ISLA Daily

Day 3

27th Annual Securities Finance and Collateral Management Conference

Thursday, 21st June

Pirum: it is an exciting time for the industry

Conference news • Interview with Pirum • Data analysis from IHS Markit • Eurex on its lending CCP • Speaker's corner • Photos from the second day

Capital used to maintain status quo post-Brexit

Capital that could be used to innovate in financial services is going towards "maintaining the status quo", according to panellists at the International Securities Lending Association's (ISLA) 27th Annual Securities Finance and Collateral Management Conference in Lisbon.

During a session on Brexit, panellists discussed the implications of Brexit and how money that is being spent on IT to "essentially stay still", could be used to innovate.

Panellists included James Knightley of ING, Ed Bracken of Morgan Stanley, Stephen Fisher of BlackRock, Matthias Graulich of Deutsche Boerse, Michael Huertas of Dentons and Hubertus Vaeth of Frankfurt Main Finance.

One panellist said: "We're putting a lot of capital in to preserve the status quo, in an environment where, even with equivalence, its effectiveness may be dampened by certain EU member states that will demand that you have to have an office on the ground."

Panellists explained that equivalence is something that the UK has been pushing to effectively secure access from London to the continent, but they noted that the shape of EU policy will "change without the UK".

The UK has brought many proposals relating to financial services to the EU, which one panellist said would "not have seen the light of day" otherwise.

Another panellist noted London's place as the financial capital of Europe, where everything sat under one regime and framework, with 95 percent of financial business taking place in London.

He noted that, post-Brexit, these regulatory frameworks will no longer apply and will be something that the EU is looking at as a potential concern.

The panellist explained that the EU saw in 2008 that financial services could be a big threat if something goes wrong, and a lack of regulatory control would "hardly be acceptable from an EU perspective", given the breadth of the UK's financial services industry.

A panellist said that regulators have an "overarching objective of client protection", but politics gets in the way of these solutions.

'Difficult to see opportunities' in post-Brexit world

It's difficult to see what the opportunities of Brexit are, at least for the financial services industry, according to panellists at the International Securities Lending Association's (ISLA) 27th Annual Securities Finance and Collateral Management Conference in Lisbon.

One panellist, speaking on the Brexit Debate panel, said it was difficult to see what opportunities there were for firms, post-Brexit, but noted that his clients may begin to see a more "local touch" in Europe.

However, it was not all doom and gloom, with another panellist explaining that the UK government will be able to cement its own trade deals.

He compared the Frankfurt and London arrangement to Japan and Hong Kong, where Japan is a tightly regulated environment, while Hong Kong looks to the rest of the world.

Another panellist said that in the same way Frankfurt opened its doors the day after the Brexit referendum, Hong Kong has been "actively trying to get businesses to relocate there".

He added: "I don't think it's fully manifested itself yet, but there's potential for now."

Another panellist said that Brexit might provide the opportunity for firms to build up around new infrastructures and technologies, with the masters of these areas becoming the "winners".

Panellists were asked what, post-Brexit, the UK can rip up from EU legislation that will really benefit London's financial centre, but the majority of them agreed that it was "more about amending thank ripping chunks out of the rulebook".

One panellist explained: "If we live in a world where sovereign states are committed to what they have signed in the past, the UK can amend certain aspects, but they can't completely depart from the principles it signed up to."

"The policy makers of the EU have a very strong impetus to ensure that the UK remains an equal partner."

"The rest of the world's business will be done out of London. If we want equivalence, we have to keep the rulebook pretty much aligned."

UK Government silence is 'incredibly worrying' for financial services

It is "incredibly worrying" that the UK Government has remained quiet about the financial services industry in relation to its Brexit strategy, according to a speaker at the International Securities Lending Association's (ISLA) 27th Annual Securities Finance and Collateral Management Conference in Lisbon.

According to the speaker, services are where the UK is growing fastest, with financial services leading as the UK's biggest export.

Amid this, the speaker explained that despite the UK doing better than initial forecasts after the referendum, economic growth in 2018 is expected to be the "worst since the global financial crisis", at 1.5 percent.

The speaker added that a transitional deal may not be long enough and that the UK could likely apply to rejoin the EU by 2027.

