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BCBS extends capital requirements for market

In acknowledgement of ongoing challenges relating to the implementation of the revisions to the minimum capital requirements for market risk, the Basel Committee on Banking Supervision (BCBS) has said that its group of governors and heads of supervision (GHOS) has endorsed an extension of the implementation date to 1 January 2022.

BCBS stated that this new market risk standard was developed to address a number of structural shortcomings in the Basel II market risk framework (and its subsequent revisions), and served as a key component of the BCBS's reform of global regulatory standards in response to the global financial crisis.

The committee said it has since monitored the pace of implementation of the standard as well as its impact on banks' market risk capital requirements.

This will constitute both the implementation and regulatory reporting date for the standard. This deferred implementation date is intended to allow banks additional time to develop the systems infrastructure needed to apply the standard and for the committee to address certain specific outstanding issues.

In order to address the issues with the standard that the committee has identified, their recently released March this year consultative document proposes a number of revisions to the standard.

It also sets out the committee's proposals for a simplified alternative to the revised standardised approach to market risk, which in turn take into account responses to the consultative document the committee issued in June last year.

Topics included in the new document's 'standard approach' section include revisions to the treatment of liquid foreign exchange pairs, revisions to correlation scenarios, revisions to capital requirements for non-linear instruments, revisions to risk weights and other clarifications.

Also included in its 'scope of market risk capital requirements' section, are the treatment of structural foreign exchange positions and the boundary between the trading book and the banking book.

The BCBS is asking for comments by 20 June this year.

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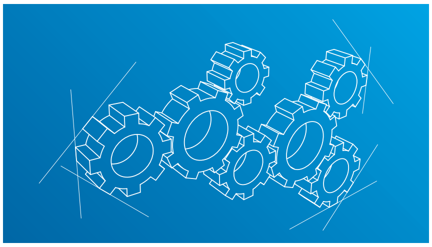

Greater China ETFs set to grow on investor acceptance, survey reveals

Brown Brothers Harriman (BBH) revealed exchange-traded funds (ETFs) assets under management is set to grow on investor acceptance and pent-up demand, according to the results of its inaugural Greater China ETFs.

BBH released the results, which highlights that the potential inclusion of ETFs in China-Hong Kong Stock Connect would likely unleash demand for Hong Kong ETFs from Mainland Chinese investors.

The survey also revealed environmental, social and governance (ESG) is increasing in importance, Smart Beta demand is accelerating, and investors want more education.

Just under half, 48 percent, in the mainland, 60 percent in Hong Kong, and 75 percent in Taiwan said in the survey that they consider ESG factors "very important" to their investment decisions.

The survey revealed that nearly 90 percent of mainland investors would likely invest in ETFs through the Stock Connect programme.

This allows international investors to trade securities listed on the Shanghai and Shenzhen exchanges, and mainland investors to trade securities listed on the Hong Kong exchange.

The results also indicated strong ETF investment growth across Greater China this year and an uptick in investor demand for products with diversified exposure.

Additionally, 43 percent of mainland investors plan to increase ETF holdings, 65 percent of investors surveyed in Hong Kong and Taiwan are looking to increase their ETF exposure, the survey revealed.

Chris Pigott, BBH's head of Hong Kong ETF Servicing, said: "Regulatory reform has helped spur the growth of ETFs in the US and Europe."

"The inclusion of ETFs in Stock Connect will open another cross-border channel for mainland investors to deploy their capital and further diversify their investment outside the mainland."

Pigott added: "Some investors are put off by low trading volumes. Liquidity continues to be an area of focus for investors as some products in Greater China don't have heavy volumes and a number don't trade significantly on a daily basis, but the underlying assets they are invested in are liquid. Education could be a key to unlocking future growth."

BNP Paribas securities revenue rises 5.7 percent in Q1 2018

BNP Paribas Securities Services has reported that revenues reached €505 million for Q1 2018, a rise of 5.7 percent compared to Q1 the previous year.

The number of transactions increased by 5.1 percent compared to the same quarter last year.

According to BNP Paribas, this was a result of the very good business drive and the positive effect of new mandates.

The firm's gross operating income under securities services stood at €82 million.

The business also continued to develop joint offers with global markets, in particular in the execution and netting of derivatives, foreign exchange and collateral management.

BNP Paribas continued to win new mandates with Intermediate Capital Group for one, it also finalised its partnership in the US with Janus Henderson Investors.

The banking group's securities services sector also announced the acquisition of the depositary banking business of Banco BPM in Italy.

Assets under custody and under administration was up by 5.3 percent compared to 31 March last year.

The report also covered quarterly results for retail and banking services, as well as domestic markets of private banking in France, Italy, Belgium and Luxembourg.

Growing number of investors using exchange-listed options

More than 80 percent of institutional investors surveyed, who currently use exchange-listed options, are satisfied with the performance against major market benchmarks, according to a study by Greenwich Associates.

The research, 'How Institutional Investors Use and Think About Exchange-Listed Options', interviewed 80 institutional investors in the

US, including asset managers, corporate pension plans, public pension plans and endowments with total combined assets under management of more than $1 trillion.

Greenwich Associates explained that the goal of the study was to identify target audiences and educational strategies for the Options Industry Council (OIC), an industry resource funded by OCC, that may lead to increased adoption of exchange-listed options strategies among institutional investors.

The study found that almost half of the asset managers surveyed are considering future investment in exchange-listed options strategies while over a third are considering over-the-counter (OTC) options strategies.

Exchange-listed options are deemed superior to OTC options by participants in the study, as they offer real-time price discovery, greater transparency, less regulatory complexity and since they are centrally cleared through OCC, there is reduced counterparty risk.

It also showed that 4 percent of respondents disagreed that options strategies could improve the risk-adjusted return profile.

It also found that while institutional investors primarily look to implement exchange-listed options strategies for portfolio protection, risk diversity is another key driver as the non-linearity of exchange-listed options strategies means their potential returns come with less risk exposure in the fund.

ESMA launches bond liquidity system under MIFID II

The European Securities and Markets Authority (ESMA) has published its first liquidity assessment for bonds subject to the pre- and post-trade requirements of the second Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR).

ESMA's assessment of the European bond market for Q1 2018 found 220 bonds (out of 71,000 for which the assessment was executed) to be "sufficiently liquid" to be subject to MiFID II's real-time transparency requirements.

The full list of liquid bonds is available through ESMA's Financial Instruments Transparency System (FITRS).

The ESMA liquidity assessment for bonds is based on a quarterly assessment of quantitative liquidity criteria, such as the daily average trading activity (trades and notional amounts) and number of days traded per quarter.

The quality of ESMA's assessment depends on the data submitted to ESMA, the data received so far, for Q1 2018, is not fully complete for most instruments, according to the authority.

These data completeness and quality issues result in a lower number of liquid instruments identified compared to ESMA's earlier transitional transparency calculations.

According to Greenwich Associates, although utilising options to enhance investment returns is not a new concept, the pension community has yet to widely embrace options strategies that could enhance yields while reducing risk.

The research showed that the main reason for not using options is that they are not perceived to fit with the fund's primary investment strategy.

Another reason institutional investors avoid options, according to the study, is that the fund's investment mandate does not approve them.

However, the study noted that once institutional investors decide to invest in options strategies, there is a short due diligence process of six months to one year with most participants reporting the critical decision factor was buy-in from the chief investment officer.

Joseph Cusick, OIC director of institutional investor education, said: "The valuable insights gained from this study will support our continued efforts to provide the most relevant educational thought leadership to asset managers, pension funds, and endowments."

Hot start to 2018 for ICE

Intercontinental Exchange, the operator of global exchanges and clearing houses and provider of data and listing services, has reported that Q1 2019 consolidated revenues, less transaction-based expenses, were $1.2 billion.

The results also showed that trading and clearing segment revenues, less transaction-based expenses, were $596 million in Q1 2018, up 11 percent compared to the previous Q1.

Data and listings segment revenues were $629 million in Q1 2018, including data services revenues of $520 million, and listings revenues of $109 million.

Consolidated operating expenses were $575 million for Q1 2018.

On an adjusted basis, consolidated operating expenses were $494 million. Consolidated operating income for Q1 was $650 million and the operating margin was 53 percent. The effective tax rate for Q1 was 23 percent.

Unrestricted cash was $523 million and outstanding debt was $6.9 billion as of 31 March this year. ICE chairman and CEO Jeffrey Sprecher said the results were strong across trading and clearing and data and listings segments.

Sprecher said: "We completed our strategic acquisition of BondPoint while also generating solid organic growth, as customers' demand of our comprehensive suite of multi-asset

class workflow and risk management solutions continues to increase."

Scott Hill, CFO, echoed those sentiments, commenting: "Our Q1 performance produced revenue growth, margin expansion and strong cash flow allowing us to return nearly $540 million to stockholders through April, up 28 percent compared to the prior year."

"This year is off to a promising start and we are well positioned to build on our proven track record of growth, customer service and value creation for our stockholders."

FIS selected by UnionBank of the Philippines

FIS has been selected by UnionBank of the Philippines (UnionBank) to help the bank digitise and enhance its commercial lending processes.

UnionBank will use the firm's solutions to re-engineer its commercial lending processes, including origination and credit assessment, liquidity and capital charge of loans and portfolios, data management and reporting.

The risk management solutions will also help the bank comply with regulatory requirements, such as Philippine financial reporting standards, as well as proactively manage its enterprise risk through an integrated platform across asset liability management, liquidity risk and capital management.

The company's technology will enable the bank to take advantage of advanced third-party data analytical tools through the use of open application programming interfaces.

According to FIS, this will result in improved credit risk monitoring and a greater ability to capitalise on growth opportunities in business lending.

Edwin Bautista, president and CEO of UnionBank of the Philippines, said: "UnionBank is in a major effort to digitally transform its businesses and processes, and we are looking at this relationship with FIS as a significant step in achieving our long-term objectives."

Marianne Brown, COO at FIS, commented: "We are delighted to support UnionBank as it reinvents its lending process and takes advantage of digital innovations to meet its business objectives."

"By using our integrated risk and compliance solutions, UnionBank will benefit from a centralised view of risk, liquidity, capital and profitability across its enterprise."

Deutsche Borse: Cash market turnover totals €127.2 billion in April

The high trading volume on the cash markets since the beginning of the year has led to new records in exchange-traded funds (ETFs) trading on Xetra, according to Deutsche Borse.

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Data analytics[2]

[1] Provided by CIBC
[2] Provided by BNY Mellon

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Deutsche Borse found Q1 2018 had a total of more than 1.9 million orders executed on the reference market for exchange trading in German shares.

This was the highest number since the products were introduced in the year 2000, and around 30 percent up year on year.

The number of tradable ETFs also rose to a new high of 1,264 at the end of April.

In total, Deutsche Börse's cash markets generated a trading volume of €127.2 billion in April, an increase of 20 percent compared to last year (€106.2 billion), despite a return to lower volatility in the markets.

Of the €127.2 billion, €117.1 billion were attributable to Xetra compared with April last year, which saw €96.9 billion generated.

Split by asset classes, cash market turnover in equities reached approximately €113.5 billion, whilst turnover in ETFs, exchange-traded contracts, and exchange-traded notes amounted to €12.2 billion. Additionally, turnover in bonds was €0.4 billion, €1 billion in structured products, and €0.1 billion in funds.

OneChicago figures sharply down

OneChicago revealed a decrease of 66 percent year-over-year to 514,176 in contract volume for its April statistics.

The results showed a stark contrast to the record figures recorded by OCC this week, who revealed record highs for April.

