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ISSUE200 17 April 2018

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DTCC-Euroclear Global Collateral and NEX partner for margin call processes

NEX and DTCC-Euroclear Global Collateral (GlobalCollateral) have partnered in an effort to streamline and improve over-the-counter (OTC) derivatives margin call processes.

As a new member of the GlobalCollateral Partner Program, NEX is currently working to link its triResolve Margin web-based collateral management solution with GlobalCollateral's Margin Transit Utility (MTU) to provide a centralised view across margin call operations.

According to Nex, the connected service will also help users to meet regulatory compliance objectives around the margining of uncleared OTC derivatives transactions.

Through this partnership, mutual users will be able to manage the entire margin call process on the triResolve Margin platform with connectivity to both AcadiaSoft's MarginSphere and new MTU functionality.

The integrated service will allow triResolve Margin to automatically calculate margin requirements leveraging information from its reconciled trade.

Once the call is matched and the collateral to be moved has been agreed in MarginSphere, it will then be automatically sent to MTU for standing settlement instruction enrichment from DTCC ALERT.

MTU will then generate settlement instructions to the counterparty or custodian and receive real-time settlement updates back. MTU will communicate the settlement status back to triResolve Margin, completing the transaction.

Mark Jennis, executive chairman at GlobalCollateral, said: "Many of today's collateral management processes continue to be manual and siloed. As a result, greater levels of automation and straight-through processing (STP) are urgently needed if firms are to keep pace with regulatory requirements and fluctuations in margin call volumes."

He added: "We welcome the opportunity to partner with NEX to not only increase automation and STP, but to also offer an easier path to adoption via the pre-integration of our services."

Raf Pritchard, CEO of triResolve, commented: "Currently over 110 clients use triResolve Margin to manage their collateral management workflow. We look forward to partnering with the MTU settlement service and further streamlining the collateral management process for our clients."

Contents

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Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
+44 (0)203 750 6028

Acting Editor: Becky Butcher
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6019

Junior Reporter: Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0)203 750 6018

Junior Reporter: Maddie Saghir
maddiesaghir@blackknightmedialtd.com
+44 (0)203 750 6019

Contributors: Barney Dixon and Brian Bollen

Creative Director: Steven Lafferty
design@securitieslendingtimes.com
+44 (0)7843 811 240

Marketing/Sales Support: Paige Tapson
Tel: +44 (0) 203 750 6020
paigetapson@blackknightmedialtd.com

www.securitieslendingtimes.com

Twitter: @SLTimes_

Office fax: +44 (0)20 8711 5985
Published by Black Knight Media Ltd

ESMA: EU market for ETDs worth approximately €200 trillion

The EU market for exchange-traded derivatives (ETDs) is worth approximately €200 trillion, with an average daily turnover of €1.3 trillion, according to the European Securities and Markets Authority (ESMA).

ESMA released the results in its 2018 report on trends, risks and vulnerabilities (TRV), which analysed data received from European trading venues for the H2 2016.

According to ESMA, the data also showed high concentration both in terms of products and trading venue location.

Elsewhere, it indicated that interest rate derivatives represent more than 80 percent (€166 trillion) of total EU volumes, with the UK being the largest market followed by Germany.

The TRV also found that ETD products were more standardised than in the over-the-counter (OTC) market.

The ESMA study is a first analysis of the ETD market based on data used for the second Markets in Financial Instruments Directive (MiFID II) and the Markets in Financial Instruments Regulation (MiFIR) transitional transparency calculations.

Under MiFID II, ETDs cover asset classes such as equity, credit, interest rate and commodity derivatives.

ESMA has also stated that within five working days of the end of April, it shall publish the trading volumes and calculations regarding the double volume cap (DVC) under MiFID II and the MiFIR.

Industry associations advise on post-trade risk reduction services

The International Securities Lending Association (ISLA), The International Swaps and Derivatives Association (ISDA), the European Banking Federation (EBF) and the International Capital Market Association (ICMA) have published a joint whitepaper on the benefits of post-trade risk reduction services as a crucial risk management tool.

In the paper, ISDA, the EBF, ICMA and ISLA recommend that European Market Infrastructure Regulation (EMIR) be amended as part of the Regulatory Fitness and Performance Program, to exempt transactions resulting from post-trade risk reduction services from the clearing obligation.

It said an alternative of this could be to empower the European Securities and Markets Authority (ESMA) to be able to exempt such transactions. In the white paper, associations gave recommendations on conditions for satisfying any exemption.

The associations stated that post-trade risk reduction services should be market risk neutral, in that they are designed to not change the directional market risk of the portfolios concerned, but rather reduce counterparty, operational and systemic risk in respect of existing derivatives transactions.

The white paper also said that the risk reduction services should be non-price forming. It said: "While they may involve a new legal transaction (rather than a trading transaction) in order to achieve the identified risk reduction result, participants are not able to post bids or offers, no price negotiation takes place and market risk neutrality means transactions are recorded away from market prices on stale curves."

The associations also commented that risk reduction services should address second order portfolio risks.

It stated: "They do not offer a vehicle for taking market positions or enter into trading transactions. Their purpose is the reduction of operational, counterparty and systemic risk."

Another recommendation was that, in terms of single multilateral compound transactions, the risk reduction cycles are binding on an all or nothing basis across all cycle participants.

ISLA said: "Post-trade risk reduction services like compression and counterparty rebalancing play an increasingly important role in reducing risks in derivatives markets."

It added: "Compression, for example, results in offsetting trades between multiple parties being torn up, which reduces the size of gross derivatives exposures, in turn reducing systemic risk."

ISLA CEO: SFTR at a very pivotal point

The Securities Financing Transactions Regulation (SFTR) is at "a very pivotal point", according to Andy Dyson, CEO of the International Securities Lending Association (ISLA).

In a video message, Dyson said: "We are currently waiting for the [European] Commission to start the formal adoption of the technical standards that were published by the European Securities and Markets Authority (ESMA) in March 2017."

"However, in the meantime, we as an industry association, together with many of our member firms, have been very active looking at the data specifications for SFTR and also working closely with a number of vendors and member firms around things like unique transaction identifier (UTI) generation", he added.

He also stated that a "concerted and consistent approach" was needed in dealing with data and certain attributes around the process associated with SFTR, as, he said, "this will make the implementation much smoother for ISLA members and the broader market".

He further commented that ISLA would be devoting "quite a lot of [its] time to the subject at [its] forthcoming conference in June this year".

Dyson said the main focus areas of the conference, which will take place in Lisbon, will be "connectivity, data aggregation and matching services, as well as the roles of the trade repositories in the overall trade flow".

He concluded: "As we think about where we might go with this in the next six to 12 months, we believe that it is all about working together, and being prepared as we begin to see what the final technical standards look like, which we hope will be published in the next one to two months."