GLMX Technologies becomes registered alternative trading system

GLMX Technologies has been granted registration by the Securities Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) as a registered alternative trading system and broker-dealer.

GLMX is an independent financial technology company with offices in New York, Palo Alto, and London.

The company said it believes this registration is a "crucial step" that allows it to "provide more streamlined interaction and reporting between existing counterparties on both the buy and sell sides".

GLMX has surpassed $3 trillion in aggregate system volume since the launch of its repo trading technology in 2016, and weekly trading volume recently surpassed $100 billion, an increase of over 900 percent year over year.

Glenn Havlicek, co-founder and CEO of GLMX, commented: "The relentless push for efficiency and the demands of global regulatory reporting have reached a tipping point in the securities financing markets. As such, an electronic trading solution for these markets seems inevitable."

"Becoming a registered alternative trading system and broker-dealer is the next major step in our company's evolution and in helping to drive forward this structural shift in the market."

Frankfurt: a financial hub post-Brexit?

At the International Securities Lending Association's (ISLA) 27th Annual Securities Finance and Collateral Management Conference, discussions were abound over whether Frankfurt would become the new European financial hub, post-Brexit.

Panellists debating Brexit offered multiple opinions on this, with some arguing that an industry move is a tough project, while others opined that there was little to no alternative.

One panellist explained that convincing people to move to Frankfurt will be "difficult", with a "top to bottom review" of all processes.

The panellist said that this would not be an easy process, as "anything that big has a lot of complexity to it".

Another panellist added that it was unlikely that "100,000 bankers" would move the Frankfurt, but noted that various firms have been setting up "interim solutions", where they set up an office with "15 people and a server".

The panellist said that these interim solutions are causing "trust issues", as the European Central Bank was expecting "large groups of employees to come over".

He said that UK firms are looking to transition over a longer period because "we can't expect a large number of people to move over to Europe".

What is important, he says, is that UK firms should be "open" and explain they are looking to transition over a long period of time.

Another panellist explained that Frankfurt is the ideal place to set up in Europe as it "mirrors London".

"Frankfurt is the seventh most liveable city in the world, it has the market infrastructure and a talent pool."

The panellist explained that people are "moving ahead, getting ready and taking this very seriously".

"No one wants to let us fall out without a transition deal. But if you look at recent history, who would have thought that Donald Trump would become president of the US?"

"Relying on hopes and feelings is totally inappropriate at this time and the focus should be on preparing for the worst."

Ready for kick off

Phil Morgan and Rajen Sheth suggest that it is an exciting time for the securities finance industry as the firm explores new technolgies

What trends are you currently seeing in financial technology?

This is a very open question and one that I would love to discuss at length. I would summarise the trends as follows:

Digital transformation

Clients experience in retail and communications have shaped expectations. As the world becomes more digital and tech-savvy, financial institutions are looking to enhance processes, adopt digital transformation projects and engage best of breed financial technology providers in partnership with in-house solutions.

The move to real time

The market increasingly demands enterprise-wide real time risk analysis and processing in all facets of an organisation. Non-straight-through processing (STP) processes are now increasingly being consigned to history.

Artificial intelligence

Artificial intelligence (AI) continues to grab the headlines. AI is fast-developing and steadily evolving from advanced robotic technologies like machine learning and predictive analytics to real growth in cognitive computing.

Connectivity and interoperability

Financial technology companies are increasingly being required to act interoperably and enable clients to connect to the network economy as it interacts with key market infrastructures and counterparts.

Software as a service and the cloud

Cloud adoption in banking is increasing. That said, the focus on security and regulatory compliance remains pivotal. We would not be surprised to see more middle and back-office adoption of cloud solutions in the near future.

Regulators adopting technology

Given recent regulatory led developments—liquidity coverage ratio (LCR), European Market Infrastructure Regulation (EMIR), Markets in Financial Instruments Directive (MiFID) and Securities Financing Transactions Regulation (SFTR)—it is likely that the regulators will increasingly adopt a wide range of data gathering and analytical tools in an effort to learn more about institutions' and systemic activity.

And in the collateral space?

