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Issue 270 02 February 2021

NEW KID ON THE BLOCK

Sunil Daswani discusses how Standard Chartered's new securities lending business is the missing piece to its services puzzle

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GameStop: The real data story and what it means for securities lending

The bizarre skyrocketing of GameStop's (GME) share price, apparently led by an army of retail investors mobilised on a Reddit forum, has captured the world's attention with many media headlines citing short sellers' losses running into the billions of dollars, but is that the whole story?

Most readers will be familiar with events so far, but just in case: earlier this month, Citron Research's Andrew Left announced his fund was short GME, primarily based on the fact it was a bricks-and-mortar store selling physical copies of video games at a time when digital downloads are dominant; to say nothing of the obvious impact of the pandemic on the high street.

Shortly after the statement was published it was picked up by the constituents of Reddit forum WallStreetBets — a hodgepodge of gamers and market speculators — which took umbrage with the perceived attempt by short sellers to crush the GameStop franchise which recent forum posts indicate users have fond memories of.

The forum has almost 4.5 million subscribers and its tag line is 'like 4Chan found a Bloomberg terminal illness' — 4Chan being the infamous online hangout for internet trolls, conspiracy theorists and worse.

True to form, the self-titled 'degenerates' decided to hand-out some vigilante justice Wall Street-style and mobilised amateur investors armed with low-fee trading apps to put pressure on short sellers by buying GameStop em masse.

GameStop spent most of 2020 trading at a few bucks a share, down from 2014 highs of around $55 per share. It opened 2021 at around $18 a pop, but, once the mob descended, its shares exploded by an improbable 1,744 per cent year-to-date. The company's market value is now north of $20 billion as of close-of-play 27 January.

continued on page 6

Inside this issue

08 *Latest News*
European Arrest Warrants remain valid after Brexit

20 *Litigation Incoming*
Cum-ex in 2021
Prosecutors are restarting campaigns against individuals thought to have profited from cum-ex schemes. SFT offers a guide to what will likely be a busy year for litigation

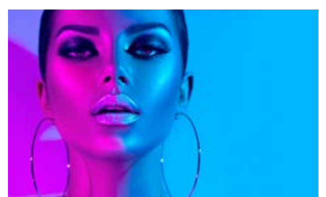
24 *Strategy Roadmap*
Failing to prepare is preparing to fail
Trading Apps reveals its goals for the year ahead and why the team is encouraging the market to say hello to potential. MD Laura Allen explains all

16 *Perfect Marrige*
New kid on the block
Sunil Daswani discusses how Standard Chartered's new securities lending business is the missing piece to its services puzzle and how it aims to bring a fresh approach to the market with an agile model

28 *China Opens*
The sleeping giant stirs
China has amended its QFII scheme to allow SBL. As the world's second-largest securities market opens, SFT examines what it means for securities finance participants

31 *Trade Association*
SFTR: The one-year review
ICMA's Alexander Westphal and Richard Comotto look at SFTR year one, including what the data tells us and areas for improvement for both regulators and market participants

34 *Data Analysis*
What do fashion and securities finance have in common? Strategic data
Data is in abundance, so David Lewis, of FIS' Astec Analytics offers guidance on how to separate wheat from chaff



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GameStop: The real data story

continued from page 3

It is worth noting that although ample circumstantial evidence exists to suggest the share price surge is retail-driven, it's unclear whether the grassroots demand is being propped up by institutional players seeking to cash in on the circus.

Cue a frenzy of market commentators and journalists revelling in speculation that hedge funds caught short were out-of-pocket to the tune of around $5 billion. Citron Research is understood to have been forced to cover its position, eating significant losses in the process.

Some instigators believe the market and the mainstream media are colluding to protect their hedge funds and are throwing around accusations of market manipulation.

One WallStreetBets member wrote an expletive-riddled open letter to CNBC, the US media organisation, in the forum accusing it of hosting its "shill hedge fund buddies" that "demonised" the forum. The letter informed readers that "I sincerely hope they [short sellers] suffer. We want to see the loss porn". And they are suffering, but maybe not as much as some headlines would have you believe.

Crunching numbers

First-and-foremost, short interest in GameStop did not start this month. Utilisation of share available to lend first hit 100 per cent on 7 September 2020, after a rapid increase that began on 10 August, according to data analytics firm Ortex, which offers short trading insight powered by FIS' Astec Analytics. Utilisation has remained maxed-out ever since.

As of 28 January, just over 40 million shares were on loan, down from a year-to-date peak of 54 million on 12 January.

Meanwhile, average cost-to-borrow sits at around 33 per cent (as of 28 January), which will be an uncomfortable short squeeze for those looking to ride out the storm. For context, the threshold for when stocks become 'hot' to lend is 500bps or 5 per cent.

Average cost-to-borrow has increased steadily from just over 10 per cent on 30 November 2020 to present levels. However, the data shows some loans were booked with borrow fees as high as 324 per cent in recent days.

Notably, current borrow fees are well below the 12-month peak seen in early May 2020 when average cost-to-borrow briefly hit an eye-watering 169.8 per cent. The main factor holding back an even steeper price spike is believed to be a lack of demand from new borrowers. This hypothesis is reinforced by the fact that the average loan length visible to Ortex is 60 days.

Meanwhile, despite some high profile funds including Melvin Capital Management finding the heat too much to handle, many seem content to pay the fees and hold, presumably hoping enough retail investors won't be able to resist banking chunky profits, thereby causing a mass exodus by those not willing to show off their knife catching skills.

Rise of the retail?

After their initial success in giving short sellers a bloody nose, the cabal retail investors, drunk on nostalgia, continue to flex their muscles. They even caused Blockbuster, the video rental chain that went bankrupt over a decade ago, to spike 7,000 per cent in the past seven days. Other firms close to the hearts of Redditors are also seeing flash-in-pan price spikes.

Once the furore is over, online brokers and institutional market players may wish to indulge in a moment of introspection to assess

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the monster they helped create. A consequence of the Covid-19 pandemic was a surge of amateur day traders drawn low-fee trading apps to supplement revenue shortfalls. Robinhood, one of the largest trading apps in the US, gained more than 3 million new users in 2020, many seeking to top-up their earnings once the pandemic shut down large swathes of the economy.

For the securities lending market, this could spell trouble. The combination of an influx of retail investors, many holding anti-short seller sentiments, will open up a second front in the industry's heart-and-minds campaign to prove its environmental, social and governance credentials to existing beneficial owners.

Well before GameStop, the culture war claimed its first victim. Last year, the South African low-fee trading app EasyEquities faced a PR firestorm after it attempted to roll out a securities lending programme as a way to offer additional income to its users. Sceptical day traders took to social media to complain that there should be a way to opt-out as they did not wish to facilitate short selling and, in their eyes, risk downward pressure on their assets.The roll-out was scrapped.

Given the long battle short sellers and banks have fought to educate regulators, politicians and asset owners on the benefits of securities lending as a way to promote price-discovery and overall market transparency and stability, not to mention revenue, the challenge of convincing firebrand retail investors could present a mountain to climb that even GameStop would be envious of.

UK court rejects argument that Brexit makes European Arrest Warrants void

The UK's High Court has rejected the argument that the end of the Brexit transition period nullified the extradition powers of European Arrest Warrants, meaning UK residents charged with cum-ex tax fraud on the continent may yet face their day in court.

Earlier this week, a legal team from business crime solicitors Rahman Ravelli argued that their client, a London hedge fund employee, could no longer be forced to appear in Germany to face tax fraud charges as the EU's Extradition Act 2003 no longer had jurisdiction.

A European Arrest Warrant was issued in April 2020 by German prosecutors seeking to bring Vijay Sankar, of Duet Group, in front of judge in Cologne to face accusations of his

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involvement in a multi-billion euro tax fraud scheme, known as cum-ex trading, that has so far sucked in more than 600 individuals and more than a dozen financial organisations, law firms and auditors worldwide.

Sankar was arrested on 30 June 2020 and appeared at Westminster Magistrates' Court on the same day. He was granted conditional bail and remains on bail.

Following the completion of the Brexit transition period on 31 December 2020, Sankar sought to apply the legal defence known as habeas corpus, that allows individuals to be brought before a court to challenge the lawfulness of their detention.

The two-day hearing was heard before the president of the Queen's Bench Division of the High Court, lord justice Holroyd, and justice Chamberlain and ended on 18 January.

However, on 20 January, the court ruled that the application of habeas corpus did not apply in Sankar's case as although an arrest warrant existed, no extradition order has been made.

Moreover, the court stated that the powers given by Extradition Act over British residents were not conditional on the UK's continued membership of the EU.