These risk-mitigating benefits are recognised in the EU under the revised Markets in Financial Instruments Directive as well as the second Markets in Financial Instruments Directive and regulation, which exempt post-trade risk reduction administrative transactions from the trading obligation.

However, the associations also noted that there is "currently no exemption from the clearing obligation in the EU for these transactions".

All associated agreed that "failure to recognise these strictly non-trading and market risk neutral administrative transactions within EMIR's regulatory framework limits systemic risk reduction in derivatives markets".

Roger Cogan, head of European public policy at ISDA, said: "Post-trade risk reduction has become an essential risk-management tool for the derivatives market, resulting in hundreds of trillions of euros in derivatives risks being removed."

Mark Hutchings, COO at ISLA, commented: "Collateral in the form of margin is an essential risk management tool, but rather than over rely on this mechanism, it makes sense to better facilitate post-trade risk reduction and so reduce aggregate exposure levels."

He added: "Recognising the risk reduction benefits of compression—for example, reducing counterparty risk and therefore systemic risk—is critical when considering amendments to EMIR."

"For securities lending, post-trade risk reduction like compression will bring with it efficiencies such as less collateral being called, which will ultimately improve collateral liquidity and reduce collateral costs."

The Hong Kong SFC publishes consultation proposals

The Hong Kong Securities and Futures Commission (SFC) has launched a three-month consultation on proposed amendments to the code on unit trusts and mutual funds (UT Code).

According to SFC, the proposals, which discuss rules surrounding securities lending, seek to modernise the current requirements under the UT Code for public funds, in order to facilitate market development and enhance investor protection.

The existing provision of Chapter 7 of the UT Code (Core Investment Requirements) do not specifically cover securities lending, or repo and reverse repo transactions, however, the SFC has proposed to introduce provisions to govern securities financing transactions, which it said would provide greater flexibility for funds to invest in derivatives.

The SFC explained that funds may only engage in securities financing transactions if it is in the best interests of holders to do so and if the associated risks have been properly addressed.

The Federal Reserve Bank of New York begins publishing three reference rates

The Federal Reserve Bank of New York has started the publication of three reference rates based on overnight repurchase agreement (repo) transactions collateralised by Treasury securities.

In cooperation with the US Office of Financial Research (OFR), the three repo rates include the Secured Overnight Financing Rate (SOFR), the Broad General Collateral Rate (BGCR) and the Tri-Party General Collateral Rate (TGCR).

The Federal Reserve Bank of New York said the SOFR was identified by the Alternative Reference Rates Committee in June last year as its recommended alternative to US dollar London Interbank Offered Rate (Libor) for use in certain new US dollar derivatives and other financial contracts.

It expects the rates to be published each day at approximately 08:00 Eastern Time, in addition to statistics summarising the distribution of volumes each day.

These include the total dollar amount of transactions used to calculate each rate, rounded to the nearest billion, and the volume-weighted one, 25, 75, and 99 percentiles, according to the Federal Reserve Bank of New York.

This latest move follows the publication of a notice (request for information) and request for public comment on the proposal published on 30 August 2017.

The SFC's proposals would introduce explicit provisions in Chapter 7 to permit management companies to engage in securities financing transactions provided that the fund obtains indemnification from the securities lending agent to protect against counterparty default.

Where a fund investing in derivatives exceeds 50 percent exposure, the fund will be governed by and subject to additional requirements under Chapter 8.9.

Such funds will likely be considered as 'derivative products', which are subject to enhanced distribution requirements under the code of conduct for persons licensed or registered with the SFC's code of conduct.

Counterparties in over-the-counter (OTC) derivatives transactions must be substantial financial institutions, whose net exposure complies with the diversification requirements.

SFC stated that if collateral is provided by a OTC derivatives counterparty, the collateral must be subject to a prudent haircut policy and eligible collateral may not include structured products whose payouts rely on embedded derivatives or synthetic instruments.

It also ruled that this also applies to securities issued by special purpose vehicles, special investment vehicles or similar entities, securitised products or unlisted collective investment schemes.

In addition, the fund's collateral reinvestment policy must prohibit non-cash collateral reinvestment, and limit the reinvestment of cash collateral to short-term deposits, high-quality money market instruments and acceptable regulated money market funds.

The SFC considered whether it would be feasible to require full portfolio transparency for active exchange-traded funds (ETFs), but has chosen not to adopt a full portfolio transparency regime for active ETFs.

It's reasoning was requiring public disclosure on a daily basis might hinder the growth of active ETFs.

The SFC also said the amount of cash received under a repo transaction is limited to 10 percent of a money market fund's (MMF) NAV and the aggregate amount of cash provided to the same counterparty in reverse repo transactions may not exceed 15 percent of an MMF's NAV.

UCITS funds will be required to disclose in the product key facts statements the purposes of, and expected maximum leverage arising from, derivatives investments.

Where a UCITS fund has more than 100 percent of its NAV in derivatives investments, it will be subject to a further minimum initial subscription of $50,000.

SFC concluded: "Fund managers should carefully consider the wide-ranging proposed amendments and be mindful of any relevant future developments. A substantial amount of work and time may be required to update relevant policies and procedures to comply with these amendments."

"These proposals are intended to create new opportunities and foster financial innovation in the market, and to align the regulatory regime with international standards, [as well as] reflecting market developments and financial innovation, while establishing appropriate safeguards consistent with international standards and practices."

ICE agrees to acquire CHX

Intercontinental Exchange (ICE) has entered into an agreement to acquire the Chicago Stock Exchange (CHX).

ICE will acquire CHX's trading, data and corporate listings services.

The transaction is expected to close in Q2 2018, subject to regulatory approvals.

Subject to the Securities and Exchange Commission's approval, CHX will continue to operate as a registered national securities exchange and will, according to ICE, benefit from the planned deployment of the New York Stock Exchange's platform Pillar.

NYSE Pillar is a trading technology platform used in ICE's Chicago data centre. It will also provide additional functionality for the institutional equity brokerage community in Chicago.

IOSCO issues recommendations to improve regulatory reporting

The board of the International Organization of Securities Commissions (IOSCO) has published its recommendations for improving the information on secondary corporate bond markets available to both regulators and the public.

According to the report, the recommendations seek to ensure that regulators have better access to information so they can perform their functions more effectively, as well as enhancing cross-border information sharing and understanding.

The transparency recommendations aim to support the price discovery process and facilitate better-informed investment choices.

The report, released on 5 April, included seven recommendations that emphasise the importance of ensuring the availability of information to regulators.

It suggested that regulatory authorities should ensure that they have access to sufficient information to perform their regulatory functions effectively. It also explained that regulatory authorities should have clearer regulatory reporting and transparency frameworks to facilitate better cross-border understanding of corporate bond markets.

Another recommendation suggested that regulatory authorities should consider steps to enhance pre-trade transparency in corporate bond markets and implement regimes that require post-trade transparency. IOSCO noted that the report is part of ongoing work aimed at improving the functioning of global corporate bond markets.