For Pirum and our clients, it's about the six C's:

Cooperation is key to how we approach collateral and all our new products. We are working closely with our design partners through an agile and iterative process to ensure what we are developing and releasing is fit for purpose and meets their specific requirements.

Complexity is escalating, for example, on uncleared margin requirements and mandated central clearing where more products—as well as more participants—are being increasingly caught up by the requirement to post margin and manage collateralised exposures. This trend has driven firms to adopt a more strategic, centralised collateral management function that allows them to manage and view the varying demands for collateral against their pool of available inventory irrespective of entity and location.

Cross product requirements across repo, securities lending, over-the-counter (OTC) derivatives, exchange traded derivatives and treasury means that historically siloed businesses need to be far more integrated and operationally efficient. Firms have reacted by reducing these silos and in turn have adopted a far more enterprise-wide approach where improved STP can reduce the burden of manual processing, key staff dependencies and scalability bottlenecks.

Control as a collateral management process is now mandated through various regulations, including the Dodd-Frank Act and EMIR, thus there is a need for standardised risk mitigation requirements and best practice. Firms are looking to reduce operational risk and meet tight, cross border collateral deadlines through the automation of key lifecycle events of the margin management process.

Compliance with incoming regulation such as Basel III has meant that affected banks and financial market infrastructure's must ensure sufficient resources are allocated for the efficient operation of margin call management. Collateral record keeping and monitoring on a near real-time basis has become essential to enable firms to manage daily requirements and limits as well as provide robust supervisory oversight and audit trail reporting.

Capital impacts of Basel III and IV regulation in terms of heightened capital adequacy and liquidity requirements have meant that the cost of and capacity for collateralisation have also been greatly affected. In response, firms are focused on gaining increased efficiency of finite financial resources by looking at more dynamic and complex methods of optimisation.

Do you think machine learning will have a part to play in the future of securities finance?

AI continues to grab headlines and it should come as no surprise that AI and machine learning are being utilised more than ever across industries where large datasets are readily available. Everything from recruitment, healthcare, law, transport, security to finance are reaping the incredible benefits of automation. Undoubtedly, AI will shift and reshape the way firms operate in the future. We expect to see increased automating and scaling of typically manual, repetitive and laborious tasks to allow firms to focus on more value-add matters.

The challenge is consolidating and making sense of the large data potentially available to our industry and recruiting the talent required to interpret and utilise the data in a meaningful way. This is an exciting time for securities finance to explore potential solutions with AI, robotic process automation (RPA) and machine learning.

When we look across the post trade flows within the existing Pirum products from the most straight forward in contract compare, to more complex challenges such as collateral management, what becomes clear is that AI and machine learning presents us with an opportunity to automate existing post trade flows even further. All of this leads us to be of the opinion that newer technologies can be evolutionary rather than revolutionary and Pirum will be looking to deploy AI and machine learning technologies to our clients with minimal technical effort required from their side.

Where are you with your SFTR offering?

We're working actively with our design partner participants who are feeding into our proposition to ensure it really delivers what they need. A lot of the current focus is on how Pirum's reporting clients will source the vast array of data points they need to report for a single transaction.

From our perspective as providers we're looking at how we can potentially make that burden easier either through connections to other market infrastructures, which hold key pieces of information such as triparty agents and central counterparties (CCPs), or through the provision of some of the additional reference data clients may need such as legal entity identifiers (LEIs) or classification of financial instrument (CFI) codes.

From a development standpoint, we're well into our build and, even though the overall SFTR implementation date isn't yet finalised and the first reporting date is likely to be in later 2019, our intention has always been to deliver the solution to our clients significantly ahead of time to give them the option to test as much as possible.

Given the scale of the reporting exercise as well as the potential impacts on existing processes we feel this time will be crucial for market participants to ensure their internal practices are conducive to clean, timely reporting.

What other regulations are Pirum and its clients having to consider right now?

Coinciding with the SFTR go live we also have to ensure that clients who sign up to our solution with IHS Markit are able to fulfil their own MiFID obligations too when borrowing or lending to central banks. Aside from that, General Data Protection Regulation (GDPR) has garnered a lot of attention recently amongst our clients and we have ensured we have met and adhered to this by keeping our clients and staff informed and acknowledging Pirum's own terms of use and privacy policy.