One is an exchange offering Single Stock Futures, a delta one product, on approximately 1,800 equities, including American depositary receipts and exchange-traded funds.

It is regulated by the US Commodity Futures Trading Commission and Securities and Exchange Commission.

OCC reports highest April on record

Total cleared equity derivatives clearing contract volume in April reached 405,853,179 contracts, a 27 percent increase from the previous year making it the highest April on record, according to OCC.

Results also revealed that year-to-date average daily cleared contract volume is up 29 percent from last year with 22,026,812 contracts compared to 17,027,383 contracts the previous year. OCC said that exchange-listed options volume reached 398,481,297 contracts in April, up 29 percent from April last year. Equity options volume reached 356,177,370 contracts, a 32 percent increase from April 2017. This includes cleared exchange-traded fund options volume of 164,495,446 contracts in April, a 27 percent increase over April last year's volume of 129,366,338 contracts.

Index options volume was up five percent with 42,303,927 contracts in April.

Futures cleared by OCC reached 7,371,882 contracts in April, down 32 percent from April last year. OCC's year-to-date average daily cleared futures volume was 498,911 contracts, six percent less than last year.

OCC said that its securities lending central counterparty activity was up 25 percent in new loans from April last year with 221,744 transactions last month.

Year-to-date stock loan activity increased 26 percent from last year with 915,802 new loan transactions this year.
The average daily loan value at OCC in April was $183 billion.

NSD receives the status of authorised depository of Belarus

National Settlement Depository (NSD), Russia's central securities depository, has received the status of authorised depository of Belarus.

The authorisation allows NSD to record the rights to government securities issued by the Ministry of Finance, on behalf of the Republic of Belarus. Prior to now, NSD clients could only accept custody and settle trades on Belarusian issuers' corporate bonds and shares.

The authorisation comes just weeks after Russia's Federal Treasury successfully conducted its first repo auction with a floating rate via NSDs collateral management system on 12 April. The amount of concluded transactions reached RUB 60.7 billion ($98.8 billion).

Commenting on the authorisation, Eddie Astanin, chairman of the executive board at NSD, said: "NSD's status as the authorised depository of Belarus will let us provide Russian and foreign investors interested in trading in Belarusian issuers' securities additional opportunities."

"Such cooperation aligns with the objectives of the Association of Eurasian Central Securities Depositories (AECSD), which includes both our organisations, and strengthens efforts to develop post-trade financial market infrastructure in AECSD member countries."

Valentina Timoshenko, director of the Central Depository of the Republic of Belarus, commented: "We hope that assigning authorised depository status to the Russian central security depository will help attract foreign investors to the local market of Belarusian government bonds and will expand the range of opportunities we are able to propose to our clients."

Northern Trust claims Canadian first

Northern Trust is set to implement a direct clearing of cash and repo trades for fixed income securities through the Canadian Derivatives Clearing Corporation (CDCC), clearing trades on behalf of the Healthcare of Ontario Pension Plan (HOOPP).

Northern Trust said it is the first global custodian to use the CDCC. Created in 1960, HOOPP is a multi-employer contributory defined benefit plan for Ontario's hospital and community-based healthcare sector with 548 participating employers.

Its membership includes nurses, medical technicians, food services staff and housekeeping staff, and many other people who work hard to provide Ontario with valued healthcare services. It has more than 339,000 active, deferred and retired members.

Northern Trust added that HOOPP and three other large buy-side organisations were invited to apply to become limited clearing members (LCMs) by the Bank of Canada in order to participate in an expansion of direct clearing announced in 2017 by the CDCC, for exchange-traded derivative products, certain over-the-counter products and repos.

Said HOOPP president and chief executive officer Jim Keohane: "This new set-up will make HOOPP a more attractive counterparty for the banks and should ensure liquidity from this source during severe market downturns, which is good for our members."

HKEX confirms after-hours trading of equity index options

Hong Kong Exchanges and Clearing Limited (HKEX) made its most actively traded equity index options available for trading in the after-hours trading (T+1 session) of its derivatives futures and options market on 14 May.

These index options include hang seng index (HSI) options, hang seng China enterprises index options (HSCEI) and mini-HSI options.

These three most actively-traded equity index options will be included in derivatives market's after-hours trading from 5:15 pm to 1 am. HKEX's new trading halt mechanism (THM) is also to be introduced to after-hours trading for these options products, as part of measures to maintain market integrity.

For market protection in the T+1 session, a THM is introduced to avoid potential extreme options price movement in the T+1 session. THM applies only to equity index options trading in the T+1 session.

THM of options is linked to trading of the corresponding futures' spot month contract. It will be triggered if either the highest bid in the buying queue for the corresponding futures' spot month contract reaches its upper price limit, or if the lowest ask in the selling queue for the corresponding futures' spot month contract reaches its lower price limit. This lower price limit is 95 percent of the futures' last traded price in the regular trading session two.

If the THM is triggered, trading of the options is halted for the rest of the T+1 session and will resume in the following regular trading session. In this instance, a market message will be sent to all brokers and information vendors through the general distribution channels.


CLOSED

Closing the door on Libor

Fran Garritt of RMA and Frank Devlin of The RMA Journal discuss the possible transition from a London interbank offered rate to new risk-free rates

The London interbank offered rate, better known as Libor, has had a long and influential run. Devised in 1969 as a method to price a syndicated loan deal with the Shah of Iran, Libor, which is an estimate of the interest rate that London banks would pay to borrow from each other, was later formally published by the British Bankers Association and grew to become an international go-to benchmark.

Today, an estimated $160 trillion of US dollar exposures is tied to the swings of Libor. Globally, Libor-related exposure has been estimated at up to $400 trillion in dollar terms, covering auto and student loans, commercial and residential mortgages, corporate and syndicated loans, and various derivatives.

But now Libor's days of influence may be numbered. In fact, they number somewhere in the range of 1,300 days, if things go according to plan. In its place will be alternative risk-free reference rates based on transactions that include overnight funding and repurchase agreements.

Concerns with Libor's continued viability

Last July, Andrew Bailey, chief executive of the UK Financial Conduct Authority (FCA), the agency that oversees Libor, announced that the 20 rate-submitting banks have agreed to contribute to Libor until the end of 2021. While banks may voluntarily submit rates thereafter, Bailey has said that the FCA will not compel them to do so. Most in the industry agree that the FCA's announcement sounded the death knell for Libor as we know it.

Libor came under scrutiny with coverage of the manipulation scandals emanating from the financial crisis. To either downplay their credit problems or enhance their market gains, some banks participating in Libor-setting were gaming the rate by understating or overstating their perceived borrowing rates.

In response, the FCA stepped in to oversee Libor regulation. In 2014, Libor underwent the transition to a new administrator, the ICE Benchmark Administration, which has taken steps to formalise the rate submissions process and establish an oversight committee. However, despite these efforts to professionalise the rate and the submission process, Libor has continued to lose the industry's confidence.

A key source of the concern is that, over the years, as the number of actual interbank borrowing deals has fallen off, the rates have grown more dependent on the estimates of submitting banks. In other words, because of low transaction volumes, more and more submitting banks have to respond to Libor surveys by providing an estimated rate based on "expert judgment" instead of a rate they have actually paid or are paying.

In a recent article, Forbes, citing Barclays Bank, noted that "submissions based on 'expert judgment' rather than real transactions now make up 70 percent of the daily three-month Libor submissions".

Federal Reserve chairman Jerome Powell has said that "many banks are now understandably uncomfortable with being asked to provide judgment about something they do very little of".

Powell has cautioned: "Libor may remain viable well past 2021, but we do not think that market participants can safely assume that it will."

"The absence of active underlying markets," Bailey has said, "raises a serious question about the sustainability of the Libor benchmarks that are based upon these markets. If an active market does not exist, how can even the best-run benchmark measure it?"

Transition to new risk-free rates

While the continued viability of Libor is in question, it is clear that transitioning to agreed-upon benchmarks that can match Libor's load of tenors (one day, one week, one month, two months, three months, six months, one year) and currencies (US dollar, euro, British pound, Japanese yen, Swiss franc) will also be a complex and costly challenge.

A RBC Capital Markets report calls the transition from Libor a "Herculean task [...] across wide ranging asset classes and financial instruments. For benchmark reform to be successful, there will need to be broad market adoption of the alternative [rates]".

For US dollar transactions, the Federal Reserve's Alternative Reference Rates Committee (ARRC) has recommended replacing US Libor with the secured overnight funding rate (SOFR). SOFR is set to include triparty repo data from Bank of New York Mellon, cleared bilateral repo transactions, and general collateral finance repo data from the Depository Trust & Clearing Corporation.

Following the ARRC's recommendation, Federal Reserve chair Powell and Commodity Futures Trading Commission (CFTC) chair Christopher Giancarlo noted in a Wall Street Journal commentary that SOFR "resolves the central problem with Libor, because it will be based on actual market transactions currently reflecting roughly $800 billion in daily activity. That will make it far more robust than Libor".

The ARRC released its second report in March, which summarises the choice of SOFR as its recommended replacement rate and offers an enhanced paced transition plan, which seeks to promote the use of SOFR on a voluntary basis. The report also includes an initial examination of the contractual language commonly used in products referencing Libor, with a particular focus on fallback language.

Key milestones in the ARRC's transition timeline include the following:

- 3 April 2018: The New York Fed began publication of the Treasury repo reference rates
- 7 May 2018: CME Group was set to launch futures on Libor alternative
- H2 2018: Trading in bilateral, uncleared SOFR swaps begins
- Q1 2019: Trading begins in cleared SOFR swaps with Fed funds as price alignment interest (PAI)
- Q1 2020: Central counterparties (CCPs) offer SOFR as an alternative PAI
- Q2 2021: CCPs will only accept new swap contracts for clearing using SOFR (instead of fed funds effective discounting)

At first, the SOFR will be just what its name suggests: an overnight rate—a spot market with no offerings to match Libor's various tenors. It will take time, well into 2021, some say, to develop the longer tenors that will make SOFR an adequate benchmark to replace Libor.

For the British pound, the Bank of England is putting forth the sterling overnight interbank average rate (SONIA) to replace Libor. SONIA has been in use since 1997, but the Bank of England has been working on a new methodology to make it a more suitable Libor replacement. Details are expected later this year.

There are also alternatives in place or being planned for the Japanese yen, the Euro, and the Swiss franc.

The end of 2021 may seem distant, but many in the industry believe that achieving the switch to new benchmarks in less than four years is an aggressive goal. To be sure, many say, market participants and regulators must begin acting now to be able to ensure a smooth transition.

Key transition concerns

Any such transition raises a number of issues that will have to be addressed by regulators and the industry. Concerns and approaches vary across asset classes.

A fundamental issue is the spread that is certain to exist between interbank offered rates (IBORs) and risk-free reference rates (RFRs). For example, because Libor is an unsecured rate based on interbank borrowing, it includes an element of credit risk tied to the strength of banks and the banking industry.

Transitioning to SOFR will necessitate adjustments. Whatever those may be, industry groups are stressing that they should be simple, transparent, fair, and minimise "winners and losers".

According to RBC Capital Markets, "there is no industry consensus yet on credit spread methodology for broad market adoption [of RFRs]. However, the methodologies under consideration are evaluated against a number of principles", including the following:

- Elimination of or minimisation of value transfer of the contract at the time IBOR is transitioned to an alternative RFR
- Elimination or minimisation of any potential for manipulation—structuring the methodology to avoid the use of easily predictable or easily influenced data points
- Mitigation of and minimisation of regulatory and legal risks (including litigation risks)
- Minimisation of market disruption for all market participants

"There is some market consensus emerging that the credit spread should be fixed as of the date of an announcement of an IBOR being discontinued," RBC noted, "regardless of whether that is prior to, or simultaneous with, the actual discontinuation of an IBOR."