IOSCO said: "Corporate bond markets are an important part of the global capital markets and a critical source of financing for companies and, consequently, for economic growth and jobs."

"Since 2004, corporate bond markets have been affected by changes in regulation as well as in market structure, the entrance of new participants, a shift from the traditional dealer-based principal model to an agency-based model, and the increasing use of technology."

Prior to the publication of this report, IOSCO examined the liquidity of secondary bond markets and published its initial findings in March last year. According to IOSCO, it is also conducting work to examine how liquidity in corporate bond markets might be affected under stressed conditions.

FCA study is a 'positive step'

The Financial Conduct Authority (FCA) Asset Management Market Study Final Report


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brings "greater clarity and priority to the The Packaged Retail and Insurance-based Investment Products (PRIIPs) and the second Markets in Financial Instruments Directive (MiFID II) implementation work carried out by asset managers", according to Alexander Dorfmann, director of product management on the financial data side of SIX.

Dorfmann suggested that the publishing of firm policy direction is "a positive step".

Dorfman added that the study reinforced "the importance of adopting flexible compliance systems that can be adjusted in response to any recommended changes and clarifications".

The FCA launched its market study into asset management in November 2015.

It said: "We looked at the asset management sector because we want to ensure that the market works well and the investment products consumers use offer value for money."

It added: "Improvements in value for money could have a significant impact on pension and saving pots. We find weak price competition in a number of areas of the asset management industry."

It found that performance wise, there was no clear relationship between charges and the gross performance of retail active funds in the UK, in particular.

It also stated: "We found some evidence of persistent poor performance of funds. However, we also noted that worse performing funds were more likely to be closed or merged into better performing funds."

The authority explained that it had "concerns about how asset managers communicate their objectives and investors" awareness and focus on charges, which it said was "mixed and often poor".

The report also found that pension trustees find it difficult to scrutinise the performance of their fiduciary manager because there is very little public reporting and scrutiny of fiduciary management fees and performance, making it difficult for investors to assess the performance of fiduciary managers and compare them, both at the point of sale and on an ongoing basis.

The FCA reported that, alongside the release of the asset management report had released another interim report to make a market investigation reference to the Capital Market Authority in relation to the provision of investment consultancy services.

Dorfman said that this awareness from the FCA could only help the industry especially in terms of regulation.

He concluded: "Asset managers that embrace a more strategic approach to investor protection and align their compliance efforts will be best placed to react not only to the FCA's suggestions, but to any future recommendations made from other local regulators across Europe."

EU AIF industry is highly concentrated around a few large participants

The EU alternative investment fund (AIF) industry is highly concentrated around a few large participants and asset classes, according to the European Securities and Markets Authority (ESMA).

ESMA, which released its latest trends, risks and vulnerabilities (TRV) report on 4 April, also found that the vast majority of European AIFs are managed cross-border using passporting rights.

The Alternative Investment Fund Directive (AIFMD) data showed that 2 percent of the EU AIF funds are above €1 billion in size, holding around 46 percent of the industry's total net asset value (NAV).

ESMA reported that around 95 percent of EU AIFs hold below €500 million (40 percent of total NAV).

Two-thirds of the total assets managed by EU AIFMs are divided among fixed income funds, equity funds, infrastructure funds, commodity funds and other funds.

ESMA reported that fixed income AIFs hold the largest share in terms of NAV. The AIFMD data also found that repurchase agreements serve as AIFs' primary borrowing source, while unsecured borrowing plays only a minor part.

In addition, EU hedge funds mainly rely on short-term funding liquidity, with the majority of their borrowings, not committed beyond one day.

The reporting obligations introduced by the AIFMD for AIFs and their managers (AIFMs) allow national competent authorities to oversee whether AIFMs are properly addressing micro-prudential risks, and to assess the potential systemic consequences of the individual or collective AIFM activities.

ESMA stated that by providing a first analysis of the structure and main risks stemming from the AIF market, the authority's article helps to build an operational framework for monitoring risks in the AIFM sector.

OneChicago sees decrease in trading

OneChicago, the securities finance exchange, cleared 696,700 transactions for March 2018, a decrease of 53 percent year-over-year.

The downturn differs slightly from last month, when the exchange cleared 778,554 transactions for February 2018, a decrease of nine percent year-over-year.

In January, OneChicago cleared 889,659 transactions for the month, an increase of 14 percent year-over-year. However, for December last year, OneChicago saw a decrease in transactions, with a 25 percent drop off in trading volumes.

First class

David Raccat and Rudy Perez of Wematch.SecuritiesFinancing discuss the company's new Delta One platform

What are the key features of the new Delta One platform?

David Raccat: The Delta One platform is coming out with five main products, which are cash close, futures (on single stocks and on index), dividend futures, synthetic products and total return swaps on futures. This new platform will be released in May 2018.

How will this benefit Wematch clients?

Rudy Perez: The benefits for the users will be similar to what we currently offer on securities financing and equity derivatives, which is full automation, connectivity, price transparency and discovery, and of course optimal matching engine. Delta one products will make the perfect bridge between securities financing and equity derivatives. The two communities of users (already onboarded on our two existing platforms) will be able to navigate between the three new ecosystems and to optimise their matching process.

Raccat: The core community active on the Delta One platform will be of course the delta one community, but we expect participation and contributions from existing Wematch communities.

Perez: The good news is that because we now have 39 legal entities onboarded on our current existing and up-and-running Wematch platforms, we can leverage on this success to onboard our future Delta One users. The new version of the platform will be cross products, which means that the users would be able to jump from one environment to another one. It will be extremely user-friendly.

What have been the hurdles in launching this product?

Perez: The major difference is that our first batch of delta one products are all listed, which adds a layer of connectivity with exchanges compared to existing over-the-counter (OTC) products. At launch we have established connectivity with Eurex and we will expand to other exchanges as per our client's requests and needs.

What are some of the advantages of delta one products?