The Central Securities Depositories Regulation (CSDR) is a central regulation that was adopted post the financial crisis and is part of the wider EU regulatory reforms, which encompass SFTR, EMIR and MiFID. As a group, these regulations spread across the entire capital markets and securities financing infrastructure.

CSDR's main aim is to harmonise the different rules applicable to CSDs in Europe and establish a level playing field effectively increases efficiency. The biggest impact for financial institutions will be the mandatory buy-ins regime, which comes into effect when a buyer of a security or bond does not receive delivery from the seller within four business days for liquid securities, and within seven business days for illiquid securities, and will therefore be liable for a cash penalty.

Last but not least, there is Brexit—which we at Pirum are monitoring very closely to ensure we support our clients as they amend their operating models to a post-Brexit ecosystem.

Do you think DLT will help to transform the industry in the next decade or so? Or do you think it is more of a distraction, specifically in the securities lending sphere?

Distributed ledger technologies (DLTs) will continue to create headlines whether they are a new start-up attracting investment, or a new digital currency emerging. What is clear is that DLT is likely to be around for a long time to come. What isn't so clear is just how they will fit within financial services. Securities lending has some obvious use cases such as digitising collateral schedules, but most of the use cases that we have seen so far require a significant number of market participants to adopt the technology for any single party to obtain a material benefit unless of course the industry is able to support a bridge between old and new operating paradigms.

The unprecedented levels of regulation within the industry are likely to continue to absorb many resources in the coming years. It is therefore difficult to see how disruptive technologies will be adopted unless they are either mandated by regulators, or a number of key institutions within the market have a truly compelling business case at the same time. What we believe will be most likely is that regulations such as the SFTR will actually be a driver for firms to adopt technology and automation that already exists and isn't always widely in use.

What do you think are the key areas of securities finance that could face further automation processes in the future?

There are still quite a few areas in the securities finance ecosystem that could be enhanced. Fixed income businesses are under utilising the existing opportunities within automation and this is an area of focus for Pirum and our clients. Furthermore, there is the demand for automation in time critical trade lifecycle management and market connectivity areas.

Current process inefficiencies can be eroded by exploiting Pirum's time critical automation, covering processing of daily re-price, unwinds of open term loans, tri-party collateralisation and reconciliation across month-end fee accruals.

Repo can benefit from real-time exception management with the daily systematic comparison of contractual details on all open positions. The improved workflow with tZero controls from the start of the lifecycle will optimise the post-trade flow for repo in advance of the looming SFTR regime, as well as prevent fails with pre-settlement matching. In addition to linking together borrowers and lenders, our clients are looking to enhance connectivity to tri party agents including the systematic calculation and posting of daily required values (RQVs). Our clients are now looking to further exploit intraday lifecycle management capabilities with the consolidation of their collateral management process by providing a centralised view of real-time margin calls across multiple collateral venues and loan release controls.

Other key areas, of focus include improving the management of corporate events, for on loan and collateral positions covering voluntary corporate actions and dividend entitlements. Also, recalls management for lenders with notifications and bookings remains subject to inefficiencies.

You have recently made hires in North America, what is the driver for this activity?

As we all know securities finance is increasingly a global market, so it made sense for Pirum to reflect this by offering a truly global product. Pirum has established a strong footprint internationally and is looking to work with clients to further expand into the Americas. The strategically important US and Canadian markets face similar challenges to their international counterparts, and we are consistently seeing client demand for post-trade solutions on a global scale.

We opened an office in New York one year ago and this has gone from strength to strength. We have recently made a series of new hires in New York including Kristen Dove, who will lead business development, Edward Sharpe, who will spearhead product development and Jim Malgieri as strategic advisor in region. With these new additions, Pirum is ready to build off our proven success in Europe and bridge and solve the operational and efficiency gaps that currently exist for firms in the Americas.

How do you see interoperability between vendors and infrastructure providers evolving?

It's always been part of Pirum's ethos to work with other parts of the securities finance system, as is evident through our extensive connections with CCPs, tri-party agents, trading systems and venues and most recently our work in delivering an interoperable SFTR solution in partnership with IHS Markit. In broader terms, there's been a noticeable and increasing trend for different vendors cooperating to provide greater access to a range of services for their mutual client bases. This trend is something we would expect to continue and are happy to support especially with the upcoming SFTR through which market participants will ultimately be looking to their vendors to enable them to achieve regulatory compliance as seamlessly as possible.