The arrest warrant was issued legitimately during the transition period and will continue to apply in perpetuity, the judges ruled.

Elsewhere, the court found that the terms of the Withdrawal Agreement between the UK and EU provides a "clear basis in international law" for the continued cooperation of the governing and legal bodies of both parties.

The ruling highlights that of the several exceptions where the EU lost jurisdiction as of 1 January, laws governing active cases against individuals in the UK were not among them.

In conclusion, the judges refused permission to apply for judicial review in each case, but as this judgment deals with a point that is likely

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to be of significance in a number of cases, it can be cited.

Sankar faces a full extradition hearing on 25 January and may become the first person to be extradited from the UK to the EU to face charges related to dividend arbitrage strategies.

He may be beaten to that unenviable title by Guenther Klar who is sought for questioning by Belgian prosecutors about his time working at Solo Capital hedge fund and Sanjay Shah, who is a central figure in the cum-ex scandal and currently fighting charges from Dubai. Klar lost his own fight against extradition in Westminster Magistrates' Court earlier this week but is not currently facing criminal charges.

South Street launches equity finance business

South Street Securities (SSS) has launched its new equity finance business, led by industry veteran Anthony Venditti.

The US broker-dealer aims to leverage its capital base and balance sheet to become a niche player in the specials (hard-to-borrow) space and provide multiple solutions regarding the financing of securities and collateral.

SSS says the new business will offer a suite of services including 'daily colour', an easy-to-borrow list, short sale approvals, historical rate information, fails coverage, and put/run throughs, along with research and commentary.

At its launch, the equity finance business will offer products in global hard-to-borrows, exchange-traded funds (ETFs), general collateral, American depositary receipts and global depository receipt.

SSS has already confirmed a roadmap to future products including corporate bonds, options, equities and ETF futures, margin loans and special situation trading and facilitation.

SSS says its equity finance team has "the perfect combination of skill, knowledge, technology and abundant relationships that could help service all of your short covering and financing needs".

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GPFA gains 11th member

The Global Peer Financing Association (GPFA) has welcomed the State Board of Administration of Florida as its 11th member, swelling the combined lendable assets of all members from less than $1 trillion to more than $6 trillion over six months.

The Florida Retirement System Pension Plan is the fifth largest public pension plan in the US, providing retirement benefits for more than 900,000 current and former public employees.

Since launching in July 2020 with four US pension funds, the association has gained additional members across several continents and now represents more than 5 million people that are pensioners or public sector workers.

Commenting on GPFA's growth while hosting the trade body's Peer Connections podcast (available on the SFT multimedia hub), eSecLending's Peter Bassler states: "What's really powerful about this organisation is that you're representing end beneficiaries, and pensioners.

Most organisations are representing banks or brokers and this is the first of its kind that focuses on end beneficiaries.

The episode outlined GPFA's 2021 targets and chair Robert Goobie described how the next phase of growth will involve fostering a greater sense of community.

The aim, Goobie says, is to form several working groups to share information on all aspects of securities financing and find opportunities to collaborate.

"One of the main goals of the organisation is to enhance peer-to-peer trading but in order to do that you need to think about the activities that support peer-to-peer trading," he explains.

These groups will assess a wide range of topics including how members approach their triparty repo well as legal, technologies and ESG, he added.

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Northern Trust sees YoY revenue growth

Northern Trust achieved modest year-on-year growth for 2020 despite lacklustre Q4 returns. 2020 earnings hit $88 million, up from $87.2 million in 2019, but below the greater than $100 million annual revenue seen in each of the prior three years.

Q4 2020 revenue reached $17.6 million, down 11 per cent from the previous quarter ($19.7 million) and 22 per cent from the final months of 2019 ($22.6 million).

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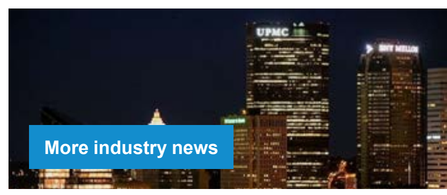

BNY Mellon achieves YoY revenue growth

BNY Mellon booked year-on-year revenue growth from its securities lending businesses despite posting below-average returns in Q4 2020.

2020 income hit $170 million, a modest increase from $163 million in 2019.

Meanwhile, Q4 earnings saw a 10 per cent decline, compared to the same period in 2019, to sit at $36 million.

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BlackRock boasts bumper 2020 lending revenue

BlackRock achieved its highest full-year earnings from its securities lending programme since at least 2015, despite suffering its lowest quarterly returns in half a decade in Q4.

Revenue hit $131 million in Q4, down 22.5 per cent from $169 million in Q4 2019. BlackRock put the Q4 result down to lower lending spreads, partially offset by higher average balances of securities on loan.

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State Street blames tighter spreads for YoY revenue decline

State Street recorded a slight uptick in securities finance revenue QoQ for Q4 2020 but, full-year earnings still represent a multi-year low for the agent lender, primarily due to lower balances and spreads.

Q4 revenue was $88 million, up from $84 million in Q3 but down on $92 million achieved in the first two quarters of 2020. The Q4 QoQ 5 per cent uptick was due primarily to higher agency lending and Enhanced Custody balances.

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AcadiaSoft partners with KIS Pricing for APAC expansion

AcadiaSoft is teaming up with Korean bond pricing company KIS Pricing as part of a further push into Asia Pacific.

The partnership will give KIS Pricing clients access to AcadiaSoft's Initial Margin Exposure Manager. The collaboration will also enhance AcadiaSoft's presence in the South Korean market by expanding its local language resources.

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Denmark's largest public pension fund joins SimCorp SFTR platform

ATP has gone live on SimCorp's Securities Financing Transactions Regulation solution.

As a public pension fund, ATP joined the platform in-line with the go-live of the fourth phase of SFTR on 11 January which brought non-financial counterparties into scope.

ATP joins Germany's Ampega and PGGM, one of Europe's large pension fund service providers, as a user of the platform.

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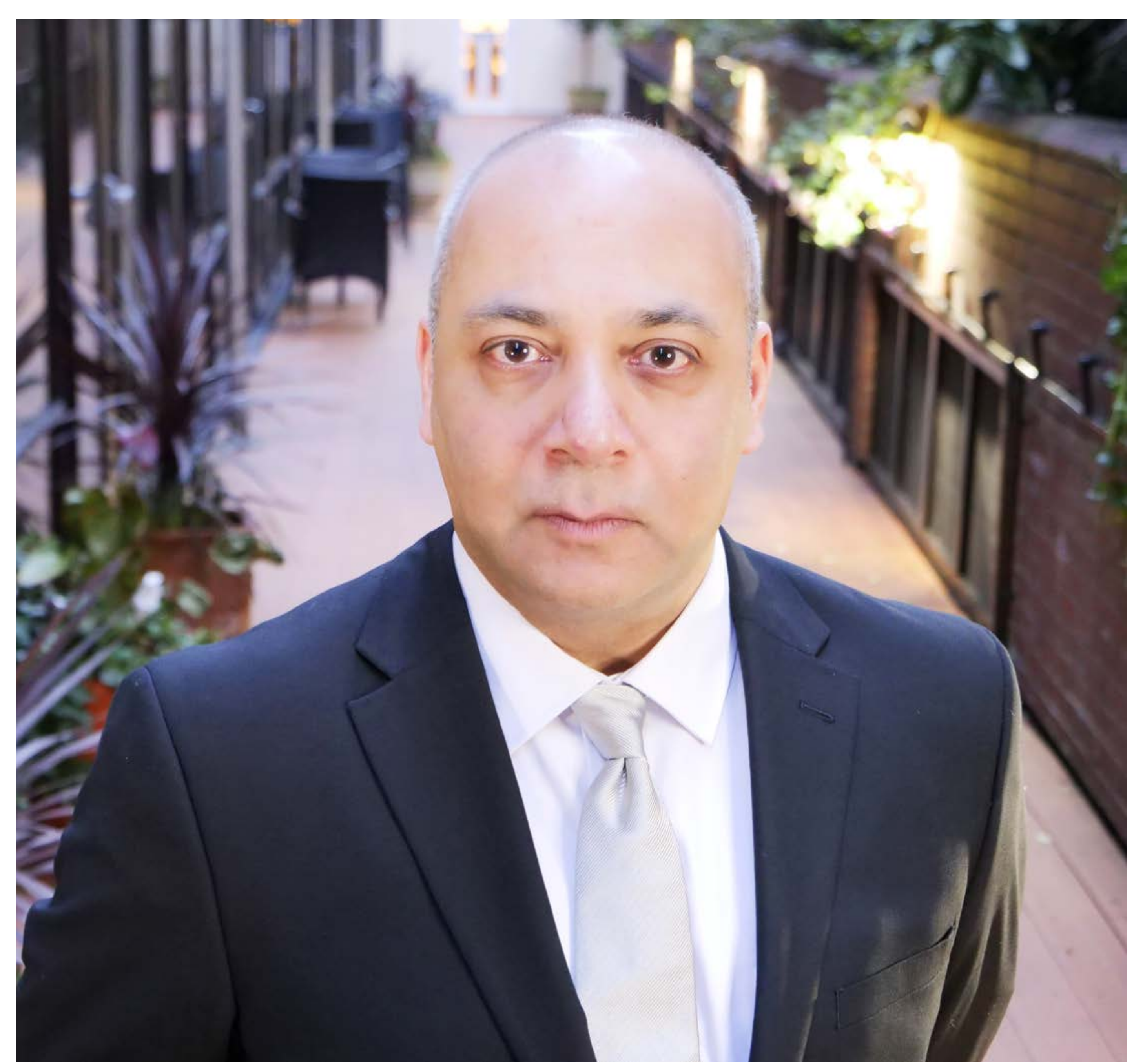