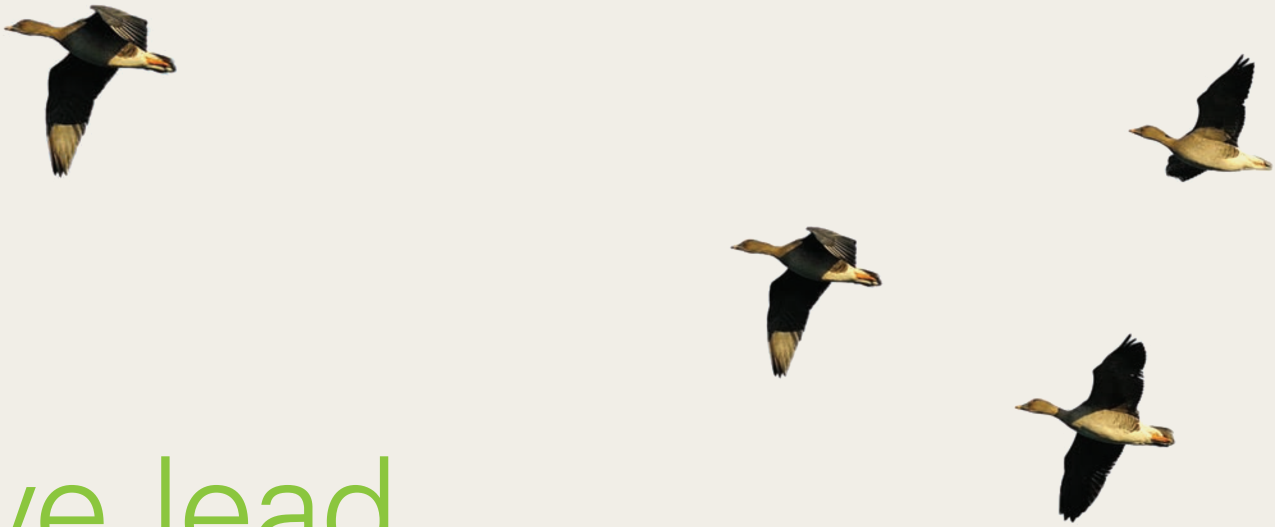
Raccat: Delta one products are bringing an important milestone in our development roadmap: connectivity to exchanges and central counterparties (CCPs). With Eurex, we will offer connectivity and ability to trade listed products. This completes the scope of current products which are all OTC and opens the door to further developments with CCPs.

What growth plans do you have across the next year?

Perez: We are rolling out our current main strategy, which is to develop new products and new platforms according to the needs of the market and of our clients. Regulation is pushing for more price discovery, more transparency, more reporting, and the expertise we have developed on existing platforms helps us to roll out new products pretty quickly.

In addition, our team is always very open to suggestions and feedback from our users to discuss areas where the Wematch technology can bring added value to their existing trading processes. The other dimension is geographical. We are currently covering users in Europe and in Asia. The final step will be to set up a team in the US, which will be live before the end of the year.

Raccat: Connectivity is the cornerstone of our strategy. We are continuously increasing connectivity with our current users in order for them to get the most out of Wematch: simpler, more efficient and more automated processes. **SLT**



The sky's the limit

Leading industry experts discuss how automation is primed to affect the securities finance market

Brian Bollen reports

For some, automation is a must-have in order to deliver further quantitative and qualitative development.

The reasoning is based on the fact that the large bulk (an estimated 75 to 80 percent) of volume today comes from low revenue general collateral.

Further improvements in the automation of that will free humans to concentrate on maximising the opportunities by collateral that is already special or might become special, if a way can be found. The subsequent automation of that activity in due course would make the sky the limit. In this scenario, profit, whether through increased revenue, reduction of costs, or a combination of both, is the driving force.

For other market participants, risk mitigation is the primary objective. The automation that might be delivered by the pursuit of risk mitigation is a welcome by-product, but very much the icing on the cake.

Simon Heath, head of agency trading of Europe, the Middle East and Africa at State Street Global Markets, identifies three key strands in the automation of securities lending. Firstly, the evolution of trading platforms themselves, which have helped cause an explosion in data and the ability to process that data over the past five to seven years, as trade, cash and other flows have grown. He explains: "Computing power helps us swim in the resultant data lakes."

Secondly, the aggregation of data improves human decision-making because it allows them to focus on the more value-add aspects of their business as well as offering insights that weren't possible without computing power.

Finally, he suggests that improved connectivity with counterparties, such as broker-dealers, beneficial owners and clients with help with automation in the industry. In addition, he notes that a higher processing speed, will only increase, leading in turn to reductions in the number of manual interventions required, he argues.

For Philippe Seyll, co-CEO of Clearstream Banking, automation is not, by contrast, the major issue, his primary concern is, rather, risk mitigation. Seyll explains: "We are working on a solution in that area."

"The idea behind this is a system that builds on our existing central counterparty (CCP) solution with Eurex Clearing. By leveraging Deutsche Börse's clearing house, we can automate securities lending and eliminate counterparty risk."

He continues: "Most securities lending is done via an agent lender, but straight lending entails greater risk and higher balance sheet constraints than if you use risk management solutions."

"If Eurex Clearing stands in the middle, lenders lend to the clearing house and borrowers borrow from it—this helps mitigate the risk. I'd expect that the industry will move further into this direction. Automation is part of this development, rather than a goal in itself," he adds.

According to Seyll, his ideal world would feature a central global organisation gathering assets in a single location. But today's reality is that pockets of assets are scattered around the globe and borrowers have no option but to borrow pocket by pocket. The ambitions for HQLAX represent a step in what he sees as the right direction.

Deutsche Börse Group recently announced that it has signed a letter of intent to form a strategic partnership for the creation of an innovative securities lending solution using the R3 Corda blockchain platform. In a traditional settlement of a securities lending transaction, underlying securities are transferred between custody accounts.

In the HQLAX operating model, legal title transfer of baskets of securities will be achieved by the transfer of ownership of HQLAX digital collateral records (DCRs) while the underlying securities remain static within unique DCR-linked custody accounts.

The use of DCRs to effect transfers of securities will enhance regulatory transparency, mitigate systemic risk, reduce operational risk, and help financial institutions mobilise collateral and manage capital more efficiently.

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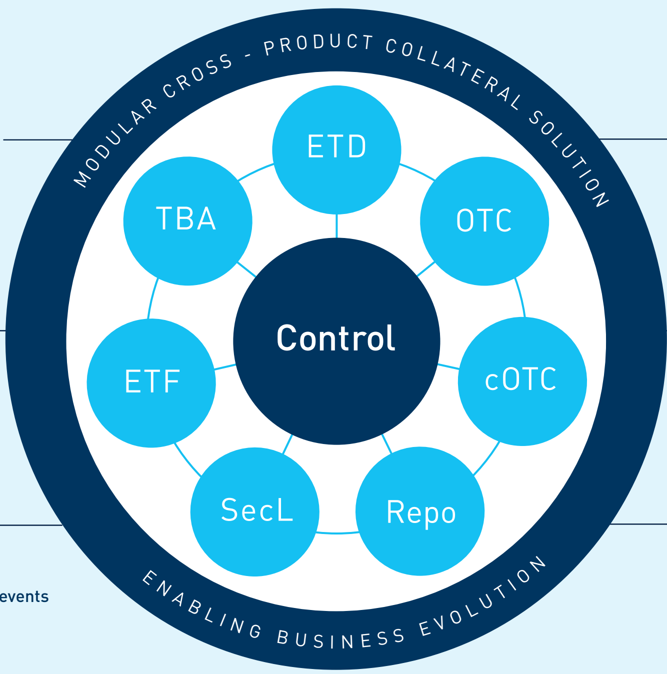

Connectivity
- CCP5 (Message Automation)
- MarginSphere
- Settlements/Payments

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- Regulatory compliance
- Intuitive dashboards
- Process automation

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Saheed Awan, an independent consultant on capital market infrastructures and chairman of Treasury Spring, a treasury investing and funding specialist, notes that whilst an end-to-end integrated trading, clearing and settlement system is the ultimate in securities lending automation, the key to realising this has less to do with technology or automation.

