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ISSUE179 Conference Special

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The current state of the European securities lending market, and where it will go next

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IHS Markit™

US Financial CHOICE Act passes House of Representatives

US President Donald Trump's efforts to turn back the clock by gutting the bulk of post-financial crisis regulation took another step forward on 8 June, with the House of Representatives passing the Financial CHOICE Act.

The Financial CHOICE Act, which promises to repeal and replace key elements of the Dodd-Frank Act, including scrapping the Volcker Rule restrictions on short-term proprietary trading using banks' own funds, will now face the Senate, where Democrats are expected to fiercely oppose it.

The bill would take away the the Financial Stability Oversight Council's mandate to designate non-bank financial institutions and utilities as 'systemically important', with those currently designated as such being freed from the additional associated regulatory standards.

It would also see an end to state-funded bank bailouts by eliminating the Federal Deposit Insurance Corporation's orderly liquidation authority and establishing new provisions regarding financial institution bankruptcy.

Certain banks may exempt themselves from specified regulatory standards if they maintain a certain ratio of capital to total assets and meet other specified requirements that are yet to be defined.

The ability of supervisory authorities to take action against entities for abusive practices would be blunted.

House financial services committee chairman Jeb Hensarling officially introduced the act in April, but a series of Democratic amendments and other delays were raised before the final vote was taken.

New CCP system promises efficient collateral management

Trading and clearing technology provider Cinnober has launched a risk management system for central counterparties (CCPs).

Cinnober's TRADExpress CCP Risk offers a single point of access, enabling efficient risk and collateral management across all asset classes and instruments cleared by the CCP.

The first customer to implement the system is Japan Exchange Group, which plans to go live during 2018 with its new risk solution across the entire Japanese market of equities, bonds, futures, options, credit default swaps and interest rate swaps. According to Cinnober, TRADExpress CCP Risk enables CCPs to run multiple risk models in parallel, allowing them to "migrate from old models to new, more sophisticated statistical approaches better fit for today's versatile array of cleared contracts".

Mikael Öhman, who is chief architect risk solutions at Cinnober, commented: "CCPs need to avoid overburdening market participants with excessive margin requirements without becoming a systemic risk to the financial industry."

"For this, new methods and procedures that give a full view across all asset classes and instrument types are required, and that's what we're introducing with TRADExpress CCP Risk."

Misys teams up with Broadridge's Message Automation

Financial services software provider Misys has built a regulatory reporting component for compliance with the second Markets in Financial Instruments Directive (MiFID II).

FusionCapital Regulatory Reporting was built in conjunction with Broadridge Financial Solutions's Message Automation and promises to reduce the cost and effort associated with data capture and compliance.

It automates the reporting process to comply with MiFID II's January 2018 deadline, and supports the European Market Infrastructure

IHS Markit launches collateral solution

London | Reporter: Drew Nicol

IHS Markit has launched a cloud-based, end-to-end solution for calculating margin, settling calls and managing disputes.

The Collateral Manager solution covers a range of trades, including securities lending, repos, cleared and non-cleared over-the-counter derivatives, future and options.

In a statement on the launch, IHS Markit said: "Collateral Manager's intuitive, configurable dashboards and real-time reporting help users automate processing of margin calls, manage exceptions and provide transparency for audit and risk purposes."

Collateral Manager was created in partnership with CloudMargin, which previously produced the market's first web-based collateral and margin management solution.

IHS Markit cited its existing offerings, including Portfolio Valuations, Counterparty Manager, MarkitSERV and Fixed Income Pricing, as important data sources that will support the solution. Laura Kholodenko, director for Portfolio Valuations at IHS Markit, said: "Collateral Manager offers the unique ability to link the disparate information that is critical to a straight-through collateral process, making IHS Markit a one-stop shop for margin and collateral services."

"Achieving an automated collateral programme is a growing priority as managing margin becomes a larger and more complex challenge."

When discussing the drivers behind the new product launch, IHS Markit highlighted that new regulation requires the mandatory exchange of variation and initial margin for cleared and uncleared over-the-counter derivatives transactions.

"In response, financial institutions seeking operational excellence require new tools with which to automate margin activity and manage legal and liquidity risk," IHS Markit explained.

Regulation (EMIR) requirements around over-the-counter derivatives, as banks prepare to report by November 2017.

The FusionCapital Regulatory Reporting architecture is also scalable to accommodate new regimes, including the Securities Financing Transactions Regulation (SFTR).

Nadeem Syed, CEO at Misys, commented: "It makes sense to team up with a leading specialist provider of post-trade reporting tools [in Broadridge's Message Automation] to bring seamless reporting to our capital markets clients."

"It's no secret that the industry is creaking under the weight of multiple regulations and banks need transparency and enterprise-wide consistency. FusionCapital Regulatory Reporting acts as a strategic regulatory hub. It will reduce operational risk, while helping banks to meet today's biggest compliance challenges, without disrupting day-to-day business."

Hugh Daly, CEO of Broadridge's Message Automation, added: "Banks are taking this regulatory 'opportunity' to look at how they can consolidate all of their trade and transaction reporting needs into one solution. We're pleased to support Misys with an end-to-end reporting platform that is capable of tackling the large data quantities required by MiFID II, brings down implementation costs and lends itself to future regulatory demands."

Broadridge acquired Message Automation earlier this year for an undisclosed sum and revealed that its central data model is highly extensible to handle new regulations and market changes. According to Broadridge at the time of the acquisition in March, Message Automation was actively implementing its MiFID II solution in preparation for the January 2018 deadline, already working with Broadridge on addressing self-reporting needs for buy-side firms under MiFID II, and was in advanced planning for SFTR.


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UK Financial Conduct Authority releases results of dividend arbitrage review

London | Reporter: Mark Dugdale

Some UK-based firms engaged in dividend arbitrage may not be identifying the risk posed by contrived or fraudulent trading for the purpose of making illegitimate withholding tax reclaims, according to the Financial Conduct Authority (FCA).

The UK's FCA published the results of a review of dividend arbitrage practice in the UK this month.

The regulator urged firms using trading activities such as securities lending and derivatives to sidestep withholding tax during dividend season to make sure they have adequate processes in place to assess and monitor transactions.

"Most firms executing transactions with, or on behalf of clients engaged in dividend arbitrage, appear to comply with our requirements," the FCA said in its June Market Watch newsletter.

"However, some firms may not have identified the risk posed by contrived or fraudulent trading for the purpose of making illegitimate withholding tax reclaims."

"As a result, some firms may not have adequate processes to allow them to assess the purpose for dividend arbitrage trading by prospective clients and/or do not establish or monitor clients' trading abilities and the true nature of the transactions involved. This could result in firms failing to identify clients who may be using this strategy for inappropriate purposes."

The FCA looked at the activities of a number of inter-dealer brokers, settlement agents and custodians that are involved in trading European equities around ex-dividend dates.

Those that were identified as failing to adequately assess and monitor transactions did so in a number circumstances, including the use of back to back securities lending agreements and over-the-counter derivatives instruments to hedge stock trades.

Areas of concern for the FCA also included potential connections and associations between the owners of offshore funds and the firms involved in the custody, settlement and clearing of the stock, as well as a lack of transparency as to both the source and availability of funds supposedly being used to fund the trading and the source of stock needed to fulfil trades.

The FCA reminded UK-based firms engaged in dividend arbitrage that they need to comply with requirements covering financial crime risk.

"They must also have effective processes for carrying out due diligence on new business proposals, on new clients and for monitoring ongoing business."

"We also expect firms to have a good understanding of the risks that are relevant to their business, as well as strong controls for mitigating those risks."

"A firm must have the appropriate management oversight and controls in place to minimise the extent to which it is possible for its business to be used for a purpose connected with financial crime."

US pension fund wins $123m in securities lending dispute

The Public School Retirement System of Missouri (PSRS) received $123 million to settle litigation against State Street over incorrect fund valuations in the bank's time as the pension fund's agent lender.

PSRS of Missouri stated in its 2016 financial report that the Cole County Circuit Court for Missouri ruled in favour of the pension fund to conclude a long-running dispute with State Street over the terms of the trust agreement for one of its short-term investment funds in 2009.

State Street acted as custodian and agent lender for PSRS of Missouri at the time.

According to PSRS of Missouri, the bank incorrectly believed that it had the right to re-value investments in the fund based on a series of prior authorised, custodial bank-approved, redemptions.

The bank reduced the fund's valuation by approximately $96 million in October 2009, which PSRS of Missouri stated it "strongly contested" at the time.

PSRS of Missouri was offered its revalued portion of the fund as an in-kind distribution, which was utilised to pay for a customised collective investment pool to facilitate securities lending activities.

The pension fund subsequently filed a lawsuit against State Street on 18 September 2009 in an attempt to prevent the bank from taking such action.

Upon receipt of the settlement, which the court ruled was to be paid by State Street, PSRS of Missouri dismissed its lawsuit and terminated their relationship in October 2010.

State Street declined to comment on the settlement with PSRS of Missouri.

Securities lending up in May for OCC

OCC's securities lending central counterparty activity was up 26 percent in new loans in May, compared to the same time last year.

Year-to-date lending activity is up 19 percent from 2016 with 938,368 new loan transactions in 2017.

The average daily loan value cleared by OCC was $157.8 billion in May, with 209,904 transactions recorded.

OCC also saw cleared futures volume set a monthly record in May recording a 61 percent increase on 2016, with 13,483,086 contracts.

Year-to-date average daily cleared futures volume was up 53 percent from 2016 with 548,064 contracts.

Shadow banking growth slows in Q4

The value of EU shadow banking slowed significantly in Q4 2016, according to the European Systemic Risk Board's latest review of the sector.

The annual growth rate of the broad measure of shadow banking dropped to 2.6 percent in the final quarter of 2016, compared to an average annual growth rate of 8.3 percent between 2012 and 2015.

The European Systemic Risk Board said the drop off can be attributed to both a slowdown in asset valuations and net transactions.

The broad measure of shadow banking in the EU has expanded by 30 percent since 2012.

By contrast, total assets of credit institutions in the EU declined by 6 percent between 2012 2016.

The eurozone's sector accounted for €31 trillion in total assets at the end of Q4 2016, meaning it expanded faster than at the EU level at an annual rate of 4.2 percent.

This compares with an average annual growth rate of 10.2 percent between 2012 and 2015, representing an almost 40 percent expansion between 2012 and 2016.

As part of its risk review of the sector, the report focused on four key risks that it highlighted as being worthy of monitoring.

Procyclicality, leverage, and liquidity risk created through the use of derivatives and securities finance transactions were among the risks highlighted.

Vulnerabilities in some parts of the sector, where significant data gaps prevent a definitive risk assessment, were also considered a key risk.

The report noted that the data gathered through the reporting requirements of the Securities Financing Transactions Regulation will provide greater insight into some of these opaque areas.

SIX x-clear adjusts CCP risk model

SIX x-clear has recalibrated its inter-central counterparty (CCP) risk models in order to improve accuracy.

SIX Securities Services, through its clearing arm SIX x-clear, has adjusted its CCP's model towards a more 'defaulter-pays' approach of raising margin requirements and lowering default fund. SIX said this was done to bring its model in line with industry standards.

"The risk exposure arising from CCPs interoperating with other CCPs to effectively compete for efficiency and development optimisation will be significantly reduced," said SIX x-clear.

"A balanced risk exposure is essential for the liquidity flows between markets."

SIX x-clear has adapted its current inter-CCP margin model to include a margin add-on for co-CCPs in order to continue best practice in risk management and the fair treatment of all clearing members.

Roger Storm, deputy head of CCP clearing at SIX Securities Services, said: "SIX Securities Services constantly looks at ways to improve its risk modelling in the best interests of its members and financial market participants."

"SIX x-clear has been in close discussions with other CCPs and the oversight authorities in order to ensure interoperability among CCPs and to better balance the interests and exposures among markets."

NEX enlists Duco for reconciliations

NEX Regulatory Reporting is partnering with Duco, a data normalisation and reconciliation service provider, to aid its clients in compliance with the second Markets in Financial Instruments Directive (MiFID II).

The joint offering will use Duco's reconciliation platform Duco Cube to provide MiFID II-compliant reconciliation, validation and reporting services to NEX Regulatory Reporting clients, ahead of the directive's implementation in January 2018.

Clients will also have access to Duco Cube for more complex requirements, such as clean-up activities or additional internal controls related to MiFID II.

Collin Coleman, CEO of NEX Regulatory Reporting, said: "What sets us apart in the market is our understanding of both regulation and technology and our strong focus on the end-to-end experience."

"By working with Duco, we will be able to scale fast and provide our rapidly-growing client base with strong independent verification based on best-of-breed technology."

ECB warns of blockchain's potential to cause fragmentation risk in EU

The increase in distributed ledger technology poses a risk of market fragmentation in the EU, but regulation should not hamper development, according to Mario Draghi, president of the European Central Bank (ECB).

Speaking on financial innovation at the Economic and Monetary Affairs Committee on 29 May, Draghi said the ECB is monitoring fintech developments "to better understand its impact, to assess the risks and to adjust the regulatory environment and supervisory approaches where needed".

The activity in distributed ledger technology is a development that could affect the processing of payments and securities, he said.

"Given the rapid pace of development in this field, there is a need to constantly monitor and assess potential new or more pronounced risks resulting from the application of new technology such as the distributed ledger to payment, clearing and settlement infrastructures in particular."

"One such possible risk is an increase in market fragmentation if different distributed ledger technology approaches were to become firmly established in parallel in different member states."

Draghi also noted the increase of non-banks in financial services and the rise of innovation among providers.

He suggested that regulators must be prepared to assess new risks that may come to light.

Draghi said: "[It is] essential to assess and adapt the prudential framework to cater for the increased role of non-banks and financial innovation, ensure the existence of a level playing field for both new and existing players, and provide supervisors with adequate tools to address new risks."

Finally, Draghi addressed the issue of "heightened cyber security concerns", saying cyber risk has "long been a priority for national and European supervisory authorities".

Although fintech developments can improve efficiency, reduce costs and lead to better products in the financial sector, Draghi suggested it also poses new potential risks and "new regulatory questions".

Draghi added: "It is in all our interests to rise to this challenge. As fintech involves the entire financial sector, different regulatory responses are likely to be needed. Depending on the nature of the fintech activity, those responses may need to encompass prudential, consumer protection and other regulation—but, at the same time, they should not hamper healthy developments."

CASLA: Upticks and term trades

Canada's securities lending market bucked the trend of revenue dips in Q1 2017, DataLend's Chris Benedict told attendees of the Canadian Securities Lending Association (CASLA) Annual Conference in Toronto.

Canadian securities lending revenue increased by USD 16 million in the opening quarter of the year, while revenue dropped by USD 145 million and USD 53 million for the US and Europe, respectively.

DataLend figures showed that Q1 revenue rose to $137 million this year, up from $121 million in the same period in 2016.

The Asia Pacific suffered a $47 million decrease in revenue, while the remaining lending markets saw a collective drop of $15 million, representing a global revenue dropout worth $244 million.

Benedict explained that Canada is primarily a general collateral market, although a small handful of super-hot Canadian stocks accounted for the vast majority of revenue.

In a later panel discussion at the CASLA Annual Conference in Toronto, representatives of agent lenders called on Canadian beneficial owners to open up their programmes to term trades.

The volume of term trades has stalled in Canada, in contrast to the global trend of growth in this trade type.

Speakers cited a number of new regulatory requirements as the primary drivers behind the increasing use of term trades in Europe and the US.

We have to do more to educate our clients on term trades," commented one representative of an agent lender.

"We can do more to standardise documents for these types of trades."

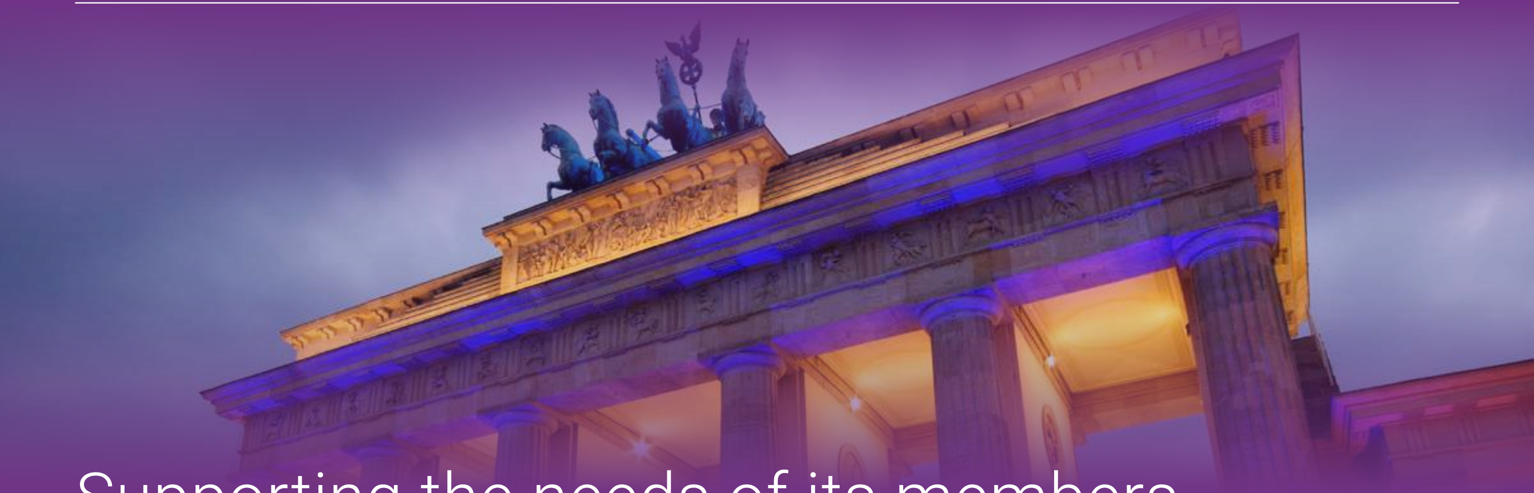
Another speaker disputed the proposition that the volume of Canada's term trades had fallen.

But he also advised traders to make sure their risk managers are fully comfortable with term trades in order for them to have access to the same tools as their peers in other markets.

Panellists also highlighted the need for beneficial owners to re-examine their collateral risk profiles and open themselves up to new collateral types in order to boost their attractiveness as lenders in Canada.

The Canadian market currently sees roughly 80 percent of loans collateralised with non-cash assets, primarily government bonds and some equities.

The US is making moves to open up securities lending among mutual funds to allow equities to be used as collateral, paving the way for the world's biggest market to become more competitive. It will be interesting to see how the likes of Canada react to that development.



Supporting the needs of its members

CEO Andrew Dyson and head of membership services Sejal Amin reveal what ISLA is focusing on as its members meet in Berlin for the annual conference

What's been the biggest focus for ISLA over the past 12 months?

Andrew Dyson: Inevitably, much of what we have done in the past 12 months has been regulatory-driven. We have devoted considerable resources to the Securities Financing Transactions Regulation (SFTR), working with both member firms and regulators to better understand how this important transparency regime will impact on our industry. Although SFTR has been the most prominent piece of regulatory work, the second Markets in Financial Instruments Directive (MIFiD II) and the rolling impact of Basel III have also been important.

Another key initiative has been the development of a market standard pledge agreement that will complement our existing global master securities lending agreement. As much of the regulation is now at the implementation phase, we see the development of a market standard pledge agreement as an important part of a renewed forward looking agenda for the International Securities Lending Association (ISLA).

There have been new hires at ISLA. How will this help the association to achieve its goals going forward?

Dyson: ISLA now has five permanent members of staff and two consultants. Although small when compared to similar associations, we have more capacity to support our members geographically and across multiple regulatory and product work streams. Our goal is simply to support the needs of our members, and we now have the foundations of a team to allow us to do that.

Can you outline some of the work that ISLA has been doing with regulators and other stakeholders recently?

Dyson: As we think about the future direction of the industry and the important part that ISLA can play in that future, we have been looking at a number of strategically important issues. We have already mentioned the development of our market standard pledge agreement, which will provide a standardised framework for this business. This is vitally important, as when regulators and policymakers look at our markets, they need to see how we are prepared to effectively self-regulate in this area.

We have also spent some considerable time with a small group of member firms to better understand how UCITS funds can more effectively engage in securities lending. We are well aware that certain restrictions placed on UCITS funds can severely restrict their ability to engage in lending and we have opened up discussions on these issues with both local regulators and policymakers in Brussels. In a world where asset management is increasingly reliant on index or exchange-traded fund management structures, lending can be an important alpha generator and, as such, we are keen for UCITS funds to remain competitive from a global investor perspective.

The third point that we would highlight is the work that we are doing with member firms on the overall structure of the market here in Europe. For various reasons, borrowers are looking for greater and more timely transparency and the imminent implementation of SFTR is seen as a catalyst for change.

There are a lot of regulatory deadlines still to come. What should your members be most aware of in the coming months?