New kid on the block

Drew Nicol reports

Global head of agency securities lending Sunil Daswani discusses how Standard Chartered's new business is the missing piece to its services puzzle and how it aims to bring a fresh approach to the market with an agile model

What is it like being back at the helm of an agency lending programme after time with a fintech?

It feels very natural, to be honest, and I feel I have come back even stronger following my 'sabbatical' from the finance industry working for MarketAxess. I learned a great deal during this time. Spending time on the sell side as a vendor was not only interesting, but learning first-hand how a fintech operates feels like an essential facet of my career given that the future is really about technology, no matter what industry you are in. I have a wonderful team here at Standard Chartered, and their support has been an important factor in making this transition seamless for me.

SC's programme leverages the eSecLending platform. What advantages does that offer you?

What I found most striking when engaging with eSecLending was how closely aligned the two organisations are, in terms of expertise, culture, and approach to agency securities lending. The combination of our two organisations is very powerful: I see this as a marriage of two perfect halves from a geographical perspective, and our combined footprint is truly global. Added to this, our product suite and financial strength and stability makes us a very prominent player in this space, with a market-leading proposition.

> ***"It's almost the missing piece in the jigsaw puzzle for Standard Chartered, given our existing prime and repo business. Our clients have been asking us to set this product up for a long time."***

You've described Standard Chartered as the "new kid on the block" for securities lending. Could you expand on what you mean by that?

Well, it's almost the missing piece in the jigsaw puzzle for Standard Chartered, given our existing prime and repo business. Our clients have been asking us to set this product up for a long time. We go live with our first client this month and we are very excited about that. We are providing a full front-to-back process, partnering with a specialist agent lender with an astounding track record, and a number of differentiating factors, which makes them a really compelling partner.

Working together, our aim is to lead the industry, using our expertise, technology and reach to offer a securities lending solution that is designed for the 21st century. Being the 'new kid on the block', we do not have legacy systems and entrenched processes, so we can deliver products at a significantly reduced time to market, and adapt quickly. We want to take a fresh approach, doing what's right for the beneficial owners and the borrower community, and helping them to reduce expenses, become more efficient, and of course, comply with new regulations seamlessly as they are introduced.

What are your ambitions for the coming year in terms of growing the business?

Firstly, developing an environmental, social and governance (ESG) policy that incorporates Standard Chartered's values and principles into the building of our products. We also want to ensure we have a securities lending product that enables our clients to meet their own ESG objectives. Every client will have different priorities and approaches to ESG, so we are building in options and scalability. The aim is to avoid any impact on clients loaned securities, whilst ensuring that clients can quickly implement their ESG criteria in the choice of companies they invest in, effectively by being able to vote on securities. Previously, a common point made to lenders was that they lose the right to vote, so we are adding far more transparency and control. Finally, collateral accepted into an ESG programme would need to be in line with the investment principles of the securities held, and available to lend.

In terms of our business offering, digitisation and automation is central to our delivery strategy at Standard Chartered, and this will continue to be the case. We work with our innovation arm, SC Ventures, and adopt best-in-class third-party technology to accelerate time to market and leverage specialist expertise. The

value of this approach became particularly apparent to me during my time with a fintech. There is no point in replicating investment spend; rather, we can focus our efforts on the client-facing aspects of our service delivery, such as connectivity, whether to counterparts, venues or market infrastructure providers, and an excellent client experience. With increasing regulatory requirements and business disruption resulting from COVID-19, efficiency, transparency and automation have become more important than ever, so we are channelling our investment accordingly.

We have spent a lot of time defining a detailed business plan for the next two to three years, that brings together the needs and expectations of our clients with the wider industry changes that are underway, so much of my focus will be on the execution of this plan.

That said, this is a fast-changing industry, so it is important that we stay flexible and embrace new opportunities with a growth mindset - and even enjoy them when they arise!

Throughout my career, I have been very conscious that no individual or organisation operates in isolation. By working together, and embracing diverse viewpoints and experiences, we can achieve more. Industry associations play an important role in this. As a result, I have held a number of industry positions, most notably as CEO and chair of the Pan Asia Securities Lending Association (PASLA) between 2004 and 2008. As we build the securities lending business within Standard Chartered, I also want to ensure that we are proactive in supporting PASLA, among other organisations that make such a substantial contribution to our industry, including securities lending trade bodies globally, along with the International Capital Market Association.

You've also said agents need to work harder for their revenue in an environment of squeezed margins. What is SC doing to work harder for clients?

Gone are the days when clients were simply signed up, assets were admitted into a lending programme, traded daily and revenues paid monthly. Firstly, all stakeholders need full transparency and confidence in robust risk management and operational processes. Secondly, we are now seeing a number of initiatives that have been discussed across the industry for some time come to life. This includes common domain models, smart buckets, accurate look-forward and back evaluations, transparent and thorough service reviews, and entry into new markets, such as Saudi Arabia, Indonesia and China. For example, we took the lead as a custodian bank to assist a large overseas institutional investor to complete a stock borrowing deal in the A-share market on the first day of the QFII/RQFII stock borrowing trading in the Shanghai and Shenzhen markets. This also marked the first stock borrowing deal by QFII in the market, following the release of the 'Measures for the Administration of Domestic Securities and Futures Investment by QFII/RQFII' by the regulators.

> *"Eyes are on China, with lendable assets growing at a rapid rate. We have an important role to play in supporting and enabling this expansion, leveraging the core elements of our programme which differentiate us from others."*

Looking out at the wider market, what are the trends you see being carried over from 2020 or emerging this year?

Eyes are on China, with lendable assets growing at a rapid rate. We have an important role to play in supporting and enabling this expansion, leveraging the core elements of our programme which differentiate us from others. This includes the auction process we deliver with our partners eSecLending of assets which make sizeable premiums, given our ability to generate additional alpha where others cannot. There are other trends too, however, that will continue to influence and shape the securities lending market. Growth into new markets is one dynamic, but in addition, we are seeing developments on more flexible collateral, new trade types, and how best to support changing regulatory requirements. Most importantly, however, I would emphasise the growing role that ESG will play in this industry, shaped by banks such as Standard Chartered which has sustainability and responsibility at its core.

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Cum-ex in 2021

Drew Nicol reports

2021 has already seen a flurry of activity by European prosecutors restarting their campaigns against individuals thought to have profited from cum-ex schemes after COVID-19 scuppered most legal action last year. SFT offers a guide to what will likely be a busy year for litigation

The rollout of vaccines across the world heralds a possible return to normality after a year of disruption, lockdowns and heartache. At the beginning of a new year, with an end to the COVID winter in sight, many aspects of life may soon resume, including cum-ex prosecutions.

The feverish activities of European tax authorities and their legal outriders were largely put on ice in 2020 as the pandemic gained a stranglehold across Europe, shutting down the judicial mechanisms and lawyers' ability to seek out persons of interest across borders.

As Spring comes again, legal experts predict that 2021 will be a pivotal year for those involved in the international tax fraud scandal as the backlog of postponed cases, including several key names, are heard.

In Germany, where much of the action is taking place, the 10-year statute of limitations means prosecutors are racing to advance cases against some of the 600 individuals named so far in connection with cum-ex strategies that occurred between 2007 and 2011. The statute can be extended in some cases but prosecutors are keen to claim as many scalps as possible while the eyes of the world are on them and there is a political will to pursue cases with little chance of financial gain, compared to the multi-billion euro tax revenue estimated to have been denied to various European governments.