> There's been a noticeable and increasing trend for different vendors cooperating to provide greater access to a range of services for their mutual client bases

‘Short burn’ spares few

Samuel Pierson of IHS Markit discusses why the industry has seen crowded US equity shorts outperform

“Oh and uh short burn of the century coming soon. Flamethrowers should arrive just in time,” so tweeted Elon Musk on 4 May, following the Q1 earnings call. Well, the flamethrowers arrived last week, as did the short burn, which has spared few of the most shorted US equities.

Since the start of June, the most shorted stocks, measured as a percentage of float short, have dramatically outperformed the broader market, having traded in lockstep with small capitalisation stocks throughout May. Over the last two weeks, the 200 most shorted US equities have returned an average of 5.4 percent, compared with 2.4 percent for the Russell 2000 and 1.8 percent for the S&P 500. Even when expanding to compare stocks with above median short percentage, the stocks with higher short interest returned 2.4 percent versus 1.2 percent return for stocks below the median. But is it a short squeeze?

Russell 2000 performance

Since the start of June the 200 most shorted Russell 2000 stocks, ranked by short interest as a percentage of float, have had share prices increase by 6 percent on average, compared with a 2 percent average for all index constituents. Of those 200 highly shorted stocks, there were 28 stocks whose price has increased more than 15 percent since the start of June. In that group, there was a decline in shares short of 4 percent on average, suggesting that short covering is indeed putting some upward pressure on the highly shorted stocks which are outperforming. Normalising for the impact of price changes, short sellers have reduced positions in those 28 positive-momentum crowded Russell shorts by $330 million in the last two weeks. Despite the short covering, the total short position in those stocks, in dollar terms, increased by over $1 billion.

Russell 2000 - Crowded shorts with covering into rising tape

Ticker	Shares Short (m)	Shs Short % Chg	Price % Chg	Short % Float
SONC	5.5	-16.2%	21.7%	19%
PLAY	5.4	-14.8%	26.8%	14%
RCII	25.5	-9.9%	16.8%	49%
OSTK	7.8	-5.0%	21.7%	38%
FOSL	11.6	-4.8%	20.4%	26%

The 200 best performing stocks in the Russell 2000 had a 5 percent increase in shares short on average, suggesting that short sellers are not covering all names with positive momentum. Some of the highly shorted stocks with increasing prices and short positions include DineEquity, TherapeuticsMD, Impinj Inc and iRobot.

Overall, the Russell 2000 constituents have seen an increase of 16 million shares short since the start of June, for an overall increase in balances greater than $5 billion. Normalising for the impact of price changes, the increase in shares would have added $1.5 billion in new shorts even if prices had remained the same. The covering in crowded shorts, contrasted with an overall increase in short positions, suggests that short sellers are doing more to allocate short exposure away from squeeze risk rather than reducing general exposure on the short side.

Russell 2000 - Increasing short positions into price rise				
Ticker	**Shares Short (m)**	**Shs Short % Chg**	**Price % Chg**	**Short % Float**
DIN	3.3	12.6%	18.1%	19%
PI	6.3	11.3%	23.8%	31%
TXMD	60.5	5.8%	17.6%	35%
IRBT	12.3	0.3%	25.5%	45%

S&P 500 performance

Short sellers have also retreated from crowded shorts in the S&P 500. In the top 100 S&P shorts, ranked by short percent of float, the shares short declined by 2 percent on average during the first two weeks of June, compared with an increase of 3 percent for all S&P stocks. The S&P names with high short interest have also outperformed, with the share price of the 100 most shorted constituents increasing 2.4 percent since the start of June versus an average of 1.8 percent for all constituents. The 23 S&P names in the top 100 most shorted, whose share price increased by at least 5 percent since the start of June, had a 2 percent decline in shares short on average.