Dyson: It is clear that many member firms are heavily engaged with the implementation of MIFiD II and with compliance required from 1 January 2018, we expect the pace to quicken during the remainder of the year. Once the European Commission has completed its review of the SFTR technical standards that were published by the European Securities and Markets Authority earlier this year, the focus will then switch to implementation during 2018.

This year's conference has some great speakers and panels lined up. What are you looking forward to most?

Sejal Amin: In collaboration with this year's co-chairs, we spent considerable time thinking about the topics that we wanted to focus on this year at the ISLA Securities Finance and Collateral Management Conference, and inviting new but relevant speakers to participate. We are particularly excited about the educational sessions on MIFiD II and the Bank of England Money Markets Code on the first day, which in addition to the traditional roundtable discussions, should provide delegates with a better understanding of some of the key regulations and topics that are front and centre for the industry.

While SFTR has been topical for some time, we have seen increasing interest from member firms to better understand the implications and application of MiFID II and best execution in the context of securities finance. **SLT**

Lending CCP: Increasing funding and financing efficiency on an international scale

Deutsche Börse Group's Erik Müller, CEO of Eurex Clearing, and Philippe Seyll, co-CEO of Clearstream Banking, discuss the environment that securities finance currently inhibits, and whether central clearing offers a way through

The financial markets have been in a process of constant change for the past several years. What is your take on the current situation?

Philippe Seyll: For more than a decade, banks have been moving away from borrowing through unsecured channels towards collateralised lending mechanisms. Throughout this period, firms have been focused on how they can mobilise and allocate collateral efficiently and minimise fragmentation of collateral across geographical locations and product silos.

As is so often the case in financial services, regulation has been a primary driver for reform in this area. The move towards secured funding and financing mechanisms requires that firms can access eligible collateral quickly and at affordable cost. The overarching message is that good quality collateral is a precious resource that needs to be managed carefully.

Policymakers have spent a lot of effort focusing on finding new means to restructure the post-crisis financial market and at the same time to make it safer. The result of these efforts is a host of new regulations, some of which are designed to force market participants to comply with higher security standards. As a result, the framework of rules and regulations means that our expectations of future developments can influence our decision-making and play a role in how our world will evolve.

Quantitative easing continues to put pressure on the securities financing industry. For example, the European Central Bank's decision to stick to its bond buying programme despite strong EU-wide economic growth has dampened hopes in the market that interest rates will rise any time soon. This loose monetary policy can be felt in the real economy and has effects that reach into the post-trade business as well. Quantitative easing has major implications for the securities finance industry, in particular when it comes to capital requirements and risk management.

With quantitative easing set to continue in 2017, we see an increasing shortage of high-quality collateral in the market. Even if the repo market continues to be under pressure, the scarcity of good collateral is expected to positively influence the securities lending business. As a market infrastructure provider, it is our role to fuel the markets with high-quality securities. We can accommodate the return back to the market of these high quality securities held by our clients, in particular central banks, through our range of securities lending services.

Market infrastructure providers have become much more significant. How much has this affected Deutsche Börse Group's overall focus?

Seyll: Aligning our activities around securities financing, secured funding and collateral management within new global funding and financing (GFF) organisational structure allows us to better address the new regulatory requirements and serve more efficiently the emerging needs of our clients in regards to trading, risk and liquidity management. The key themes and central role of GFF are collateral mobility, capital, liquidity and efficient balance sheet management combined with the important role of technology. Market infrastructure providers help to create a market that is fit for purpose, and build on the fact that we all have a responsibility and a mission to build a market that is efficient, systemically responsible and sustainable.

Market participants have reacted to the comprehensive changes that have influenced the market over the past 10 years. Now, the securities finance market is the best-placed mechanism for the movement of collateral that is an integral part of the implemented regulatory directives. This key role of infrastructure and technical developments enable the mobilisation of collateral and the standardisation of trading and settlement in order to ensure that the key components of the securities finance market are able to sustain liquid and capital efficient solutions.

Eurex Clearing was the first CCP in Europe to offer central clearing to the bilateral securities lending market. How does the Lending CCP assist the marketplace?

Erik Müller: The Lending CCP enhances the security and efficiency of a market that traditionally has been defined by OTC transactions; it is important to involve a central counterparty particularly for lending transactions to hedge against changes in the credit risk profile. This also allows positions to be netted—so-called multilateral netting, which reduces capital employed and therefore the costs associated with a transaction.

The business customs of the securities lending market influenced the design of the Lending CCP, which also features the well-known strengths of the CCP clearing service offered by Deutsche Börse Group. This approach pursues the evolution of the markets, and their customs, and takes the interests of market participants into account. There are advantages not only for the individual clearing participants—the markets will become more transparent and secure in general. This represents a truly sustainable offer from Deutsche Börse Group for the financial sector.

Part of the group's key initiatives is to focus on establishing and enhancing the securities lending services. One focus is agency lending, where lending transactions are carried out via banks and settled via a transparent pool of securities. Another form is principal lending where the CCP borrows lenders assets, passing them on to the ultimate borrower. High-value collateral is pledged to hedge and thus manage the risk. Both types of securities lending via the Lending CCP bring customers the best trading, clearing, settlement and collateral management services across the group and proves the added value of GFF's cross-divisional cooperation between Clearstream and Eurex Clearing.

The Lending CCP has been designed as a full service model in order to increase the degree of automation, thus reducing manual intervention in the securities lending process chain. Participants benefit from electronic reporting and trade reconciliation capabilities, such as links to the existing specialist providers for electronic trading markets.

The full range of the operational activities required for the securities lending market is wholly integrated: automated services such as re-rates, mark-to-market, corporate actions, as well as lending fee and rebate calculation and settlement, give the opportunity for users to benefit from an increase in operational efficiency. The Lending CCP offers a flexible solution via existing market infrastructure for the management of non-cash loan collateral being held at triparty collateral agents.

What can your clients expect in terms of further development of these services and initiatives?

Seyll: Additional upgrades will be implemented in the course of 2017 and beyond. Our Lending CCP service enhancements include the introduction of exposure netting for triparty collateral agents and multiple loan allocation for agent lenders. The specific lender licence will be made available in further jurisdictions and its holders will benefit from enhanced principal collateral management services. In addition, securities lending services for equities will be rolled out in the UK and Target2-Securities markets in Europe.

One of the key objectives lies in the inclusion of key agent lenders for equity financing and prime brokers to the Lending CCP. Furthermore, the introduction of new triparty collateral locations such as BNY Mellon will further extend our offering. Further extension of Clearstream's ASLplus service through an agency and/or a principal lending model via the Lending CCP create further efficiency gains and synergies across Deutsche Börse Group.

For users of the specific lender licence, it will also allow extensions to non-EU participants in Asia, the Middle East and North America. To leverage our new markets and offer our global customers further services and opportunities, we are also continuing our strategic partnerships with leading borrowers and agent lenders. In addition, we aim to further facilitate simplified access to our services, and therefore develop additional partnerships to facilitate the capture of trade flows and assist market participants in their ability to select from a multiple range of collateral locations.

What was the overall feedback from market participants on the Lending CCP? Is change paving the way for progress?

Müller: Significant progress has been made while the constructive feedback and ongoing engagement that we have with key market participants are essential components for the continued progress of the Lending CCP. Buy-side participants have been keen to explain that two key issues are critical for their involvement: revenue and demand. Asset managers need to see a greater demand for CCP usage, but also need the reward and incentive for doing so. Even though capital and operational benefits are expected, the major determining factor is the opportunity cost and how much more revenue can be generated for clients by choosing the Lending CCP over existing bilateral trading relationships.

Borrowers have indicated that more beneficial pricing is available by using the Lending CCP currently, however, in order to maintain cost-effective pricing, the CCP needs to introduce further enhanced solutions for banks to be able to take advantage of netting capabilities, increased margin utilisation across cleared products, plus a greater capability to allow for efficient re-use of collateral.

The requirement to implement netting across securities lending and repo transactions would result in more effective management of regulatory capital requirements while the introduction of cross-margining capabilities on centrally cleared product ranges and asset classes would make a significant positive impact on the pricing, efficiency and attractiveness of the Lending CCP.

Over the coming years, CCPs will continue to progress and become even more important. All the advantages of central clearing lead to greater safety and integrity in the financial markets. As both are objectives that market participants have in common, we expect further demand for these services. Once all phases of the European Market Infrastructure Regulation are fully implemented, there will be increased regulatory-driven demand.

However, today, many market participants already clear their trades voluntarily to benefit from our offering. In addition, new legislation is coming, all will further enhance and strengthen the group's role in the securities finance markets. **SLT**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SLAM DUNK DA FUNK

Experts discuss the current state of the European securities lending market

Panel Participants

Donia Rouigueb
Securities lending and financing sales trading
CACEIS

Paul Wilson
Managing director and global head of client management and sales for financing and markets products
J.P. Morgan

Sunil Daswani
Head of international securities lending
Northern Trust

Simon Tomlinson
Head of equity finance for EMEA
BNY Mellon

John Arnesen
Global head of agency lending
BNP Paribas Securities Services

How have European revenue sources changed in the past 12 months?

Paul Wilson: We've seen quite a lot of change across the European securities lending landscape over the past 12 months. In equity lending markets, the decline in demand for, and revenue from, yield enhancement activity continues. This has been accompanied by a lack of new specials caused by a decrease in volatility and subdued hedge fund activity, especially in long/short strategies.

The offset to this has been increased scrip opportunities and take up by beneficial owners plus financing and upgrade opportunities. In fixed income markets we see good demand for German and French sovereigns in collateral upgrade trades versus equities in 35 to 185 day evergreen structures. However, the strongest demand is still for US treasuries, which yield a couple of basis points in fees above European government bonds.

There are also alternative revenue opportunities available, such as lending core European sovereigns and taking back peripheral sovereigns, especially Italy and Spain, as collateral. In addition, there is now a strong specials market in Germany with demand especially in the seven to 10-year maturities. This is driven by the removal of supply from the market by the European Central Bank's (ECB) bond purchase plan—although the ECB does operate a lending programme, availability of specific issues is far more restricted compared to when bonds were freely available in the wider repo market.

Activity in the corporate bond and emerging market sovereign space has remained stable over the past six months, but demand for energy, commodity and financial issuers has significantly reduced year on year.

John Arnesen: When one looks at sources of revenue it is clear that general collateral has always played a significant role in revenue generation, and the past 12 months is no exception. Seasonal spring demand for European equities continues to diminish both in terms of markets and appetite. The most consistent revenue stream year on year has come from lending European government debt on a term basis for longer than 30 days.

Sunil Daswani: Revenue drivers in fixed income markets have been largely dictated by regulatory changes and central bank asset purchase programmes. Pressure mounted in European sovereign markets towards the end of 2016 as the ECB maintained its presence as a substantial buyer of government debt through its quantitative easing programme. Concurrently, regulatory obligations meant banks and end users were compelled to hold large inventories of high-quality liquid assets (HQLA), particularly evident over sensitive reporting periods such as year-end. As such, specific German bonds in particular were in strong demand throughout the period, leading to a widening of spreads amid ongoing concerns related to bond scarcity.

Fees from lending emerging market bonds narrowed during the period as sentiment towards the asset class improved and geopolitical risk subsided. Perhaps the most interesting change has been evident in the widening fees we have observed in lending corporate bonds. With increased regulatory burdens and reductions of balance sheets, banks are less able to warehouse risk and hold expensive corporate bond exposures. Correspondingly, assets are more in demand from the agent lender community to satisfy market making responsibilities and cover settlement issues. As such, fees increased throughout the period as agent lenders were able to widen spreads.

From an equity perspective, Europe's macroeconomic environment has influenced revenue drivers in the region. Ongoing economic and political instability associated with the UK's surprise Brexit result, coupled with government leadership elections in many of Europe's largest economies has created a challenging investment back-drop for investors. Additionally, the new Trump administration's pro-business policies have typically helped sustain strong equity market growth. As a result, hedge funds typically had less conviction when deploying capital on the short side, resulting in a reduction in the volume of traditional 'specials' activity in the region. Revenues have been impacted accordingly, although some one off securities has helped compensation for this trend.

Furthermore, ongoing regulatory scrutiny around balance sheet and regulatory capital constraints continued to represent a headwind in terms of traditional balance growth. Demand from the borrower community is increasingly focused around trading structures that provide greater capital efficiencies. Term activity remains part of the borrower's demand profile, with collateral pledge structures and central counterparties (CCPs) likely to becoming more prevalent in the short and mid-term. Traditional seasonal sources of revenue remain, with a growth in scrip dividend activity being a positive trend.

Simon Tomlinson: The introduction of the liquidity coverage ratio in 2015 and the upcoming net stable funding ratio are having a dramatic impact on trading by extending the term of trades from what used to be an overnight business. Indeed, three-month evergreen trades and longer are now commonplace as borrowers look to meet Basel III capital requirements.

While equities have traditionally been the largest revenue generator over the past few years—enjoying a buoyant specials market in part because of the drop in commodity prices—there is definitely a change taking place. With the increasing demand for HQLA to meet regulatory requirements and the introduction of margin on non-cleared derivatives, beneficial owners of certain types of European fixed income collateral are seeing an increase in returns. This is not likely to change in the near future, with the ECB's own asset purchase programme somewhat adding to the problem, causing liquidity to deteriorate and spreads to widen.

Borrowers are optimising their internal holdings to avoid borrowing outside so they can control and eventually decrease the balance sheet impact

Donia Rouigueb
Securities lending and financing sales trading
CACEIS

Donia Rouigueb: Looking at the four principal revenue sources, general collateral has seen a dip because there are more participants in lending programmes, so much more offer for these liquid assets. Also, borrowers are optimising their internal holdings to avoid borrowing outside so they can control and eventually decrease the balance sheet impact.

A lot of beneficial owners still have a strict collateral matrix, which penalises borrowers. Demand for specials has remained at the same level, and are by definition always requested, but the low volatility of the markets did not improve the demand for these kind of assets so revenues remained steady. We have also seen yield enhancement decrease in 2016 and more or less stabilise in 2017 due to marketplace uncertainty regarding harmonisation and guidelines.

What effect is EU regulation having on the buy- and sell-side behaviour?

Tomlinson: Regulation is having a major effect on both the buy and the sell side. Borrowers are struggling with limited balance sheet and regulatory capital hurdles meaning borrowers need to seek new liquidity solutions not only to service their existing business but also to generate returns in an environment where resources are scarce and costs are mounting. Among the options being reviewed is the traditional method of moving collateral between parties under a title transfer. In its place, the option to receive collateral under pledge is under consideration. This is not without its challenges and the International Securities Lending Association (ISLA) is trying to standardise the documentation for this to work. There is also the consideration of a centrally cleared model for securities financing trades, which could provide a host of post-trade efficiencies for clients if they are eligible and willing to participate.

UCITS are a good example of a fund type that is being excluded from the new trading opportunities being seen in Europe. The UCITS market represents approximately 45 percent of the lendable base but only 15 percent of those assets are on-loan, down from 18 percent three years ago, according to ISLA. There is a dichotomy in the industry right now where term is prevalent and pledge structures are going to play a bigger role going forward. Unfortunately for UCITS, their seven-day maturity limits and requirement for title transfer means a large part of the current assets available will be neglected by the market unless there is some material change to the regulations.

Daswani: The most significant shift in behaviour is still being driven by the multitude of regulations (EU and otherwise) surrounding regulatory capital and the balance sheet. Demand from the borrower community has shifted to more capital efficient structures such as CCP and pledge structures and term activity remains in high demand as a stable funding source. For buy-side firms these demand drivers force them to consider their appetite for 'non-standard' lending structures such as pledge and CCP, and while activity under these structures is limited at present, we believe that 2017-18 will no doubt see an increase as lenders and their agents adapt to the major demand drivers.

As an agent lender, we are ensuring that our clients are well educated on these concepts thereby allowing them to make an informed decision on whether or not such structures fit within their risk-reward appetite.

Two other pieces of regulation are grabbing the headlines at present are the second Markets in Financial Instruments Directive (MiFID II) and the Securities Financing Transactions Regulation (SFTR). In terms of direct impact on behaviour in the marketplace the effect is somewhat limited, however, they are complex and wide reaching and will lead to significant changes in the way we manage our products on both sides of the market over the next 18 months and beyond.

One interesting side-effect of SFTR is the fact that by complying with the transaction reporting deadlines, borrowers will have significantly more transparency into their activity with particular beneficial owners much earlier in the lifecycle of a transaction, and will therefore be better able to actively manage their exposures. This means borrowers are likely to be more selective as to what activity they want do with particular beneficial owners—avoiding the most capital-intensive trades or those that have greater impact on the various balance sheet ratios.

This may have an impact on some beneficial owners in certain jurisdictions, and could force a change in the way agents structure their lending programmes. While not specifically linked to SFTR, we do know that there is an underlying regulatory drive towards more transparency in terms of who you are trading with and these developments if not tackled now, may be enforced at a later date. European beneficial owners are beginning to become aware of the revenue opportunities associated with scrip trades.

Wilson: Looking at the buy side, UCITS funds in particular have experienced wide-ranging regulatory change over the last few years across collateral diversification, asset segregation and SFTR Article 13/14, which requires greater disclosure of lending activities in their prospectuses and annual reports. Individually and collectively, the regulations affect the way securities lending can been conducted. These funds have also been affected by declining yield enhancement revenue and are unable to participate in some of the newer term and upgrade opportunities. That said, we find this group of lenders very engaged and keen to add additional funds or make adjustments to lending parameters in order to continue to optimise revenues.

With respect to the sell-side, demand remains strong for borrowing HQLA, particularly US treasuries, versus equity collateral. Borrowers generally require the equity collateral set to include a wide range of

UCITS funds have experienced wide-ranging regulatory change over the last few years across collateral diversification, asset segregation and SFTR Article 13/14

Paul Wilson
Managing director and global head of client management and sales for financing and markets products
J.P. Morgan


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main equity indices, but we see occasional demand to borrow against a more limited set, depending on borrower inventory. Demand is generally in an evergreen structure.

The longstanding regulatory driver has been liquidity coverage ratio (LCR), but, for some, the net stable funding ratio (NSFR) is increasingly coming into focus. The fixed income market is slowly becoming more automated–a good percentage of our corporate bond flow now goes through AutoBorrow in BondLend. We are also actively engaged in delivering Next Generation Trading (NGT) to the market—a project that will allow sovereign bonds to also be traded in a more automated way. Financing trades lending equities has been an effective and profitable way in keeping stable balance on for the long term.

Rouigueb: On the sell side, we are seeing a move away from using cash. At the time of the transaction, borrowers' selection criteria include both availability and increasingly, impacts on ratios and balance sheets. These impacts depend on the type of lender (such as agent lenders, banks, institutions and asset managers) as they are often structured differently there is demand for different securities.

These differences are due to heavy regulatory constraints such as the collateral matrix, and borrowers will often favour a lender with a broad matrix that offers greater flexibility. For example, we do see borrowers having less appetite for securities held by UCITS funds because of all the constraints these lenders face.

On the buy side, regulatory considerations have increased the operational burden, even when outsourcing. The main reason to outsource was that they did not have the resources to run the lending activity in house. The business requires more reports, analyses, declarations, monitoring and brings additional constraints, which take up human and IT resources. There is a vast appetite for securities lending earning potential, but the regulatory complexity scares more risk averse lenders away.

Arnesen: Buy-side clients are in the thick of regulatory changes if they are European asset managers, UCITS funds or insurance companies, as there are a number of regulations that apply to their own activities and to us as agents, such as MiFID II. Clients outside of the EU are somewhat immune from it but are interested in how regulation is changing the demand dynamics and whether this is leading to increased, decreased or stable revenue stream.

A change to the risk profile requirements in Germany, for example, has led to an all but elimination of demand at certain times of the year. IHS Markit published a very interesting report recently comparing Q1 2016 to 2017 and it's a sobering read. All equity markets are producing less revenue than over the same period last year. However, when the markets are in a bull run, perhaps this is not of great concern.

The LCR is one regulation that has increased demand for HQLA and this continues to be a stable source of consistent revenue. The need to accept equity collateral is resonating with the buy side, but it's not a slam dunk. Internal policy, governance and risk and liquidity metrics have to be satisfied if clients are to introduce the obvious collateral swap nature of these transactions. Those that have are reaping the rewards.

One of the more interesting developments to watch over the next 12 to 18 months will be how regulation will start to shape the traditional lending models that the industry has come to know so well, the implications of which could increase market focus on the use of CCPs and pledge collateral structures. Over supply relative to borrower demand and the increasing balance sheet costs of this demand may result in lenders that are looking to maintain revenue streams with little choice than to consider these market developments more seriously than in previous years.

Beneficial owners are beginning to wake up to the revenue opportunities associated with scrip trades. What role should agent lenders be playing in making sure their clients maximise these options?