He says: "The key will be to get key intermediaries in the current over-the-counter (OTC) stock loan market to collectively participate through persuasion, incentives or perhaps finally through regulatory sanction. Without their wholesome participation the new breed of peer-to-peer securities finance platforms will keep on burning cash for their backers."

Dow Veeranarong, global head of product of EquiLend, highlights the continuing importance of automation. "In an increasingly competitive market with thinning spreads, market participants are turning to automation to optimise and thrive in their securities finance businesses," she says.

But the question of resource allocation remains a perennial issue. She says: "Upgrading technology requires investment in resources and time in order to change behaviours, update internal processes and implement full front-to-back automation."

"Sometimes this takes a back seat to, for instance, technology upgrades necessary to comply with regulations such as Securities Financing Transactions Regulation (SFTR) and the second Markets in Financial Instruments Directive II (MiFID II)."

"Firms generally do not have excess development resources, so they will address first the most urgent priorities (such as regulation) over what may be important (but less urgent) projects such as automation."

However, she adds that automation is the most efficient way for firms to maximise their resources. "We are seeing the direct impact of this with the record-breaking trade volumes we are seeing on our Next Generation Trading platform (NGT) this year."

There is no question that the likes of EquiLend have made a difference in automating previously labour-intensive processes, according to Will Gow, director, agency lending and collateral management at Societe Generale Prime Services.

But more work remains to be done. In the pre-trade area, he identifies the automation of know-your-client (KYC) efforts and the simplification and standardisation of legal documentation as a way to improve onboarding for clients.

Where there remains work to be done, there remain commercial opportunities. Asset managers still have much to do in terms of reporting and managing reporting for regulatory purposes. Gow states: "There is a role for banks to play in providing that service." **SLT**

What improvements would you like to see?

Simon Heath:

- In brief, automation, innovation and transformation. In longer form, one, there is a war on talent in the securities lending industry. We are all looking for motivated, highly numerate and technologically adept people. I'd like to ensure that as an industry we continue to hire the best people we can, and open to fact that this talent may come from sectors other than banking

- Making sure that we foster those people through the industry and through their career, and spending on technology for where we will be in the next three to five years

- I'd like to see the continued development of trading desks into sales-traders. As the lines blur between sales, trading and relationship management functions, this allows us to really focus on the client experience. If we do one and two, three will naturally follow.

Will Gow:

- Improvements in client onboarding through the automation of KYC and legal documentation
- Collateral optimisation, paving the way for artificial intelligence, algo-driven trading
- The breaking down of siloes at banks between equity and fixed income inventories

Philippe Seyll:

- Increased usage of central counterparties. If I were the CEO of a borrower or a lender, I'd definitely look to use a CCP in order to get a single streamlined process

- Usage of financial technology, especially blockchain solutions. We've all heard over and over again about 'proofs of concept' for blockchain-related services. But indeed, blockchain offers some elements that I'd really like to see in securities lending. One of them is the immutability of the blockchain: once a chain has recorded an event, no one can alter the chain or delete it

- Success for HQLAX; there is currently very little connection between the myriad pockets of assets held globally. Custodians are not interlinked but work in siloes. Our solution aims to solve this conundrum: assets remain where they are but are available to lend via tokenisation. The first transaction has already been completed.

Nordic me, Nordic you

Nordic securities lending saw a mixed bag of trends last year. Equity lending and regulations, such as the Securities Financing Transactions Regulation, proved challenging, and questions remain on what Brexit will mean for the Nordics

Jenna Lomax reports

Securities lending super troupers

Last year saw a curve in the road for securities lending in the Nordics region. Certain areas, such as equity lending, and regulations including Securities Financing Transactions Regulation (SFTR), proved a challenge, however, Lago's Kapital, for one, saw some improvement in overall liquidity.

Meanwhile, Saxo Bank reported a net profit of DKK 401 million (€53.8 million) for 2017, an increase of 33 per cent compared to 2016. Client collateral deposits increased to DKK 103.6 billion (€13.9 billion), while the operating income for the group was DKK 3 billion (€402.8 million), a 3 percent increase compared to 2016.

The results come after Saxo Bank announced the sale of its subsidiary Saxo Privatbank to Danish financial services group, Alm. Brand Bank in January, arguably a very good start to the year for them.

Elsewhere, the share of government bonds within the pool of EU-originated fixed-income collateral reported in a recent European Repo and Collateral Council (ERCC) survey saw it fallback, citing rapid growth in non-government securities issued in Denmark and Sweden as one of the main reasons.

In the technology sphere, the Copenhagen-based SimCorp introduced new modules and enhancements to its investment management tool, know as SimCorp Dimension.

The new feature, enables portfolio managers to block positions from the collateral pledging process.

However, Euroclear Finland announced that it had postponed its Infinity Release 2, which would have prepared it for access to TARGET2-Securities (T2S).

The securities lending market, in terms of Nordics demand, as in many other world markets, comes from local bank's brokers, investment companies and asset managers, as well as the international market dominated by the larger investment banks, custodians and prime brokers.

In terms of securities lending, on the world's stage, Sweden stands in front of the other Nordic countries. When it comes to lending volume, Finnish investors have a more active engagement in markets such as Russia, Turkey and Poland, while it's Asia presence also became more active last year.

But where equities lending is concerned, Danish equities were, according to SEB Markets, worth around $50 billion in lending programmes last year, with utilisation in the equity market showing a healthy supply. This was because through 2016 and 2017, the Danish economy grew by around 1.3 percent.

Fiona Mitchell, head of Nordic relationship management at Northern Trust, says there has been some volatility.

She says: "Increased equity market volatility has certainly played into the hands of some parts of the hedge fund sector. Quantitative strategy hedge funds, which deploy algorithmic based trading models, are characteristically more active in periods of increased equity volatility and this has in-turn helped support slightly higher loan volumes across both the Nordics, and beyond, in 2018."

"While a number of the historical drivers of demand across the region are changing, from a macro-economic standpoint we still see robust short interest in the region. Long-term directional interest across both the financial services and biotechnology sector continue to support good revenue returns."

Historically the smallest of the local equities markets, Denmark has grown in size, particularly on the back of its pharmaceutical industry, to become home to the largest company by market capitalisation in the Nordics, Novo Nordisk, which in 2017, made up about 29.4 percent of the KFX 20.