S&P 500 - Crowded shorts with covering into rising tape				
Ticker	**Shares Short (m)**	**Shs Short % Chg**	**Price % Chg**	**Short % Float**
SRE	10.9	-26%	9%	4%
HOG	16.1	-15%	9%	10%
GPS	30.9	-11%	11%	13%
UA.C	33.2	-6%	13%	18%

Sempra Energy, Harley Davidson and Gap have all seen greater than 10 percent declines in shares short since the start of June, which was sufficient to reduce the position in dollar terms for each.

With the share prices advancing, amid meaningful reductions in short positions, it's fair to say they fall into the camp of stocks where short covering likely had an impact on the recent rally.

Gap equity short demand & share price

Source: IHS Markit © 2018 IHS Markit

Of the crowded S&P 500 stocks, short sellers have increased positions in CF Industries, Discovery, Kroger and Mattel, despite increasing share prices.

S&P 500 - Increasing short positions into price rise				
Ticker	**Shares Short (m)**	**Shs Short % Chg**	**Price % Chg**	**Short % Float**
CF	16.8	31%	9%	7%
DISCA	34.8	13%	17%	23%
KR	55.5	10%	7%	7%
MAT	62.5	2%	12%	18%

Tesla

Bringing it back to the quote at the outset: TSLA, the most shorted US equity at $12.6 billion, is up more than 20 percent since the start of June. In that time short sellers have returned nearly six million shares, though some portion of that is likely to be delta hedges coming off, while owners of puts continue to watch the premium drain.

TSLA equity short demand & share price

Source: IHS Markit © 2018 IHS Markit

Wrap up

Taken together, it is fair to say that the recent "short burn" has indeed affected the most crowded short names, which have outperformed the broader market by a variety of metrics. Despite the pain in certain positions, we've yet to see broad based short covering to the extent that it actually reduces the overall size of short positions in dollar terms.

For the US market as a whole, the stocks with the highest short interest as a percent of float have outperformed those with lower short interest in March through May and are well on their way to fourth consecutive month in June. In the last 10 years, there has only been one other period of four consecutive months where the most shorted US equities outperformed the broader market, and zero such five month runs.

Samuel Pierson
Director of securities finance
IHS Markit

PGGM to utilise Eurex lending CCP

PGGM to go live with Eurex Clearing's securities lending central counterparty

Eurex Clearing, Europe's leading clearing house and part of Deutsche Börse Group, recently announced that PGGM is in the process of finalising their admission as a direct participant of Eurex Clearing's securities lending central counterparty (CCP).

This initiative additionally coordinated with BNY Mellon as PGGM's global custodian and by using Euroclear as its tri-party collateral agent, to deliver cost and operational efficiencies along the entire flow-chain of securities lending and collateral management activities.

Allison Levy, director of asset servicing global product management, commented: "BNY Mellon are pleased to be the first custodian able to service centrally cleared lending, working in partnership with Eurex and Morgan Stanley to support our client PGGM. We are keen to work with our clients to understand their changing needs and working with the market to develop alternative solutions."

Olivier Grimonpont, global head of collateral management and securities lending, Euroclear, said: "We are delighted that PGGM and Morgan Stanley have chosen our Collateral Highway to settle their securities lending activity cleared through Eurex Clearing."

Grimonpont added: "This will result in a reduction of counterparty risk exposures and increase market efficiencies which will be beneficial to both borrowers and lenders."

The acceptance and growth of the Lending CCP is proven by the committed partnership shown by and leading market participants.

PGGM and Morgan Stanley are the first to use EquiLend Clearing Services' full connectivity offering to access Eurex Clearing's Lending CCP. The service will enable them to transmit trades agreed via EquiLend to the Lending CCP.

The direct CCP access for beneficial owners via the Specific Lender License provides significant benefits to market participants. It preserves the relationship driven business structure and at the same time delivers the capital efficiency and safety associated with central clearing.

Eurex Clearing's Lending CCP covers loans in global fixed income securities as well as equities and exchange-traded funds in Europe. Eurex Clearing's Lending CCP has some of the largest providers of financial services to institutional investors and securities lending agents as strategic partners.

The Lending CCP reduces counterparty risk exposure and eliminates the need for multiple credit evaluations.

As part of Deutsche Börse, Eurex Clearing is the only infrastructure provider with an integrated clearing offering across derivatives, equities, securities lending and repo transactions.