Rouigueb: The most important thing of all is to make the risk/reward ratio clear. Agent lenders take an advisory role, aiming to demonstrate a trade's full potential, from the various methods for processing transactions to the associated revenues. We aim to keep today's decision-makers informed about this type of transaction, which means we work directly with the client to discuss market opportunities in an efficient manner and optimise revenues. We must be responsive, know the market and be transparent.

Arnesen: Proceed with caution. It is an agent's fiduciary responsibility to act in the best interests of clients and for the best possible outcome. It is not, however, an agent's role to offer investment advice, and in this current regulatory and conduct environment, one does not want an interpretation of an agent playing a role that is considered as offering advice. Investment managers make decisions and agent lenders work with the parameters given to them. Clearly, there is an environment where both parties are made aware of mutual objectives that are simply a reflection of good relationship management. These transactions have definitely taken a greater role in all of the strategies employed by agents and those clients that automatically elect for cash are rewarded accordingly.

Wilson: Our beneficial owner clients have been aware of scrip opportunities for some time and have consistently engaged in them. As a result of the rise in passive funds and an increased number of companies offering a scrip option, the prevalence of scrip activity has naturally increased. We have seen some change with beneficial owners, such as pension funds, which use external fund managers.

The LCR has increased demand for HQLA, which continues to be a stable source of consistent revenue. The need to accept equity collateral is resonating with the buy side, but it's not a slam dunk

John Arnesen
Global head of agency lending
BNP Paribas Securities Services

The owners are increasingly putting pressure on those managers to provide the necessary information earlier to maximise securities lending revenue since there are material differences in committed and not committed scrip elections.

Tomlinson: At BNY Mellon, we've been working with clients and offering optimisation opportunities around scrip trades for many years. While we largely agree with a recent Finadium discussion around the amount of so-called sub-optimal elections that still take place, one could argue that sub-optimal is a subjective term. In many cases, beneficial owners defer the decision around what election to take to the portfolio managers, who may have differing opinions or mandates that indicate a certain election for them is the right one at that time. It's here that the role of the agent lender is important and they need to be continuously assessing the performance of these trades for clients, providing feedback and offering revenue enhancement opportunities.

To be clear, despite the fact that elections can often be called sub-optimal, most trades that do not have specific pre-agreed elections will have been structured on a profit share basis so any alpha generated post-election is shared between the borrower and the client. Also, with the regulatory landscape placing more constraints on borrowers, such as increased collateral costs and limited balance sheet availability, the industry has had to innovate and find alternative ways to optimise and enhance client revenues outside the traditional models.

Daswani: Scrip trades provide shareholders with the option to receive their dividend entitlement in cash or new shares—with companies incentivising shareholders to elect for stock by offering it at a discount to the prevailing market price. The price differential between the value of the cash and stock dividend options creates arbitrage opportunities. This means borrowers are able to monetise sub-optimal elections (typically the cash option) by electing stock for themselves. The new entitlement shares, issued at a discounted price, are subsequently sold at the higher prevailing market price, with profits creating higher lending fees. Securities lending programmes allow these sub-optimal elections to be optimised, capturing a greater value for investors.

Revenue associated with the lending of scrip dividends is becoming an increasingly important part of the industry's revenue mix. Over recent years there has been a consistent trend for companies to distribute scrip dividends as a way of conserving cash reserves. This has resulted in a significant increase in both the number and value of scrip dividend distributions across the region.

In terms of the role of securities lending agents, we need to have the right level of communication with clients so they have the transparency and knowledge to allow them to optimise their election strategies based on their risk and reward appetite. Industry analysis continues to show that asset owners' election decisions could be more efficient, with a significant portion of the potential outperformance still being left on the table. Often it can simply be a case of beneficial owners providing a more prompt election decision (or pre-election guarantees).

In Europe's current low interest rate environment, optimising these returns can represent an important, and often relatively simple, source of additional yield, especially for index tracking mandates seeking to generate all important out performance. As such, it's critical that asset owners understand how securities lending programs can add efficiencies, reduce risk and help optimise returns around these opportunities.

At Northern Trust, we continue to work in close partnership with our clients to ensure they understand the execution opportunities that our securities lending programme can offer with regards scrip dividends. Through these discussions we can tailor the most appropriate trading approach to help optimise their election strategies.

How has the transition to Target2-Securities affected securities lending so far?

Tomlinson: At this time we're not convinced the securities finance industry has really seen any material change as a result of the transition to Target2-Securities (T2S). There is no doubt that harmonisation is a good thing from a settlement perspective and costs will be reduced as a result of the improved efficiency. You could also argue that collateral mobility has improved because of it, but has it increased the flow of business to date? We would say not.

Arnesen: The shortening of the settlement cycle across Europe following the implementation of T2S has led many investment managers and equity brokers to put in place securities lending and borrowing programmes to assist with any settlement fail coverage they may need. Historically, utilising securities lending programmes to cover potential trade settlement fails was a key service offered to sell-side institutions by the large prime brokers, however, the cost of carrying large equity inventories on balance sheet by the prime brokers to service their clients in this way has dramatically increased under Basel III.

As a result, many of these managers and brokers have turned to their custodian for solutions. As a provider of both agency and principal lending and borrowing programmes, BNP Paribas has been well positioned through its extensive custodial network to provide these services to its clients.

Daswani: The securities lending industry appears to have managed the transition to the T2S environment very well so far. The main impacts

The role of the agent lender is important and they need to be continuously assessing the performance of these trades for clients, providing feedback and offering revenue enhancement

Simon Tomlinson
Head of equity finance for EMEA
BNY Mellon


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have been operational in nature and through a series of system enhancements and slight structural changes we have absorbed the change without any particular impact to our business, and been able to take advantage of some the operational enhancements that the framework provides.

Some of the expected benefits such as collateral mobility and efficiency have not really crystallised in our market yet, but inevitably it will take time for market participants to adjust their own models to make best use of the harmonised infrastructure. From our perspective the impact has been neutral to our business, which for a change of this scale can only be described as a positive outcome.

What should beneficial owners be doing going forward to adapt their lending programmes to perform best in the next 12 months?

Arnesen: Engage, engage, and engage. No beneficial owner should be surprised by a sudden change in the revenue of its programmes if agents are doing their jobs. The market is shedding its reactionary past, partly as a result of regulatory initiatives which is increasing the cost of business and partly out of necessity as it moves closer to accepting pledge collateral, preparing for SFTR and the higher likelihood of far greater CCP usage. All of these developments have a direct effect on beneficial owners, particularly in the case of SFTR which has costs associated with it. A clear understanding of how each or all of these could affect performance of a programme and more importantly how adjustments to parameters could potentially enhance revenue will be very important in the coming 12 months.

Wilson: The key for beneficial owners is to remain engaged with and informed on the changing landscape and evolving opportunities. This shouldn't be limited to specific transactions, but includes changing structures such as pledge, central counterparty and lending to non-traditional borrowers/repo counterparties. This won't work for every beneficial owner as securities lending does need to complement a beneficial owner's overall investment objectives. Agents have a significant role to play in working through legal, regulatory, risk, operational and documentation aspects and, in turn, providing beneficial owners with digestible information that allows them to appraise all opportunities and make informed decisions. The market is moving rapidly, so speed is often important–this can be a challenge given a beneficial owner's overall set of priorities. Article 4 of SFTR remains a key watch item as it will require beneficial owners in the EU to provide transaction reporting to designated trade repositories. This is a complicated requirement which is being worked through currently—the estimated implementation is during the latter part of 2018.

Daswani: The ability for a lending agent to customise their lending programme to suit their clients' needs is key to adapting to the ever evolving investment and regulatory environment. Supporting and adapting to clients' needs is a cornerstone of Northern Trust's philosophy.

Therefore, there is not a single solution for each beneficial owner to perform best over the next 12 months. Performance continues to be relative based on each beneficial owner's objectives and risk tolerances. We continue to believe it is important that beneficial owners adapt their programmes, but they should ensure their programmes risk profile continues to fit within their overall investment policy of their own internal committees. With that said, our conversations with beneficial owners have shifted. Previously, we may have worked with our beneficial owners on opportunities to generate revenue. However, as some of the traditional revenue streams decline, we are now working with our beneficial owners on revenue protection as well as revenue growth through collateral expansion, CCPs, term lending, new markets, collateral pledges and approved counterparties.

Rouigueb: Working closely with the agent lender is key, as is increasing flexibility in the collateral matrix and accepting transactions with a longer maturity, although that is not always possible for certain types of client. Working closely with a lending agent enables lenders to gain support for regulatory issues and to rapidly capture market opportunities as they arise. Furthermore, having a well-defined internal risk strategy and a clear picture of how securities lending fits into that is central to an efficient relationship and to realistic expectations of revenues for the risk taken. Securities lending used to be more 'hands-off' for lenders, maybe a board decision, very low risk, HQLA collateral only, and very generous rewards. However today, that is no longer the case, the tighter regulatory environment, additional compliance complexity, and the need to take on some risk for a return, requires a real analysis and close involvement of the beneficial owner. Performance competition is increasing, and securities lending can be a core strategy to maintain competitiveness in the market.

Tomlinson: Adaptability, agility and communication are key. The big winners will be beneficial owners that have their lending programmes set up to offer a wide choice of collateral options and also different routes to market. In the past, opportunities to expand collateral guidelines were more linear and longer-serving; however, in this new world of collateral optimisation and mobility, you have to be nimble to grab opportunities when they are presented.

Scrip optional dividends and other corporate actions will also continue to be a good source of revenue for clients, and there are some material changes taking shape in the way that business is conducted in the securities finance space. The ability to lend your securities via a CCP or by utilising a pledge collateral structure under a the global master securities lending agreement are going to be the next big thing for the market. Clients that are able and willing to consider these options are very likely to see some fantastic growth opportunities over the next 12 months if they can react quickly. **SLT**

We are now working with our beneficial owners on revenue protection as well as growth through collateral expansion, CCPs, term lending, and more

Sunil Daswani
Head of international securities lending
Northern Trust


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Comyno is a one-stop shop for securities finance businesses. Frank Becker explains why

What is your background?

I learned the banking business from scratch. Directly after my apprenticeship, I had the opportunity to start at an investment bank in the foreign exchange and money market department. After some months, I moved to the securities finance desk, first as a trader, then as an assistant vice president, followed by vice president/trader in the securities finance group.

The setup was distinguished by tight, synergistic integration and collaboration across businesses and sites, providing the opportunity to develop a broad perspective and skill set, as well as experience across a variety of products and markets, and extensive contacts at market participants.

All in all, front-office trading was at the heart of my work, but I also had to look out for or support structuring the downstream processes of my trading activities. Working from time to time with consultants also raised my interest in the provider space.

Why did you move to a provider?

Although I switched sides and my role has changed, I am still in the midst of the market with great colleagues at the various desks of my former trading counterparts and I am closely connected with them on a regular basis. Through Comyno, I have the opportunity to work with new and interesting people It's nice to share my ideas from a trader's perspective with the experts in IT or consulting. That said, I'd still make the same decision again and move to Comyno.

Having worked for a bank before, like everyone else we were nearly overwhelmed by all the changes in recent years. Even then, I thought that automation would have to play a bigger role in the securities finance space, as it already does in other business areas. Providers such as Comyno have the tools and expertise to facilitate that automation, helping the market to cope with new cost structures, regulatory requirements and new trading opportunities. In short, to take away the burden put on organisations on a daily basis, freeing up resources to concentrate on revenue generation.

There are quite a few service providers in the market—why Comyno?

I knew Comyno as an agile provider already and the people behind Comyno, specifically CEO Markus Büttner and director Admir Spahic, convinced me. Its holistic view of the market is what makes Comyno unique and what makes me proud to work for it. Comyno stands out of the crowd through its integrated service model and delivering value to its customers across the process chain, by developing business ideas that tackle present and future market developments, and defining the most efficient operating model and delivering the solution as a whole—seamlessly embedded in the firm's internal and external framework. Clients that trust us are broadly placed from the sell side to the buy side and beyond.

I'm committed to helping the securities finance market, and with Comyno, I simply can. I can be more creative—working at Comyno means you are required to think outside the box and avoid any silo mentality. You can also work on new technologies such as distributed ledger and connect them with the existing world.

What are you working on day-to-day?

My business card says head of business development. For me, that means mapping the future market requirements with Comyno's expertise and software to create even better products. And with 'products' I explicitly do not refer to software only, but anything that solves a business problem and can be scaled to a certain degree.

What have you achieved and what are your goals?

One of my first ideas was to improve the vertical integration of our consulting approach even further. Typically, consultants come in once a project is ready to be kicked off or implemented. With our strategic approach, our work begins much earlier than that. Within our mandates, we not only develop strategies, but also validate them by analysing portfolios to estimate possible returns. We also work out different implementation paths and their corresponding cost incorporated in business cases, which can be directly used for C-level decisions.

Besides consulting, we're working on Comyno's software suite C-One. Current functionality already covers a broad range of connectivity and securities finance business requirements. For example, Comyno is an official independent software vendor of Deutsche Börse in various markets (Xetra, derivatives and repo) and covers Markets in Financial Instruments Directive reporting. We are already in a position to support any modern securities finance and collateral management desk.

We have also kicked off multiple developments, such as asset allocation algorithms based on automated locates management to bring more front-office functionality to the market, which are all based on the proven and highly stable backbone connectivity and business logic of C-One.

After utilising Comyno's consulting expertise to build C-One as a software package, the next logical step and one of my main goals is to use this expertise and the software to facilitate Comyno's next evolutionary step: becoming an integral part of the market by offering more straight-through processing capabilities as a service.

Do you want Comyno to become a platform provider?

Yes and no. What Comyno intends is to complement its consulting and software approach with an innovative compilation of online services to provide a one-stop shop for our customers.

We are convinced that focusing on the whole value and process chain still has a lot of potential.

Everyone knows, for example, that Comyno has been specifically focused on cleared securities lending for many years now, with expertise on the clearing and participant sides. Taking this as an example, we will continue to advise both the sell and buy sides on advantages and possible stumbling blocks, as well as analyse their portfolios to determine central counterparty eligibility, possible returns, capital savings and necessary margins (if applicable) according to their collateral requirements.

If this pre-study results in a positive business case for the specific firm, there then will be the option to use Comyno's services with easy access to trading, collateral management, settlement, profit and loss, and regulatory reporting.

As Markus previously announced, we are also integrating distributed ledger technology, so it will be the customer's choice to either replicate the data into its own systems or use a synchronised node as its trade ledger. We assume smaller firms will value this approach in the near future, while larger firms can be sure that they sign on to future proof services, even if they should not require it from day one.

What's your personal focus for the next few months?

Continuing the work on the specs of our new services together with our prospects and partners. To make it a success, we have to sync the requirements and standardise wherever possible. Also, we are planning to spin-off the online services to be able to comply with our partners' wishes to invest in the model.

My focus is always on making more and more people aware of the possibilities that Comyno provides with its one-stop-shop for their securities finance businesses. **SLT**

> Comyno intends to complement its consulting and software approach with an innovative compilation of online services to provide a one-stop shop for our customers

Frank Becker
Head of business development
Comyno

Securities finance with app-titude

Trading Apps has evolved from a start-up to a mature organisation

Trading Apps was branded a 'start-up' when it was founded in 2011. A start-up is by definition an entrepreneurial venture that is typically a newly emerged, fast-growing business that aims to solve a problem where the solution is not apparent and success is not guaranteed.

The problem identified back in 2011 by the founders of Trading Apps was a securities finance front office that was operating with legacy technology. The market was extremely manual and inundated with numerous process inefficiencies. The solution for many organisations in this market could have been a complete overhaul of their systems and architecture. For many that route was simply not possible due to the financial implications and enormity of the technological task. This is where Trading Apps came on the scene with its suite of functional applications that could solve specific problems and sit on top of existing systems. The idea was to provide the front office with a modern and progressive set of tools without disturbing the underlying infrastructure.

With the problem and its solution in hand, Trading Apps started down the winding road from start-up to mature business. According to various entrepreneurial publications, the lifecycle of a start-up company can be broken down into five stages: seed and development, launch, growth and establishment, expansion, and maturity.

The first stage for Trading Apps began in 2011 as those very founders began tackling the problem at-hand. The turning point, and perhaps the true launch for the organisation, emerged in late 2012 when conversations and an eventual relationship began with one of the largest and most respected agent lenders in the world. What began as an exercise to build real-time connectivity to FIS's Global One has blossomed into a full suite of front-end trading applications that has revolutionised the productivity, automation and revenue generating capabilities of this agency lending client.

How does a rather small organisation move from the launch phase of a start-up to the current stage that it finds itself in—the growth and establishment phase? Perhaps the answer to this question lies in looking at how Trading Apps has evolved and expanded with each of its clients as opposed to looking at the organisation as a whole. Five years ago, when Trading Apps embarked on its relationship with the agent lender, it started with a single application to solve one very specific problem. Fast forward five years later and there is an entire suite of apps deployed at this client site solving for numerous problems and process inefficiencies. In fact, some of these apps and solutions were developed to solve very specific problems for this particular client. One could certainly make the argument that Trading Apps has practically endured the full lifecycle of a start-up business (from seed and development to maturity) just within the walls of its very first large-scale client.

The key for a company such as Trading Apps to continue to progress from one stage of development to the next is being able to replicate this initial client experience over and over again. And that is exactly what this organisation has been doing for the past several years. Its proprietary technology and sophisticated development gives Trading Apps the ability to rapidly construct and deploy applications specifically tailored to its client's needs and underlying architecture. Clients typically start off with one app and then quickly purchase additional apps, or choose to collaborate with Trading Apps on a brand new solution.

Each new client for Trading Apps presents an opportunity for the company to continue its evolution from a start-up to a very mature organisation. Perhaps that is why the employees of Trading Apps have embraced the fast paced and exciting culture that its founders have established.

Trading Apps is now a global team of 40 employees with more than 70 percent of the staff technical in nature. In 2015, the company opened an office in Shoreditch, London, with a team of two. Today, this location supports a staff of 14 and includes developers, business analysts, testers and business development. In 2016, Trading Apps opened an office on Park Avenue in New York to house its new director of sales and client management for the Americas and respond to the growing US demand for its products and services. The New York office has already grown to a team of three and will most certainly follow a similar trajectory to its London counterpart. The technology hub for the firm is located in Milton Keynes, a thriving tech-driven community just outside of London, where the chief architect leads a growing group of spirited technologists.

The company continues to expand its impressive roster of global clients and prospects. The company is now providing apps to agent and principal lenders, broker-dealers, and central funding groups. Its clients span the globe and, lastly, what started as mostly a front-office endeavour has migrated to the middle office with tremendous interest for Trading Apps to provide a full-service securities finance solution.

The key to the success of Trading Apps is progressing from a start-up to a mature organisation over and over again. We look forward to checking in with Trading Apps in another five years to see how many times over it has evolved. **SLT**

Centralised collateral connectivity

With the help of Pirum, collateral and exposure management are fast becoming straight-through, exception-based processes, says James Cherry

Regulation continues to move through it's inevitable cycle, from legislation to implementation, and market behaviour continues to shift in tandem. Repo markets continue to be stifled by the leverage ratio, which limits the practice of netting, reducing the number of repos that currently offset each other or which lie off-balance sheet, which now must be independently haircutted or collateralised. Regulations such as the European Market Infrastructure Regulation (EMIR) and US Dodd-Frank Act impose stringent clearing and margining requirements on over-the-counter (OTC) derivatives products.

In an ever-convergent world, liquidity and capital in the securities finance markets are simultaneously affected. Collateral management activities, associated with the derivatives markets, are massive consumers of high quality liquid assets (HQLA). The International Swaps and Derivatives Association estimates that encumbered collateral will reach approximately $800 billion by 2020, while other estimates go to $1.7 trillion.

The continuing impact of compliance with various regulatory regimes such as Basel III and the liquidity coverage ratio (LCR), the Securities Financing Transactions Regulation (SFTR)—the list goes on--could cause some institutions engaged in the lending of securities to reconsider their involvement rather than face compliance with this ever-mounting stack of regulation.

The industry is increasingly turning to vendors such as Pirum, with its pedigree in post-trade automation and ever-growing role as a connectivity hub, to help ease this continuing burden.

Disincentivising lenders obviously has counter-productive repercussions in terms of the loss of market liquidity, making it harder and costlier for the institutional investor to access equity markets and for government institutions to issue and manage existing government bond programmes. The availability of HQLA in financing markets also, arguably, continues to be undermined by the European Central Bank's public sector purchase programme (PSPP), which saps away supply. Evidence for this can been seen in volatility spikes, most notably 2015's 'bund tantrum' where yields on long-term bonds surged 21 basis points intra-day, peaking at 80 basis points only to return by the end of day to the previous day's close.

Levels of non-cash collateral continue to rise in response to regulation as dealers continue to reposition and deleverage their balance sheets. Current estimates place the split at roughly 60/40, up from 45/55 only a year ago.

