



Conference roundup

The CASLA annual conference in Canada was about more than the cocktails on offer

JUSTIN LAWSON REPORTS

Canada, much like London, may be going through something of a cocktail craze. Some of Toronto's talented cocktail mixologists are creating specialty cocktails by leaving them to mature in oak casks for added flavour, while some are turning their cocktails into works of art. The Vanilla Infused Manhattan is served inside a large bell-shaped glass that is filled with smoke. The cocktail is a mix of rye, homemade cherry vanilla bitters, hickory-smoked syrup and vanilla cognac, and costs CAD\$45.00.

A conference is much like a cocktail. If the ingredients—the subject matter, delegates, sponsors and location—are not combined effectively, the result can be a disaster. However, much like the Vanilla Infused Manhattan, the 2nd annual CASLA conference was spot on.

The conference location was ideal, the subject matter was solid, and overall, it was a well-presented and well-delivered conference. This was all the more impressive considering that it was organised by a team of volunteers. Special praise goes out to Rob Ferguson of CIBC Mellon, Jori Horn of Northern Trust and Michelle Lindenberger of EquiLend.

Robert Chiuch, president of CASLA, dived straight in with an update on CASLA and what the association has been doing during the last 12 months. The association has performed well; memberships are staying solid at 21 current members and there has been productive dialogue with the industry. Chiuch's current term as president is coming to an end and the role will be taken over later this year by Reeve Serman of RBC Dexia. Two new panel members will also join the board—Tony Venditti of BMO Capital Markets and Nathalie Bockler of Societe Generale.

Closing his update, Chiuch said: "There are 31 rules recently introduced globally that impact our business". This is a scary thought for the industry.

Following hot on the heels of the CASLA update was an overview of the Canadian securities lending market from Melissa Gow of Data Explorers. The overview ran through a series of slides highlighting current trends and how Canada has moved on since the financial crisis. With supply returning to pre-crisis levels and demand steadily increasing, all is looking good for the industry.

One of the more interesting slides was how the energy sector is performing. It has the highest revenue contribution and the highest fee and balance out of any sector in the Canadian market.

What is clear from Gow's presentation is that the market is focused on the "intrinsic" lending fee, as there are low interest rates and a low risk appetite for cash reinvestment.

Up next was a panel moderated by CIBC Mellon's Phil Zywoj covering the Canadian market's trends, challenges and risks. Stephen Novo of State Street, Andrew Thornhill of RBC Capital Markets, Scott Reed of Scotiabank and Michael Schleich of National Bank Financial were on the panel.

The Canadian economy was the first topic of discussion. The consensus was that, although the economy has done well, there are fears of a possible "condo bubble". National newspapers such as The Globe have recently reported that the number of condos being built in Toronto is outstripping New York and other major markets. Despite the possibility of a bubble that could burst, Reed said that "we are selling stability" in Canada.

On the securities lending market in Canada, the "2008 drop-off from hedge funds activity is coming back and the ETF (exchange-trade fund) explosion has been interesting to watch", added Schleich.

The stability of the market and how well its banks coped with the economic crisis has attracted lots of outside interest. "The markets are in pretty good shape, volumes are up and there is a lot of interest in the Canadian market place," emphasised Thornhill. Agreeing with this, Reed added: "We are trying to do more with less". Although there is new interest from mutual funds and pension funds, overall spreads are more compressed and many are working with 5 and 10 basis points. It is looking to be a quiet summer.

The afternoon saw three panel discussions tackling tax, demand and the future. Before this, Reeve Serman, the president of CASLA in-waiting, tackled the international market and shared an update that highlighted how negative some regulators and politicians are about the industry. Recent dialog on 'shadow banking' and publicised attacks on securities lending and repo highlight the industry's need to create a positive profile.

Serman moved onto CCPs and views from the G20. It looks like the securities lending industry is still not ready or looking forward to CCPs, but regulators are likely to continue their push towards the model.

The panel moderated by Tim Smith of SunGard looked at the demand side and echoed many of the points raised in charts from Gow earlier in the day. On the panel were Jack Huber of Citi, Paul Larkin of CIBC World Markets, Michele Sonier of J.P. Morgan and Rob Dias of Bank of America Merrill Lynch. The panel seemed to agree that hedge funds are still not really playing ball with the securities lending industry. Although the size of the hedge fund market is back to pre-crisis levels, their involvement is not as active. There is "no conviction to put money to work", added Dias.

The tax and regulatory panel was probably the most important. An area that surprised many is the extent to which FATCA could affect the securities lending market. But, as Chiuch pointed out during his talk, 31 rules have been introduced globally that have an impact on securities lending. The FATCA effect should not be a surprise.

The future of the market was the concluding subject of the days discussions. A panel of industry veterans moderated by Roy Zimmerhansl of Fin-Tuition and supported by Brian Lamb of EquiLend, Tony Venditti of BMO Capital Markets, James Malgieri of BNY Mellon and Jean-Paul Musico of Trading Apps, shared their experiences.

Zimmerhansl began emphatically: "Change is no longer an option; it is being thrust upon us".

Pension funds have returned to the market, supply is up, and they have been increasing their allocation to alternatives, which is a trend that looks set to continue. The question is will the increased monies flowing back into hedge funds lead them to short more and bring back demand levels? Presently, the answer is no, as many hedge funds are not shorting. Instead, they are taking up long positions and holding more cash positions.

The regulatory uncertainty has not helped. Predicting the future is not a science but with more support from regulators it could become a little easier. "We are not getting any clear direction from the regulators," said Lamb. **SLT**