developing markets from an SL perspective
- Operational and compliance complexities to lending
- Limited supply & demand – mostly local and retail
- International participants → increased risk → larger spreads

Middle East & LATAM Overview



Middle East

- Dominating Sovereign Wealth Funds
- Lacks corporate governance and legal Infrastructure
- Foreign ownership limits
- **Dubai** – financial hub with increasing western influence
- **Saudi Arabia** – strong stock market >\$1Billion daily volume
- Some countries **growth rates exceeds** that of **Europe**
- Vulnerable to political turmoil

Latam

- Focus on **Brazil**
- Developing market with growth potential
- **CCP** concept features prominently
- **Mexico** – small but active market

Impact of Regulation on Sec Lending



- **Does increasing regulation = Sec Lending opportunity ?**
- Multiple European Regulators – no alignment on resolution
- Global Regulators are revising liquidity Rules
- Basel II and pending Basel III
- FSA Liquidity requirements
- Requirements:
 - * AAA government debt
 - * term commitment
 - * non Government collateral
- **Result → “Evergreen” opportunity**

Impact of Regulation on Sec Lend (cont.)

Reuters article: April 27th 2012

- “Quotes” by Deputy Governor of the Bank of England:
- Increase powers to increase collateral for financial transactions
- rein in the multi-trillion dollar “shadow-banking”
- **Includes SL & Repo markets**
- Acknowledgement that higher margins impact volumes and size of transaction.
- Move towards more on – balance sheet activity for transparency/capital.

Shadow Banking System & FSB

- EU wide Shadow Banking Regulation expected in November 2012
- Based on findings of the Financial Stability Board
- The FSB, said in an **interim report on securities lending and repos** 2 weeks ago that there was a lack of transparency, potential risks from fire sales of collateral assets, and insufficient rigour in collateral valuation and management practices.

Central Counterparty CCP

- Global direction → OTC derivative trades to flow through CCP
- Triggered by G20 with target date of year end 2012
- Increase demand for borrowing high quality collateral
- Estimates = \$1 Trillion ++ of increased demand for 'approved' collateral
- Potential for liquidity squeeze
- Result is higher utilization levels and increased fee's
- **Will Regulators drive towards CCP for SL.....?**

G20 → OTC → CCP → 1T → \$\$\$

Question & Answers