A shift in trading inventory can also be observed with many institutions replacing equity collateral (high capital charges associated with equities) in favour of government bonds. The International Securities Lending Association 2016 market survey noted government bonds as a proportion of total non-cash collateral increasing from 38 percent at 31 December 2015 to 48 percent as at 30 June 2016.

A counter narrative could, however, become true in the US with the proposed changes to rule Rule 15c3-3. This would allow collateral providers to more directly finance their equity inventories. Capital constraints stemming from the leverage ratio could be mitigated through equity-for-equity trading. With the US market historically so focused on cash collateral, Pirum's suite of automation services are perfectly placed to enable our customers make the transition to non-cash.

Managing resources effectively

Consequently, cost and resource management are now a factor at every juncture of the trade lifecycle, hence the blurring of lines between front office and back office and pre-and post-trade. With an overwhelming focus on more efficient collateral management across the industry, unsurprisingly there is a continuing trend for firms seeking to 'do more with less'. Our customers are increasingly looking to automate, reducing manual intervention at every possible point in the trade lifecycle. In days gone by, an institution may have had the resources and inclination to build to this effect, but increasingly, regulatory drag, flatlining revenue, squeezed margins, shrinking financial resources and the increased costs of supporting legacy infrastructure means the market is looking to service providers to resolve non-differentiating problems via technology.

With such a heavy focus on optimising the use of balance sheet and collateral, and ensuring inventory is deployed in a manner that is both capital-efficient and cost-effective, post-trade visibility and efficiency are now front and centre.

The increasing cost of balance sheet provision due in part to complying with liquidity regulation (LCR and the net stable funding ratio) also forces some banks to shy away from providing short-term deposits and repo to a segment of their traditional customer franchise. The historical pressures of month-, quarter- and year-end have become exacerbated, and again signs of a liquidity drought can be observed.

This creates an interesting dynamic in the market, in which the role of the traditional intermediary repo dealer is supplemented by additional non-traditional institution types (for example, corporate treasurers, asset managers and clearinghouses). A number of execution venues are evolving in this space, seeking to connect the traditional with the new entrants. Pirum has established connections to multiple trading venues, providing full post-trade lifecycle management such as automated collateral management in conjunction with triparty providers and regulatory reporting. This seamless straight-through processing connectivity will help to bring liquidity to the platforms and allow participants that have less developed back-office infrastructures to lower the implementation burden and realise the benefits of the trading platform. Similarly, Pirum's CCP Gateway enables bilaterally-traded business to be sent to a central counterparty (CCP) for novation by leveraging post-trade automation connectivity to access central clearing platforms. This allows customers to gain the efficiencies in capital costs that a CCP offers without the additional heavy build.

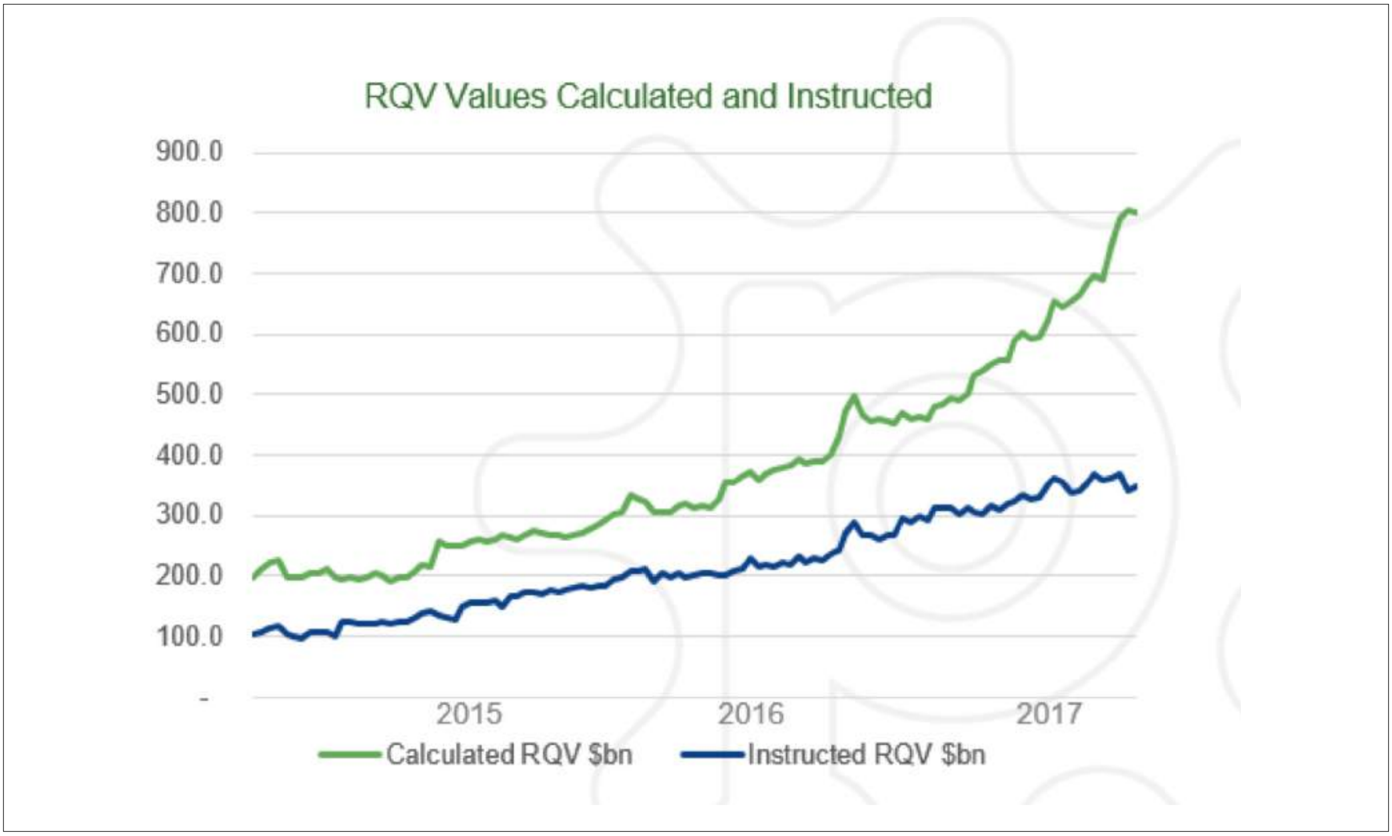
Furthermore, the market is increasingly looking for one macro and consistent solution to its multi-regional issues, with transparency and connectivity becoming paramount in decision-making processes. Pirum already provides a secure, centralised automation and connectivity hub that seamlessly connects market participants, allowing them to electronically verify key transaction details and automate the post-trade lifecycle. Our platform provides connectivity to a plethora of partner infrastructure and complementary service providers. Our position, at the heart of securities finance markets, allows our clients to leverage the connectivity that we continue to build, to access CCPs, triparty agents, data vendors and regulatory reporting platforms, with more connections being added all the time.

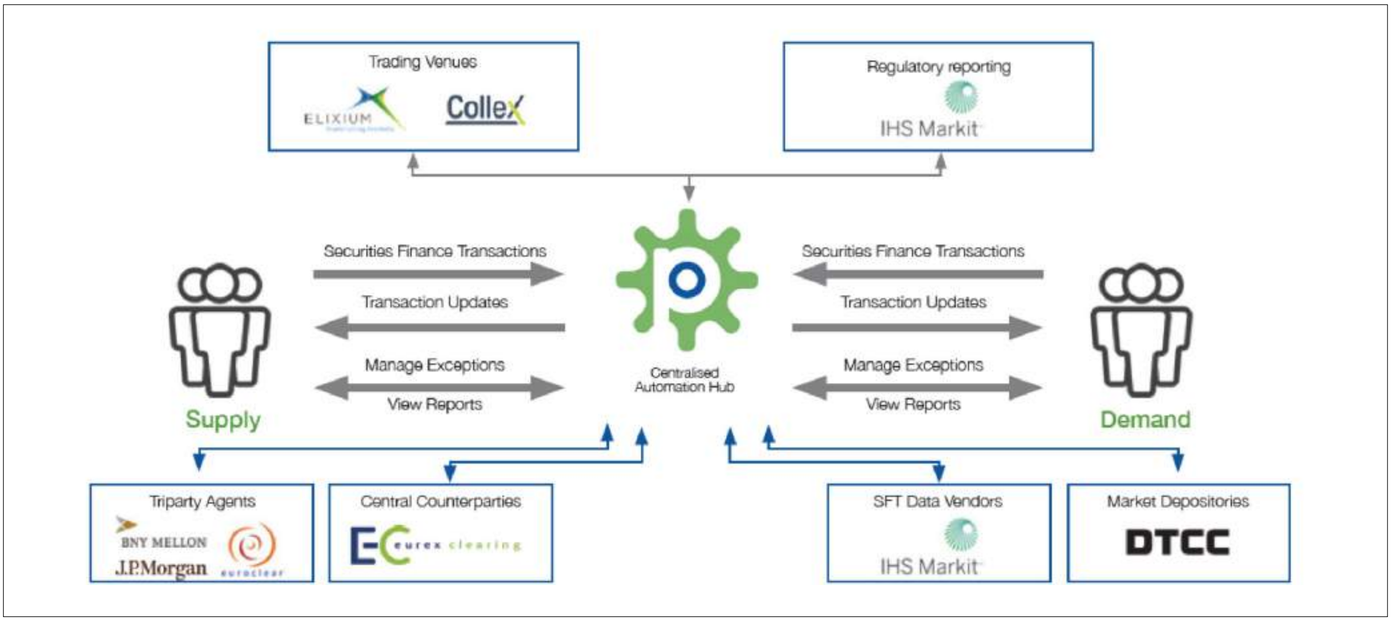
A holistic view of collateral

Proliferation of non-cash collateral has helped triparty agents to become the boilerplate method for collateral management in the securities finance markets. The regulatory and operational requirements for the management of initial margin with respect to non-cleared derivatives (for example, segregation at a non-affiliated third party, T+1 settlement and complicated rules around the management of concentration limits) dictate that triparty agents also form the basis of collateral models here, too.

Pirum, through partnerships with BNY Mellon, J.P. Morgan and Euroclear (with Clearstream soon to be added), allows mutual clients to seamlessly interact with each of the providers. Pirum's service gives users a holistic view of their collateral management activities across both triparty agent and bilateral obligations. Users have access to fully automated intra-day position updates, close of business market prices and foreign exchange rates electronically via near real-time feeds. Using this information, Pirum can for triparty relationships calculate the required collateral value (RQV) at the triparty account level for each side of the exposure, displaying the results on its secure, intuitive web portal. Pirum's proven reconciliation platform then analyses any differences and determines the root cause of any dispute leading to a rapid resolution.

We live in fast paced times and technological innovation continues to reshape the world in which our industry operates. However, in many respects, exposure and collateral management practices remain archaic. With manual, operationally intensive practices de rigueur at many firms, many are stuck in third gear. Regulatory change, though,





is unforgiving, and leaves little room for inefficiency in operational practice. An obvious example of this can be found in securities finance collateral management, where processes largely operate in static time slices, often reviewed only once per day. Counterparties still pick a fixed schedule to perform and reconcile their calculations, and subsequently instruct settlement based on this one point in time. Thus, collateral movements occur after the fact and, by the time they settle, no longer accurately represent the real state of exposure. 'After the fact' collateralisation leaves one party with a residual exposure that digs directly into their capital reserve.

Pirum's services, however, allow our customers to shift up into sixth gear, allowing for intra-day, real-time collateral management via triparty agents. This is a service that, unsurprisingly, is gaining rapid traction (currently, Pirum manages $800 billion of non-cash collateral and instructs more than $350 billion of RQVs). Our new, all-encompassing exposure management system extends the service to cover all collateralisation methods, including bilateral non-cash, cash pool, cash rebate and inter-company collateral exposure across securities lending and repo trades. The offering works in harmony with the existing triparty RQV service and offers additional features, including:

- Full counterparty to counterparty exposure agreement workflow
- Full audit and retrospective details of exposure agreements
- A centralised platform to calculate, communicate, agree and record exposures for all counterparties across all collateral venues (bilateral, triparty and CCP)
- Live updates from client systems, counterparties, triparty agents, trading venues and CCPs
- A management dashboard to identify key risks and alert users to significant exposure change
- Filters to allow you to focus on and update the status of individual exposure groups (for example, pending, agreed and disputed) with current and projected exposure values visible
- Reporting options that allow the capture and recording of exposures at key points in time for internal or audit purposes

Additionally, and to return to the gloomy picture of regulatory drag, flatlining revenue, squeezed margins and shrinking financial resources, clients can further benefit from Pirum's loan release and pre-pay automation services, which work in harmony with the exposure management product. For firms looking to balance their activities within the context of constrained financial resources, it simply does not make sense to tie up capital in a non-productive manner (one-day pre-pay and the associated capital charge for overnight overcollateralisation), especially when technology and automation now exists to prevent the occurrence.

With the help of Pirum, exposure management is fast becoming a straight-through process and exception-based model. Again, to place post-trade back within the regulatory context, the reporting obligations of SFTR are looming large and being able to manage exposures and reconcile differences in near real-time has never been more important. **SLT**

> Collateral movements occur after the fact and, by the time they settle, no longer accurately represent the real state of exposure
>
> James Cherry
> Business development manager
> Pirum Systems

Undergoing a renaissance

Practice lead Mark Barnard and senior consultant Simon Davies of The Field Effect consider creating opportunities out of the return of securities

The holistic value proposition that securities finance offers to all corners of a trading floor has materially changed over the last decade. Driven by the consolidation to multi-asset class desks, the outsourcing of funding activity to the treasury department, reduced appetite for some tax-driven trading, and vendor solutions for conventional stock borrow—the securities financing desk has seen its relative importance to the firm diminish. Reassuringly, there are a number of opportunities for the securities finance desk to revitalise itself, we will explore them while also looking at a major upcoming regulation—the Securities Financing Transactions Regulation (SFTR).

How can securities finance rebuild its internal brand and reinvent itself as an intrinsic part of a trading floor? Is it possible to elevate its status from being viewed as a reduced service function to a business enabler for both proprietary and client facing trading activities?

Securities finance desks are uniquely positioned across a trading floor to positively influence many of the binding constraints that hinder all trading activity. One way this can be achieved is by reducing capital consumption by restructuring the way short positions are covered and long positions are financed. Further value can be provided by executing funding transactions that comply with liquidity ratio requirements, and directing discretional business to the firm's key clients. This allows the securities finance desk to act as a business enabler and generates significant value across the trading floor.

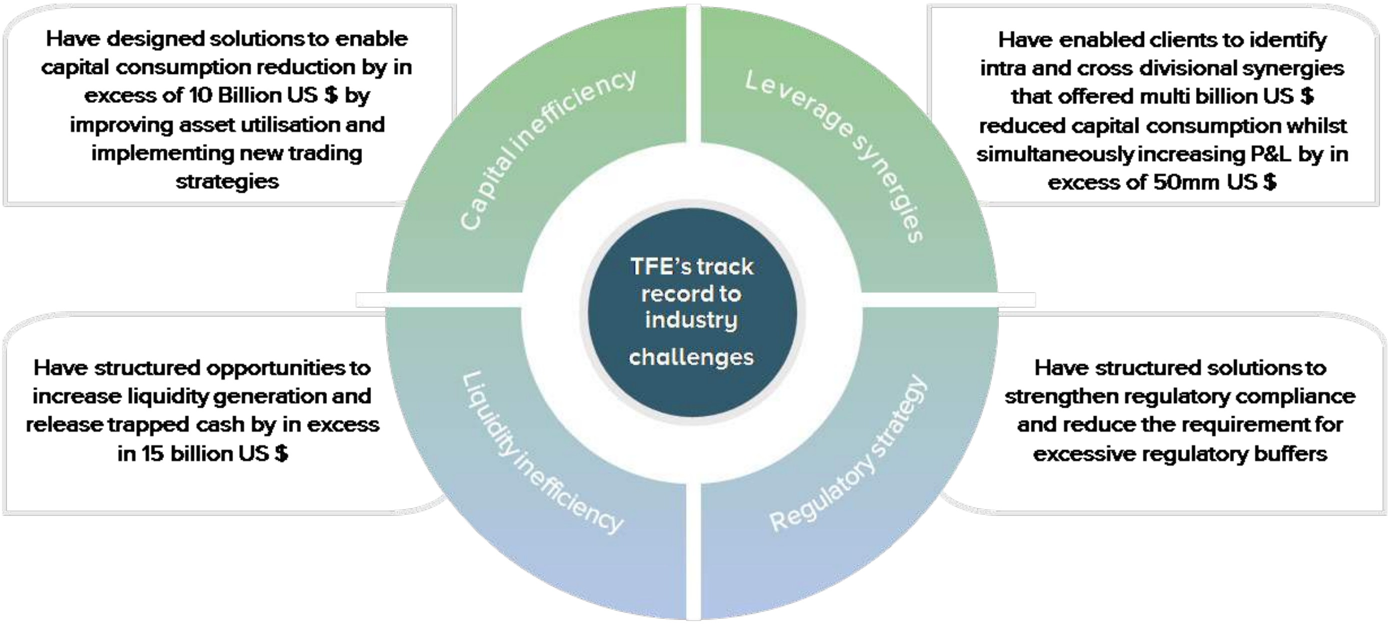
The challenges of increased capital consumption and funding costs and the binding constraint of balance sheet limits are a constant concern. While there is no simple solution, the securities finance desk can assist in alleviating some of the burden by providing inventive term funding opportunities, which typically offer lower funding costs than can be provided by the treasury department.

Structurally, many organisations have weaknesses in their front-to-back processes, which prohibit their ability to maximise the value contained within their balance sheet. This inefficiency often stems from the silo nature of firms and jurisdictional differences in regulatory requirements. These weaknesses manifest themselves as an over dependency on raising unsecured funding via the money markets desk, whilst rehypothecatable unencumbered assets reside on the balance sheet generating no value. The goal for many firms is to define asset ownership, movement of assets between a centralised treasury function and silos, and to ensure appropriate incentivisation for trading internally. Creating an incentive model that positively motivates asset owners to rehypothecate is critical in developing an internal market where assets are freely traded. The incentive model should not be solely limited to one dimensional transfer pricing. If correctly constructed, it should allow for the exchange of liquidity, balance sheet and fee-based revenue reflective of the value derived from the use of the asset. Due to the securities finance desk setting the value of the incentive levels, they are uniquely placed on a trading floor to curb funding levels and balance sheet usage, while reducing operating costs for the entire trading division.

For many, the cost of capital has materially eroded the profitability of transactions. Firms are faced with the realisation that certain activities are no longer financially viable without assistance from the securities finance desk to reduce capital consumption and funding levels. In some instances, firms have looked to offset the cost to execute business by moving towards trading strategies that incorporate more esoteric assets or structures, thus creating more complexity in the operating model while increasing the level of risk in the organisation.

In the scramble to ensure front-middle office compliance with new capital requirements and risk ratios (see Basel III), many firms have adopted inefficient and overly conservative approaches to managing liquidity coverage and net stable funding ratios. Often, firms do not have the desired level of data transparency from collateral management systems to optimally utilise the assets they have on their balance sheet, this lack of clarity often contributes to an excessively conservative attitude to capital requirements and an inefficient buffer management processes. A holistic group-wide collateral trading policy, coupled with an enhanced use of available in-house data may help a firm reduce capital consumption and realise improved profitability of traditional over-the-counter trades, curbing the temptation to seek higher returns in ever more exotic trades.

Firms should be considering how to leverage the securities financing desk to benefit from intra and cross-divisional synergies. A multi-asset class collateralisation policy across the firm will allow the posting of the 'cheapest to deliver' permissible collateral for every deal. While this is commonly considered the optimal outcome, the introduction of a new concept, 'cheapest to receive', further reduces collateral costs and provides for a more diverse allocation of non-cash collateral.



Value can also be derived from the securities finance desks where their multi-asset class approach to collateral management can be overlaid on non-secured financing transactions. For example, initial and variation margin management would greatly benefit from a mindset that considers the use of multi-asset class collateral as standard.

The traded structures, asset class diversity and geographical coverage of a securities finance desk are one of, if not the most, expansive of any trading desk. The securities finance desk can offer multiple off-balance sheet opportunities for long or short stock desks. Synthetic and upgrade trades can offer material savings to businesses that consider balance sheet limits to be a binding constraint to growing their business. In addition, the ability for securities finance desks to align clients and other trading desks may provide further synergies or new business opportunities.

Generally, the securities finance desk should no longer position themselves as a facilitator of long or short equity or fixed income trading activity, it should be viewed as a creator of value for all businesses that exist on a trading floor. However, we should also be aware of and turn our attention to an upcoming regulatory hurdle in SFTR.