For a full account of the various twists and turns that turned a basic arbitrage strategy reliant on securities lending programmes into what Ali Kazimi, a tax advisor with Hansuke Consultancy, describes as "the crime of the century", SFT's archive is available for your perusal.

Here, we seek to map out the road ahead and signpost some of the key events to watch out for.

Beyond the legal quagmire standing between prosecutors and their targets, the main factor that will determine whether 2021 is a vintage year for cum-ex remains COVID-19. Multiple individuals facing charges in Germany, Denmark and elsewhere are pointing to health or logistical issues related to the pandemic as the reason why they can't face their day in court. Which are successful in putting off prosecutors for another year is yet to be seen.

Bonn appeals

The headline event of 2020 came in June when German prosecutors in Bonn secured a landmark victory against two former employees of HypoVereinsbank in the first successful case against cum-ex traders. Between them, the two men were found guilty on multiple counts of tax evasion and aiding and abetting tax evasion and handed suspended sentences, along with a €14 million fine for the more senior of the two.

Writing for SFT at the time, Seb Malik, head of financial regulation at Market FinReg described the ruling as "the tip of the iceberg", and predicted it "will pave the way for state prosecutors to pursue banks, traders, custodian banks, law firms and ancillary actors".

Both men are understood to be appealing their convictions with the possibility of a court date this year, depending on the development of the pandemic.

Hanno Berger

The key trial last year was meant to be the case in Germany against Hanno Berger, commonly described as the legal mastermind behind the cum-ex trade structure. Berger is currently residing in Switzerland and claims his poor health, combined with the COVID-19 pandemic, make it impossible to attend court in Wiesbaden.

Beyond the man himself, the Berger case is believed to be pivotal in determining the level of seniority when a trader involved in cum-ex trades tips from simply 'following orders' to being liable for executing the strategy and all that that entails. The case could potentially offer a stronger appeal case for the Bonn defendants, for example, if the court finds that traders or senior traders cannot be expected to question the legal opinions of their firms, as they argued.

The Berger case was delayed twice last year and then again in January. It is currently scheduled to begin in March but few believe it will. The case could go ahead in absentia given its importance to potentially hundreds of other cases that may be coming down the pipe but whether the German judiciary allows this is still unknown.

Elsewhere, a case against six former employees of Maple Bank and two former Freshfields Bruckhaus Deringer tax lawyers over tax evasion charges linked to cum-ex that was revealed in December 2020 was meant to follow once the legal foundation was laid by the Berger ruling. This case may now be heard before Berger is brought to Germany, which may cause some complications down the road.

Sanjay Shah

Other than Berger, no name is more synonymous with cum-ex than Sanjay Shah, founder of now-defunct hedge fund Solo Capital. Shah is wanted in connection with allegations of orchestrating one of the most comprehensive known cum-ex schemes where he is understood to have controlled every link in the transaction chain in what is believed to be the lowest of low-hanging fruits for the Danish prosecutors that are after him.

Moreover, the vast network of relationships Shah enjoyed with individuals and international banks also mean this case and any evidence that may come to light as a result could offer prosecutors new avenues for many other cases to come.

However, the activities in question took place in London and Shah is now firmly ensconced in Dubai, leaving the Danish tax man limited avenues to pursue him, for now. Reports indicate he may not fight extradition orders to attend court in Denmark but no such order has been filed, yet.

Danish authorities have been after Shah for years and some activity to claim his UK assets were taken in coordination with the Financial Conduct Authority (FCA) but little else. But, recent action indicates Danish prosecutors may finally be ready to act. So far this year, those in the crosshairs of the Danish authorities are facing the most heat and further developments in this arena are appearing almost daily with much more expected.

"It's only a matter of time before the noose really starts to tighten around the dramatis personae," Kazimi says.

"The reality is that everyone knew what was going on", he adds stating that many believed they could hide in the crowd and would miss out on easy profits by not pursuing this strategy. "It was about gaming the system."

Kazimi argues that even before the rules were tightened it was clear that although the cum-ex strategy may not have been explicitly forbidden it was plainly against the spirit of the rules to seek to exploit tax profiles and submit multiple tax reclaims on a single item of income. The challenge prosecutors face now is proving intent by an individual who could claim to have no visibility of whether a lent or borrowed asset had already had tax credits claimed against it. The courts will have to decide.

Brexit

The Brexit transition period concluded in the UK 11 PM on 31 December and while much of the nation celebrated a socially-distanced New Year's Eve, some were seeking to escape European Arrest Warrants in their name by manoeuvring to position to legal split to their advantage.

A legal team from business crime solicitors Rahman Ravelli recently argued in the UK's High Court that their client Vijaya Sankar, a London hedge fund employee, could no longer be forced to appear in Germany to face tax fraud charges as the EU's Extradition Act 2003 no longer had jurisdiction.

After a two-day hearing, the judges firmly rebuffed the argument. The ruling means that, as of 31 December, the UK's new extradition arrangements with EU states are governed by Title VII of part three of the Trade & Cooperation Agreement (TCA).

These arrangements were ratified into domestic law by the EU through the Future Relationship Act 2020 and were given Royal assent on 30 December 2020. The new arrangements under the TCA do not apply to European Arrest Warrant cases where a person is arrested before 31 December.

Warrants issued before this date will be treated as arrest warrants for the purpose of the new surrender arrangements. The surrender arrangements under the TCA are sufficiently similar to that under the previous framework decisions, which means only a few changes to the extradition act.

Elsewhere, Kazimi additionally notes that corporate criminal offences as part of the Criminal Finances Act 2017 had laid out that if a firm is found guilty of aiding, abetting or facilitating tax evasion, then it is "all over".

Simultaneously, to the Sankar case, a former employee of Shah was fighting extradition in Westminster Magistrates' Court. Guenther Klar is sought for questioning by Belgian prosecutors about his time working at Solo Capital and a reported €20 million cum-ex scheme. Klar is not currently facing criminal charges. An extradition order was filed in the UK and the court found in favour of prosecutors. The ruling will be a boon to other European prosecutors seeking to follow suit this year.

The legal framework of the UK compared to other European countries means it was largely unaffected by the raid on tax coffers that cum-ex represents. As such, the Financial Conduct Authority (FCA) has taken a much more laissez-faire approach, despite a significant portion of the actual cum-ex trading occurring in London offices.

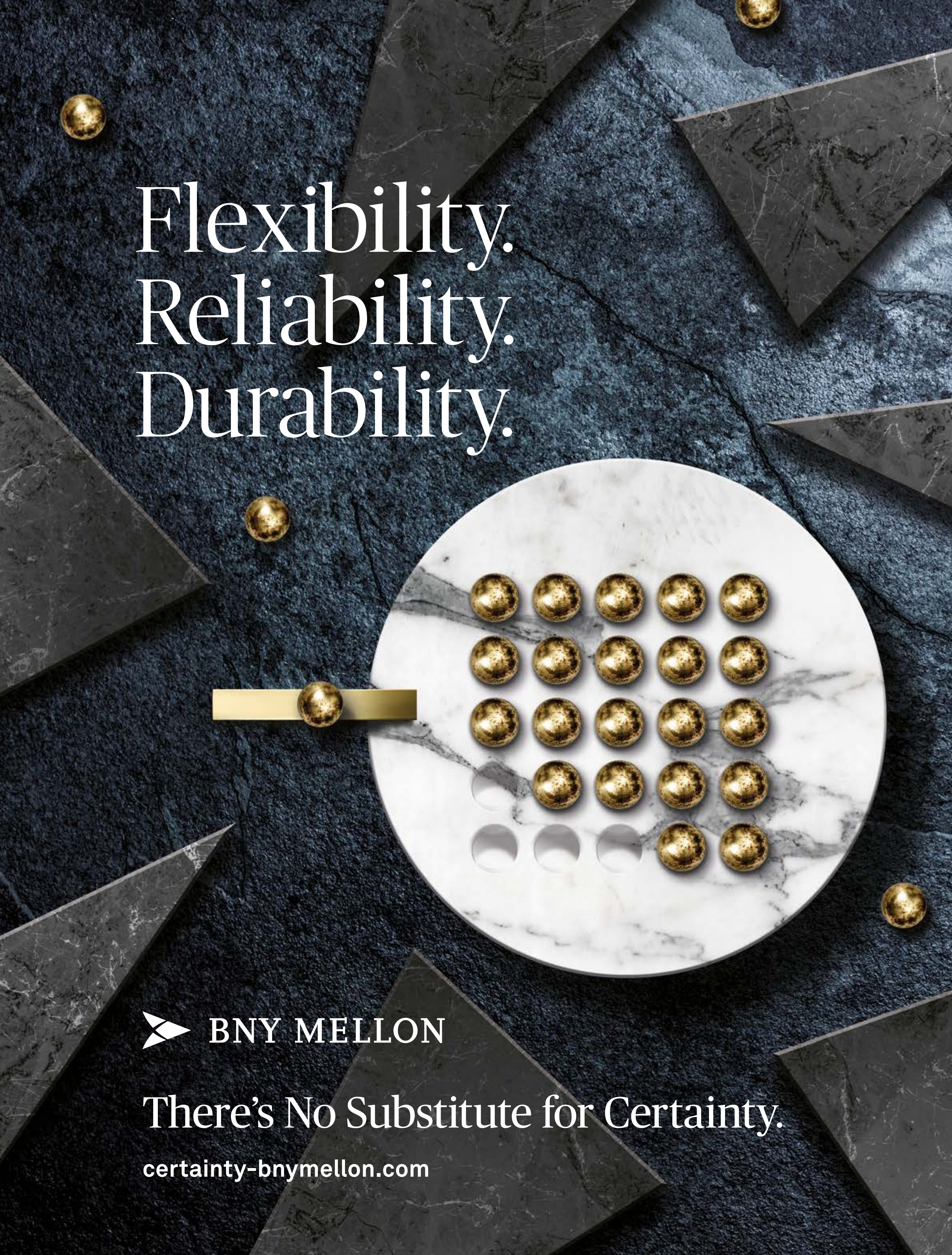
Brexit may now encourage the UK regulators to pursue its own legal actions and more than a dozen investigations are understood to be underway into the activities of individuals and firms.