Elsewhere, it wouldn't be audacious to say that liquidity has improved in the Nordics, especially in Finland, thanks largely to the introduction of fund companies and institutional investment companies in to the market in the last two to three years.

Regulation SOS

Many Nordic clients regard the lending of core European bonds as part of good corporate citizenship as it provides liquidity to the market, even amidst regulatory sensitive periods concerning SFTR and the second Markets in Financial Instruments Directive (MiFID II).

Although where MiFID II is concerned there is a transaction reporting element, "though securities lending transactions are not in scope as they will be captured by SFTR", according to Mitchell.

Andy Dyson, CEO of the International Securities Lending Association (ISLA) recently released a video message on to the association's website stating "SFTR is at a very pivotal point".

He adds: "We are currently waiting for the [European] Commission to start the formal adoption of the technical standards that were published by the European Securities and Markets Authority (ESMA) in March 2017". European entities in Stockholm and Copenhagen in particular will be waiting for these technical standards too.

On and on and on

Beneficial owners holding core European bonds and high-quality liquid assets continued to experience healthy returns in 2017. But is this set to continue in 2018?

Last year, Christopher Kandimaa from Danske Bank, suggested that overall the positive trends will continue into 2018.

Moving further into 2018, and the revolution of technology and blockchain cannot be denied. One of the world's largest Nordic banks, SEB, joined forces with Nasdaq to test and further develop a prototype mutual fund trading platform based on blockchain technology, and that's just one example.

According to a panelist at this year's 2018 Association of the Luxembourg Fund Industry's (ALFI) European Asset Management Conference in Luxembourg, the European financial services industry is still in the "foothills of trade technology", with big changes coming in a few years time, but what will that industry look like when Brexit is implemented?

Brexit: When all is said and done

The UK is expected to leave the EU in March 2019, notwithstanding, any transitional agreements.

The decision of the UK to leave not only the EU but, as stated by the UK Government, also the single market, has led to a situation in which there is the potential for a significant shift of entities and activities from the UK to the EU27, according to the ESMA chair Steven Maijoor.

An ESMA representative at this year's European Asset Management Conference in Luxembourg also stated that they are "prepared for the UK to become a third party".

Although Norway is not a member state of the EU, it is closely associated with the union through its membership in the European Economic Area (EEA). Could this be the UKs future, or could London's status as a financial hub, be partly given over to Stockholm, or Copenhagen?

At Sibos 2017, an audience poll predicted that Frankfurt could be set to displace London as a global financial centre after Brexit. But what are Stockholm's chances?

In late 2017, NEX Regulatory Reporting received approval from ESMA to become a trade repository under the European Market Infrastructure Regulation (EMIR), but the trade repository will be based in Stockholm, preparing NEX for its trade operations post-Brexit. Will we see any other firms move all or a portion of their services to the Scandinavian financial capital?

Bo Thulin, head of the Nordics for Northern Trust, says: "The extent to which entities are choosing to domicile part of all their business in the Nordics is unclear; but we could begin to see broader shifts in terms of mutual fund locations, talent relocation and differing member states becoming more able to influence the content of financial regulation, all of which are potential disruptors."

However, Christopher Kandimaa, head of equity finance at Danske Bank, argues it may be too early to tell.

He explains: "It's not likely to be seen until after 2019 or when the final deal is presented, but impact is expected to be limited at this point in time." **SLT**

Nordics Statistics (Samuel Pierson, IHS Markit)

- Nordic equity delivered Q1 2018 revenue of $60 million, up 12 percent as compared with Q1 2017
- Lendable balances continued uptrend, increasing 37 percent in Q1 2018 vs Q1 2017
- On loan balances increase to $23 billion, a 32 percent as compared with Q1 2017
- Swedish equities led demand increase, with balances up $3.3 billion
- Lendable growth outpaced borrow demand leading to a 9 percent decline in utilisation
- Key revenue driving stocks include Stockmann Oyg, Frontline, H&M, and Pandora

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Investors retreat from US equity ETFs

With global equity markets selling off under threats of a trade war, Samuel Pierson of IHS Markit suggests it's no surprise that investors have started to reduce exposure to US equity-focused exchange-traded funds

- Q1 2018 first quarterly outflow since Q1 2016
- Tech Q1 ETF inflow reversing course in April
- Short sellers add to large cap tech shorts in Facebook and Oracle
- NFLX bond shorts benefit while equity shorts retreat

With global equity markets selling off under threats of a trade war—combined with newly exposed risks in the technology sector—it's no surprise that investors have started to reduce exposure to US equity-focused exchange-traded funds (ETFs). In Q1 2018, we saw the first quarterly outflows from this asset class since 2016, though the net outflow of $151 million is not significant compared with the $88 billion in Q4 inflows. So far in Q2, the outflow trend has continued, but with the quarter being one week old that could easily reverse if the market is able to find its footing.

Investors on the long side weren't the only ones selling: short sellers raised their bets against US equities, with balances increasing by $11 billion or 2 basis points of total US equity market cap.

This furthers a trend of increasing short demand, which started in late January last year. It's worth noting, however, that the increase in short balances is smaller than was seen in Q1 2016, when short balances increased by $42 billion or nine basis points of total market cap.

One sector ETF investors did not shy away from in Q1 was technology sector focused funds, which saw a second consecutive quarter of greater than $2.5 billion of inflows. The opening days of Q2 have seen $350 million in outflows, suggesting investors may be starting to rotate away from the sector.

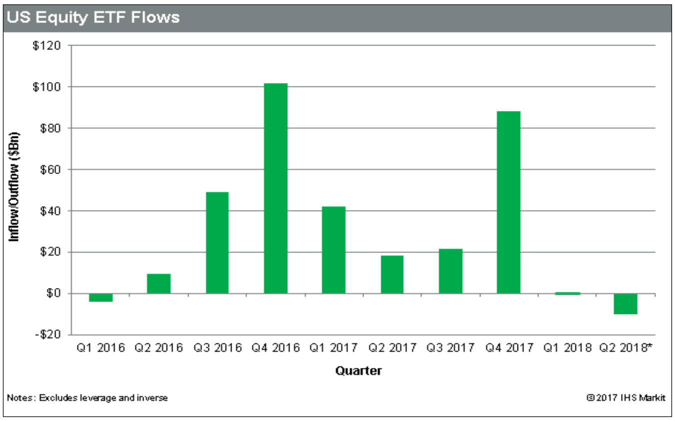
Short sellers have been taking action in the technology sector as well, recently increasing bets against Facebook and Oracle, among others. The issues faced by Facebook over privacy concerns and the related sell-off have attracted short sellers to pile in.