SFTR

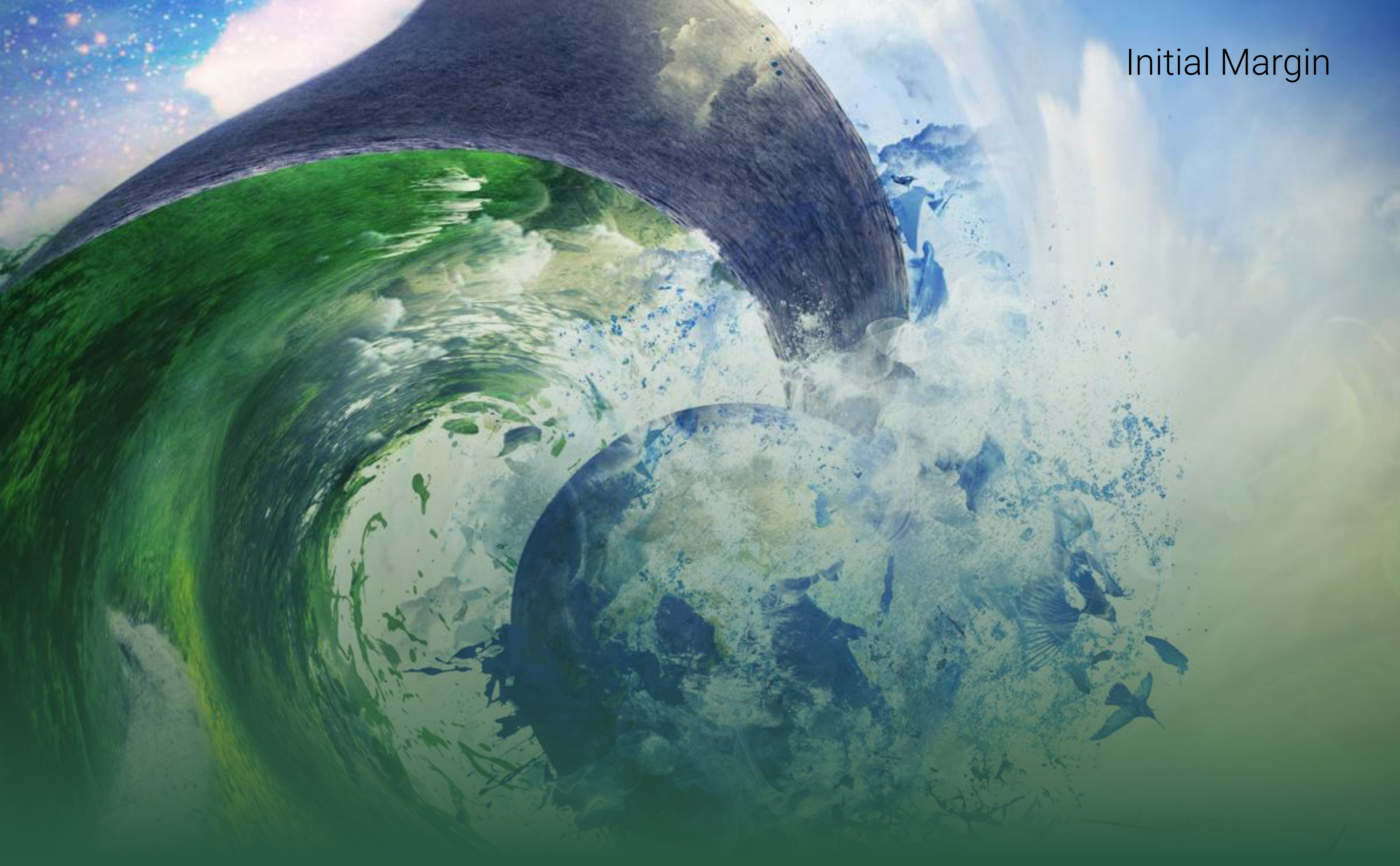
The regulatory technical standards for SFTR were published in March and are currently with the European Parliament for ratification. Once published in the Official Journal of the EU, market participants will have 12 months to prepare for the new reporting requirements. We estimate the 'go-live' date to be October 2018. At a high level, 153 fields must be reported for any new secured finance trade or any change to an existing trade. Crucially, both sides of the trade must report data to a trade repository. Therefore, some reconciliation will inevitably be required. We have categorised the 'pain points' associated with SFTR implementation into three broad areas.

Reporting: Most data points are already captured by firms, but approximately 40 percent are identified as new, so where will these be captured? Where will enhancements need to be made? Often there is no common taxonomy of terms. One firm's 'SBL' is another's 'sell-buy back'. Unless the industry standardises these terms, both sides of the trade may be reporting the same data but calling it something different. What will the exception handling process for problem trades be? Will we have a reconciliation process? How is the unique trade identifier created and shared? What happens if you are reporting to different trade repositories? What happens when one side of the trade is not required to report (ie, not covered by the regulation)? What tolerances will be in place for differing amounts and rounding issues? A significant amount of process and technology re-work is required both internally and at a market level.

Lifecycle events: Following on from reporting, some of the required fields include collateral amounts and mark to markets. These figures are likely to change materially and often, reporting these events during the lifecycle of a trade is important. Different counterparts don't necessarily deal with trades in the same way. If a counterpart splits a trade for reporting purposes, or terminates and replaces, what effect is this going to have on your reporting structure? How do firms agree on splits/terminations/replacements? Are trade repositories equipped to deal with the significant volumes that not only additional new trade reporting requirements will bring but also all lifecycle events?

Business impact: While transaction reporting won't be anything new (see the second Markets in Financial Instruments Directive), the technology architecture, information model and process model will have to change significantly. With additional trade repository costs, and difficulties in matching up trading approaches between firms, there may be significant impacts on business strategy, while more aggregated data will help break down firm silos and increase transparency. We have identified 15 different functional areas alone that will need significant rework. There are emerging vendor solutions that will hopefully automate part of the process but none of them offer a full end-to-end solution. Some work will be required within the bank on defining and implementing a target state model for functions, information, organisation, control and processing to deal with SFTR. Defining a target operating model will allow you to interrogate which approach is best for you. The next step is to create a roadmap and business case to secure and justify investment for implementation.

Even though there is a regulatory hurdle on the way, the future is bright for securities finance. It is, or should be, an integral part of any firm's strategy to counter capital and liquidity inefficiency. It is, or should be, a method by which the firm can source required capital to satisfy regulatory requirements. Considering securities finance as a method of moving towards a more group-centric post-silo operating model will pave the way to more efficient business. This requires change and change can be difficult. The good news is that we're here to help. **SLT**



The implications of SIMM on liquidity and funding

Tracey Adams of Lombard Risk examines examples of three challenges faced by market participants caught up on the first wave of SIMM

In September 2013, the Working Group on Margin Requirements (WGMR), a group mutually run by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO), issued a final margin policy framework for non-cleared, bilateral derivatives. A key component of the WGMR implementation programme is the Standard Initial Margin Model (SIMM) project, which is focused on developing a common initial margin methodology that can be used by market participants globally.

While the industry has talked conceptually around SIMM for the last three years (indeed, it has been a topic that has consumed conferences and forums), it has only been since 1 September 2016, when SIMM went live for the largest derivatives users, that it has really shaken institutions into action. So, in a world where we have become so used to the regulatory environment, to the point of fatigue, why has the International Swaps and Derivatives Association's (ISDA) SIMM caused so much of a flutter? More importantly, why and how is SIMM encroaching onto the processes and capacity of the securities lending environment?

As highlighted in Figure 1 overleaf, more jurisdictions are expected to adopt the SIMM model. This article provides context around examples of three challenges faced by market participants caught up on the first wave of SIMM. There is little doubt that additional entities will be phased into the margin rules over the next four years. Fortunately, we now have insight into the challenges faced by the first wave of institutions and therefore guidance on what those firms, that are yet to be affected, need to be mindful of. One further side note—while we have insight into the experiences of sell-side firms, we must not forget that buy-side firms will also face the same challenges in acquiring SIMM calculations.

Integration and funding

The reality is that most firms will need to adapt or replace existing solutions to support SIMM. Some firms may have initial margin calculators, however, very few will meet the complexity of the SIMM model, be centralised across desks or fully integrated into collateral management systems and optimisation units. In order to limit the liquidity drain that SIMM will create, firms must implement dynamic aggregation rules across multiple products, calculate initial margin at the group level and the cost allocation at the entity level. This detail must be carried out across multiple agreements, be quick to calculate, consider multiple factors and have the ability to run historical analysis based on previous activity.

Based on industry feedback, one of the first challenges on 1 September 2016 was the ability to combine SIMM with other pre-funding requirements across business lines. Another constraint was the ability to perform a calculation that considers other funding requirements such as the overall cost of collateral (which will again increase) and available inventory. This is the reality when calculating the cost of collateral on initial margin. For example, the calculation must consider cost complexity of future exposure. In addition, firms may have to go down to the granular detail of reallocating collateral costs on a trade by trade basis if they are to assess the true profitability of each transaction. In

Figure 1: Phase implementation of initial margin under BCBS/IOSCO

short, the SIMM calculation should only be considered as one part of the wider puzzle.

Data Requirements

Another key challenge around the initial margin calculation that ISDA set out presumes that a consolidated view of all trades and all trade economics are in one central location. While some of the larger firms lifted the lid on data prior to the September deadline, with specific projects focused around data standards, formatting, repositories and flow (mainly for the purposes of European Market Infrastructure Regulation trade reporting and the Securities Financing Transactions Regulation), many project managers will openly admit that data is extremely problematic and that only the surface of the data problem was resolved.

In reality, firms operate on multiple platforms and trading books and data components are often blocked from systems to alleviate latency. Data has now become an issue across desks, agnostic of whether it is for trading or calculation purposes or, in fact, whether it is an equity, a repo or a derivatives trade. What is required is a central repository of data, across assets, which can be called upon for any purpose and at any point in time. This will ensure consistent data standards are maintained without the data itself being a drain on over performance.

Processing

The processing of SIMM will bear two significant areas on cost and funding; firstly, around the logic that initial margin must be gross/two-way and also around the potential for increases in disputes based on calculations. The impact of two-way gross initial margining will result in many over-the-counter market participants making significant investments in their funding infrastructures and capabilities.

In an environment where we already experience difficulties around access to high-quality liquid assets and the settlement of collateral, adding initial margin at agreement level, per credit support annex (CSA), will lead to changes in the way in which desks are set up to borrow and lend. Disparate systems, lack of centralised funding desks and inventories that are placed in product silos will all lead to increases in cost.

In terms of disputes, ISDA has stated that it will regularly publish essential risk factors for the calculation of SIMM. Being able to import these factors, including dynamic risk weights and correlations as well as what-if scenarios, will be crucial to not falling into a dispute pit. What's more, while ISDA's SIMM aims to reduce the number of disputes by standardising the model used to compute initial margin, the fact that firms still have the option to use internal pricing models to generate the trade sensitivities may also result in a backlog of disputes that will stretch collateral management departments.

With all of the above being said, there has been an increased focus and interest in the utilisation of vendor platforms, such as Lombard Risk's Colline, which are cross-product in nature, to manage the SIMM process. The question becomes not necessarily one of 'if a firm has the expertise within it to capture the methodology or perform the mathematics'—SIMM shouldn't pose any major mathematical or configuration challenges. What adds the complexity (and therefore the cost and capacity) are all the other components that that fit around the model—the data, the hooks into upstream and downstream systems, the linkages with optimisation tools, the automation and the reporting.

There is an acknowledgement from firms that went live on 1 September that SIMM has yet to be looked at in its granular detail. It must fit into their wider ecosystem—an ecosystem that branches out far beyond that of 'bilateral' collateral and across into the world of securities finance and repo. **SLT**

What adds the complexity (and therefore the cost and capacity) are all the other components that that fit around the model

Tracey Adams
Regional head of product, APAC
Lombard Risk

SEC Rule 15c3-3: Bringing equities to bear

Rob Chiuch and John Templeton of BNY Mellon Markets discuss the potential impact of allowing equities to be used as collateral in the US

Of the many cliches in the financial markets, none is more overused than 'level playing field'. But in the US securities financing marketplace—unlike elsewhere—large segments of the community can neither post nor accept equities as collateral. This is especially noteworthy given that the securities lending market in US equities is by far the world's largest, with $6.37 trillion in lendable assets at the end of 2016, according to IHS Markit data.

This seeming misalignment that affects lenders and borrowers in the global market could be resolved, with potential changes to the US Securities and Exchange Commission's (SEC) Rule 15c3-3, which may enable US-based collateral providers to more directly support their activities. Furthermore, equity investors such as '40 Act and Employee Retirement Income Security Act (ERISA) funds may consequently experience new growth in demand. But there are challenges and additional changes required.

Capital impact

Collateral providers in the US are excited because, on the surface, the rule change potentially reduces their financing costs, as they're naturally long in equities. Given that most equity collateral driven businesses are based outside the US, with the highest concentrations being in Europe, Asia Pacific and Canada, Rule 15c3-3 will likely result in a shift back towards the US.

Under Rule 15c3-3, broker-dealers cannot currently pledge equities as collateral, but there is an expanded long inventory of equity assets out there that they now want to engage. Compounding the challenges, many beneficial owners such as ERISA and '40 Act accounts cannot accept equities as collateral under existing rules. The US market as recently as 10 or 15 years ago was predominantly a cash market in which participants would mostly borrow securities versus dollars. Today, it is about half-cash and half non-cash collateral.

However, while we share the industry's enthusiasm a potential change—and the desire to promote price transparency, increase liquidity, and reduce operational risk—we are concerned about the impact of the new capital rules on these transactions.

The challenge will lie in the pricing. Under Basel III, there is a 100 percent capital charge on agent lenders when, for instance, an agent lends securities to non-bank entities that in turn deliver securities (equities in this case) as collateral. A regional rotation of equity collateral flows could in theory result in a shift out of banks that currently attract a 20 percent capital charge, in terms of these collateral pools, into non-bank entities. By accepting equities as collateral from non-bank entities in the US, for instance, agent lenders would, as it stands, attract five times the capital charge on those same transactions.

The most likely solution is a more dynamic pricing model, with pricing adapting to reflect agent lenders' appetites to absorb the capital costs.

Triparty boost

It's not just the capital impact that needs to be considered in the potential changes. The revisions have encouraged US broker-dealers to re-examine establishing triparty collateral management links for their US equity lending desks. Triparty collateral management is used extensively throughout the securities finance markets globally due to the operational efficiencies it creates for all participants.

While triparty is used extensively globally, it is used on a limited basis by the equity lending desks of US broker-dealers. There are a number of reasons for this, including that the equity desks need to source Rule 15c3-3-eligible assets to be posted as collateral (since equities are not eligible).

The typical mechanisms to source eligible assets are raising US treasuries (USTs) and Ginnie Mae agency bonds (also known as GNMAs) from a broker or an affiliate (and delivering equities bilaterally to collateralise that transaction), or requesting that the repo desk raise USD cash (and selling equities through triparty in that transaction). The eligible collateral is then posted to the agent lender to collateralise the equity securities loan.

Since the USTs/GNMAs are not trading assets of the equity desks, the operational efficiencies are of more limited benefit. This has meant that building links into triparty collateral management systems was never a high priority for these desks in an environment of strained IT and operational budgets.

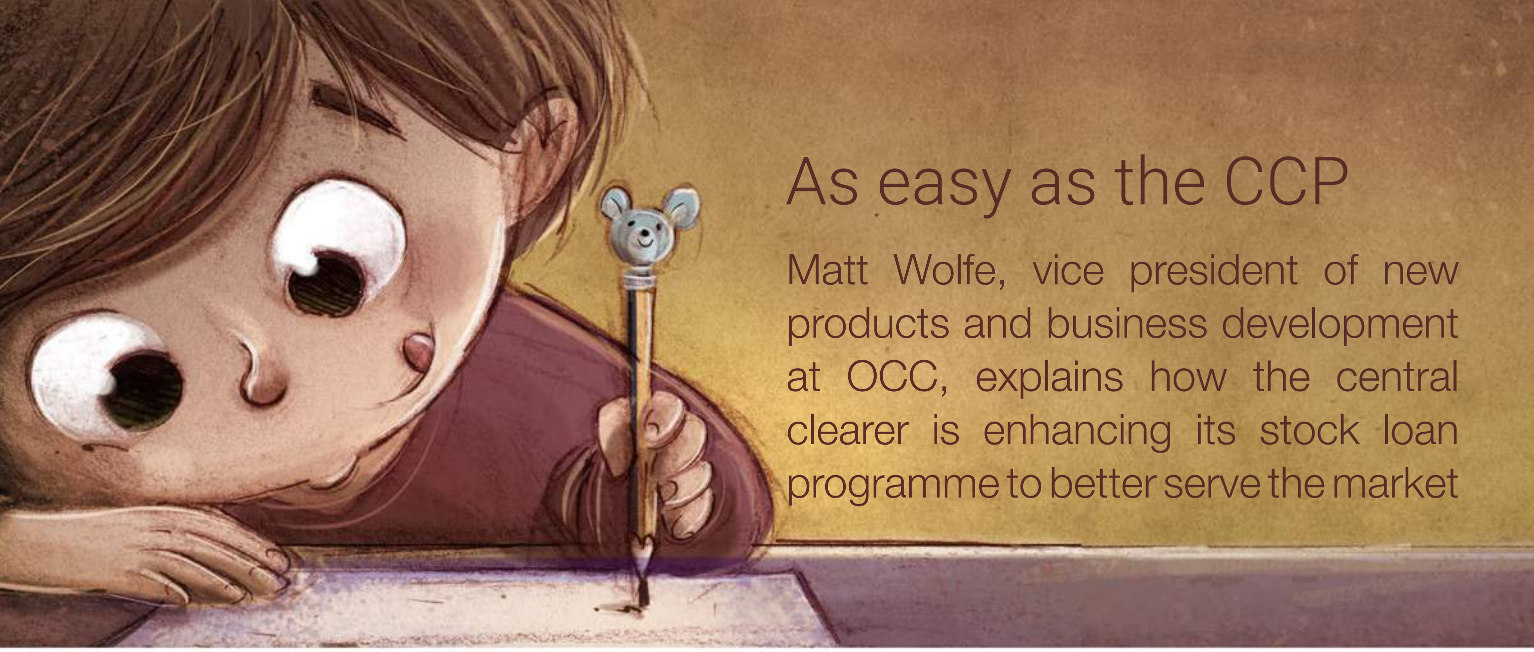
If equities are approved, then the current bilateral collateral process becomes highly inefficient for both the borrower and lender, as prior to the release of the loan to settlement the lender needs to confirm that it has received the right amount of eligible collateral. Lenders do this manually today with highly liquid and fungible collateral such as USTs, but it would not be scalable to do this for equities due to restrictions that the lenders need to manage (indices, concentration limits, exclusions, and so on). Screening for these restrictions is a highly efficient process through triparty, where advanced technology is used in order to ensure that eligible and sufficient collateral is delivered to the lender.

On this basis, a number of borrowers and lenders are currently reviewing the steps necessary to bring their US equity lending businesses live into triparty, including reviewing documentation, establishing user access, and testing instructions and reporting for automation.

Non-cash collateral boost

Finally, we refer to Newton's Law—for every action there's an equal and opposite reaction. As risk weighted asset-related challenges and Rule 15c3-3 possibly evolves into less of a binding constraint for lenders and borrowers, and the street grows increasingly long of equities, the natural effect will be that, generally, activities surrounding the financing of equities in return for US dollars could decline. The balance of cash to non-cash collateral for US participants could tilt towards non-cash. This is further exacerbated by a shallower yield curve in the US and diverging monetary policies between the US and other nations, thereby constraining re-investment spreads.

It would benefit broker-dealers because they wouldn't have to raise cash to pledge as collateral and they could utilise internal inventory that they have from their hedge fund clients, for instance. Notwithstanding capital cost and pricing implications, this kind of evolution could be a game changer from a stock loan perspective in the short term. **SLT**



As easy as the CCP

Matt Wolfe, vice president of new products and business development at OCC, explains how the central clearer is enhancing its stock loan programme to better serve the market

As the only US clearinghouse that provides central counterparty (CCP) services for stock loans, OCC's programmes promote market stability and integrity through a framework that delivers prompt and accurate clearance and settlement and robust risk management services. As the marketplace continually evolves and regulatory change creates a tailwind for cleared solutions, OCC remains committed to its role as the foundation for secure markets, and to enhance its offerings to its current stock loan clearing programme.

Stock loan is an essential and substantial component of the global financial market, with the largest part of this market conducted through uncleared, bilateral transactions lacking the recognised benefits of clearing services with CCP substitution. Since OCC's introduction of CCP services for the stock loan market, the volume of stock loans cleared by OCC has increased steadily. From 1 January through 31 May of 2017, OCC processed just under one million new stock loan transactions, a 19 percent increase over the same period in 2016, and had a daily average of $78 billion dollars in equity securities on loan.