A report into the investigation was due last year but nothing has so far been produced. FCA declined to offer SFT any indication of when it may hit our desks.

"What is for sure is that the action will continue in the EU and the UK," says Azizur Rahman senior partner at Rahman Ravelli. "We know the FCA is involved. We expect legal cases to resume at a good pace as the COVID-19 vaccine is rolled out and social restrictions are eased."

In the UK, those charged face double jeopardy, Rahman explains, as assets identified as "proceeds of crimes" that are moved around as part of a cum-ex trade structure can also be liable for money laundering charges.

"My prediction is there will be further action, either in the form of civil penalties or criminal enforcement, or both. The FCA will want to be seen as cooperative with the EU, especially because of Brexit."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Failing to prepare is preparing to fail

Trading Apps reveals its goals for the year ahead and why the team is encouraging the market to say hello to potential. Laura Allen, Trading Apps managing director, explains all

Benjamin Franklin's quote has it exactly right. If you have not made adequate preparations for your project or goals, you are unlikely to succeed. So, if you were wondering why Trading Apps (TA) has been so quiet in terms of market communication during the past year, it is because our priorities were channelled towards other areas of the business. To be successful in our goals we know we need to remember the big picture and not get overwhelmed by difficult tasks along the way. Therefore, during 2020 we have made sure we have all the necessary resources to help us reach our goals.

2020 was indeed a challenging and unique year for us all and it required everyone to adopt a very different operating model. This resulted in market participants demanding more from their systems

and really highlighted the growing importance of automation, connectivity, and machine learning.

We all recognise that financial markets are moving towards a standard, integrated and more transparent model. Whether that is driven by regulation or just common sense, technology is constantly evolving to support the transition. Over the past year within the securities finance industry there appears to be a real shift in mentality towards technology. Driven, amongst other things, by spread compression. The pandemic caused a spike of volume increases, coupled with a sudden demand for remote working, highlighting the need for real automation, data driven decision making and artificial intelligence (AI).

Consequently, the securities finance industry is evolving from a disconnected silo-like network towards a fully integrated structure. The International Securities Lending Association's (ISLA) digitalisation and common domain model (CDM) projects will be pivotal in continuing to fuel integration and along with it the standardisation of data and workflows.

Historically, when looking to introduce a new technology system to a securities finance business, successful firms seek software that will increase revenues and realise efficiencies, not just products that purely update existing function. This aspiration has not changed but as the market becomes more complex it is clear that no one provider can deliver on all the asks. Therefore, an entirely new approach to prioritisation within the organisation is required.

The securities finance market is extremely fortunate as it has some great technologists and specialist software providers offering solutions across inventory optimisation, trade automation, trade matching, trade reconciliations, collateral management etc. However, to really benefit a firm needs all their chosen systems to be connected and to interface with their core platform.

As referenced earlier, the catalyst for real change will be the creation and market adoption of a CDM. It will create a single definition for trades, life-cycle events and products for which data is shared thereby affording our market increased efficiency and allowing for greater interoperability.

Having recognised the need for a central portal to action and represent the suggestions created by specialist systems, TA recently embarked on an architecture evolution based on microservices communicating by using a high-performance universal remote procedure call framework and a managed message broker service. This allows for quicker delivery, easier connectivity, and integration into other systems, providing a true front-end system with scalability and improved visibility.

> ***"Trading Apps is launching a new product 'TA Link' — a specialised global secure messaging network providing an alternative method of communication for the securities finance market. It is a SaaS venue allowing peer-to-peer encrypted communication through the Amazon Web Services cloud platform"***

Looking forward, the ability to seamlessly connect and auto-trade will become increasingly critical. This is evidenced by the value that vendor trading platforms, such as EquiLend or Bloomberg's securities trading system, bring to the securities finance market. At TA, we are seeing an increasing demand from our customers for direct and bilateral connectivity.

To meet these needs, we are launching a new product 'TA Link' — a specialised global secure messaging network providing an alternative method of communication for the securities finance market. It is a software-as-a-service (SaaS) venue allowing peer-to-peer encrypted communication through the Amazon Web Services (AWS) cloud platform ensuring 24/365 global business continuity, accessibility, and function.

Another equally important change in TA's armoury is the launch of

SaaS provision of our core products via AWS. Of course, we continue to support existing on-premise customers whilst providing new deployments in the cloud. This is a key step towards machine and deep learning as we utilise the services available within this infrastructure.

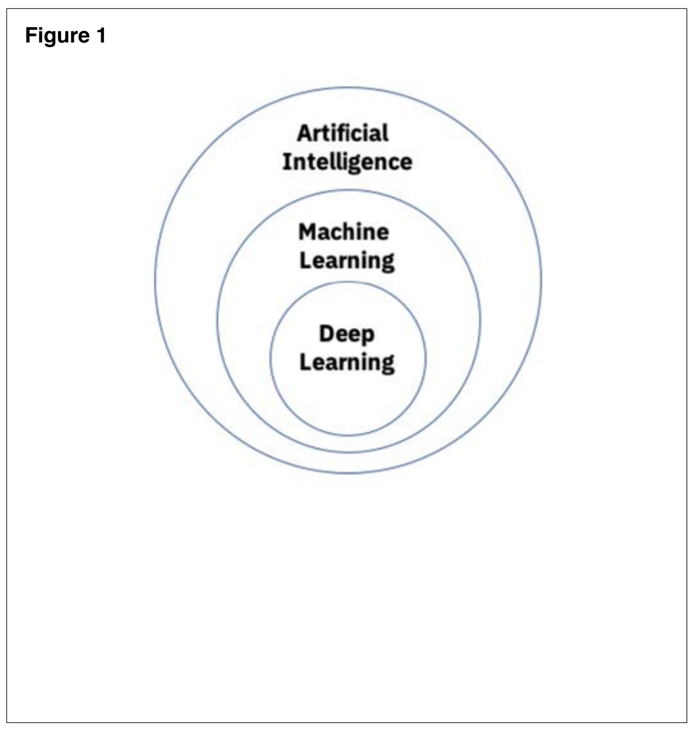
We all know that organisations are putting more emphasis on data analysis competencies, and there is a theory that algorithms will replace free thought and decision-making across many industries. There is some evidence of this already within securities finance. However, algorithms are only one of the ingredients that extract the power from data, the other is knowledge of what the data holds and for this purpose human input is required. TA is fortunate to have customers who value evidence-based reasoning and already use data to drive business decisions.

Everyone refers to AI, machine learning and deep learning in conjunction, but as harnessing their capabilities will be instrumental going forwards it is important to recognise the distinction between the three. AI can be thought of as human intelligence exhibited by computing technology. Currently, within securities finance when AI is referenced it is pointing to a problem-solving application that makes decisions based on complex rules or logic. Using TA as an example, our technology incorporates AI through using rule-based engines to automate the decision-making process across trading, lifecycle events and operational tasks.

Humans can only perform tasks after being taught them, and our performance improves through practise. The AI discipline of machine learning works the same way. In simple terms, machine learning is a subset of an AI application that learns by itself and, as it consumes more data, it reprograms itself to perform the specific task it is designed to do with greater accuracy.