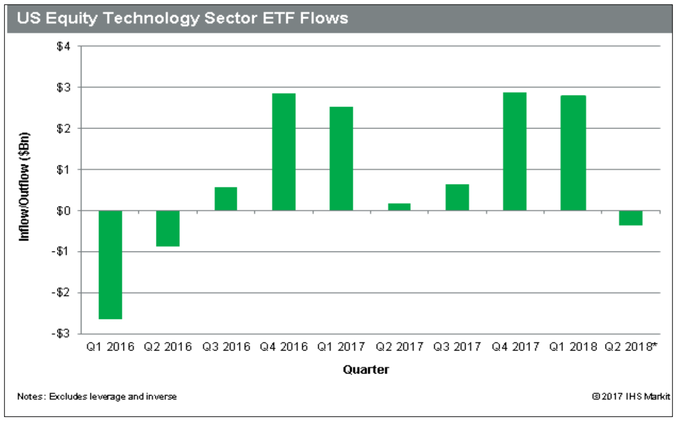
Since the last exchange short interest was collected for settlement on 15 March, we've seen a further seven million shares go on loan.

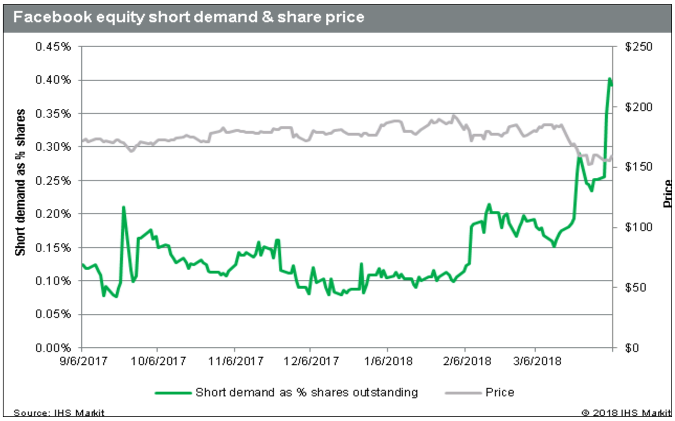
We expect that the next exchange number will print higher, but it's also possible some of the increased borrow is to replace shares which had originally been sourced from hedge fund long positions that are being sold. Either way, hedge funds have been sellers of Facebook.

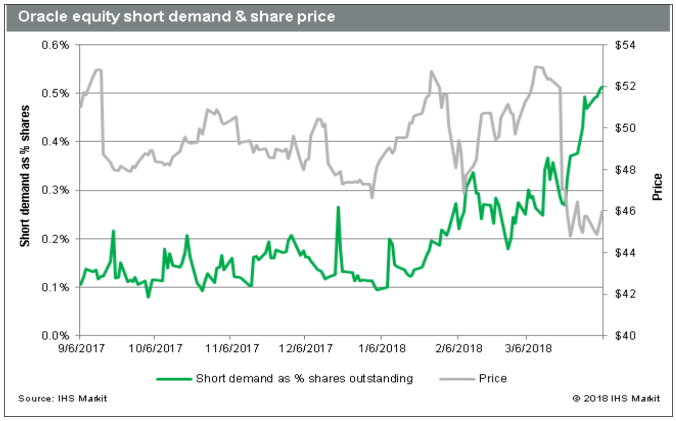
After reporting lower than expected revenue and weaker guidance, shares of Oracle traded down as much as 8 percent and have yet to recover the losses. We therefore expect the next exchange systematic internaliser number will print higher, as the increase in short demand occurred after the last exchange number was collected.

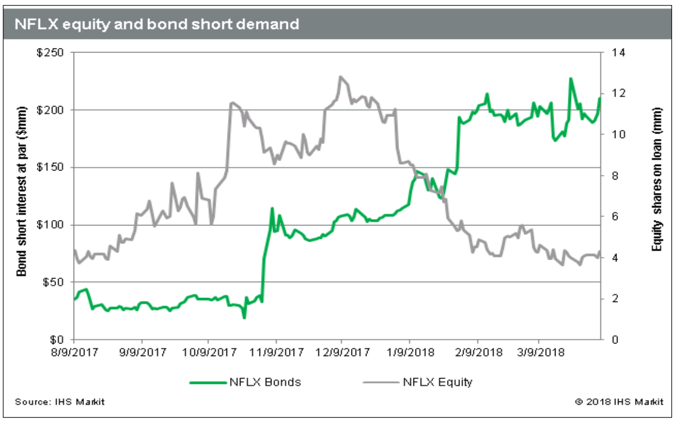
NFLX is another technology stock with recent activity on the short side, though interestingly, the equity and bonds are telling a different story with short demand for the bonds increasing, while equity shorts have retreated. That change in approach for short sellers has been right on the money, with equity shares still up more than 40 percent year to date, while the most shorted bond, the NFLX 4.375 percent 2026 issue, hit a new low on 2 April, below 94 cents on the dollar (5.6 percent). SLT

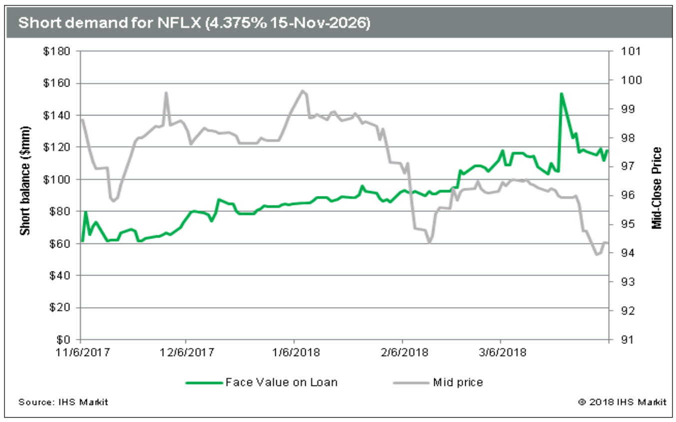












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Comings and goings at Dentons, Credit Suisse, Singapore Exchange and more

Michael Huertas will be joining Dentons as a partner in its Frankfurt office, after leaving Baker McKenzie.

Huertas will strengthen the banking, finance and capital markets practice areas led by partners, Arne Klüwer and Robert Michels.

Huertas advises global banks, financial institutions and alternative investment funds on securities lending, structured finance, complex derivatives, banking regulatory and financial technology.

He also counsels on Brexit preparatory projects, as well as financial market infrastructure, custody and collateral matters.

Huertas has in-house experience at a major international bank in London and at the European Central Bank. Before joining Dentons, he practiced at two other international law firms.

Andreas Ziegenhagen, Germany managing partner at Dentons, said: "With the addition of Michael Huertas to the team, we are pursuing our growth strategy in banking and capital markets as well as with regard to the Frankfurt office."

Robert Michels, Frankfurt managing partner and co-head of the Europe capital markets practice, commented: "I am very pleased that we are expanding our banking supervision expertise with such a highly-caliber addition to our team which creates clear added value for our clients and our network."