OCC currently operates two distinct stock loan programmes: stock loan/hedge and market loan. Stock loans in the hedge programme are bilaterally negotiated between clearing members, usually through the facilities of a service provider, prior to being transmitted for settlement. If the borrower and lender are OCC clearing members that have elected to clear the stock loan, OCC is substituted as the CCP after initial settlement. Daily mark-to-market payments are settled through OCC, and OCC guarantees the return of lent stock (including any non-cash dividends and distributions) to the lender and the return of the collateral to the borrower. Payments in lieu of cash dividends are generally effected through the Depository Trust Company (DTC) but are subject to a limited guaranty by OCC. However, stock loan rebates remain bilateral rights and obligations between the lender and borrower.

In the market loan programme, lending and borrowing clearing members submit orders to an electronic trading platform known as a loan market. The loan market transmits resulting matched loans to OCC, and OCC sends settlement instructions to DTC where the lent stock is transferred to the borrower against the payment of cash collateral to the lender. These matched transactions are maintained on an anonymous basis. Alternatively, a lending and borrowing clearing member may negotiate the terms of a loan bilaterally and submit the transaction to a loan market for affirmation. The loan market transmits the transaction to OCC, and OCC sends settlement instructions to DTC. In either case, OCC guarantees not only the return of the lent stock (including any non-cash dividends and distributions) and the cash collateral, but also guarantees payments in lieu of cash dividends and rebates, which are paid through OCC's cash settlement system.

According to OCC's rules and by-laws, at present, participation in OCC's stock loan programmes is limited to clearing members, and only brokers or dealers registered as such in the US or Canada are eligible to be OCC clearing members for the purposes of participating in OCC's stock loan programme. However, most transactions in the US stock loan market, involve other types of entities acting as agent lenders to loan securities on behalf of their beneficial owner clients.

Clearing members and agent lenders are strong proponents of OCC enhancing its stock loan programmes in order to realise the benefits of clearing, including those outlined below.

Broker-dealers may realise additional capacity to lend and borrow through the following regulatory capital efficiencies offered by central clearing:

- Balance sheet savings through increased supplementary leverage ratio netting opportunities
- Mitigation of counterparty exposures as measured by single counterparty credit limits and comprehensive capital analysis and review
- Reduction in risk weighted assets due to CCP risk weight of 2 percent rather than 20 percent for banks and 100 percent for broker-dealers
- Expanded pool of counterparties

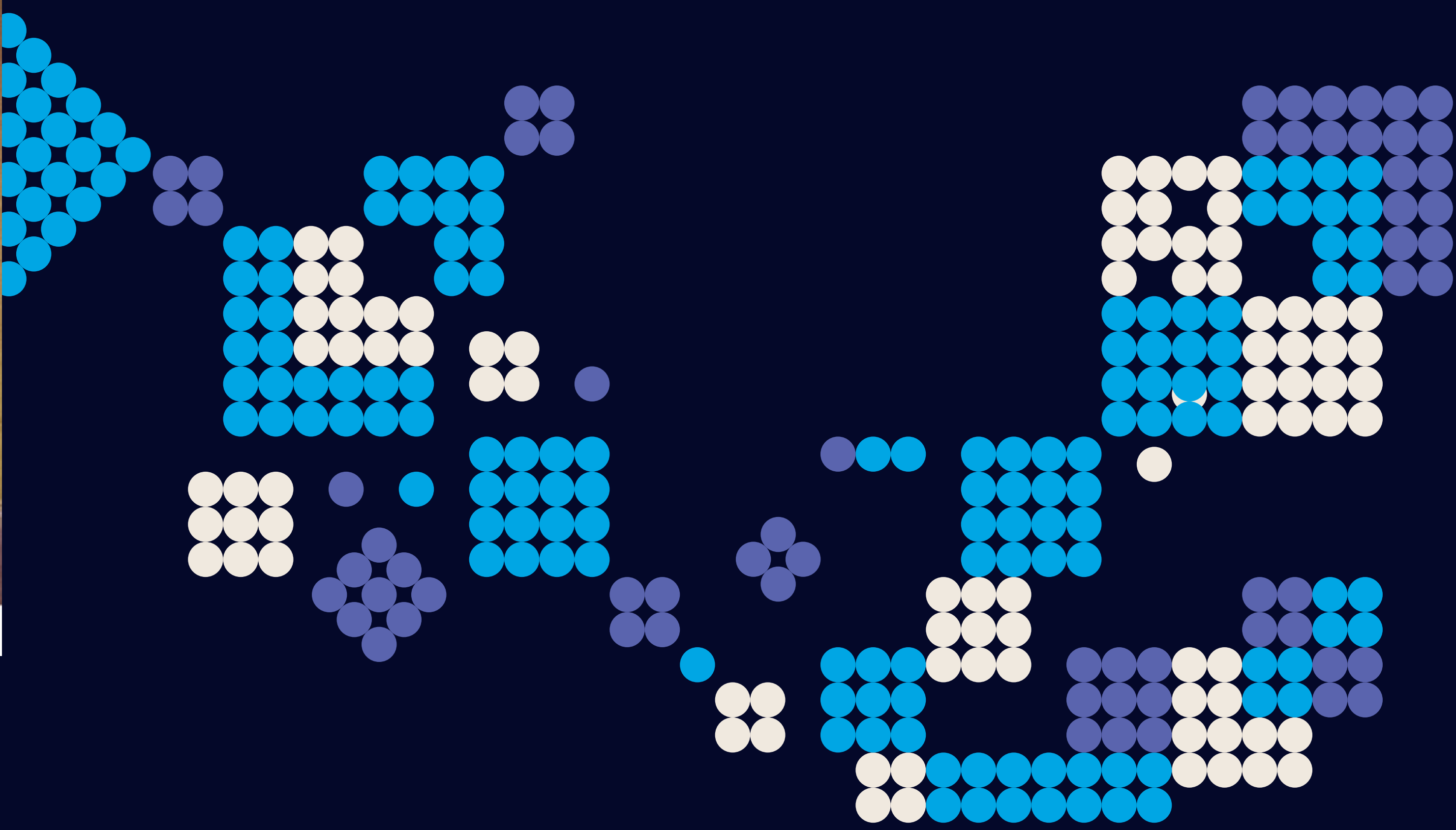
Agent lenders (referred to as lending agents) may be able to preserve and expand loan balances due to the following advantages of central clearing:

- Increased utilisation and mitigation of counterparty credit limits
- Improved pricing due to reductions in cost for the borrowing
- Improved counterparty credit quality due to CCP risk weighting of 2 percent and reduced regulatory capital requirements and indemnification expenses as a result

Beneficial owners (lending principals) may benefit from the following advantages of central clearing:

- Increased reinvestment revenue due to improved pricing for cleared loans and expanded utilisation
- Upgrades to counterparty credit quality due to CCP credit rating and additional guarantees

To achieve these goals and to provide greater capital efficiencies for its clearing members, OCC is implementing a number of enhancements to its stock loan programmes in order to reduce systemic risk, enhance transparency and allow more efficient use of capital, which lends to our mission of promoting stability and market integrity through efficient and effective risk management, clearing and settlement services. **SLT**



Tactical versus strategic solutions: Where lie the benefits?

Calypso Technology pits the viable options for a quick fix against implementing a strategic long-term solution for growth, and investigates the possibility of combining these options for the optimal securities finance

The new regulatory environment in combination with squeezed margins and increased competition has prompted many firms to review their infrastructure for securities finance and collateral management.

Facing tight budgets and with regulatory deadlines approaching quickly, some institutions have favoured quick-fix solutions over longer term strategic investments, whilst others have thought long and hard about how to monetise and re-engineer their business to create advantages from the new regulatory landscape. Businesses have transformed to gain competitive advantages by offering new securities clearing services, optimising the use of collateral or simplifying their infrastructure for improved transparency across business and product lines.

Buy-side firms are increasingly looking at new technology investment or resorting to utility service providers to comply with regulation and demonstrate to their investors that they can manage their risks and meet demands for more sophisticated reporting requirements. There is also a demand from sell-side firms that may have underestimated the need to invest in infrastructure, some due to business growth and others who have relied on manual workarounds in the days when business margins could absorb operational inefficiencies.

Short-term gain

Firms looking to make changes to their infrastructure are typically under pressure to prioritise short-term gains when building a business case to obtain budget. These are easier to define, quantify and measure.

There are unfortunately too many examples of new 'quick win' solutions that look viable at the outset but turn into costly bottlenecks, constraining the business growth in a matter of months rather than years. Problems may arise when the business wants to start trading new products, access real-time cross-product data to support complex reporting requirements or to move towards cloud deployment.

However, any new software or infrastructure project needs to achieve a quick time-to-market with tangible business benefits, firstly to be approved and ultimately to be deemed a success. How can an organisation ensure that the short-term gain remains a sound decision even if the business changes direction or new regulation is introduced?

Long-term profitability

Alan Sheehan, director of product management at Calypso Technology, explains: "We are seeing an unprecedented change in the market on multiple levels: new regulation, squeezed margins, review of target operating models, the growth of utility services combined with technology pushing boundaries with an increase in the use of cloud deployment and blockchain shaping the future. Amid widespread structural changes, firms need to ensure a short-term gain while also taking in the bigger picture."

When investing in new technology a firm must assess how a potential vendor solution can deliver quick, short-term benefits as well as being a trusted long-term partner. The vendor needs to have the capability to evolve with the business as well as the changing regulatory and technology landscape. This only comes with experience and with a proven track record that demonstrates innovation.

Sheehan explains: "Calypso benefits from a large, global client base representing the sell-side and the buy side but also includes exchanges, clearinghouses and central banks. Some of our clients use our platform for proprietary trading while others manage their clients' assets and we also have clients offering securities clearing services running on the Calypso platform."

"Working in close collaboration with our broad client base has been vital to get the full picture of the evolving market requirements and to make the right strategic decisions of the product roadmap."

An agile approach to deliver results quickly

Achieving success early in a project to remedy immediate problems constitutes a sound platform for further re-engineering of the firm's infrastructure and business processes. It's not only a question of a quick return on investment, it's equally important to get the buy-in from-end users.

A phased implementation and the early lack of clarity on over-the-counter derivatives regulatory requirements, both allowed and sometimes required a tactical response to comply in time. However, now that there is more clarity of the landscape there is the opportunity to look at more strategic options.

Flexible, 'on the fly' real-time reporting requirements may be a prerequisite for the business to remove bottlenecks, serve its clients or comply with regulation. Likewise, the project scope may be ring-fenced to a single module of a larger solution.

By using an agile, phased implementation approach, benefits can be achieved quickly. Further rewards can be secured as more functionality is ported to a single platform.

Combining a tactical win with a longer term strategic goal requires a technology vendor with a mindset of a business partner, carefully tuning in to what short-term problems can be solved while leveraging technology to finding creative solutions that can be adapted as the business evolves.

Simplify and transform

Combining a solution for repo and securities lending seems obvious. By also adding collateral management and optimisation to the same platform with cross-asset coverage from trade initiation to risk, post-trade processing and reporting, the business can see true transformation.

A simplified infrastructure with fewer systems means reduced costs of maintenance, staff training, upgrades, hardware and interfaces. Perhaps most importantly, the business will be able to have a centralised view of all inventories available across products and business lines, an optimised use of collateral to reduce cost and improve profitability.

Sheehan explains: "From the outset, the Calypso Securities Finance solution was built as part of an integrated cross-asset, front-to-back system, leveraging the strong backbone of the Calypso back-office solution. Complemented by the Calypso collateral management solutions, it offers a solid platform for growth."

"With its flexible workflow, firms can benefit from pre-configured, ready-to-use workflows as well as having complete flexibility to mirror its existing processes and policies without the need for vendor involvement. This gives the client autonomy to introduce better automation, transparency and control step by step."

Sheehan continues: "The Calypso solution combines a tactical win with a strategic solution. The Calypso system can be deployed to cover all aspects of securities lending, repo and collateral management as a phased project scope."

"In fact, many of our clients have started by implementing a single module of the system to later expand the usage. With a strong derivatives, fixed income and securities background, the Calypso solution breaks down silos and offers a transparent end-to-end, cross-product coverage."

The challenge of data

Data is a huge concern in the industry, particularly how to manage it, and ensure it's trusted and provided in real time. Firms are looking for a reliable 'single source of truth' in real-time for all securities and cash inventories. Decision makers are increasingly demanding data transparency with ability to dynamically drill down from positions to trade details and easily follow the trade lifecycle.

An integrated, cross-asset platform for securities lending and collateral management centralises security pools which facilitates an optimal use of cash and securities inventory for trading and exposure management. From trade input to post-trading processing, the flow will be seamless offering complete and instant transparency.

Future-proof technology

Unfortunately, there is no assurance that the technology your firm is relying on today will be the best viable option for tomorrow. In fact, it is more likely that faster, more functionally rich and better user experiences will be available.

Technology vendors are at different stages of delivery and readiness. You want to partner with a vendor that has a proven track record as well as a vision and roadmap to seek innovation and continuous improvement. This requires trust and the vendor needs to be mindful of what the client is trying to achieve—both in the short term as well as being able to advice on strategic decisions.

Choice of deployment—as a cloud service, on premise or a hybrid—should be considered. A vendor actively engaged in Blockchain technology, that is likely to transform and automate the marketplace, demonstrates innovation. A large client base provides a continuous flow of input to deliver new functionality, improved user interfaces as well as simplified implementation methodologies and procedures to support clients.

Finding the right partner

Selecting a technology system and supplier can be daunting. Not only does the functionality need to be fully covered, the system also needs to fit within the existing environment and most importantly evolve with the business and the market.

Simply lifting the bonnet won't do the job. Decision makers need to understand what parts drive it, how far can it go and how is it being serviced. Whatever the next challenge is—to trade a new product, manage regulatory change or shrinking margins—make sure that your business, infrastructure and your technology partner are ready to step up. **SLT**

The way forward to collateral fluidity

SIX Securities Service—through SIX Repo—is developing a new methodology based on the seamless sourcing and pooling of collateral. Head of repo and securities finance Nerin Demir explains

New global regulatory requirements are currently forcing parties in the financial value chain to look differently at how they collateralise their counterparty exposures. Firms will be required to hold a greater proportion of cash and high-quality liquid assets.

SIX Securities Service—through SIX Repo—is developing a new methodology based on the seamless sourcing and pooling of collateral. In close cooperation with industry bodies, clients and regulators, it is committed to raising key challenges in the area of securities finance and develop better ways to deliver innovative, high-quality, state-of-the-art solutions.

Some of these topics raised recently cover:

The increasing demand for equity repo financing

SIX Repo has increased the number of equity index baskets and added two additional security types, US equities and fixed income (treasuries). The inclusion of US equities will enhance the already broad equity financing portfolio that SIX Securities Services offers, covering the major European indices (SMI, DAX, CAC40, FTSE, MIB and IBEX) while complementing SIX Repo's 'repo on demand' service, enabling the financing of any combination of tailored baskets.

Single access to market liquidity

SIX Repo's collateral management strategy--supported by the Swiss National Bank--builds on its current triparty service and brings a new independent and integrated solution to the market, facilitating improved access to market liquidity and collateral hubs. The future offering will increasingly relieve the operational burden of the two entities engaged in a trade by taking on all post-trade processing during the life cycle of the trade, such as the collateral allocation and automatic substitution as well as settlement and payment.

The future role of distributed ledger technology in collateral management

Distributed ledger technology could eliminate costly and time-consuming collateral settlement moves, and instead track the collateral in a near real-time environment while providing almost instant insight into which collateral position is currently in use or available. This means that real-time collateral management can be plausible without any significant cost increases, providing many benefits to banks balance sheets.

SIX is currently working on two use cases to create new services leveraging distributed ledger technology–one is focusing on the product issuance process while the other is focusing on collateral optimisation capabilities. SLT

About CO:RE: The integrated securities finance offering from SIX Securities Services

CO:RE (Collateral & Repo) is the real-time securities finance offering powered and operated by SIX Repo. It brings together trading and collateral management capabilities in a fully integrated value chain starting from trading through settlement and finally to collateralisation at the central securities depository or custodian level. The need to drive efficiency, reduce risk and control costs has resulted in an efficient collateral management offering for all market players, providing benefits for banks, broker-dealers, insurance firms, commercial banks and asset managers alike.

SIX Securities Services provides a multifaceted electronic trading facility offering single-point access to the over 160 counterparties trading repo contracts across 14 currencies. Central bank money and commercial bank money are both available as well as access to the Swiss National Bank's primary market for the issuance of money market instruments. Thanks to excellent operations, the accuracy of exposure coverage and the solid legal framework, no haircuts are applied to the available collateral whereas the range of collateral covers a wide range of currencies and geographical areas.

SFTR: The end of the beginning

Getting to the final technical standards may indeed just mark the end of the beginning, but it is a significant milestone on this particular road. David Lewis of FIS Global maps out the rest of the journey to be made

The European Securities and Markets Authority (ESMA) issued the final technical standards for the Securities Financing Transactions Regulation (SFTR) on 31 March 2017, under which the industry will have to report all its transactions to a registered trade repository. The road to this point has been a long one indeed, but 31 March did not mark its finish. In fact, as Winston Churchill said in 1942: "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

While there has been a great deal of work done so far by providers such as FIS Global, the final technical standards confirm what we all need to do to now to meet the new regulations coming into effect in Q3 or Q4 2018. While the various institutions in the EU go through their approval processes, technology solution providers are already working hard to develop the necessary systems to meet their client's requirements in order to roll them out in time to be live by the reporting launch date.

ESMA has chosen to gather much more data and at a greater frequency than is actually required by the Financial Stability Board (FSB), as the FSB gave each jurisdiction free rein as long as the minimum requirements were met. There is going to be a great deal of data that will need to be marshalled, cross referenced, organised and delivered in order to meet the detailed demands from ESMA. Despite the requirements being double-sided in nature, where both the lender and the borrower must submit their own trade and collateral data, the demand for data weighs disproportionately on the lenders. Technically, the lenders are the principals to the transaction and will commonly be the beneficial owners at the start of the transaction chain, but they will, with few exceptions, delegate this responsibility to their agents.

Those agents will not just be tasked with submitting their own client's data, but will need to share that data with their borrower counterparts in order for them to meet their own reporting obligations within the set timeframes. Such data will include the underlying counterparties and details of how bulk trades and collateral were allocated. Due to the simple fact that the lender, or more accurately, its agent, is in possession of the lion's share of the data required for meeting the requirements of SFTR, they will play a significant part in the process with the intention that all parties can efficiently meet their regulatory obligations.

At this point it is key to understand exactly what meeting that obligation entails. ESMA requires all market participants to submit their trade and collateral data, at the end of T+1 and S+1 respectively, to an approved trade repository. While this is going to be a complex requirement to meet, particularly with regards to collateral details and trade allocations, amendments and all the other reportable lifecycle events, it should not be over engineered. The potential costs of over thinking this requirement, especially in an industry already facing rising cost pressures all along the transaction chain, are significant.

Trade repositories charge for their services. Although these charges are strictly controlled by ESMA, they will not be insignificant as those reporting under the European Market Infrastructure Regulation (EMIR) can testify. Part of the services they provide are the matching of trades with those provided by your counterparty, whether to the same trade repository or another. The FIS solution, matching our global footprint with our partner trade repository, will simplify this section of the process significantly. ESMA, in the final technical standards, has realised that it has set the industry a tough task with the number of matching fields in the data extracts it requires, and as such, ESMA has relaxed some tolerances and indicated that many of the matching fields will not need to be matched during the first two years of operation, as all of the participants in this programme get used to the new reporting regime.

This is both pragmatic and sensible of ESMA, particularly given the difficulties that those reporting under EMIR have faced. Further, the International Securities Lending Association (ISLA) has been doing some excellent work in looking to combine the efforts of all the technology providers that are stakeholders in this process. We all have clients to serve and our industry will be best served by delivering a service as simple, cost effective and reliable as possible. This work has extended to include agreed formats for data fields where there is some latitude given in the ESMA technical standards, and, once agreed, it is to these standards that FIS and no doubt other trading system providers will code extracts to.

ISLA has also importantly suggested a draft protocol for the generation of unique trade identifiers (UTIs). Getting this right, and there is work to do on it yet, will ensure that the existing processes employed by the licensed trade repositories will deliver an efficient and timely matching process, without the need for costly third parties duplicating this process, delivering compliance reports and exceptions back to their clients.

Getting to the final technical standards may indeed just mark the end of the beginning, but it is a significant milestone on this particular road. Ahead of us lies the actual build and release of new reporting technology and, arguably more importantly, some industry defining moments as we consider how best to approach the next few years. It is entirely possible that some of the paradigm shifts in counterparty disclosure and the potential changes in loan allocations based on the borrower's risk weighting of the underlying lenders will change the shape and process of our industry as we go forward, and likely for the better. One eye will have to be kept on the lookout for further legislation, of course. It is not unreasonable to expect that ESMA, and indeed the FSB, will be planning to do something with the massive amounts of data that they gather and the insight it brings them, however, such changes may be many years away yet. **SLT**


The greater the challenge, the more important your partner.