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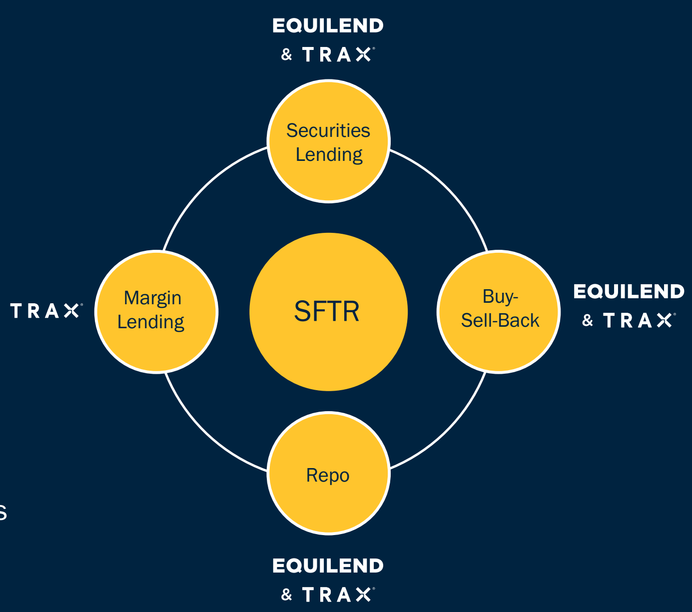

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Technology facilitates consumer choice

Maurice Leo, director of Deutsche Bank, features in the final panel of the event to discuss Brexit, investment and trading behaviour and the evolution of technology to see how our business will look in the future

Has the evolution of technology affected the securities lending industry?

Yes. Without harnessing technology the industry would not have been able to generate the levels of post financial crisis activity and performance that we have witnessed. Technology has enabled the industry to accomplish these outcomes in an increasingly complex environment and, most importantly, in continued alignment with the diverse regulatory standards applicable to various industry participants.

That said, I would characterise the journey to date as one of transition rather than transformation. We have not witnessed the type of fundamental change and disruption that retail financial services such as banking and brokerage have experienced. Securities finance was historically fragmented, both in market and organisational contexts.

Technology investment was traditionally centred on the pre-trade environment facilitating greater automation with regards to the circulation of available inventory and subsequent loan execution. This was followed by enhanced access to timely loan pricing analytics in order to optimise initial and ongoing loan performance.

Post-financial crisis, technology has underpinned the transition from previously disparate product-orientated collateral operations into more centralised 'enterprise' collateral management functions. This has made institutions more efficient at optimising the value of internal inventory and more cost-effective in covering their external liquidity requirements.

Technology has also strengthened beneficial owner governance. At the forefront of this have been mutual funds, UCITS and exchange-traded funds that provide investors with daily transparency on securities lent, collateral received as well as comparative performance outcomes. Engagement with beneficial owner stakeholders such as chief information officer (CIO)/chief risk officers (CRO) has been enriched through access to greater quantitative research that positions their programme fundamentals in the context of the wider industry and changing market circumstances arising from political uncertainty, monetary policy movements and so on.

Is new technology just about becoming more efficient or does it open new opportunities?

Technology facilitates consumer choice—whether you are a retail or institutional investor.

Technology has enabled securities lending to mature in status to a standalone product, independent of the custodian provider. In that sense, securities lending has followed the pathway of asset management, transition management and more recently portfolio analytics as a service where institutional investors select a dedicated provider with the best performance and cultural alignment to their evolving requirements.

This emergence of securities lending's independent product identity is evidenced by the number of fund managers, sovereign investors and pension funds that now elect to access the market through a framework that is separate to their custodian provider. At a time when we are witnessing increased levels of industry consolidation and asset concentration, the ability to diversify product providers has been welcomed by beneficial owners. It is also consistent with regulatory commentary on the challenges presented by the historical tendency towards service bundling in the appointment of securities lending providers.

How do you see technology expanding in the securities lending industry over the next five years?

Despite the recent advances, I think that the industry needs to continue to harness technology in the post-trade environment to mitigate operational risk—something borne out by the results of International Securities Lending Association's Q1 2018 Settlement Survey. Considering the 20 percent growth in European repo activity last year, as reported by the last International Capital Market Association/European Repo and Collateral Council survey, enhancing settlement-related efficiency remains an important priority.