However, some fear there may be difficulties in convincing customers that the new, converted rates are fair. If borrowers are accustomed to paying a rate of, say, Libor plus 2 basis points, will they understand that their new rate of, say, SOFR plus 2.5 basis points is equivalent?

Some industry watchers fear that banks will feel pressured to sacrifice spreads and reprice transactions to the benefit of borrowers rather than face their wrath. Any such losses would be on top of the millions of dollars the transition will cost banks and the industry.

How the Libor transition is managed is particularly important to derivatives markets. According to the International Swaps and Derivatives Association (ISDA), nearly two-thirds of interest rate swaps (a $107 trillion market), forward rate agreements ($29 trillion), interest rate options ($13 trillion), and cross currency swaps ($22 trillion) are Libor related.

Many transactions include language regarding fallback rates should Libor become unavailable. But the RBC report cautions that many of the fallback rates "are appropriate for short-term disruptions to Libor but are not practical if Libor is permanently discontinued. As an example, under the 2006 International Swaps and Derivatives Association definitions, which typically apply to over-the-counter (OTC) interest rate swaps, if the specified rate source for USD Libor is unavailable, the 'calculation agent' must solicit USD Libor quotes from four banks in the London interbank market". If that approach isn't possible, New York banks must be surveyed.

"Once Libor is permanently discontinued, it is impractical to continuously approach banks for quotes," the RBC report pointed out. "If existing fallbacks to the IBORs fail to provide parties with a rate and the parties fail to agree to an alternative rate," it said, contracts will be terminated or end up in litigation.

ISDA is working to revise its 2006 definitions so that they reflect a revised risk-free rate and is also developing a protocol that will allow for a fallback in existing Libor contracts to the risk-free rates in the

event Libor is permanently discontinued. To achieve this fallback, it is devising a spread methodology that would be used to convert such Libor swaps into the risk-free rates at the time of Libor's cessation.

"Other asset classes and financial instruments have their own unique challenges because of the structure of the contracts, particularly where the agreements are bespoke and thus a protocol mechanism would not be available," RBC noted.

RBC added: "For example, bonds' terms and conditions are not entirely consistent across different issues. If Libor is discontinued and legacy contracts are not amended, many of the legacy bonds could revert to a fixed rate (being the last available floating rate) for the remaining term of the bonds.

This is clearly not the outcome either the issuers or the bond holders would want. Amendments to bond terms and conditions are difficult, costly, and time consuming for issuers and bond holders and with an uncertain outcome."

The cash markets are also contemplating the issues they will face with any transition. In particular, in addition to concerns about spread "fairness", there are likely to be concerns about the treatment of legacy transactions should Libor cease, where the consent of a majority of note/bond holders may be required to amend transaction terms.

Given the array of potential issues and impacts, banks, the buy side, end users, and the regulators need to work together and come to grips with the size of affected populations and develop detailed plans to manage the transition over the coming years.

RBC Capital Markets had this advice for clients in its report:

- Understand exposures to Libors and other IBORs in your portfolio, including exposures to derivatives, loans, bonds, and other financial contracts
- Prepare for contract amendments of legacy contracts that will exist beyond the end of 2021
- Related tax and accounting (including hedge accounting) issues should be considered, particularly if valuation changes to contracts as a result of the transition from IBORs to RFRs are anticipated
- Lastly, investments to infrastructure, including technology and data infrastructure, may also be needed

Outlook

A transition is going to require buy-in in every corner and practice of the industry.

"A smooth transition for the market from IBORs to alternative RFRs will depend heavily on liquidity," the RBC report said. "Of most importance, there must be deep liquidity in the derivatives markets as derivatives markets referencing RFRs will be key to broad market adoption. As the expression goes, 'liquidity begets liquidity.'" It will take a lot of work, but the Federal Reserve says the move will ultimately be worth it, noting this on its website: "Greater reliance on alternative reference interest rates will make financial markets more robust and thus enhance the safety and soundness of individual institutions, make financial markets more resilient, and support financial stability in the US."

RMA, its Market Risk Council, and its Securities Lending Committee agree that robust, yet stable, financial markets, coupled with safe and sound institutions, are a laudable goal. To that end, they are monitoring the transition to a Libor replacement and taking steps to ensure RMA members are prepared to thrive under a new benchmark system.

Throughout the process, RMA will promulgate information and best practices, host informative round tables and other events, and welcome communications with members who have thoughts and concerns. **SLT**

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A clearer picture

Technology played a big part in the development of Canada's securities lending market last year. Donato D'Eramo of CASLA reveals what trends to expect this year

Becky Butcher reports

What was the biggest development in Canada last year?

Greater automation across the industry was a key theme of last year globally, and here in Canada was no different. The usage of technology to further automate securities financing transactions has been an ongoing development in the marketplace. It began with the general collateral space with auto borrow and now extends to the warm and hot space. Last year, there was generally a wider adoption of automated functions such as targeted availabilities and Indications of Interest by both agent lenders and borrowers, working together for mutual benefits of our respective clients. In addition to the adoption of new technology solutions, the European regulatory landscape continued evolving, which would impact Canadian participants with any nexus into Europe, as well as the European entities.

What impact did this have on the industry last year?

The impact of greater automation has enabled a more efficient and transparent way of transacting for both borrowers and agent lenders. The wider usage of target availabilities in the warm and hot space now allows agent lenders to proactively show inventories and take the position of a price maker. At the same time the adoption of Indications of Interest by borrowers has now automated manual lists and locates.

The now widespread use of both these automated functions has ultimately resulted in greater utilisation for beneficial holders within the warm and hot space, and more efficient.

But, not only has the use of technology in the securities lending industry made work-flows more efficient, it has made them more effective and transparent. The downstream impact has ultimately resulted in more effective pricing for clients and further optimisation of lending portfolios for beneficial owners.

What were Canadian Securities Lending Association's (CASLA) biggest challenges last year and how did the association face them?

Not so much a challenge but rather an ongoing discussion is the viability of central counterparties (CCPs) in the securities lending industry. As regulatory reform continues to change the dynamics of our industry, the impact of capital usage, risk-weighted asset (RWA) constraints, and the way we transact may be something that the implementation of a CCP model can address. The potential for introducing CCP services in the Canadian marketplace has been a discussion point for many years, and the conversation continues amongst CASLA members.

Can you name a market driver in Canada that industry players must be aware of this year?

A couple of important drivers come to mind—the ongoing need for financing, increased market volatility and the development of the liquid alternative space.

Financing remains the largest driver in the Canadian securities lending industry today with an almost insatiable demand for high quality liquid assets (HQLA) off the back of regulatory changes. Last year, we saw steady demand for HQLA from financial institutions that has persisted well into 2018. Furthermore, the demand for more structured term lending to facilitate these financing needs will be an ongoing driver of HQLA this year. Additionally, the ongoing focus applied to monetary policy on both sides of the border is also a key driver in the securities lending marketplace today. As the interest rate environment continues to change, additional rate hikes can often translate to an increased demand for specific issues. A general rise in yields can also potentially lead to increased demand for HQLA.

Last year, we experienced somewhat limited volatility, reducing the number of intrinsic value trades in the marketplace, especially through a North American lens. However, H1 2018 has already seen more volatility as the geopolitical environment and concerns over NAFTA negotiations build on both sides of the border. This renewed sense of volatility in markets, particularly seen in North American equity markets, has resulted in both an increase in the number of directional trades as the variety of shorts by investors also increases.

As investors increasingly seek to gain further access to exposure, liquid alternatives remain an ongoing development in the Canadian funds space and could potentially be an important driver of demand in the future. The introduction of greater leverage capabilities across Canadian mutual funds will inevitably result in a greater demand to borrower.

What will be the top securities lending trend this year?

The rise of non-cash collateral continues to be a top trend in the securities lending market in North America. Although cash collateral remains a significant characteristic of the marketplace, a noticeable move towards a greater use of eligible securities as collateral has been seen. This trend has especially been driven by margin requirements for over-the-counter (OTC) and the migration to central clearing for derivatives continues to increase the demand for optimisation and liquidity solutions. As such, more and more institutional investors will be looking to the securities lending market to fulfill growing collateral needs. This is one trend to watch as we head into H2 2018.

Another ongoing trend seen throughout last year and well into this year, is the persistence in demand for structured term loans at both an asset class level, as well as specific stocks. Today, agent lenders are having more frequent conversations with beneficial owners on the risk/reward associated with term opportunities as they present incremental returns on collateral flexible portfolios.

What is the association currently working on?

In the near future, CASLA will be launching various sub-committees designed to enhance our presence and continue to engage with stakeholders in the Canadian industry. One of CASLA's fundamental aims is to enhance the public's understanding of securities lending and the role it plays in Canada. As such, the role of an educational sub-committee at CASLA will be focused on developing and promoting the importance, subtleties and breadth of the securities lending industry—particularly geared towards beneficial owners. Another aim of CASLA, is to encourage the adoption of best practices and work with regulators to ensure an efficient and secure marketplace. This is an important discussion to have and consider here in Canada. The regulatory environment continues to evolve and can be beneficial to all stakeholders as we move further into an age of transparency. Lastly, we would like to broaden the membership of CASLA to reflect the growth of the industry over the years, both on the buy/sell side.

CASLA has also entered into early discussions with the Ontario Securities Commission about allowing public mutual funds to be able to accept other eligible equity securities as collateral when entering into securities lending transactions.

What can we expect from the conference this year?

This year's conference will be focused on addressing matters at the heart of our industry in the Canadian securities lending space. Our panels will include topics around regulatory and funding, alternative investments, and provide perspectives from our industry's leaders. In keeping with industry trends, CASLA and its members have come together to use technology to drive this year's conference. If you haven't heard already, we have launched our very own conference app, which provides attendees with access to the conference materials and agenda, as well as to our panelists and CASLA to submit questions and comments prior to, and during the event. We will also be taking advantage of the survey function to poll our delegates throughout the day on a variety of topics. **SLT**

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Maintaining its strong position in the market, Canada remains an investment destination of choice. Rob Ferguson and Lisa Tomada of CIBC Mellon explain why

Becky Butcher reports

What are some trends you're seeing in the Canadian market?

Rob Ferguson: Canada is one of the largest securities lending markets in the world after the US. The stability and transparency of Canada's banking and regulatory environment, along with its AAA-rating, attractive risk profile and status as a robust and mature market, has helped Canada's securities lending market maintain its position among institutional investors. With the sustained low interest rate environment, beneficial owners look to securities lending as a means to enhance returns, and to offset the impact of the low interest rate environment we have been experiencing over the last two years.

Lisa Tomada: There are a few key trends that continue in the Canadian market. Market demand for Canadian high-quality liquid assets (HQLAs) continues as Canada is a major issuer of federal government and provincial debt. In addition to HQLAs, another key trend in Canada is collateral flexibility. Collateral acceptability can make or break trades in the Canadian market. Beneficial owners will find that more flexibility can offer a greater chance of capturing additional returns. As borrower demands fluctuate, participants with flexible collateral schedules can take advantage of the changes immediately. Finally, collateral transformation trades are used by borrowers for a variety of purposes and support increased revenue for beneficial owners. In this transaction, a borrower may trade in a less liquid or lower quality form of collateral, such as equities in exchange for borrowing HQLAs.

How has regulatory change shaped the business?