The forefront of P2P innovation

Peer-to-peer trading provides potential for innovation and growth, says Andy Wiblin, repo and securities lending product owner at ION

Over the last few years, sweeping regulatory changes and significant increases in capital requirements have led banks to shrink their balance sheets and focus on high-quality liquid assets (HQLA).

With bank balance sheet availability decreasing, beneficial owners, hedge funds and other market participants have to find new ways to fund their positions outside of the traditional lending model. One of the ways they're doing this is through peer-to-peer (P2P) securities lending transactions.

The P2P model enables lenders and borrowers to agree directly on the price and terms of a trade without credit intermediation from a broker-dealer, agent lender, or prime brokers.

In addition to eliminating the need for credit intermediation and bank balance sheet usage, P2P offers benefits such as:

- Additional sources of liquidity or financing for market participants
- Additional trading leverage for hedge funds, due to US Regulation T rules allowing hedge funds to use more cash from short sales to invest outside of their margin requirements
- Increased use of non-HQLA securities, because the parties involved aren't bound by the same capital reserve standards as broker-dealers

Although the P2P market is still relatively small compared to the global securities lending and repo markets, it's growing quickly. Industry estimates put current activity at around $200 billion.

As capital requirements become more restrictive, the case for P2P trading will only get stronger.

The emergence of P2P platforms has created opportunities for broker-dealers and prime brokers

As interest and demand have grown, several major service providers have developed platforms that facilitate P2P trading.

In this rapidly changing landscape, it's important to recognise that broker-dealers, agent lenders, and prime brokers still have much to offer in the P2P space. Although lenders and borrowers will use P2P platforms to execute these trades, dealers can provide a host of pre-trade and post-trade services to support this growing market. For example:

- Access to P2P platforms and operations management services
- Aggregation of liquidity and pricing information from multiple P2P and market data platforms to help customers make the best decisions possible
- Access to indemnification platforms
- Counterparty credit analysis
- Clearing and settlement
- Tracking and management of exposures related to P2P trades, from the perspective of the peers involved in the transaction
- Tracking trade performance relative to the current market and opportunities for refinancing
- Providing web-based reporting tools participants can use on-demand

While participants in P2P lending may be willing to take on credit risk, or alternatively to purchase indemnification from a third party, they probably won't want to take on additional operational risks and costs associated with managing the pre-trade and post-trade functions currently managed by dealers in the traditional securities lending model.

Broker-dealers that can provide their customers with access to P2P, indemnification, and market data platforms, as well as tools to help them drive and optimise trading decisions, and post-trade supporting functions, will enable their customers to trade via P2P seamlessly.

How can ION Capital Market Solutions help?

ION has a long and proven history of providing solutions for capital markets. With its rich offerings in securities lending, market connectivity, market data integration, order management and web reporting, the Anvil 9 solution is ideally suited to help broker-dealers and prime brokers provide lenders and borrowers with everything they need to participate in P2P trading with confidence. And as this market continues to develop, these partnerships will ensure that all parties involved can stay in the forefront of P2P innovation. **SLT**

To learn more about how ION can help your business innovate and grow, contact: anvil-info@iongroup.com

In it for the long haul

ETFs are playing an increasing part of the European equities revenue mix as investors embrace the asset class. Simon Colvin of IHS Markit reports

European exchange-traded funds (ETFs) have grown from strength to strength this year as the advance of passive investing saw investors park more than $48 billion of funds into the 3,000-plus Europe-listed ETFs tracked by the Markit ETP analytics database. This strong haul, combined with some capital appreciation, has seen the assets managed by these ETFs increase by a massive 30 percent year-to-date to $686 billion as of latest count.

There appears to be little that can stop the relentless pace of asset gathering as $10 billion of new assets have poured into these funds over the last few months, which puts the industry well on track to beat the 2015 inflow record.

The relentless investor appetite for ETFs is starting to make waves in securities lending as investors are parking an increasing portion of their newly acquired assets in lending programmes as the value of all Europe-listed ETFs in lending programmes recently crossed the $40 billion mark for the first time ever.

Unlike the rest of the securities lending industry, which has suffered from chronic oversupply over the past few years, this new inventory has found plenty of willing borrowers as the average balance across the asset class increased 18 percent in the first five months of 2017 compared to the same figure a year ago.

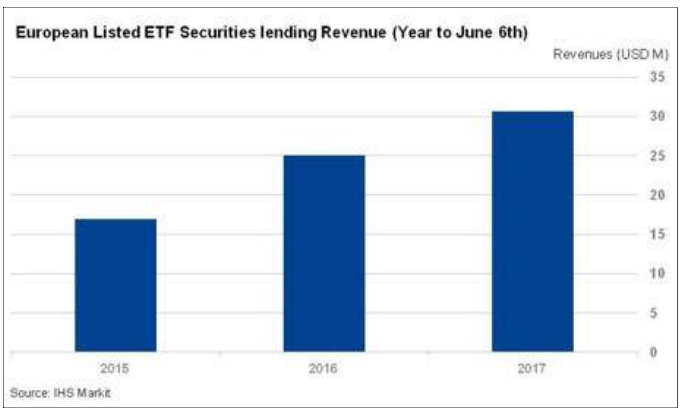
Lenders have also been able to achieve a slightly better rate for their ETF loans over the last five months as the weighted average fee for all European ETF loans in the year to 5 June has reached 192 basis points, a slight improvement on the 185 basis points achieved over the same period in 2016.

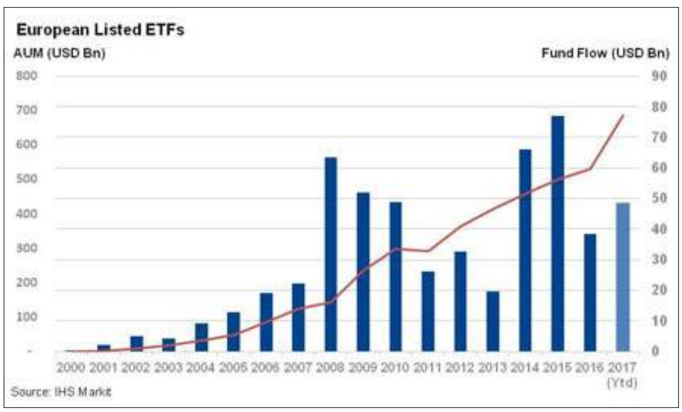
Both of these forces have ensured that beneficial owners have been able to generate 24 percent of additional revenue from lending out European ETFs so far this year, compared to the same period in 2016. This number can arguably improve as the increasing fees commanded by ETFs indicate that demand for the asset class is outstripping supply, so the industry would be well advised to seek out additional inventory to meet investor demand.

Plugging the revenue hole

This surge in ETF revenues is a relative bright spot for the industry as securities lending revenues generated from lending out conventional equities is down by more than 23 percent so far this year. While the total additional revenue generated, $5 million, is small fry relative to the $288 million revenue gap seen in conventional equities, there is no denying the fact that ETFs are playing an increasing part in the European securities lending market.

In fact, the diverging revenue trends means that ETFs were responsible for 3 percent of total European equities revenue so far this year. This is a 50 percent increase from the contribution derived at the same point last year when ETF lending brought in 1.9 percent of the European equities revenue haul. ETF contributions will no doubt continue to increase as ETFs play a greater role in both long-term investing and shorter term trading. **SLT**





Wait and see is not an option

Senior business analyst Gilbert Scherff and securities finance and collateral management marketing director Martin Seagroatt break down what will be required of SFTR and explain how Broadridge Financial Solutions can help

With the European Securities and Markets Authority's (ESMA) publication of the technical standards for Securities Financing Transactions Regulation (SFTR) trade reporting, the starting gun has now been fired and the clock is ticking for firms to comply with the rules. By current estimates, the first phase of compliance will take place some time in 2018. This leaves a relatively short window for market participants to perform an impact analysis, define a target operating model, assign IT resources and make the required changes to systems and processes.

The sheer volume and granularity of data required for reporting represents a significant operational challenge for the securities finance markets. As a result, Broadridge is currently working in collaboration with clients, prospects and third-party vendors, utilities and industry associations to ensure a smooth onboarding process.

To support the rules, Broadridge will implement changes to the Broadridge (formerly 4sight) Securities Finance and Collateral Management (SFCM) solution. We will also develop data extracts and interfaces for a range of downstream reporting and matching utilities to allow reporting directly to trade repositories.

In addition to this, Broadridge will offer a separate integrated solution for trade matching, unique trade identifier (UTI) generation, data enrichment and direct reporting. This leverages Broadridge's experience in European Market Infrastructure Regulation (EMIR) reporting for derivatives and reporting under the second Markets in Financial Instruments Directive (MIFID II) through its recent purchase of Message Automation. This option provides clients with an end-to-end Broadridge solution to meet reporting requirements.

Broadridge will also enhance its current interfaces with Pirum and EquiLend's post-trade reconciliation platforms to support the SFTR reporting capabilities. Customers therefore have the option of a unified Broadridge solution for all SFTR requirements, but with the option to be delivered on a modular basis and combined with other market solutions to meet customer preferences.

The picture that is emerging from an analysis of the technical standards is that:

- Timescales for compliance are relatively short
- The work required to comply is significant
- SFTR will require widespread changes to IT systems and integration points
- ESMA estimates that compliance will entail a major cost impact
- Firms need to act now rather than take a wait and see approach to ensure a smooth transition to the new operating environment

- Firms need to consider synergies with other reporting regimes and make decisions around data quality and consistency across reporting mandates
- As with EMIR, requirements may evolve, leading to a moving target around both scope interpretation and deadlines
- This article explores the IT impact of the rules. It outlines a checklist of steps firms should take to ensure readiness, reduce reputational risk and mitigate regulatory exposure. In the longer term, firms should also think about how they can use SFTR to obtain competitive advantage through a more strategic approach to the use of data.

Cost impact of SFTR

ESMA has provided some guidance by estimating costs for compliance for different types of firm detailed in the infographic included in this article, split into one-off costs and ongoing costs.

These estimates include:

- Data mapping
- Addition of new fields in IT systems
- Interfacing work
- Data cleansing and enrichment

Ongoing costs include IT and data storage costs plus ongoing maintenance. Other overheads include resourcing costs for data monitoring, auditing and error handling.

Costs will vary depending on:

- Extent of existing systems integration
- Whether systems are up to date
- Previous learning experience with EMIR reporting
- Size of firm
- Transaction volumes

The following checklist includes some other key items to think about.

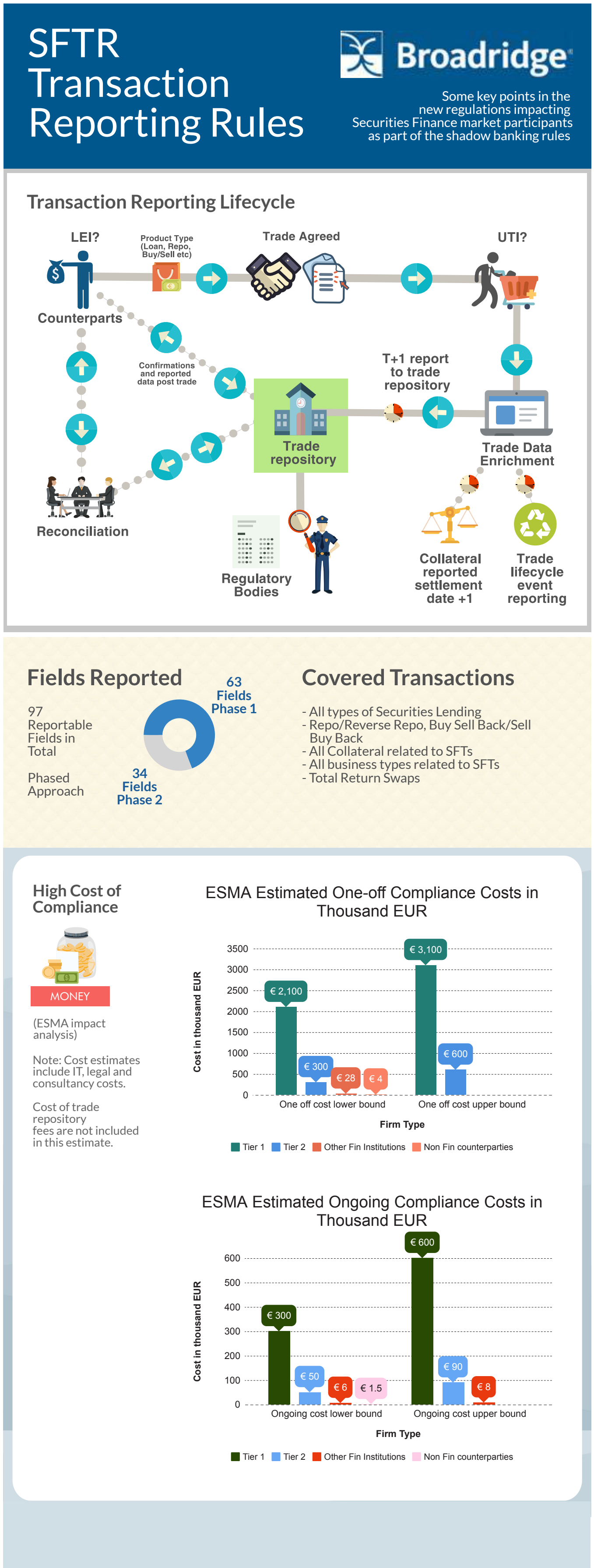
Engage with your respective vendors as soon as possible

Due to the complexity of the regulation, engaging your vendors early in the process is of utmost importance. This helps to align your SFTR project plan with that of your vendors. Moreover, they can also help you understand what is required and what the (potential) impacts are on your business. This will ensure you will meet the applicable regulatory deadlines at minimum cost and with a high level of quality.

Vendors such as Broadridge can also help to reduce some of the operational headaches involved in compliance. The benefits of working with your vendors are significant as the solutions provided will be standardised and aligned with market practice. Furthermore, it will minimise the burden of analysing, implementing and (once live) maintaining the solution. In your strategic relationship with your vendor(s), there will be options to select both bundled and unbundled reporting solutions for the various stages of the process. This includes:

- Extracting data from systems for consumption by downstream reporting utilities
- UTI generation
- Data enrichment
- Trade matching
- Reporting to repositories
- Reconciliation

It is important to make decisions around the optimal mix of solutions based on your unique operational requirements.



Evaluate the lessons learned from EMIR reporting

Regulatory trade reporting to such an extent is new to the securities finance industry. However, the reporting of derivatives transactions for EMIR has provided a useful case study and lessons learned that we can apply to the SFTR initiative.

As experienced with the EMIR reporting requirements, many firms took a 'wait and see' approach, especially as the regulator kept pushing the deadline back.

Once a deadline was announced, this had a 'big bang' effect, resulting in many choosing potentially suboptimal tactical solutions. At the same time, the inflow of requests on the vendor/solutions provider side was significant, creating a deadlock in some circumstances.

Not being prepared will come at a cost but also can create a reputational risk, especially in the case of an agency lender in terms of relationships with both its underlying clients and the street.

Another lesson learnt from EMIR is not to underestimate the impact of a continuously changing landscape of reporting/regulatory requirements, combined with ongoing maintenance of (often) tactical solutions.

Many simply aimed to comply with the regulation at a basic level, however, tactical solutions often come at a high cost and potentially with continuity risk.

Decide whether to take a siloed versus a holistic approach with other reporting rules

The existing regulatory reporting solutions at your firm should be considered. Decisions need to be made about whether you are going to apply a siloed approach for SFTR or are going to leverage the various reporting streams you already manage (not only EMIR reporting but also, for example, Basel III, MIFID II/MiFIR and Solvency II).

It is important to question how this aligns with your further reporting requirements (both internal, client facing and regulatory) and how this links to data analytics.

Aim to achieve a strategic rather than a tactical solution

While SFTR presents a challenge for market participants, it also creates an opportunity for those that take a strategic approach to the standardisation of data and the transparency that improved data management brings.

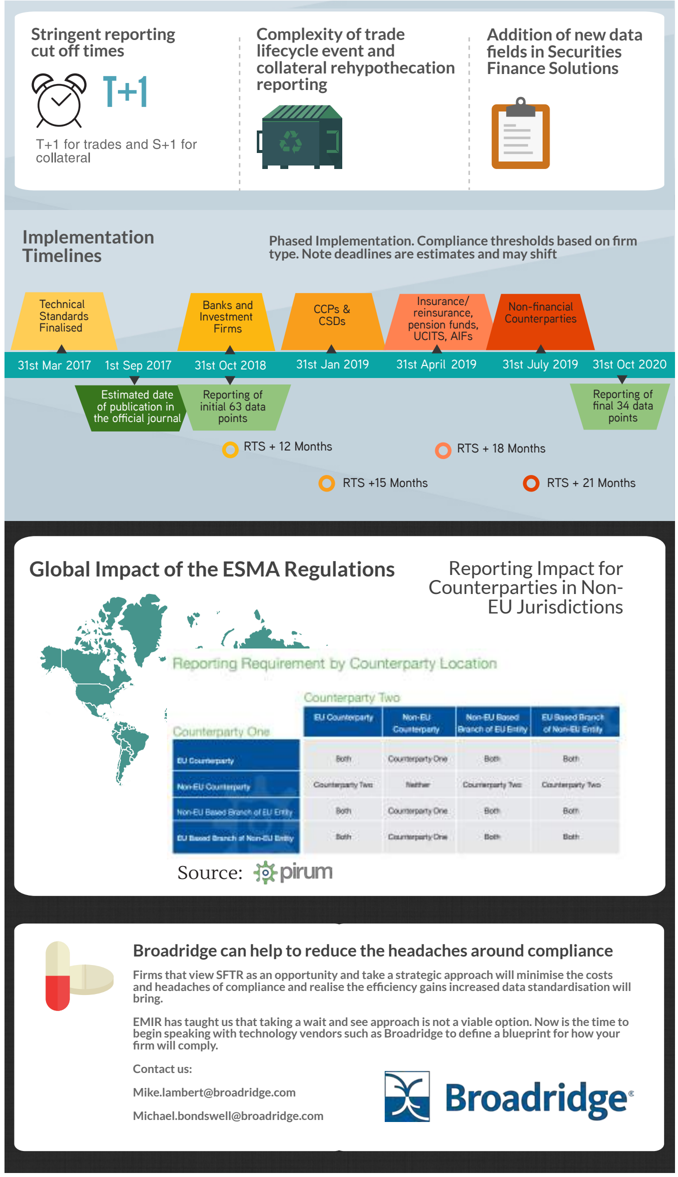
In many ways, the new order is all about data and transforming it into clear, understandable, relevant information that allows measurement and analysis and supports decision making.

Before any optimisation of resource allocation can occur (for example, liquidity, capital and balance sheet), there must be consolidated, measurable data. Centralisation of information into a single data repository for the firm is a vital precursor to this.

At its recent annual conference, the International Swaps and Derivatives Association (ISDA) discussed the need for what it called a 'common domain model'.

The derivatives market has undergone multiple sprints in recent years to comply with regulation and this has resulted in tactical solutions and a lack of standardisation.

ISDA is now looking to address this through a more strategic, efficient and standardised operating model.



The securities finance industry is still some way behind the derivatives markets in terms of regulatory timelines. However, in future our market should also be able to embark on this journey towards standardisation. This standard data model will open-up the potential for efficiency gains and in the future.

We could also see the application of artificial intelligence and machine learning to use this mass of data for competitive advantage and predictive analytics to gain a more forward looking view of market trends and risk.

SFTR is in this sense not limited to being a 'burden'/'must do' related to regulatory compliance but at the same time, an opportunity to move your firm forward and leverage efficient data handling.

Firms that view SFTR as an opportunity and take a strategic approach will minimise the costs and headaches of compliance and realise the efficiency gains increased data standardisation will bring.

EMIR has taught us that taking a wait and see approach is not a viable option. Now is the time to begin speaking with technology vendors such as Broadridge to define a blueprint for how your **SLT**

The price of scarce resources

All market participants desire a secure and well collateralised market, but there are real headwinds and issues that could increase market frictions. David Lewis of FIS explains

Beauty is said to be in the eye of the beholder, but in the world of securities finance and collateral, collateral acceptability is in the eye of the lender. Long gone are the days of the custodian-wide collateral schedule that all beneficial owners signed up to as a matter of course when they enrolled in a securities lending programme. Collateral requirements are increasingly bespoke and, particularly relevant in the data and benchmarking world, this had led to the adoption of the term 'peer group of one', symbolising how collateral specialisation can affect a programme.