Distributed ledger technology may potentially be the means by which we transform the post-trade environment but the industry faces interim challenges requiring more immediate focus on post-trade standardisation and automation.

Technology will support timelier, more transparent and harmonised disclosures regarding the characteristics of supply and beneficial ownership, thereby enabling borrowers to favourably manage balance sheet costs in advance of executing lending with the different sources of supply available to them.

We could witness adoption of more dynamic margining as data analytics providers gather ever greater insights into behavioural responses to geopolitical, economic and social events thereby advancing risk management models and frameworks.

AGENDA DAY 3

08:30 – 09:00

Breakfast & Registration

09:00 – 09:10

Welcome Remarks

Roy Zimmerhansl, Global Head of Securities Lending, HSBC Securities Services

09:10 – 10:10

The Future of Investing

This panel will look to the future in terms of key drivers affecting investment decisions and the implications for securities lending. This will include the trend towards passive asset management strategies, the use of ETF's as the investment vehicle of choice by many institutions and the future of the UCITS brand. Looking further into the political horizon, this session will also look at other initiatives being socialised in Brussels such as the green agenda.

Moderator:
Tim McLeod, Director, Trading & Liquidity Strategies, BlackRock

Speakers:
Xavier Bouthors, Head of Collateral Management and Securities Lending, NN Investment Partners
Carla Jane Findlay-Dons, Chief Global Regulatory and Market Strategist, Brown Brothers Harriman
Andrew Jamieson, Managing Director, Global Head of ETF Product, Citi
Nas Karim, Director, Wealth & Asset Management Transformation, Ernst & Young
Will Martindale, Head of Policy, Principles for Responsible Investment (PRI)

10:10 - 11:10

Technology - The New Paradigm

This panel will look at the role of technology as we look to the future of financial services and the business. How are different firms across the value chain investing in technology? The use of artificial intelligence as a differentiating factor. Is blockchain just a buzz word or could it revolutionise our business, such as custody? How will technology deliver the efficiencies needed to take the business forward?

Moderator:
Dr. Anthony Kirby, Associate Partner, Regulatory & Risk Management, Ernst & Young

Speakers:
Alex Dockx, Executive Director, J.P. Morgan
Romain Dumas, Rates Repo & Collateral Optimisation, Credit Suisse
Matthew Harrison, CEO, Trading Apps
Guido Stroemer, CEO, HQLAx

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4 TABLES OF REPORTABLE DATA

32 REPORT TYPE COMBINATIONS

2 LEADING PROVIDERS OF SECURITIES FINANCE TRADING AND POST-TRADE SERVICES

5 YEARS OF RECORD KEEPING

96 RECONCILABLE FIELDS

3 AVERAGE % BREAK RATE ACROSS THE LIFECYCLE OF A TRADE EXECUTED ON NGT

10 ACTION TYPES

153 TOTAL REPORTABLE FIELDS

Concurrent 11:00 - 12:00	**Tech Hub:** Technology and Peer-to-Peer Securities Lending Round Table (Location: Vitis IV) This session is not organised by ISLA and therefore not part of the main conference
11:10 – 11:40	**Networking Coffee Break**
11:40 – 12:40	**Industry Leaders Debate** This final panel of the day and the overall conference will consider remarks from across the panels in the context of Brexit, investment and trading behaviour and the evolution of technology to see how our business will look in the future. **Moderator:** Brian Staunton, Managing Director, BNY Mellon Markets **Speakers:** Matthew Collins, Managing Director & Head of EMEA Securities Lending, Morgan Stanley Maurice Leo, Director, Deutsche Bank Ludovic Poidatz, Head of Equity Finance Trading Europe, Societe Generale Jane Wagner, Global Head of Securities Lending, Global Investment Operations, Vanguard
12:40 - 13:20	**Closing Keynote Speech** Katya Adler, BBC Europe Editor
13:20 - 13:30	**Closing Remarks by the ISLA Chairman** Jonathan Lombardo, SVP, Global Funding & Financing Sales, Deutsche Boerse Group
13:30 - 14:30	**Closing Networking Lunch**


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