Our cloud product is instrumental in introducing machine learning to TA because it will allow us to capture all the relevant data and organise it. By creating structured or semi-structured data TA can then apply it to the tasks that machines are able to execute. For example, users will be able to manipulate and use the data to analyse pricing trends and dislocations to ensure trades are accurately priced for both profitability and risk, not only at execution but during the trade's lifecycle.

They will be able to analyse activities, such as locates or borrow requests, and use the outputs to predict a client's behaviour. This



information will determine the likelihood of execution which will drive the response/offer and decrementing of inventory for example. Alternatively, machine learning could be used to predict a client's behaviour on any given corporate event, such as rights issues, proxy voting etc., allowing for more accurate inventory assumptions. The possibilities are endless and will empower the leading trading strategies of the future.

Deep learning is a further extension, as it allows for the inclusion of images, voice inputs, videos etc. which machines are not efficient at currently. We can only speculate on how this will be included in future technologies in our sector.

In summary, AI is the collection of tasks that machines can execute; machine learning will allow the rules to be automatically adjusted by the machine as it learns from data inputs. AI has supported human endeavour in so many areas such as medicine, defence, agriculture, economics and so much more. The opportunity for it to improve performance, reduce risks and outcompete in the market is very much here in securities finance today.

We are encouraging the market to say hello to potential.

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The sleeping giant stirs

Natalie Turner reports

China has amended its QFII scheme to allow foreign investors to lend and borrow securities directly in the mainland market. As the world's second-largest securities market opens, SFT examines what it means for securities finance participants globally

China's equity and fixed income markets are the second largest in the world in terms of capitalisation, after the US. The question of when this vast sea of assets will become easily accessible to international investors has been the multi-billion dollar question for decades.

Since 2014, the Shanghai-Hong Kong Stock Connect has offered exchange participants a way to engage in China-A shares securities lending, but, even though engagement on the stock connect has increased, securities financing volumes remain muted, relative to the size of the market.

However, in December 2020, after a lengthy consultation between regional regulators and Asia Pacific market players, the scope of products available to those who had a Qualified Foreign Institutional Investor (QFII) licence was expanded to include securities lending and short selling, among other amendments.

The potential for what this could mean for China's underdeveloped securities financing market, and the rest of the world, cannot be overstated.

The QFII relaxations including quota abolishment, a simplification of the application process and the removal of the eligibility criteria for applications, along with investment scope expansion, and multiple channels opening up including Stock Connect and Bond Connect have all contributed to an increase of inflow to the onshore market, explains Patrick Wong, head of China business development and client management, securities services at HSBC.

The index inclusions also act as a catalyst for demand, he notes. Major index providers including MSCI, FTSE, and S&P all include China A-shares in their benchmark indices, which create demand for global passive flows into China A-shares.

"Given the scale of the market and the pace of progress, it would be reasonable to expect that China will become one of the biggest securities lending markets globally," says the Pan Asia Securities Lending Association's (PASLA) chair, Stuart Jones. "The real question is how long this will take, and whether last year's reforms will make possible a vibrant securities lending market for foreign participants within the next five years."

International custodians, with hubs in Hong Kong or nearby, including HSBC, Deutsche Bank, and Standard Chartered have also welcomed the move and were quick to facilitate the first domestic securities lending transactions on the day the rules changed late last year.

Standard Chartered's executive director, sales, China Access, financing and securities services, Susan Yu, says the move is "a remarkable step forward opening up the domestic securities lending and borrowing market to global participants".

Meanwhile, Deutsche Bank expects China's markets to continue growing, corresponding to the country's economy. Tony Chao, head of securities services Greater China and head of securities services sales in North Asia at Deutsche Bank, says China will soon become "too big to ignore" for global investors, not only in terms of portfolio allocation and risk diversification but also for absolute returns.

With this barrier to international involvement in China now removed, market observers are unanimous that the Asian giant will become a major player in the global securities finance market; the only question is when. A feeling-out process is inevitable as domestic and international firms get comfortable with each other's needs and wants, but further integration is widely believed to be in the best interests of everyone.

China today

Since Mao Zedong declared the creation of the People's Republic of China in 1949, the Chinese Communist Party has ensured the country's financial markets remained insular. As a result, the domestic market is dominated by retail investors, who account for around 80 per cent of the average daily trading volume, according to Standard Chartered data, which Yu notes is "in general opposite to other international markets".

In contrast, foreign institutional investors make up a mere 3 per cent of the market. Margin loan and short selling participation in the domestic market is also low, around 2 per cent to 3 per cent, compared to overseas markets where it is closer to 10 per cent, according to HSBC, although, the bank predicts these volumes will now grow in the near term.

Wong notes this market dynamic is "not healthy on a longer-term as volatility is comparatively high". Yu further notes that retail investors are more focused on short-term gain and seem to worry less about company fundamentals. This partly explains why volatility in China A-shares is much higher than other developed markets, where institutional and sophisticated investors are the major players.

Both Wong and Yu hope that the predicted influx of foreign institutional investors will bring some much-need stability by improving price discovery and reducing volatility.

Deutsche Bank's Chao also highlights that a large body of research now exists to suggest an activity securities lending and short selling market positivity contributes to a healthy and transparent market and will likewise benefit China.

Wong says the demand is there from long term investors and exchange-traded funds who entered the Chinese market and the growing securities lending market "will definitely enhance their yield onshore".

PASLA's Jones also believes the QFII reforms should reduce the volatility risk around index rebalancing events, which he says will become increasingly valuable as China grows within various index-tracking products. "However, there are commercial, credit, legal and collateral factors that will need clarification for offshore participants at some point," he adds.

Elsewhere, Jones notes that changes to the QFII scheme are also an

example of the healthy relationship between Chinese regulators and their regional counterparts, along with other stakeholders that are pushing for the country to open to the world.

The reforms are “an important part of this progressive approach, coming on the back of an industry-wide consultation in which they listened to views on how they could respond to market needs,” Jones says, noting that domestic development has also been ongoing for a while before the rule change. “It’s very encouraging to see that domestic investors, retail and institutional, are embracing the expansion in product choices available to them,” he says, adding “we see this as a growth story for the market as a whole, not one that is exclusive to offshore investors”.

Hello world!

Deutsche Bank’s Chao believes there is “tremendous pent-up demand” for international assets from Chinese investors for the same reasons international investors want to invest in China. Moreover, he argues, the continued growth of the China wealth management and fund industries is also expected to “lead to demand for value-added products and services that currently can’t be offered by domestic service providers”.

A common opinion voiced by international banks active in China is that domestic assets can add diversification to global investors. Standard Chartered, Yu, explains that global investors can “enjoy the dividends brought by qualitative economic growth”.

However, he adds, global investors, must adapt to differing rules in China, similar to the rest of Asia Pacific. PASLA’s Jones explains that over time “China has become a very investible and accessible market and is engaged with the full spectrum of portfolio risk management products and the importance of different investor types to the ecosystem”.

“Embracing and understanding these factors is important to all global investors as they look to increase their exposure to such a large market,” he states. “Any evolution takes time and today’s reformed QFII scheme is a result of an ongoing dialogue and engagement by a regulator that is both forward-looking and collaborative.”

Despite the market demand, gatekeeper not affected by possible profits remain and Chao predicts China will likely remain a standalone market for some time. Like Yu, Chao suggests China will maintain its regulations and market practices. International investors must adapt to these rules of engagement and manage their investments in China in a somewhat segregated manner, he says.

Although the QFII reforms present a new gateway for foreign investors to enter China, regulatory walls that have stood for half a century around the country’s markets are not quite ready to come down altogether.

What is the QFII Scheme?

The Qualified Foreign Institutional Investor (QFII) and the Renminbi Qualified Foreign Institutional Investor (RQFII) were first launched in 2002.

They are China’s two main inbound investment schemes to encourage foreign participation in its financial markets. QFII is a foreign institutional investor investing in China’s financial markets with offshore foreign currency and then converting into RMB to invest. RQFII is a foreign institutional investor investing in China’s financial markets with RMB outside mainland China.

The schemes have seen several key amendments in the past year to make it quicker and easier for foreign investors to apply for and gain QFII status. The new QFII scheme allows non-China based companies to engage in the securities lending markets and margin lending activities for the first time, in addition to a wider variety of derivatives than was previously allowed.

QFII and RQFII licence holders can invest in stocks, bonds, warrants traded on Shanghai and Shenzhen stock exchanges, securities investment funds, fixed income products on the interbank bond market and stock index futures (on hedging purpose).