Some of the regulations affecting the industry, and dominating every conversation and media article for that matter, also affect collateral requirements of lenders and are driving demand for certain asset classes and trade types for the borrowers. In addition, certain central banking policies can affect the supply of collateral in the market, both positively and negatively. In the maelstrom of forces affecting our industry at present, there are a number of related issues affecting how this part of the market is behaving. Concentrating on the G7 countries, as this is a typical refrain when beneficial owners seek a benchmark or standard definition of high-quality collateral, we can see changes occurring in the profile of this part of the market.

One of the significant causes of change in this area is the asset purchase programme being undertaken by the European Central Bank (ECB). In an effort to stimulate the European economy, the ECB has undertaken this policy of quantitative easing, purchasing government debt in order to put cash back into the economy. The relative success of this has been debated extensively elsewhere, but in terms of the securities finance market, it has had the effect of reducing the availability of desirable high-quality liquid assets (HQLA) available for borrowing. A limited securities lending programme, which makes a small amount of these bonds available back to the market, has had little effect.

Figure 1 shows the utilisation data (the proportion of assets available that have actually been borrowed) for the G7 countries over the last 15 months. Note Japan has been excluded for the purposes of this more Western economy focused analysis. The standout profile, and arguably with the most context given that the International Securities Lending

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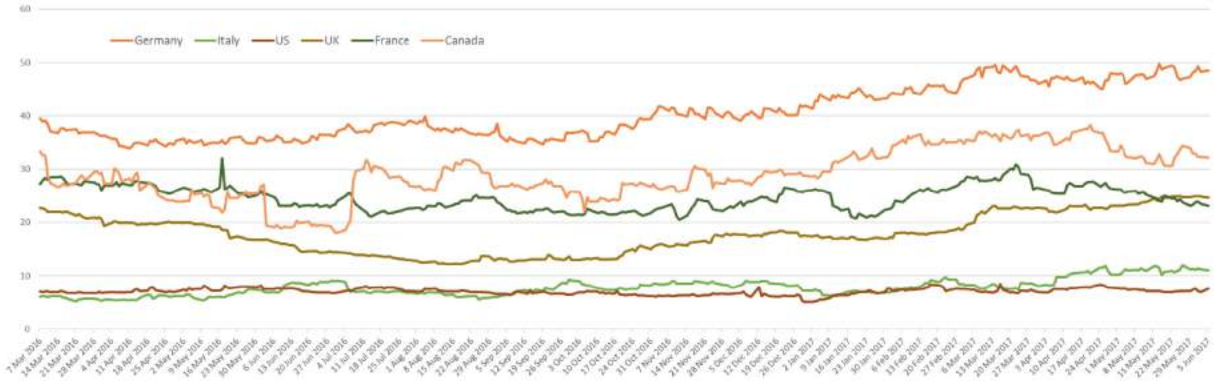
Figure 1: Government bond utilisation rates over last 15 months



Source: FIS Astec Analytics

Association's 26th Annual Conference is in Berlin this year, is Germany, the largest economy in Europe in terms of GDP. A year ago, utilisation levels were around one third, or 33 percent of the available supply. In February and May 2017, these levels were just a fraction below 50 percent, indicating a growth of 50 percent in utilisation terms in just 12 months. However, the actual balances, in value terms, increased by just over 10 percent over the same period, indicating that the majority of the increase in utilisation is as a result of a reduction in the supply side.

Last December, the ECB announced an extension to the asset purchase programme (APP), lasting until the end of 2017, but at a reduced monthly buying rate of €60 billion from April. It also extended the definition of eligible assets, partly, some would argue, as it was running out of bonds to buy under the previous criteria. Other members of this sample have also seen increases—Canada has ranged between lows of 18 percent and highs of 37 percent, while France has seen a minor reduction overall. The UK has seen utilisation rates rise from around 20 percent a year ago to between 24 and 25 percent in the last quarter, but with a fall in absolute values being borrowed, again suggesting a measurable contraction on the supply side.

Only the US appears to diverge from the trend, with utilisation remaining relatively static across the last 15 months, as absolute volumes borrowed have risen. This effect is not too surprising given the increase in non-cash collateral usage in the US markets increasing demand, combined with the additional supply we see being unlocked by beneficial owners that may have previously not been open to lending these assets, particularly under term structures.

With increased demand, according to simple supply and demand economics, comes increased prices. In broad terms, the securities finance market is relatively price inelastic below certain levels of utilisation. In other words, below the point at which a security becomes hard to find, the borrowers retain the pricing power and rates remain low. Looking at aggregated borrowing fees paid for German government bonds over the last 15 months, we see an increase of 74 percent, reflecting, among other pricing variables such as the type of collateral delivered by the borrower, the decreasing supply of such bonds in the market. Despite seeing a net reduction in utilisation, borrowing fees for French government bonds have risen some 59 percent over the last 15 months.

One of the main drivers behind the increased demand is, of course, the need for HQLA for capital adequacy and liquidity purposes under Basel III, highlighting one of the conflicts between regulations and central bank policies. Increasing demands driving borrowing costs upwards, while raising welcome revenues for the beneficial owners of such assets, potentially increases the costs of those looking to comply with capital adequacy rules. The easing of collateral requirements by lenders in other areas of the market, including the potential for equity collateral usage in the US may ease some of these pressures, but there are also other areas which could restrict availability further.

The forthcoming Securities Financing Transactions Regulation (SFTR) reporting requirements, designed to bring transparency to the securities finance markets, may also deter certain lenders from continued participation in the market due to the need to disclose their trading activity.

While the potential impact of this is yet to be determined, it is another issue that will have to be considered when forecasting market activity/liquidity going forward. A delay to the implementation of this regulation is being talked about, but is not confirmed. Any relief on that front may well be short lived as other jurisdictions around the world implement the Financial Stability Board's (FSB) transparency directive.

All market participants desire a secure and well collateralised market, but there are real headwinds and issues that could increase market frictions and, therefore, costs going forward, but a more coordinated approach between central bank policy and regulators could ease the transition while retaining a secure and orderly market. **SLT**

With increased demand, according to simple supply and demand economics, comes increased prices

David Lewis
Senior vice president, Astec Analytics
FIS

60 Seconds with Julien Bottemer

Julien Bottemer boasts a high profile and is ready to bring extensive industry experience from a catalogue of different market players to bear on a new role

What is your background?

I have always been interested in the financial markets, particularly equity finance because it is the perfect combination of trading skills and sales capabilities.

After many years working at Natixis, I decided in 2010 to give a new turn to my career by exploring different sides of securities finance. I was fortunate enough to continue to acquire skills as a broker, as part of the sales desk and as an adviser. I have now a real transversal view of the activity.

What industry qualifications or relevant certifications do you hold?

I have my AMF Certification (French licence), which allows me to work in any financial institutions.

What was your last position in the industry and what did you enjoy most about it?

My last position was in Paris at CM CIC where I was in charge of promoting securities finance activities to all the different entities of the group. It was a complex task but very interesting as I had to convince beneficial owners of all shapes and sizes about the usefulness of securities finance and the possible profits they could get out of the business. After spending so many years at Natixis, my role at CM CIC was a fresh challenge and very demanding in terms of approaching, educating and explaining this activity.

Where did you start out?

I started working at ABC Arbitrage where I learned the basics of stock borrowing to cover the in-house strategies of arbitrage. In 2000, I joined CDC Marchés to continue to develop the equity finance desk with Nicolas Hamar and Philippe Liget. I had a great opportunity to be an active member of this small and independent team in a structure where our manager, Olivier Serouille, let us develop and create all the tools we needed to transform a simple short covering operation dedicated to the arbitrage desk into a real actor in the securities finance world and later on, in the delta one business.

From the stock loan business, we added all of the products and activities an equity finance desk should be involved in: total return swaps, structured products for the funds of the group, collateral management and delta one products, among others. After that, I continued to acquire skills thanks to different experiences in brokerage houses, such as Aurel BGC and Key Capital Partners, and in a custodian bank (CM CIC Paris). I was recently involved in short-term consultation missions for two French beneficial owners.

Thanks to those different experiences, I acquired a real transversal view of the activity. I had the chance to see the whole transaction chain of securities finance from the end lender to the end user. I am looking for a position where I can use my vast knowledge as well as my stable and solid trust-based client and counterpart network. It could be applied in many different structures, such as beneficial owners, banks, prime brokers and hedge funds, as well as advisory companies or financial technology companies.

What do you feel you could bring to a future role?

My unusual profile means I can help many entities to see the pros and the cons of this business. I feel very confident working as a trader, sales or as a business adviser. I can identify the needs of and means required for any structure wishing to enter into this activity.

What do you feel the industry needs most?

The market has compressed a lot over the last few years and the way of creating profits has radically changed. I think the market is now mature enough to achieve what we expected for many years: a direct link between the end lenders and the end users. A new category of lenders should be able to start this activity as soon as they are well advised either by their agents, in-house specialists, or by external advisers. The new way of managing collateral is a real opportunity for many actors to be part of this business.

In addition to this new way of creating profits, new tools to trade, such as through a central counterparties or the emerging technologies of peer-to-peer lending and blockchain will simplify the activity and bring a revival to the securities finance world.

What is the best way to contact you?

The best way to contact me is via my LinkedIn profile or via my personal email address: jbottemer@gmail.com pirum

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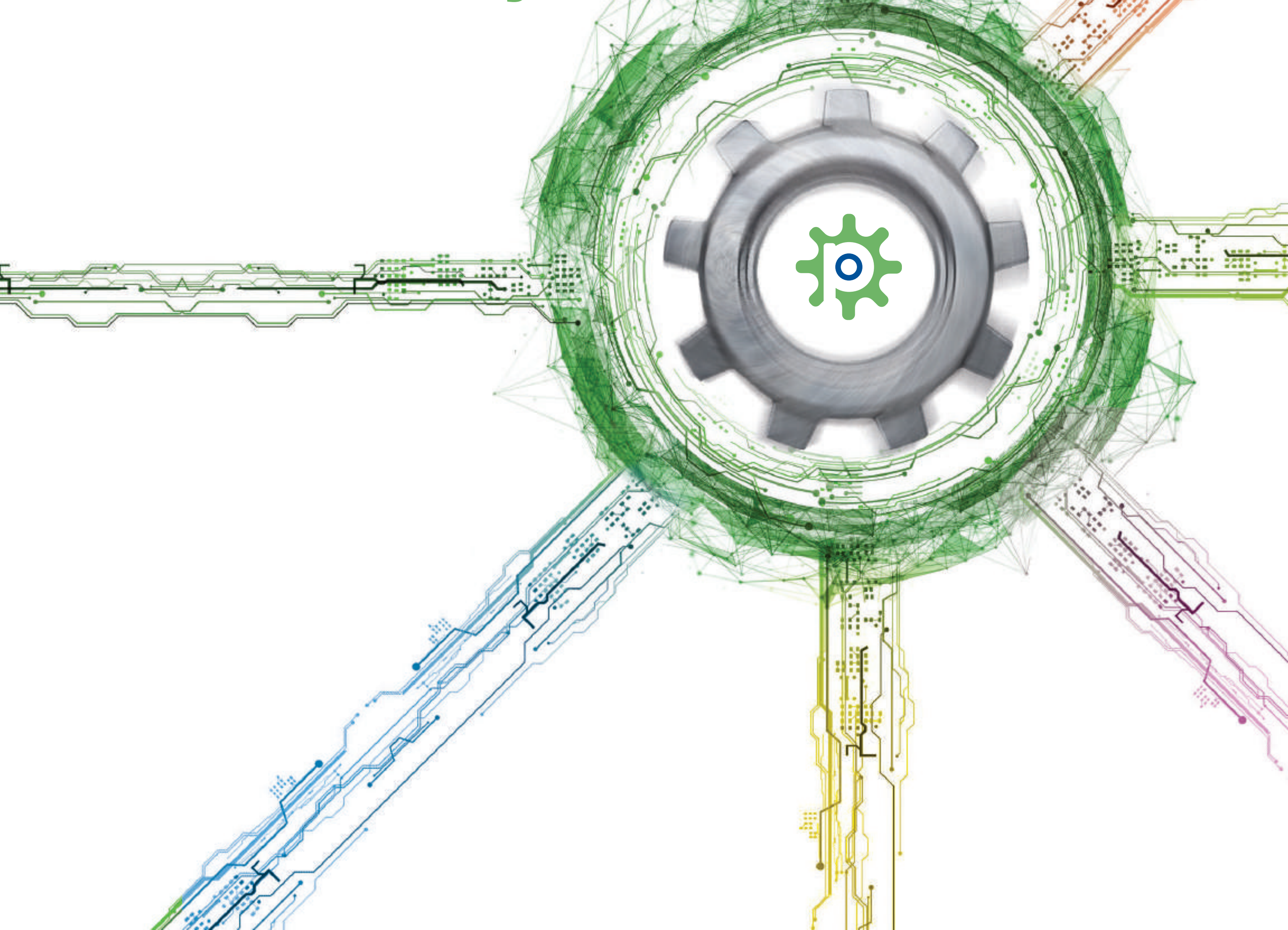

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Changes at DTCC, Nomura, BNY Mellon and the Frankfurt Stock Exchange

The Depository Trust & Clearing Corporation (DTCC) has made a series of internal organisational changes, with Christopher Childs taking on a new mandate.

DTCC will align its Global Trade Repository, Trade Information Warehouse and DTCC-Euroclear GlobalCollateral businesses under a single portfolio led by Childs, who is head of derivatives and collateral and CEO of Deriv/SERV.

He will report to Timothy Keady, managing director and head of DTCC Solutions. Mark Jennis, executive chairman of DTCC-Euroclear GlobalCollateral, will continue in his role and report to Childs.

Keady said: "Bringing our derivatives and collateral businesses together under the same umbrella will help accelerate integration efforts to create a more robust end-to-end processing solution for the industry."

"We believe there is tremendous potential to leverage these services more fully to address a wider range of operational challenges for the derivatives market."

Paula Arthus, who most recently served as head of Omgeo and data services, will take on a new assignment as chief of staff and head of corporate strategy in the office of the DTCC CEO.

DTCC has also appointed Matthew Stauffer as managing director and head of institutional trade processing.

Stauffer, who will take up the role on 30 June, will be responsible for integrating DTCC's middle-office trade processing solutions, including the Omgeo suite, Trade Support Services and the GMEI Utility, as well as leading new product development.

Nomura has promoted Matthew Ferreira to head of US equity finance trading.

Ferreira made the step up from vice president and equity finance trader following the appointment of Tom Rafferty from Citi in March.

The equity trading portion of Nomura in Europe, the Middle East and Africa was stripped back last year, affecting the equity finance team, but the bank has now renewed its interest in the business.

Ben Challice, the former head of global prime services at Nomura, left the bank last year to join Pirum Systems as COO.

Michelle Neal, CEO of BNY Mellon Markets, has been elevated to the bank's executive committee.

Having joined BNY Mellon Markets in Q4 2015, Neal has been credited with leading the team in the delivery of a suite of new solutions and services to help clients access capital, financing and liquidity.

BNY Mellon Markets products cover the likes of securities finance, collateral management and segregation, and prime brokerage services.

Gerald Hassell, CEO of BNY Mellon, said: "Michelle Neal's leadership experience and her expertise across the entire spectrum of BNY Mellon Markets's activities will be a valuable addition to our executive committee."

"BNY Mellon Markets continues to be a significant growth area for the company as our clients look to us for solutions to help them navigate the changing regulatory and market landscape."

Michael Rüdiger is set to become the new chair of the Frankfurt Stock Exchange.

Rüdiger is CEO of DekaBank Deutsche Girozentrale, and has been a member of the exchange council as representative of public law credit institutions since the previous election on 1 December 2016. He replaces Lars Hille, who will leave DZ BANK in October 2017 and therefore will terminate his membership in the exchange council after 10 years.

Matthias Zieschang, executive board member at Fraport, remains deputy chair. Carsten Kengeter, CEO of Deutsche Börse, said: "We are delighted that with Michael Rüdiger we once again have an excellent representative of the Frankfurt financial centre heading the council. We wish Rüdiger every success in the role."

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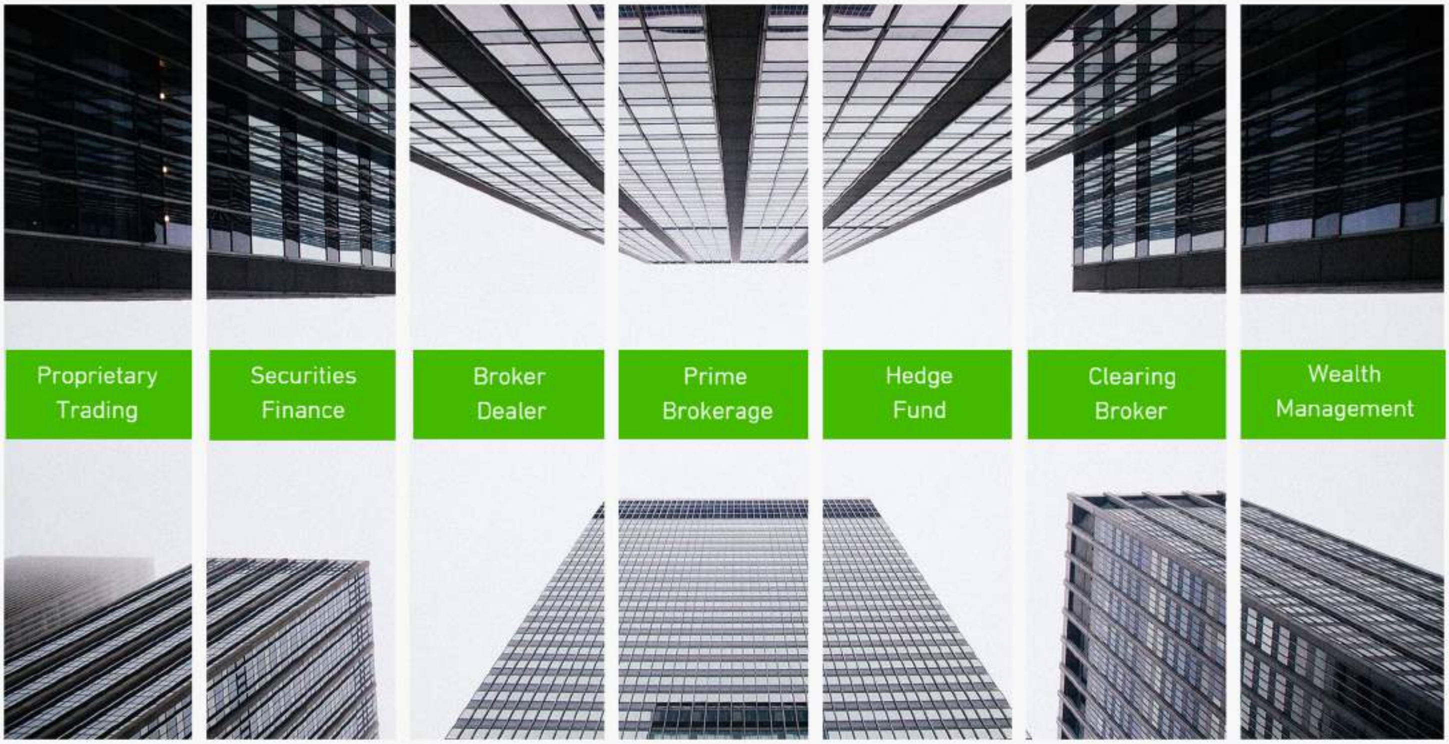

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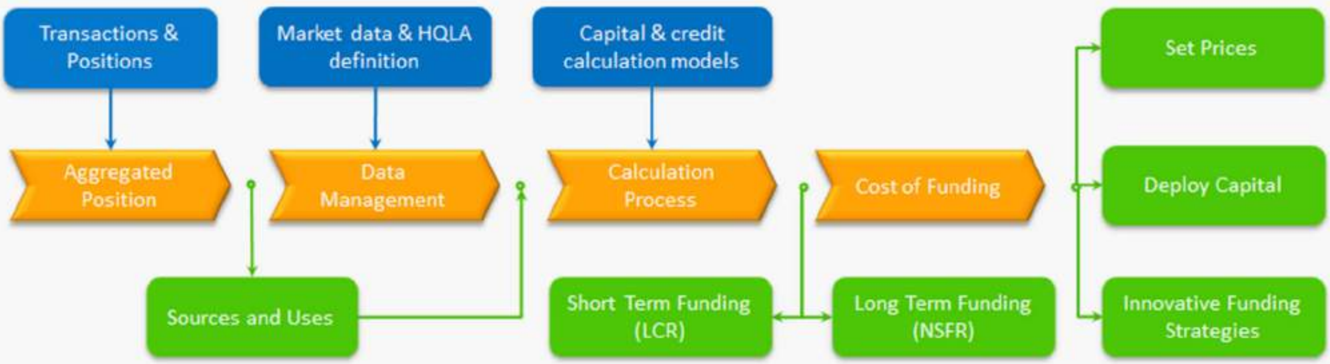

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