Commenting on his new appointment Michael Huertas, said: "I am delighted to apply to help clients in navigating the opportunities across the Eurozone's regulatory and monetary policy pressures, to provide pan-EU regulatory and structured finance support on transactional and advisory matters as well as to drive the further development of Dentons' banking and finance and Capital Markets practices in Europe and at a global level."

He added: "With a strong presence across the EU and beyond, Dentons offers the ideal platform for advising banks, financial institutions, alternative investment funds and financial technology companies on the breadth of forthcoming regulatory challenges."

The Federal Reserve Bank of New York has appointed John Williams as president and CEO.

Williams will begin his new role in June, replacing current president, William Dudley.

Prior to becoming president, Williams was the executive vice president and director of research at the San Francisco Federal Reserve, which he joined in 2002.

Williams is currently the president and CEO of the Federal Reserve Bank of San Francisco, a role he has had since 2011, when he succeeded former Federal Reserve chair Janet Yellen.

He began his career in 1994 as an economist at the board of governors. He also served as a senior economist at the White House council of economic advisers.

Commenting on his new role, Williams said: "I am honored to have the opportunity to lead the Federal Reserve Bank of New York and to represent the diverse needs and economic challenges of all people living and working in the Federal Reserve's second district and as a member of the Federal Open Market committee."

He added: "I look forward to joining the talented team of New York Fed colleagues and to carrying out the unique responsibilities entrusted to us to protect the economic prosperity and financial stability of the US economy."

Jerome Powell, chairman of the board of governors of the Federal Reserve System, said: "I welcome John Williams to his new role as president of the Federal Reserve Bank of New York. Williams is a dedicated public servant, a distinguished thought-leader in monetary policymaking, and a proven executive and public communicator."

He added: "I have valued his insight and wise counsel during my years at the Federal Reserve and look forward to continuing to work with him in the years ahead."

Credit Suisse has appointed John Dabbs to the newly created role of head of prime financing sales for the Americas.

Dabbs will oversee the client aspects of prime as well as swaps and futures, while retaining his responsibilities as global head of prime derivative services.

Based in New York, Dabbs will report to Paul Galietto, global head of prime services and head of equities for the Americas and Eric Miller, head of equities sales.

According to Credit Suisse, the role was created in an effort to integrate Credit Suisse's offerings across equities to better serve its client base.

Dabbs joined Credit Suisse in 2009. Prior to his current role, Dabbs was European head of listed derivatives and US head of prime derivative services.

Datuk Zainal Izlan Zainal Abidin has been named as the new deputy chief executive of the Securities Commission Malaysia (SC), effective immediately.

Datuk Zainal Izlan Zainal Abidin replaces Dato' Ahmad Fairuz Zainol Abidin who completed his contract at the SC on 31 March, following his appointment as a judicial commissioner.

Dato' Ahmad Fairuz Zainol Abidin joined the SC in January 2011 as executive director, for the Islamic Capital Market and was appointed managing director, development and Islamic markets in November 2016.

He is also chairman of Capital Markets Malaysia, an entity established by the SC to promote the Malaysian capital market.

He has over 25 years of experience in the financial services industry. He began his career with Citibank before joining MIDF Amanah Asset Management.

The SC is a statutory body reporting to Malaysia's finance minister. It was established under the Securities Commission Act 1993. It is the sole regulatory agency for the regulation and development of capital markets.

Singapore Exchange (SGX) has appointed Mark Leahy as head of fixed income.

Leahy will be responsible for executing the strategy for SGX's bond trading business, SGX Bond Pro, while also driving institutional participation and continuing to strengthen SGX's Asia leadership in bond listings.

Leahy has more than 27 years experience in fixed income trading, syndication and capital markets.

Prior to SGX, Leahy was head of debt capital markets and syndication for Asia Pacific at Nomura International.

Leahy was also Asian regional head of global risk syndicate at Deutsche Bank and also worked at UBS as Asian regional head of fixed income.

The exchange also stated SGX Bond Trading Pte will assume the general counterparty role for SGX Bond Pro from mid-2018.

This role enables the execution of client trades on SGX Bond Pro while maintaining full pre- and post-trade anonymity between trading counterparties.

SGX has appointed Standard Chartered Bank as sole settlement agent bank for SGX Bond Trading Pte.

The bank will provide transaction securities services support and ensure a seamless post-trade process.

Commenting on Leahy's appointment, Chew Sutat, head of equities and fixed income, said: "We are delighted to welcome Mark Leahy to SGX and I am confident that his market experience and domain expertise will be invaluable to the growth of SGX's fixed income business and the continued development of SGX Bond Pro."

He added: "The initiative to take over the role of general counterparty is a natural evolution for SGX and is testament to the traction we have made in many key markets over the past two years."

"It is supported by client feedback, and underpinned by our commitment and execution in securities post-trade services."

State Street has appointed Sara Mathew and William Meaney to its board of directors.

Mathew most recently served as chairman and CEO of Dun & Bradstreet, a firm that provides commercial data, analytics and insights for businesses.

Prior to Dun & Bradstreet, Mathew served as president and COO, overseeing the firm's consumer segments, and chief financial officer, where she initiated and managed the redesign of the company's accounting processes and controls.

Before Dun & Bradstreet, Mathew spent more than 18 years at Procter & Gamble within finance, technology, investor relations and brand management.

Bill Meaney currently serves as the president and CEO of Iron Mountain Incorporated, a global provider of storage and information management services.

Prior to Iron Mountain, Meaney served as CEO of The Zuellig Group. Before that, Meaney held several senior positions in the airline industry, including chief commercial officer of Swiss International Airlines and executive vice president of South African Airways.

He serves on the board of directors for Iron Mountain and Qantas Airways.

Jay Hooley, chairman and CEO of State Street, said: "We are delighted to welcome Sara Mathew and William Meaney to our board of directors. Technology, data and analytics are driving our ability to strengthen client service and solutions, and improve efficiency and productivity."

"Mathew and Meaney's collective knowledge of finance and technology, as well as their shared experience leading transformational change within large corporations, will bring great value to our board."

Rory Zirpolo has left his role as managing director at WallachBeth Capital.

Zirpolo has worked at the firm since November 2017.

He moved to WallachBeth from Cantor Fitzgerald, a global financial services provider, where he was managing director of securities lending for two years.

At Cantor, Zirpolo was responsible for five traders managing $500 million supply (cash) for US trading, including securities lending, pricing trades and monitoring position limits.

Prior to Cantor, Zirpolo served as managing director and head of Cowen Equity Finance Group, a clearing equity finance broker-dealer, between 2012 and 2015.

Deutsche Bank has appointed Ruth Berry as a London-based director in the European capital introduction team in its hedge fund capital group.

Berry was previously head of marketing and investor relations and a former partner at GSA Capital.

She has also served at Aspect Capital and Instinet Corporation.

According to Deutsche Bank, the hire demonstrates the bank's commitment to its prime brokerage division. **SLT**

Have a story we should cover?

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