Tomada: Regulatory changes have borrowers keeping a closer eye on various capital calculations. The liquidity coverage ratio and net stable funding ratio require borrowers to show they have their liabilities covered with sufficient funding over a specified period of time. These new requirements are driving the interest we have seen toward highly rated assets.

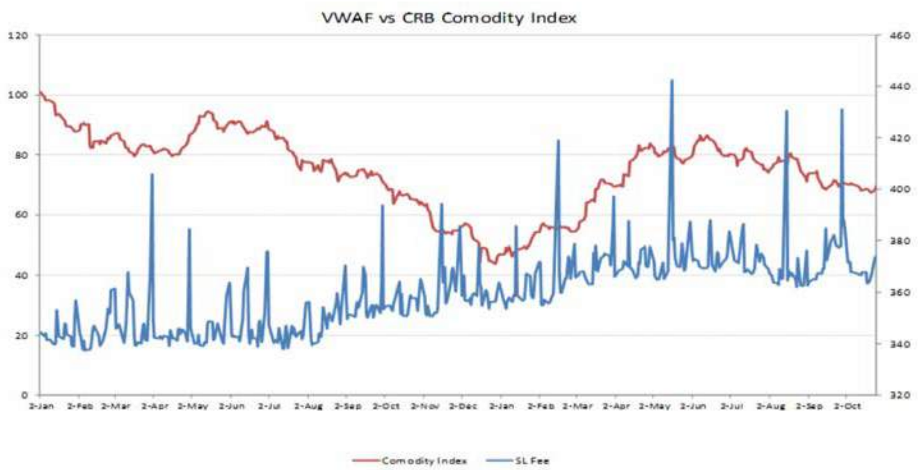
With Canada being one of the few remaining AAA-rated countries, we have experienced strong demand for Canadian government-issued debt, such as bonds, resulting in record balances in loans of Canadian fixed income.

Ferguson: We are seeing increased demand from clients for term trades (as compared to open trades) and we notice there are more term trades in the Canadian market than in previous years. A reason for this trend could be the need to receive capital relief, driven by regulatory change.

Is it still considered a general collateral market in Canada?

Ferguson: In the past, Canada has been primarily a general collateral (GC) type market. However, over the last three years, beginning with the resource sector correction, we noticed that the Canadian equity market has generated significant revenue from specials over general collateral. We have since seen strong demand for Canadian equity securities continue as interest shifts to other sectors.

The following chart demonstrates the start of diverging directions of Canadian equity volume-weighted average fees (VWAF) versus the Commodity Research Bureau index during 2015 and 2016.



Source:
Volume weighted average Fee data sourced from IHS Market Securities Finance and Commodity Research Bureau sourced from Bloomberg

What changes are on the horizon in Canada?

Ferguson: The Canadian Securities Administrators (CSA) is working to modernise investment fund product regulation, with the goal of developing a more comprehensive regulatory framework for publicly offered mutual funds.

The proposed amendments would allow mutual funds to invest in asset classes, or use investment strategies, that are not currently permitted to be used by conventional mutual funds under National Instrument (NI) 81-102, the key regulatory framework for mutual funds in Canada. This anticipated policy change would introduce liquid alternatives as an option for mutual funds for retail non-accredited investors, and it has the potential to open up another avenue of demand for securities finance.

In addition, CASLA is working on driving change to equity collateral. The association is actively lobbying for changes to NI 81-102 to expand collateral flexibility with respect to including equities as an acceptable form of collateral for Canadian investment funds. This change would align Canadian mutual funds with their peers, such as UCITS and Canadian pooled funds and pension plans.

How is technology impacting securities lending?

Tomada: Technology continues to play an important role in how securities lending programmes operate. Participants are looking for more automation of GC transactions and greater investment in obtaining data to support special fee loans. Technology also helps make the process of settling trades and exchanging collateral more efficient. **SLT**


DEFINING
CANADA

Industry participants provide an update on the Canadian securities lending market, discussing market performance, regulatory initiatives and more

How has the Canadian securities lending market performed in the opening months of 2018?

Donato D'Eramo: The Canadian securities lending market maintained healthy growth during the first quarter of 2018, driven by increased market volatility, as well as a continuation of significant demand for Canadian equities and fixed income. Persistence in several high value sectors continued well into the new year and the appetite for high quality liquid assets (HQLA) remained strong, benefiting lenders of Canadian sovereign and provincial assets.

It is evident that incremental opportunities in the lending market are no longer limited to directional demand but also extend to more structured lending paradigms, such as term lending. Beneficial owners within the RBC Investor & Treasury Services Securities Finance programme generally saw approximately 20 percent growth in Canadian asset average loan balances year-over-year (source: IHS Markit).

Panel participants

Alexa Lemstra, director, head of Canada
EquiLend

Ed Hellaby, business development director, collateral management
FIS

Don D'Eramo, global head of securities lending
RBC Investor & Treasury Services

Dave Sedman, senior vice president, global securities lending
Northern Trust Company, Canada

Stephen Novo, head of Canadian equity and fixed income trading, vice president
State Street Securities Finance

Phil Zywot, managing director, securities finance
BNY Mellon Markets

Phil Zywot: Canadian equities have continued to perform well in the opening months of 2018. We have seen strong performances in this asset class over the last three years, which has been driven mainly by cyclical market activity. There is continued interest from borrowers looking for high quality liquid assets (HQLAs) and there is especially strong demand for Canadian government bonds, given their liquidity and Canada's standing as one of the few AAA-rated countries remaining.

Looking at pension funds specifically, Canadian pension plan providers are among the most sophisticated and successful institutional investors in the world. Most are fully funded and they continue to look to securities lending programmes as an avenue to earn additional revenue for their beneficiaries. Flexibility, collateral management and liquidity solutions remain a priority for pension funds here in Canada.

Stephen Novo: The securities lending market in Canada continued to see strong flows in the first few months of 2018, with demand across most asset classes remaining largely steady. Equity flows were buoyed by increased overall demand for general collateral, as well as revenue growth in a few key sectors. Energy, financials, mining and other traditionally strong sectors were accompanied by increased interest in the marijuana and blockchain industries.

Fixed income also performed well in the first few months of the year, with regulatory pressures driving demand for Canada governments higher and more specifically for those beneficial owners with wider collateral profiles. Lower supply of the highest quality collateral has had positive ancillary effects on demand for other fixed income instruments. Real return issues, Canada Housing Trust bonds and provincial issues have benefited through higher spreads and higher utilisation rates than historically seen. Increased demand for term structures has also helped boost fixed income returns.

Alexa Lemstra: According to DataLend, revenue from lending Canadian assets in Q1 2018 reached more than $128 million across equities and fixed income. That represents a drop of 6 percent compared to Q1 2017. Equities revenue in Q1 2018 was $95 million, a moderate drop year over year, while fixed income revenue increased a staggering 40 percent to $33 million. The decline in equity revenue and increase in fixed income revenue is a trend we are seeing in many markets around the globe.

Revenue for Canadian beneficial owners is a good story, with 20 percent year-over-year growth to $107 million in Q1 2018.

Dave Sedman: If market volatility is any indication, then the start to this year has been very exciting. Overall, while fees tended to increase, Canadian loan volumes decreased slightly over the quarter, when compared to Q4 2017. This is a seasonal shift that is mostly attributed to a decrease in supply as the Canadian markets begin to move through the proxy season. In demand names experienced higher than average fees as borrowers struggled to maintain their positions due to the temporary constraint in supply. It is important for beneficial owners to consider their options around the proxy voting time because additional fees can be earned from lending during the proxy season.

Throughout the quarter, demand weakened somewhat in some sectors such as specialty pharmaceutical and alternative mortgage finance. On the positive side, borrower demand remains stable within the retail and oil and mining sectors and dividend reinvestment plan (DRIP) trade opportunities remained constant throughout the quarter.

There was also an increase in demand for fixed income securities, specifically for HQLA assets, which would include Canadian sovereign debt. This has been a theme over the last several years as borrowers have adapted to the new regulatory requirements. On the flipside of this, borrowers want to pledge a variety of collateral including equities and corporate debt. Beneficial owners can accommodate this collateral set within their risk parameters.

Is investor education (beneficial owners knowledge of securities lending) a problem in Canada like other countries?

Novo: The Canadian securities lending market is one of the largest and most mature markets. As a result, participants in the market are generally some of the most sophisticated and knowledgeable in the industry. Despite the relatively strong history of securities lending in Canada, there remains a need to continually engage beneficial owners in industry developments and to educate less experienced investors on the securities lending market, including benefits and risks. For example, while Canadian mutual funds have been participants in the lending market for years with the adoption of National Instrument (NI) 81-102, there are many mutual funds that, for various reasons, have not participated in the market.

Continued education and dialogue with those who are not currently capturing value by participating in the industry will be key to expanding the supply of the Canadian securities lending market.

D'Eramo: We are constantly looking for opportunities to engage with our beneficial owners in order to increase their knowledge of securities lending. As an agent lender, one of our primary responsibilities is to provide lenders with insights into their portfolio opportunities and how the market is developing. This engagement has proven invaluable in helping beneficial owners realise the benefits of a securities lending programme and providing RBC Investor & Treasury Services, as agent lender, with a complete view of our clients' goals.

Directional trades and shorting continue to be a frequent topic of conversation, especially with portfolio managers. The broad range of market data available today is key to our goal of increasing awareness of the drivers and dynamics of the securities lending market among beneficial owners. Industry data and metrics are essential to providing lenders with the transparency and information necessary for them to understand this investment space.

Sedman: Globally, beneficial owners are taking a much more active role in their securities lending programmes, which means that transparency and education remain a key component of the client relationship. Canadian clients have always taken a keen interest in understanding the risk/reward trade off from implementing a securities lending programme. Beneficial owners are interested in more closely monitoring their programmes to ensure they remain within their specified risk tolerance and that income is tracking their expectations.

Client service is a hallmark of Northern Trust and we work closely with our Canadian clients to ensure they have the information they need to manage their programmes effectively. In addition to monitoring borrowing and collateral exposure, beneficial owners are interested in the demand and revenue paid for their securities. Benchmark reporting and detailed revenue information is an important aspect of the relationship review process with clients. Online access to reporting augments the client experience to assist clients in their oversight of the programme.

Zywot: Generally speaking, Canadian beneficial owners are engaged and well versed in securities lending. Most participants, view securities lending as both an opportunity to generate incremental revenue for their unitholders, as well as an additional investment vehicle for diversification purposes. In an ever-changing environment, it's important to keep up-to-date on industry trends and to share that knowledge with beneficial owners in order to help them stay current with market changes, from key regulatory updates to market-specific demands.

How has the recent 2018 Federal Budget been received by the securities finance industry and what do we need to take note of?

Novo: The recently released Federal budget did contain some language around the "specified securities lending arrangement", which was largely seen as tightening up the rules that had already taken effect in April last year, but will not be impactful on the agency lending market.

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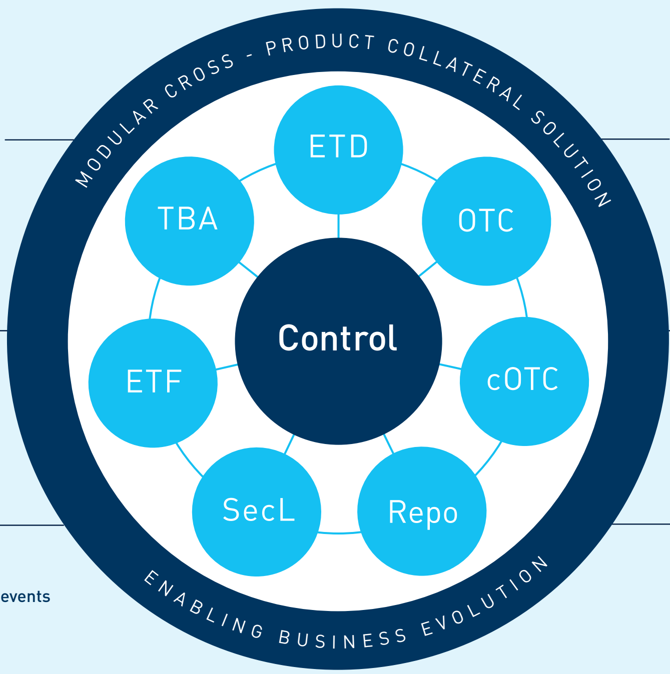

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What regulatory initiatives are being discussed and how will they affect Canada?