Its key regulators are the People’s Bank of China, the State Administration of Foreign Exchange and China Securities Regulatory Commission.

So far, Deutsche Bank, HSBC, Standard Chartered and Citi are among the international custodians to have facilitated securities lending trades for international clients in China since the December rule change.

SFTR: The one-year review

ICMA's Alexander Westphal and Richard Comotto, look back at the first year of SFTR reporting, including what the data does and doesn't tells us about the market and areas for improvement for both regulators and market participants

Natalie Turner reports

Can you explain what the International Capital Market Association (ICMA) is doing in relation to SFTR public data?

Westphal: Since the reporting started back in July, we have been publishing on a weekly basis the available public data from Securities Financing Transactions Regulation (SFTR) reporting. The data is based on the summary statistics that the four trade repositories (TRs) are obliged to publish under SFTR, even if these are unfortunately only covering a very small subset of the data points captured by SFTR.

We take the data from the TRs, aggregate it and publish it in a format that is hopefully much easier accessible than the format prescribed by the European Securities and Markets Authority (ESMA) which the TRs have to use. Alongside the data itself we have also been publishing some trends and charts which we hope are all helpful elements further contributing towards an improved transparency of the repo market and which are also useful complements to our existing repo publications, including of course our bi-annual European Repo Survey, which has been running since 2001 and remains the most comprehensive source of public data on the size and composition of the European repo market.

Richard, you've been vocal in highlighting issues with the data reported under SFTR. In particular, you've suggested that the reported collateral numbers are wrong, can you explain why?

Comotto: Something must be wrong when some items are reported to be collateralised by 12 and a half million per cent. In fact, no items are

even close to where they should be. New repo has an average 32,000 per cent collateralisation. Outstanding repo is 147,000 per cent. Some securities finance transactions (SFTs) even have negative collateral. And it has to be said that some of the loan is also looking dubious.

To an extent, problems were expected with the collateral numbers. They arise largely because the aggregation of collateral data does not seem to have been thought through. ESMA have failed to address the issue of how to add collateral allocated gross to individual repos to collateral allocated net to portfolios of repo. Net collateralisation will make collateral amounts look too small when compared with the size of loans. And as collateral that has been given is a negative number and collateral that has been taken is positive, you cannot simply just add everything up. Unfortunately, ESMA failed to provide the necessary detailed methodology to the trade repositories and, on many issues, the TRs have each gone their own way.

Could you expand on what you think ESMA should do to improve the usability of the SFTR public data?

Comotto: ESMA needs to sit down, analyse the basic challenge of meaningfully representing collateralisation, talk to the TRs and translate solutions into algorithms to be handed out to the TRs.

One possible improvement would be to split the loan and collateral data by gross and net collateralisation. To overcome the arithmetic signage problem, they need to filter collateral by unique transaction identifier (UTI), so that only the collateral for one side of each repo is counted. And they need to do the same for portfolios which are net collateralised, where the collateral reports do not have UTIs (which would require filtering by LEI pairs and master agreement).

To be frank, I am not sure the collateral data could tell us anything useful even if they were accurate. What value is there in knowing that all the repos in the EU are collateralised by 102 per cent or 105 per cent? What we really need from ESMA is more data, e.g. SFTs broken down by cash currency, origin of collateral, maturity and so on. This would require ESMA to increase the number of data points to be published by the TRs – hopefully something for the upcoming review of SFTR.

Some of the reporting issues, including with the XML schema itself, were known to be sub-optimal prior to go live. What's being done to fix these issues?

Westphal: Yes, some of the problems we are now seeing are indeed not new. We have been in a very open and constructive dialogue with ESMA since the beginning and have flagged some of the problems. Others have only emerged after the reporting started.

Based on feedback from members in our SFTR task force we have put together a list of the most common reporting issues encountered by members post-go-live which we have also shared with ESMA and national regulators. Of course, the 50-odd issues that we have identified go beyond the problems that we observe with the public data and are in fact only partly due to issues with the official rules. But, for those that are, we hope indeed that these can be addressed in future iterations of the relevant guidance documents. We know that ESMA is currently reviewing the existing documents, including validation rules and XML schemas, and is looking to publish updated versions relatively soon, but this obviously takes some time to go through the formal process.

On a more general note, it is important to keep in mind that the fact that there are still issues is of course hardly surprising given the complexity of the reporting rules and the level of detail required. It was always clear that this would be a learning process for everyone involved, not only for ESMA and the trade repositories, but obviously also for reporting firms, market infrastructures and vendors involved in the process. Overall, I think it is fair to say that the SFTR implementation has been a great success, especially compared to similar implementation efforts in the past. The level of cross-industry collaboration on SFTR has really been quite unique, with over 700 active members on our task force alone. This has certainly been a key factor.

Brexit created a schism in SFTR reporting data pools and also forced many entities to double report. How big an issue is this for overall market transparency and data quality and is this a sustainable model for the long term?

Westphal: From a public data perspective this split is indeed unfortunate. As it is not possible to simply aggregate the numbers, we have had to start publishing separate figures for the UK and the EU, which obviously disrupts the data series that we've been building up since July. The problem is not so much double reporting by firms, although this does happen particularly for some branches, but rather the overlap in the data.

Take the example of trades between an EU and a UK counterparty. These were previously reconciled and hence only counted once in the data, but now they are reported separately to a UK TR and an EU TR, and therefore of course also counted twice. In the short term this creates some friction, but in the longer term there shouldn't be any fundamental issue with this setup. Ultimately, SFTR reporting was born from a global initiative by the Financial Stability Board (FSB) and was always meant to be separately implemented in the different jurisdictions. The FSB agreed some standards that should allow the global aggregation of the data and this remains valid.

There are of course other related issues beyond the public data. What firms are mainly worried about is potential divergence between the UK and the EU rules. As mentioned, this is an extremely complex regime and a lot of effort and money has been spent to build the systems to comply with the specific SFTR rules, so anything that would require a significant adjustment on either side could be quite problematic.

Going beyond SFTR, Richard, you also recently highlighted the need for repo platforms and CCPS to stop publishing only term-adjusted and moving-average turnovers, in favour of unadjusted average turnover and end-period positions. How will this help market transparency?

Comotto: That is just a bee in my personal bonnet. Most platforms and central clearing counterparties (CCPs) are very helpful with data. But processed numbers always look disingenuous. There's a place for term-adjustment and moving averages but there's nothing as good as raw numbers. So why not also provide unadjusted and daily or weekly or even monthly averages and, if you want to show you're doing term business, give a maturity distribution? And how about publishing turnover as well as outstanding amounts?

How would raw numbers help market transparency?

Comotto: Well, it would help people like me add them up and compare them. I don't want to criticise anyone who regularly publishes data, even if they adjust or average it. The real problem is that some infrastructures don't publish any numbers at all or do so only very occasionally.

In some cases, it's because they are embarrassed by their low volumes. As for the others, who knows? But infrastructures are at least likely to have a commercial reason for their reticence. The same cannot be said for central banks. It's inexcusable that the European Central Bank, Bank of England and other central banks do not or no longer publish the money market data they collect from samples of banks and dealers. Time to lead by example.

Richard Comotto
Repo expert
ICMA SFTR task force

Alex Westphal
Director of market practice and regulatory policy
ICMA

What do fashion and securities finance have in common? Strategic data

Market data now in abundance, so David Lewis, of FIS' Astec Analytics offers guidance on how to separate wheat from chaff

Data is not in short supply. Far from it

Take a moment to think about not only the data that you use as part of your typical day, but the data you create. As we all move through our daily lives, whether virtually or physically, we leave behind a trail of data that documents our every move and action. Consider the feelings of wonder and dread you experience every time you get a notification from Google Maps that your timeline is available for viewing. Think about your Strava account, which shows that you are not the best cyclist/runner/swimmer in the world or even the best on your street. These apps know where you have been, when, how often and how long it took you.

Data is cheap. It's also valuable

The two apps already mentioned constitute a fraction of the apps out there, each swapping free access to their services for the data they gather from you in order to sell you things. The trick, however, is to be able to split the useful, valuable data from the worthless; the wheat from the chaff so to speak.

Developing a data strategy to create an edge depends on two major factors. First, the useful data (the wheat) must be separated from the noise (the chaff), leaving the data that creates some meaningful link between event and effect; the link of causation, not just correlation. The second — and equally vital — part of the strategy is delivering that data in a usable format and at the right moment. Combined, these two elements constitute the art of turning data into actionable information.

Alternative data as a commodity

As investors and analysts have sought to deliver that edge, they have turned to increasingly radical types of 'alternative data' as earlier elements of data become more mainstream and accessible. For example, the satellite pictures of shopping centre parking lots being used to indicate the footfall and therefore the spending patterns/levels of consumers, or the movements of cargo ships around the globe. Neither of these measures would be much use in the shadow of the COVID-19 pandemic when the majority of people are confined to their own homes, but the data they delivered did become a commodity for some as they sought to predict the economic performance of companies.

Short interest, or indeed the use of securities lending data as a meaningful proxy for short interest, was considered alternative data a few short years ago, but has, through broad global adoption, become more mainstream, pushing those seeking the edge to find other indicators in the new economic environment – the new normal. But what of the second part of the delivery of the data? Getting it to the right person, or increasingly, the right computer at the right time. Given that the term 'computer' was originally coined to describe a person that undertakes mathematical calculations, there is no little irony in the progression of machines into this space.

The delivery of the data has multiple factors that need to be addressed if it is going to be truly actionable information – it must show an acceptable degree of causation, be understandable and timely. Getting all three in place is not easy, but vital to providing that edge. The frequency of trading on financial markets has grown exponentially since the 'big bang' and the impact of financial data streams continues to undo old practices. January 2021 has seen the announcement that the last open outcry trading pit in London, the LME (London Metal Exchange), may be closing its doors for good. The pit had soldiered on through wars and economic crashes through its 144-year history, but the temporary closure due to COVID-19 may become permanent as stakeholders realise that the electronic screen trading that took over has brought new entrants and improved price transparency. Somewhat behind other exchanges that have already made the transition, the LME will likely feel the positive impact that better technology and more timely data will bring them and their clients.

Using data to drive efficiency

Financial markets are not the only commercial environments that are improving efficiency, service and profitability through the timely application of useful data. Consider the various home delivery services and online shopping. For example, have you ever wondered why some shirts or dresses sometimes appear surprisingly out of stock? Smarter retailers have systems that learn your buying patterns and steer you away from buying three of the same items in different sizes because their algorithms know that you tend to return the smallest and largest ones, wiping out their profits. Through the timely application of actionable data with proven causation, they improve their margins and decrease the cost of returns processing. They have all three sizes; they're just not going to let you know that.

But what could this mean for securities finance? Just as with the ordering of clothes, or any other retail item for that matter, the timely delivery of actionable and accurate data is key to success.

Data in securities finance

While we have put a great deal of effort into the release of our latest generation of Lending Pit, which continues to serve more than 1,000 users with more than 100,000 pages of data each week, more and more clients are looking to our application programming interface services to support their automation strategies. With the increasing complexity of the marketplace in which we operate, it makes absolute sense to automate as much as is possible while ensuring those that focus on the higher value, more complex opportunities have all the right data and analytics at their fingertips.

Just as we are seeing with online retail shopping, advanced algorithms together with the application of artificial intelligence in our forthcoming products will ensure that the quality of the original transaction will improve. This will bring efficiency in the form of better price discovery as well as improvements in accuracy at the point of trade. Just as importantly, it also has the potential to reduce post trade costs with the reduction in errors, failed deliveries and, of course, unexpected returns. Who knew that securities finance could share so much with the online fashion industry?

Coming and goings at Capco, Refinitiv, Euronext and more

The Securities Services Advisory Group (TSSAG) has gained Lawrence Au, former head of Asia Pacific (APAC) for BNP Securities Services and general manager, APAC at Northern Trust.

Au is an independent consultant and offers consulting services on securities services, custody, fund administration, pension funds and fiduciary services.

Au has more than 35 years of industry experience, including 16 years as Asia Pacific CEO of BNP Paribas Securities Services and Northern Trust.

He partners with clients to support their strategic planning, market opportunity analysis, business plan implementation, media profiling, and fiduciary needs in Asia.

Viraj Kulkarni, CEO of TSSAG, says: "I have known Lawrence for many years and am delighted that he has chosen to join our organisation. He brings a wealth of knowledge of the securities services industry both in APAC and further afield and an excellent network of relevant contacts which will be of great benefit to his fellow TSSAG members around the world."

TSSAG launched in August last year with the aim of connecting industry professionals from various global bases through a forum of regular interaction and communication. The group is a network of independent firms, part of the securities services industry but also with expertise in investor, issuer, fund and capital market infrastructure service

James Arnett to head up Capco's APAC business

Capco has appointed James Arnett as managing partner for Asia Pacific (APAC), responsible for business across Hong Kong, Singapore, Thailand and Malaysia.

Arnett will relocate from London to Hong Kong once travel restrictions are lifted.

With more than 20 years of experience in consulting, banking and technology, Arnett previously led and built out Capco's UK finance, risk and compliance practice, most recently working as head of the UK capital markets practice.

He joined Capco in 2011 having held roles at IBM Global Business Services, Capita, Hewlett Packard Enterprise and The Co-operative Bank.

According to Arnett, APAC continues to be a centre for innovation and dynamism when it comes to digitalisation and transformation within financial services.

He says: "There are significant opportunities at hand around virtual banking, data, insurtech, emergent technologies including cloud and machine learning, and the enhancement of user experiences and customer journeys."

Capco CEO Lance Levy adds: "Appointing James to lead APAC underscores Capco's commitment to investing in the region.

"James has extensive experience managing global client relationships and transformation programs across the UK, Europe, North America, Asia and Africa, and a successful track record in applying an entrepreneurial approach to developing fast-growth businesses."

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The board is made up of the founding member firms, which are Adapa Advisory, AlfaSec Advisors, Araliya Management Consulting, HornbyChapman, Pivot Consultants, Pivot Consulting, PDH Consult, Soterium, and the Value Exchange.

In September, NEO Consulting and hd financial consulting joined TSSAG.

Brazil-based NEO Consulting offers a range of investment management consulting services with a focus on custody, fund administration, pension fund and fiduciary services.

Meanwhile, hd financial consulting, located in France, advises and supports participants across the investment cycle for treasury related needs with a specific focus on foreign exchange execution solutions for institutional investors and their providers.

Euronext is reshuffling senior management responsibilities ahead of its upcoming acquisition of Borsa Italiana Group.

The European exchange group's purchase of Italy's only exchange was contingent on the London Stock Exchange Group (LSEG) needing to divest 99 per cent of its stake as part of its own acquisition of Refinitiv.

The European Commission recently approved LSEG's deal with the data analytics firm, meaning the sale to Euronext is now highly likely to be completed in the coming months.

In preparation, Euronext Paris CEO Anthony Attia will vacate his position to become global head of primary markets and post trade in order to play a central role in the integration of the Borsa Italiana Group activities.

Attia will oversee Euronext's equity, debt and fund listing franchise and the corporate services business, as well as clearing, custody and settlement activities at group level.

He will remain a member of the operating committee and the extended managing board of Euronext.

The role of Euronext CEO and member of the managing board of Euronext will be taken on by Delphine d'Amarzit, who joins from Orange Bank on 15 March.

d'Amarzit most recently served as Orange Bank's deputy CEO where she was responsible for the oversight of the operations, credit, finance, risk and compliance functions.

She had also held senior positions within the French treasury department for several years with responsibilities for capital markets development, European financial regulation, and corporate financing.

Prior to that, d'Amarzit was also responsible for financial and economic affairs for the British government, based in Number 10, from 2007 to 2009.

Of his new role, Attia says: "I am pleased to hand over the stewardship of Euronext Paris to Delphine d'Amarzit, whose experience will be critical in continuing to deliver best-in-class services to the Paris financial ecosystem.

"I now look forward to leading our expanded post-trade franchise and supporting the growth of Euronext primary markets and corporate services activities as the group embarks on the next steps in its strategic ambition."

Stéphane Boujnah, CEO and chairman of the managing board of Euronext, adds: "Euronext is opening a new chapter in its growth journey with the contemplated acquisition of the Borsa Italiana Group, and the successful recent expansion into new geographies and activities.

"As a result, Euronext must adjust its organisation to fit its ambition to build the leading pan-European market infrastructure and cement the scalability of its unique federal model.".

US data analytics firm Refinitiv has hired Jeroen Bakker as an account manager for Dutch financial institutions across all Refinitiv products.

Based in Amsterdam, Bakker has spent the past year as the Benelux consulting lead for Pierpoint Financial Consulting, focusing on securities finance and collateral management advisory services.

Before that, he offered consulting services through his own firm, Ampalo, for two years.

He also offers experience with HSBC where he spent just under eight years as director, marketing and exclusives manager within its securities lending and prime finance division.

Pierpoint practice lead Roy Zimmerhansl says Bakker was an "excellent member of the team, often bringing a different perspective on issues to our clients and his blog posts were very well received by readers. We wish both Jeroen and Refinitiv well."

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