Zywot: We are awaiting the final amendments to the Alternative Fund Proposals by the Canadian Securities Administrators (CSA), which affects NI 81-102, a core regulatory framework for mutual funds in Canada. This change looks promising for the alternative investment funds industry in Canada, as it would allow alternate fund strategies to be offered to retail investors in the same manner as mutual funds. Once implemented, this regulatory change could be a major growth area for liquid alternatives in Canada, and it could add additional demand for securities financing solutions.

CASLA is currently in the process of lobbying for changes to NI 81-102, specifically to permit Canadian mutual fund managers to expand their acceptable collateral profiles to include equities for securities lending transactions. This flexibility would provide additional diversity to their collateral profiles, generate opportunities for additional income, and position fund managers to compete with similar European funds (UCITS) and pension plans on a more level playing field in security loan transactions.

Ed Hellaby: The ongoing implementation of BCBS IOSCO uncleared margin rules continue to impact the Canadian market. The requirement to exchange initial margin bilaterally has been phased into effect since 2016, culminating in 2020 for all firms with over $8 billion aggregate average notional amount (AANA). For many Canadian buy-side institutions who fall into the final phase of the regulation there is much work still to be done, with just over two years until the regulation takes effect. FIS is seeing the process of readiness for these rules taking market participants anywhere up to 24 months depending upon their current infrastructure and capability.

There are many steps involved, including the determination of net trade open notional; negotiation of initial margin legal agreements; selection and implementation of a technology solution to perform the ISDA standard initial margin methodology (SIMM) IM calculation; enhancement of the current margin call processing workflow; and negotiation of triparty account structures for IM segregation.

In addition to managing the workflow and calculations, market participants will need to be able to mobilise liquidity to cover these additional obligations, often in the form of HQLA. We have seen many Canadian firms approach us to help develop a centralised real time view of their assets to better understand their funding capacity.

This is being coupled with the ability to be able to estimate initial and variation margin requirements to ensure sufficient liquidity can be made available to cover obligations without the need for maintaining cash buffers. As we get closer to the deadlines we expect there to be a scramble to put infrastructure and processes in place, so we encourage firms to engage with trusted industry partners such as FIS as early as possible, to help guide them through the available solutions in the market.

D'Eramo: On the regulatory front, the Canadian mutual fund market continues to evolve in tandem with the increasing sophistication of investors seeking leverage and exposure in their investment portfolios. The inability of Canadian mutual funds to accept equities as collateral significantly limits their lending opportunities. It is essential that conversations on the need for regulatory change highlight the importance of securities lending from an alpha perspective and its ability to mitigate market risk.

Additionally, the liquid alternative space continues to develop including potential regulatory relief to expand the leverage capabilities of Canadian mutual funds. This is an important development for the securities lending industry, potentially leading to increased borrower demand as mutual funds seek to gain further exposure to alternative investment structures and implement leverage strategies across these structures.

Novo: The regulatory front in Canada has been largely quiet over the past few months. The industry has been in the early stages of working on initiatives that would expand the ability of specific types of beneficial owners to take a wider array of collateral, improving flexibility and supply, as the industry continues to move to more non-traditional collateral.

Lemstra: Among the number of regulatory changes impacting our industry, we hear the most about Securities Financing Transactions

"The ongoing implementation of BCBS IOSCO uncleared margin rules continue to impact the Canadian market"

Ed Hellaby
Business development director, collateral management
FIS

> ***The market continues to define itself with a mix of high demand 'specials' securities and lower demand general collateral***

Dave Sedman
Senior vice president, global securities lending
Northern Trust Company, Canada

Regulation (SFTR). While SFTR is a European regulation, Canadian market participants have an ear tuned to SFTR where it impacts their global book and counterparty relationships.

Whether the exposure to SFTR comes through reporting obligations themselves in a jurisdiction where they trade, or whether they trade with a client that has an obligation to report, firms must prepare their systems and workflows to provide the required information. For firms in scope, SFTR has a significant impact, including technology spend, regulatory resources and industry working group engagement. SFTR is front and centre in the global securities lending industry and on the radar of all Canadian participants.

How are stocks for Canadian companies being used within the country's lending market? Are there any stand out favourites stocks or industries?

Sedman: The market continues to define itself with a mix of high demand 'specials' securities and lower demand general collateral. The specials tend to be very name specific and associated with industries where there has been volatility in underlying share prices. Specials can represent a large portion of a lender's earnings so it is important to monitor and understand the dynamics that are driving the demand. This year the Canadian specials market benefited from continued directional demand in the specialty pharmaceutical, energy and department store retail sectors.

Another pocket of demand relates to the lack of liquidity in certain securities around proxy voting periods. In Canada, we tend to experience some cyclical demand based on the proxy voting. Lenders should understand whether it makes sense to lend your securities over the proxy period and try to gain some additional income.

A large portion of the revenue generated from certain large cap Canadian equities is driven by the dividend reinvestment plan (DRIP) trade. Similar to the proxy demand, DRIPs typically have season demand, so it is important for lender's to understand the timing and demand for these opportunities.

Lemstra: The healthcare sector remains one of the most active ones for lenders in Canada, especially the Pharmaceuticals industry, where medical marijuana stocks have been very hot for some time. Three of the five top-earning securities in Q1 2018 are part of the medical marijuana class; this area has contributed significantly to securities lending revenue in this market as the Canadian government continues its push to legalise marijuana in summer 2018.

Novo: Though general collateral trades continue to drive most of the volume in the Canadian market, directional activity continues to be the source of earnings growth. While Q1 2017 was characterised by a focus on the alternative financials, most predominant of which was

> ***Canadian market participants have an ear tuned to SFTR where it impacts their global book and counterparty relationships***

Alexa Lemstra
Director
Head of EquiLend Canada

Home Capital Group, the first quarter of 2018 saw borrowers focused on a few other sectors.

Mining firms, and in particular ones focused on gold mining, continued to see a bid especially in light of the US Federal reserve's expected rate path and its impact on prices of the yellow metal.

Blockchain related issues were another source of demand that helped drive revenues in the first quarter, as a spate of firms 'rebranded' themselves with blockchain technology as being a focus of their business strategy. Despite the focus on these sectors, financials and in particular consumer finance companies, continued to be steady favourites as concerns about overleveraged Canadian consumers continued into the current year.

Zywot: Over the last three years, Canada has experienced cyclical demand in the equity market. We have seen a shift from Canada being a mostly general collateral market to specials-driven, mainly due to cyclical market activity.

For example, we saw specials in the resource sector, which coincided with the resource correction that began mid-2014. This was followed by the housing sector surge, which drove demand specifically for the alternative mortgage financing segment, and now we are enjoying increased demand in the healthcare sector, driven by the popularity of the emerging medical marijuana industry.

Are industry participants still interested in developing a workable central counterparty (CCP) model or are we looking past CCP's at other solutions?

Novo: Canadian industry participants continue to work with a number of CCPs to develop a working model. The Canadian securities finance market has already seen some degree of success with CCPs, with the introduction of clearing of Canadian fixed income repo by the Canadian Derivatives Clearing Corporation (CDCC) in 2012.

CCPs continue to offer potentially significant advantages for borrowers and agent lenders from a regulatory perspective. Borrowers would benefit from leverage and liquidity coverage ratio perspectives, while both agent lenders and borrowers would attain some degree of RWA benefit. Agent lenders would benefit from a single counterpart credit limit perspective, which will also help to mitigate large counterparty exposures and in turn related regulatory impacts. Industry participants view CCPs as one potential solution that will complement other solutions being pursued.

Zywot: The proposed method for how CCPs would function in Canada is not currently suitable for securities lending. Overall, we are not experiencing the increased interest in this model that has been seen in other countries. However, there have been some recent developments with the addition of some buy-side participants to the Canadian CCP model run by the Canadian Derivatives Clearing Corporation (CDCC).

Globally speaking, as part of a wider range of solutions for the securities finance industry to utilise, there is a broader push for CCPs, which are becoming an alternative tool for market participants.

Lemstra: The global industry is making progress with CCPs in different jurisdictions. In the US, volumes and balances in the OCC hedge programme have been steadily growing, while FICC fixed income offerings continue to have steady growth.

Meanwhile, in Europe, there are indications that Eurex is gaining traction. Through EquiLend Clearing Services (ECS), we continue to see interest and investment in the CCP model, especially in the US and Europe. In Canada, the CCP model is in place for fixed income through the CDCC. The CDCC says it is considering adding a model for equities, but nothing is scheduled for release in the short term.

What is the level of automation in Canadian securities lending and is there a desire for blockchain, AI and all the many talked about fixes for problems that do not exist?

D'Eramo: Automation is playing an increasingly important role in the securities lending business. Technology is key to ensuring that

> ***Technology is key to ensuring that beneficial owners continue to realise the benefits of an agent lender's ability to efficiently optimise portfolios***

Donato D'Eramo
Global head of securities lending
RBC Investor & Treasury Services

beneficial owners continue to realise the benefits of an agent lender's ability to efficiently optimise portfolios. The focus in Canada has generally been around automated trading.

RBC Investor & Treasury Services' technology development efforts are centred on how we connect with counterparts, as well as the way we seek opportunities for non-lending clients and the process for pricing trades.

As an early adopter of Next Generation Trading (NGT), we have automated more than 75 percent of our connectivity with counterparts, freeing up our global lending desk to focus on optimising high-value lending and exploring new trading strategies. Pricing algorithms are another way that technology is shaping the industry. This goes hand-in-hand with the increasing sophistication of beneficial owners, who expect agent lenders to be price-makers as opposed to simply being price-takers.

The development of automated pricing strategies has enabled RBC to utilise the full spectrum of data available in the market, proactively generating well informed pricing rather than reactively bidding up the price offered by the broker.

Novo: Given the maturity of the Canadian market, adding efficiencies through technology remains a key focus for industry participants. While the industry has made great strides in automating trade flow through better connectivity between lenders and borrower, it continues to look for other ways to optimise through emerging technologies. Generally speaking these emerging technologies will be helpful for the transparency and efficiency of the securities lending market.

With respect to blockchain/distributed ledger technology (DLT), benefits include reduction in transaction costs around settlements, reconciliation times throughout the transaction lifecycle and a shared common data source between counterparties.

These mechanics of the technology will help reduce intraday risk and associated capital requirements banks deal with in the current settlement structure.

Additional opportunities will be near-real time attribution of securities and client exposures, Smart Contracts to automate existing manual touch points and more efficient ways of tracking trade lifecycles and trade attribution.

Artificial intelligence (AI) and machine learning allows for better decision making, which allows firms to automate processes that they weren't able to do before. Some applications of this include better predictions of borrow rates, which help in pricing and the ability to match transactions quicker, which improves reconciliation times.

Hellaby: The collateral management industry is an example of one that has continued to innovate to strive towards high levels of automation and straight-through processing (STP). Over 30 FIS clients are leveraging the Apex Collateral solution to allow them to manage increased margin call volumes by leveraging a broad community of industry utilities; implementing exception margin based workflows; and automating the collateralisation process through collateral optimisation.

As the uptake of repo margin call processing through Acadiasoft continues to increase, organisations are looking to ensure their repo collateral management solutions are fully integrated with the industry utility.

This level of integration allows an institution to automatically issue and agree all margin calls with their brokers based on exception rules before they have even stepped foot into the office. If this process is combined with collateral optimisation an organisation can take the level of automation one step further, by having their collateral platform automatically select the most efficient piece of collateral to cover the obligation and communicate this to the counterparty.

At FIS, we have seen clients report the average time to process a margin call fall by over 300 percent by leveraging Apex Collateral's out of the box connectivity with Acadiasoft and cost based optimisation routines.

It is clear that disruptive technologies such as blockchain and artificial intelligence will continue to drive efficiency in the securities finance industry, and across markets more broadly. In addition to the

Given the maturity of the Canadian market, adding efficiencies through technology remains a key focus for industry participants

Stephen Novo
Head of Canadian equity and fixed income trading, vice president
State Street Securities Finance

We are experiencing rapid technology change in the financial services industry overall, and it is not a time to stand still

Phil Zywot
Managing director, securities finance
BNY Mellon Markets

drives for efficiency outlined above, FIS has been leveraging artificial intelligence within our Intellimatch solution to better aid its matching and reconciliation process.

Zywot: We are experiencing rapid technology change in the financial services industry overall, and it is not a time to stand still.

However, when it comes to technological change, Canada has traditionally been a late adaptor or more of a "strategic follower" of proven technologies.

At BNY Mellon, we are embracing opportunities for innovation and efficiency. By automating certain repetitive tasks, employee capital can be re-allocated to more value-added functions and opportunities.

There is a strong industry desire for blockchain-type solutions.

The technology behind blockchain has the potential to help with trade settlements and other back-office efficiencies, as well as increase transparency and potentially reduce operational human error.

Lemstra: The Canadian securities lending industry has an impressive history of innovating and investing in technology. That is evidenced by the widespread adoption of EquiLend, specifically NGT and our post-trade suite, throughout the market.

At EquiLend, we continue to see investment into automating trading and post-trade activities with the goal of improving straight-through processing (STP) and efficiency in the Canadian lending industry.

Technology investment is very important to participants here, and it is certainly front of mind and a key item on annual budgets.

The Canadian market was early to adopt NGT, and Canadian participants have pushed innovation of that product globally.

The move into blockchain and AI by Canadian banks will not likely be implemented first in the securities lending segment of the market, but if the technology evolves and becomes more prevalent, the securities lending market will no doubt will to meet the challenge alongside their global colleagues.

Sedman: We cannot look forward to the future of our industry without considering the impact of technology. Advances in technological capabilities have the potential to completely transform our industry, and the broader financial markets to a degree unthinkable 10 years ago.

At Northern Trust, we are working with a number of new technologies such as machine learning and robotics as well as developing our data analysis capabilities.

We believe these technologies can and will be employed to enhance everything from trading strategies through to operational efficiencies, and we only see them becoming commonplace in the coming years.

Combined with increased transparency, we are likely to see the use of automated pricing mechanisms with lenders being more able to predict and determine appropriate pricing levels for specials.

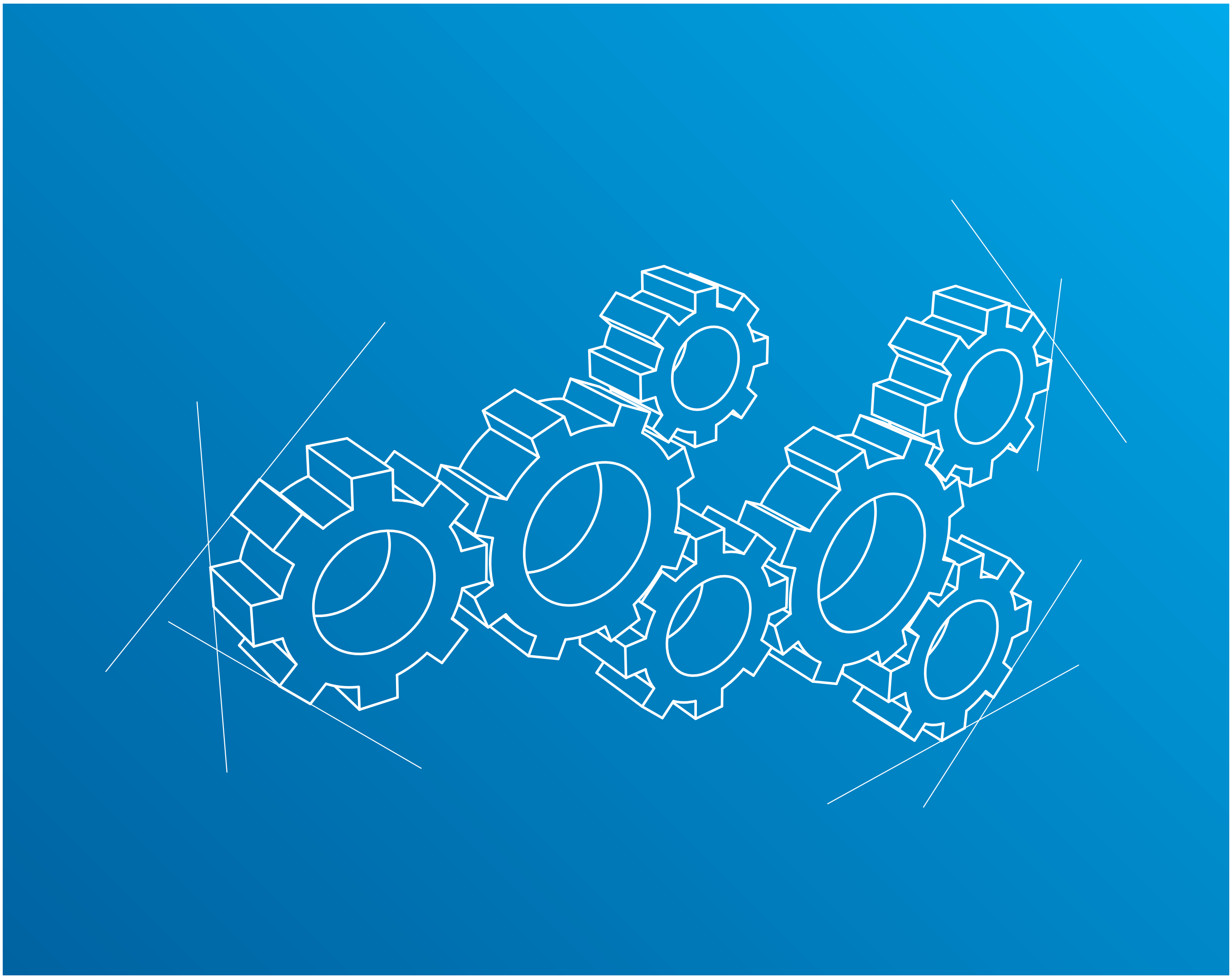
It is highly likely that the use of blockchain technology will be much more widespread in five years' time.

Northern Trust believes blockchain technology and DLT have the potential to drive major industry-wide improvements and opportunities.

This is supported by a wide industry view that blockchain technology can significantly change the manner in which market participants interact and conduct financial transactions.

Through our experience and expertise in deploying blockchain technology for private equity markets, Northern Trust believes DLT will improve the transparency and efficiency of the market, as well as provide potential opportunities to achieve industry cost efficiencies across the value chain.

As confidence continues to grow in technology, it could also open up future opportunities around account structures, regulatory reporting and digital issuance. **SLT**



Modernising mutual funds

Daniel Dorenbush of Scotiabank discusses how the CSA's proposed rules to modernise investment funds will affect the Canadian market

Becky Butcher reports

Can you tell us about the CSA proposals to modify current regulatory framework for mutual funds and what the aim of the framework is?

The Canadian Securities Administrator (CSA) is preparing to adopt new rules that will modernise the regulation of investment funds in Canada.

In September 2016, the CSA published proposed amendments to NI 81-102, which includes an alternative mutual funds category. When adopted in final form, the rules will permit alternative mutual funds to be sold to investors in Canada in much the same manner as conventional mutual funds.

These funds will be able to employ certain investment strategies such as shorting and leverage—within strictly regulated limits—that have traditionally been utilised by hedge funds.

This change will expand opportunities for investors in Canada, particularly in the retail market segment and likely create new opportunities for hedge fund and mutual fund manufacturers.

What challenges and opportunities will the proposed regulation have for the Canadian mutual fund space?

Some mutual fund manufactures have been challenged by competition from exchange-traded funds (ETFs) and a shortage of differentiated products. The result has been a compression of fees and a strong desire to create new, differentiated products. The proposed rule changes will allow mutual fund manufacturers to consider new products, which can draw on a broader set of investment tools to serve their investors. Some traditional asset managers may find that they have a learning curve in running these new strategies, both from an investment and an operational standpoint. This may inspire the outsourcing to third party managers (such as established hedge funds) or a ramp-up in internal expertise. Other traditional manufactures may already be well positioned in terms of their skill set.

How will the changes affect the hedge fund market in Canada?

These are positive changes for the Canadian hedge fund space. To date many hedge funds in Canada have been challenged in distributing to retail investors. There are several worthwhile speed bumps that have been put in place throughout the retail distribution channels, such accredited investor rules and risk ratings, which are designed to protect retail investors. While it is a good structure overall it can sometimes make it difficult for average retail investors to access some high-quality hedge fund managers in Canada. The proposed new rules should make it easier for these investors to access a broader set of managers while ensuring certain limits are in place to continue to protect the end investor. For hedge fund managers it could mean that some of their products will be more accessible to investors and offer them an opportunity for growth.

How will the changes affect Canadian prime brokers?

Given that most traditional asset managers do not have an account with a prime broker—as their strategies do not necessitate this—they will need to establish this relationship. The CSA has very smartly designed the proposed rules so that they ultimately protect end investors. One example of this is the proposed directive to utilise, to a large extent, domestic banks and dealers for custody and borrowing services, where the CSA has greater oversight. It is important for Canadian service providers who want to support the alternative mutual fund market to be able to support investment strategies across global markets while offering a variety of solutions to accommodate the custody and prime brokerage requirements of new funds. In this light, Scotiabank is well positioned for these changes. The firm is fully committed and has made significant investments in the prime brokerage business. With offices in Toronto, New York, London and Singapore, Scotiabank can facilitate prime brokerage services in 35 geographic markets, both in cash and synthetically.

When are the changes set to take effect?

That's the million dollar question. The CSA requested industry commentary following the most recent publication of the draft rules in late 2016. There were many industry comment letters offering valuable feedback on the proposed rules. These need to be adequately reviewed and contemplated by regulators with the final version approved by 13 provinces and territories in Canada. There are unconfirmed suggestions that we may see the final version of the rules in fall this year.

How do you expect the Canadian mutual fund space to grow over the next 12 months?

Hopefully, we will see the finalisation of the rules later this year. We will likely see some new products offered by both Canadian mutual fund and hedge fund managers and we may see some mutual funds team up with hedge funds to manage these products. Over time there will likely be some shifting of assets from traditional, long only strategies to the new alternative. While it's difficult to put a number on how big this market could be, and while there are some reservations about the possibility of managers with less experience in alternative strategies moving into the space, there is broad support for the proposed rule changes across the industry and meaningful optimism about the road ahead. **SLT**

> ***We will likely see some new products offered by both Canadian mutual fund and hedge fund managers***

Daniel Dorenbush
Managing director, head of Canadian prime services
Scotiabank

Australia's repo market continues to evolve

Moving into a new phase of growth, it is very clear that the Australian repo market is very much on the march

Brian Bollen reports

The Australian repo market is moving into a new phase of growth. This is one of the striking remarks to emerge from conversation with experienced market participants on the subject of how the local market compares with other developed markets.

Australian repo might be slightly behind the times, local practitioners concede, but it is in catch-up mode, and this catch-up could happen relatively quickly.

Hugh Leonard, director of repo sales at ANZ in Sydney, sees the current phase as a growth story linked to the increased issuance of government bonds in the wake of the global financial crisis. The synchronised adoption of lower official interest rates in most of the world has also contributed to the growth.

Issuance across Australian Government Securities (AGS), the bedrock of the repo market, has seen a significant increase from just AUD $60 billion in March 2008 to over AUD $525 billion as of late.

Austraclear, the local central securities depository, has approximately AUD $2 trillion fixed income issuance on its books. This represents a near doubling in a decade.

Australia's attractions

The increased issuance and associated improved liquidity has attracted a growing range of domestic and offshore institutional involvement to the local bond market. The roster of investors now features domestic and offshore banks, sovereign wealth funds, central banks, hedge funds and other asset managers. For domestic investors subject to domestic risk and liquidity rules, Australian government debt is the risk-free paper of choice. Offshore investors are attracted by the combination of the AAA rating of AGS, the traditional yield pick-ups on offer, political stability, broader economic maturity and liquidity.

Each of the above will have differing funding requirements. Hedge funds generally seek to fund their holdings via repo, whereas sovereign wealth funds may simply buy and hold, meaning they have less of a funding requirement or even none at all.

One repo trader describes Australia as a fairly liquid repo market onshore in government and semi-government bonds with liquidity up to three months on the street.

The major cash provider is the Reserve Bank of Australia (RBA), which has daily open market operations (OMO) and uses mainly reverse repo of RBA eligible securities as the product of choice to keep appropriate liquidity in the Australian banking system, he notes.

According to the RBA, the gross size of the Australian dollar repo market was calculated to be worth AUD $193 billion in December 2017, approximately three times larger than its 2009 size.

However, this additional funding demand is occurring at a time when banks have less capacity to offer funding due to balance sheet limitations driven by liquidity and capital regulation.

Anecdotally, the Australian repo market has historically been plain vanilla (bilateral settlement of delivery versus payment repo) and has displayed limited diversification of client participation or structured transactions.

Change is afoot

But change is afoot. As with global markets, the domestic market is responding to the changing regulatory and operational environment.

Transactions are moving away from a predominance of short-term overnight funding, towards incorporating more structured trades and credit financing.

And, as already alluded to, investors in Australia and elsewhere are showing more of an interest. Pre-global financial crisis, the RBA via OMO provided approximately 50 percent of cash to the repo market.

This has fallen to just 25 percent on the back of today's broader range of market participants and the increase in market size, driven mainly by increased issuance of AGS.

The market is lop-sided, however, with demand for cash exceeding supply, leading to volatile and relatively high repo rates.

Leonard observes: "One unique characteristic of the Australian repo market is that the price of secured repo-related borrowing is higher than that of unsecured borrowing."

The notable spike higher in repo rates witnessed since early 2018 is in part owing to this structural imbalance.

Three-month repo funding levels at the RBA OMO had been averaging overnight index swaps (OIS) of plus 10/15 basis points spread in 2016 and OIS plus 20/25 basis points spread in last year. However, the average thus far in 2018 is OIS plus 30/35, with levels printing as high as OIS plus 90 for 32 days seen over March quarter end.

Tri-party on the move

The development of tri-party repo is delivering a range of additional options to the market and market participants, says one commentator.

Tri-party is giving the collateral-giver flexibility on the bonds they post to collateralise repo transactions, securities lending transactions and open market operations all over the world.

One market participant notes that as long as the collateral-giver has enough securities, that are eligible for the pre-agreed tri-party set, they have the flexibility to post any of these at any given time to the cash giver, keeping the flexibility to switch between eligible collaterals without the need to close existing trades and re-open new ones.

The market participant adds: "It's the tri-party agent that takes care of the substitutions of eligible bonds at any time."

"A good example of this is the ability in Australia to submit to the RBA collateral for open market operations via ASX Collateral, the domestic tri-party agent, making it possible for banks to switch the bonds they submit for their OMO allocations."

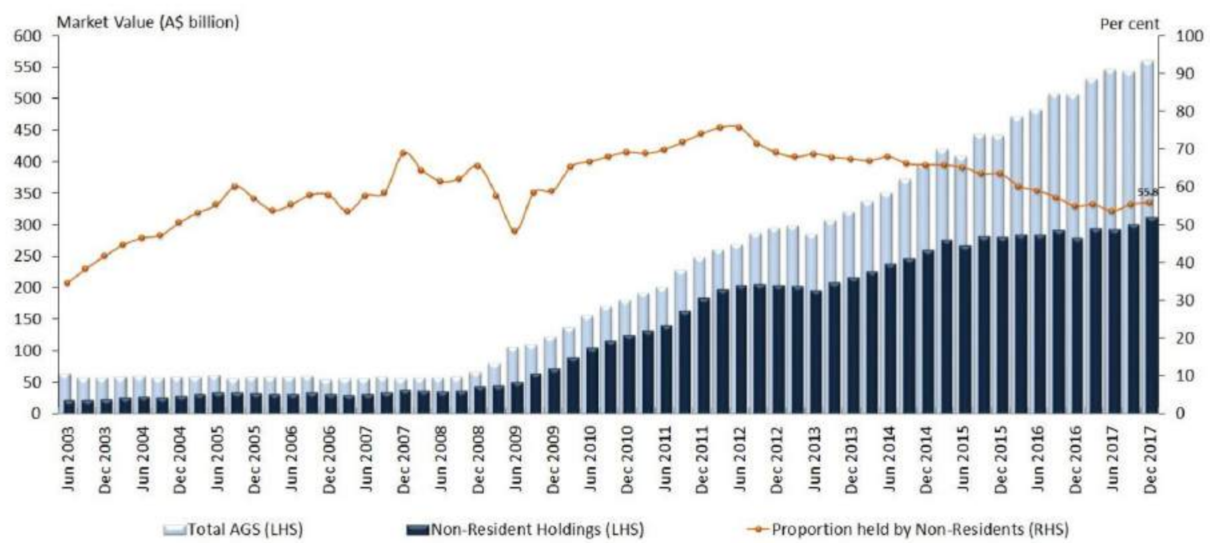
Leonard also suggests: "Tri-party repo requires less administration and high volume trading, making it an easier way to transact in the repo market."

ASX Collateral, which went live in June 2014, has seen strong growth.

Tri-party repo balances reached a record high in March 2018, representing approximately 13 percent of the domestic market settled via tri-party, with a high of 43 percent of RBA OMO settling via ASX Collateral.

It is clear from this body of evidence that the Australian repo market is very much on the march. **SLT**

Figure 1: Growth in AGS and percentage held by non-residents



It's coming for you

Ted Allen, director of business development, FIS explains why those who work in collateral operations should review their collateral infrastructure

Why are collateral operations managers so focused on initial margin?

If you work in collateral operations in a bank, asset manager or insurer, initial margin (IM) for uncleared over-the-counter (OTC) derivatives is going to hit you soon. The largest banks are already exchanging IM for non-cleared OTC derivatives. The next tranches of banks and buy-side firms would be hit from September this year through to September 2020. The preparations for these new rules are not just about getting a system or subscribing to a service to calculate standard initial margin model (SIMM), which is a priority for the front office and risk, but there is even more for operations managers to be preparing for.

While the variation margin (VM) rules have been in place for a while now, only a small number of banks have so far had to deal with IM. Firms will come into scope over the next two years based on the size of notional of its book of uncleared OTC derivatives and it is not just the banks that are impacted, many fund managers that still have uncleared OTC derivatives are going to have to deal with this issue. The waves are as follows:

Average Aggregate Notional Amount chart

	Average Aggregate Notional Amount			
	Europe	US	Singapore	Japan
September 2018	EUR 1.5 trillion	USD 1.5 trillion	S$ 2.4 trillion	JPY 210 trillion
September 2019	EUR 0.75 trillion	USD 0.75 trillion	S$ 1.2 trillion	JPY 105 trillion
September 2020	EUR 8 billion	No threshold	S$ 13 billion	JPY 1.1 trillion

So, the time to impact is getting shorter and if you're in the 2018 or 2019 waves and not preparing yet, there could be a problem. If you're managing funds that will be in scope in 2020, then now is the time to start planning.

The operations manager has much to do. IM exchange is two-way: You will be both giving and receiving IM with all your in-scope counterparties, every day. Unlike VM, IM will be primarily non-cash and must be held in segregated accounts. For every regulatory VM call you have currently, you will potentially have two additional IM calls to calculate, agree and settle. Even if you stay below the IM threshold, you will still need to calculate and monitor the IM every day.

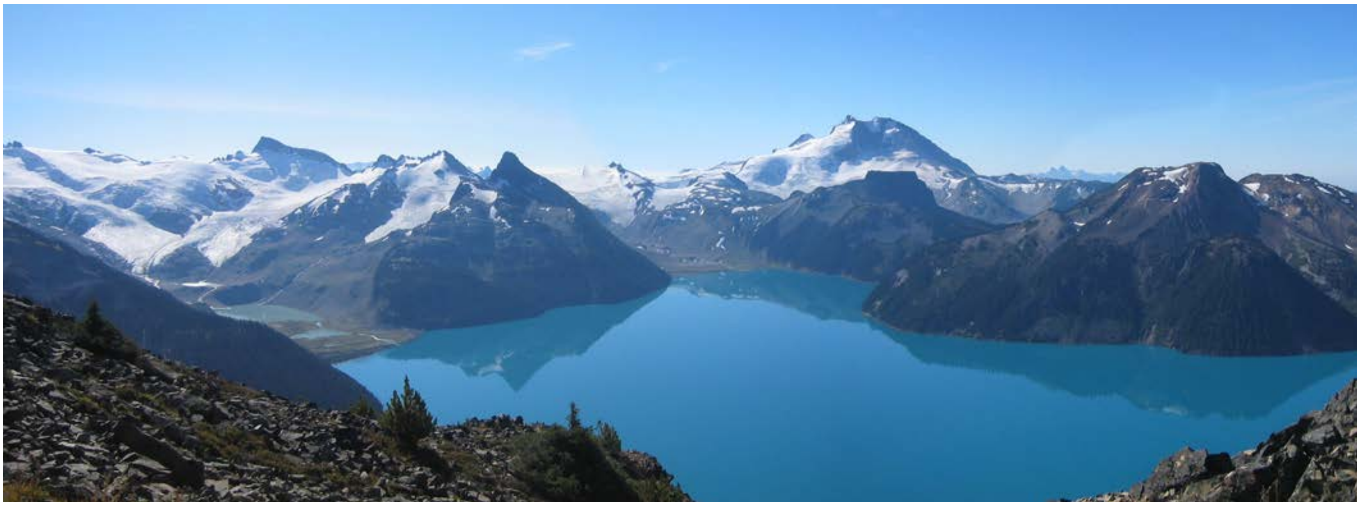
That is going to have a tremendous impact on firms that don't already have an automated collateral system in place. If you're outsourcing collateral management then you need to understand the onboarding and the ongoing costs for your provider to add all these agreements, and to add support for non-cash collateral and IM segregation. It might not continue to make economic sense to outsource when your costs of oversight are also going to be much higher.

Here is a quick to do list:

- Define a policy and negotiate the IM credit support annexes
- Onboard and connect to a triparty agent or other custodian
- Figure out if you're going to use Marginsphere and Margin Transit Utility (MTU)
- Work out how to fund IM and allocate back the cost of IM
- Select and implement a new automated collateral to handle the volumes and provide the connectivity you need out of the box
- Get ready for the industry testing

Now is the time to review your collateral infrastructure. FIS Apex Collateral is used by many of the most sophisticated buy and sell-side firms and many are already in scope for IM. It provides the front to back support for collateral managers handling OTC derivatives, repo, securities lending, mortgage-back securities, cleared OTC, futures and more. It has a highly automated workflow, out-of-the-box connectivity to triparty agents, custodians, futures commission merchants, central counterparties, Marginsphere, MTU and all the main market infrastructure providers.

We also provide optional modules for calculation of SIMM and IM for cleared OTC and listed derivatives. **SLT**



Keeping it Canada

Samuel Pierson of IHS Markit breaks down data for Canadian securities

Borrow demand for Canadian securities

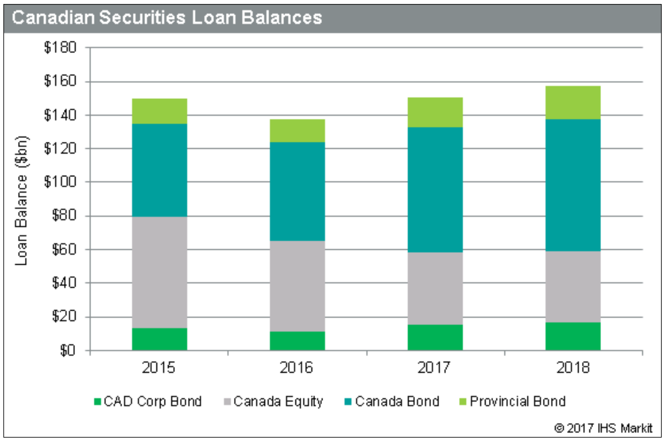
The borrow demand for Canadian securities in 2018 is set to exceed last year's balances of $150 billion across equity and credit. That projection is based on assuming the Q1 2018 balances along with the Q2 to Q4 balances from last year, to counter any seasonality impacts. The security mix has changed greatly over the last four years. However, with collateral needs pushing up demand for government bonds, the average balances for Q1 provincial bonds were up 53 percent as compared with Q1 2015, with Canada bonds not far behind, up 42 percent in that time. The demand for high quality collateral is likely to persist and if anything, the increased balances suggest the demand trajectory is increasing.

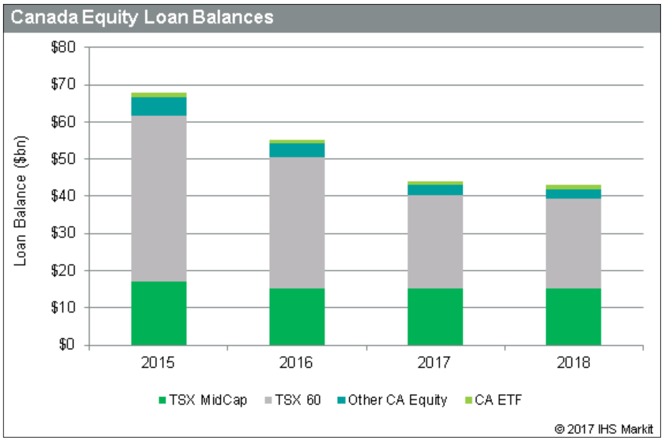
As we'll note in the equity special section, demand from specials has increased in recent quarters, so taken together with the increasing demand for credit instruments, there has been solid demand for Canadian securities at the outset of this year.

Equity demand down slightly

Equity demand is projected to be down this year, with Q1 balances down nearly 9 percent compared with Q1 2017. Equity lending revenues were actually higher, as the result of increased specials demand, so the average fee is increasing while the balances continue to trend down, albeit at a much slower rate than in 2015 to 2016.

The demand for TSX MidCap stocks has been consistent near $15 billion, with mainly large cap stocks making up the decline. Canada listed exchange-traded fund (ETF) balances have also declined, from over $1 billion in 2015 to an average balance of $775 million in Q1 2018, which is largely the result of declining demand for energy sector related indices.

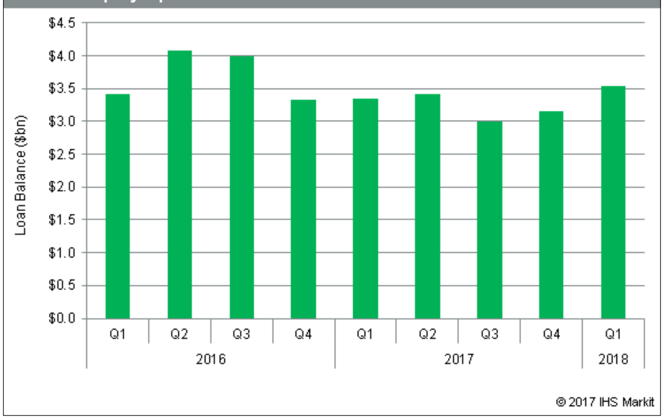




Increasing short demand for equity specials

Canadian equity specials balances have been trending up, with the Q1 2018 representing a 12 percent increase as compared with Q4 last year, which was itself a 5 percent improvement on Q3. The uptrend in specials demand is most welcome, given that average balances for 2017 were down 13 percent as compared with 2016. The rise in oil prices caused significant covering in the related equities in later 2016 and early last year, to the detriment of specials demand, which was 25 percent lower in Q3 last year than it was in Q3 2016.

Canada Equity Special Short Balances



During Q1 2018, there were some pockets of increasing demand in the energy sector, with Transcanada seeing the largest increase in demand from short sellers, with balances increasing by over $500 million. There was also increasing demand for Cenovus Energy, which saw balances increase by $100 million. Those increases helped drive a small net increase in demand for Canadian Energy stocks in Q1, however both were easy to borrow, limiting the impact on revenues. Of the 15 Energy stocks with the largest increases in Q1 balances, only two had special fees and they were ranked at 14 and 15 (Baytex Energy Corp and Calfrac Well Services, respectively).

CA Marijuana Related Equities with > $200m Market Cap

Ticker	Name	Value on Loan ($MM)	Market Cap ($MM)	% Market Cap on Loan	YTD Price Change (April 30th)
WEED	Canopy Growth Corp	446	4,555	10%	-7%
ACB	Aurora Cannabis Inc	263	3,370	8%	-32%
APH	Aphria Inc	109	1,757	6%	-50%
THCX	Hydropothecary Corp	19	647	3%	-4%
CRON	Cronos Group Inc	18	993	2%	-14%
LEAF	Medreleaf Corp	11	1,784	1%	-22%
FIRE	Supreme Cannabis Company Inc	9	300	3%	-42%
NEPT	Neptune Technologies & Bio	7	208	4%	22%
EMH	Emerald Health Therapeutics Inc	7	416	2%	-29%
TRST	Canntrust Holdings Inc	3	638	1%	-29%
OGI	Organigram Holdings Inc	3	419	1%	-10%
HIP	Newstrike Resources Ltd	2	347	1%	61%
ABCN	Abcann Global Corp	2	201	1%	-6%

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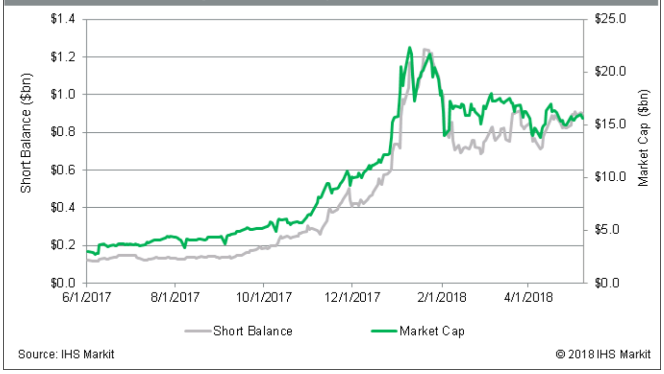
While energy specials demand remains well below the 2016 levels, there have been green shoots elsewhere, which augur well for Canadian equity specials demand. One notable group are the marijuana related stocks, which have seen balances increase from less than $1 million at the start of 2016 to over $1.2 billion at the peak in late January this year. Balances have since declined with the market caps in the sector, currently just under $1 billion. Short sellers were drawn to the group following the bitcoin-like rise in valuations in late last year and January this year.

Short Demand for CA Marijuana Related Equities



Of the thirteen Canadian marijuana related stocks with over $200 million in market cap, the top three represent 91 percent of the roughly $900 million in borrow balances. Those three stocks are Canopy Growth, Aurora Cannabis and Medreleaf. It's notable that those stocks only make up 62 percent of the total market cap of the group. The relative concentration of short demand in the higher market cap stocks highlights the constraint put on short sellers by availability of borrow and trading liquidity.

The chart of short balances compared with total market cap shows that short sellers increased bets against the space significantly starting in Q4 and running into the peak valuation for the stocks in the group. The short borrow balances increased both as the result of increasing valuations and an increasing number of shares. Since the peak demand on 19 January, the dollar balances have declined with the shares prices, minus 27 percent. However, short sellers have pressed against the decline increasing share demand by 13 percent in that time.

All of the so-called 'pot stocks' still have special borrow fees, but the rates have started to trend down, particularly for the more liquid stocks. That has motivated further concentration in the largest three stocks, which increased from 86 percent of balances at the start of March, up to 91 percent currently.

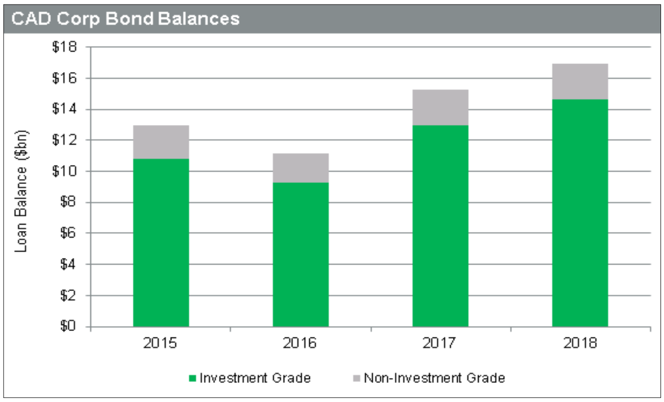
The downtrend in fees suggests that revenues will continue to slow down after a blistering Q1 pace, where they delivered over 30 percent of all Canadian equity lending revenue. Also putting up a similar signal is the HMMJ ETF, which tracks the sector and whose short demand peaked in mid-January and has declined 90 percent since then. With that said, the concentration in demand in the three largest stocks, and away from the ETF, may also reflect a specific demand for those three stocks, whose average return is minus 30 percent year-to-date through April, compared with minus 7 percent for the other 10 stocks.

Apart from the marijuana stocks there were also some event driven special balances, such as Brookfield Property Partners, whose planned acquisition of US mall operator GGP has driven over $80 million in increased demand for shares since the end of March. Long running popular shorts, Home Capital Group and Badger Daylighting have continued to trade special, though the balances have both trended down over the last couple years.

Taken together the increased demand for specials has helped push against the tide of overall decreasing equity balances, with specials making up 80 percent of Q1 revenue in 2018, as compared with 75 percent of revenue in Q1 2017.

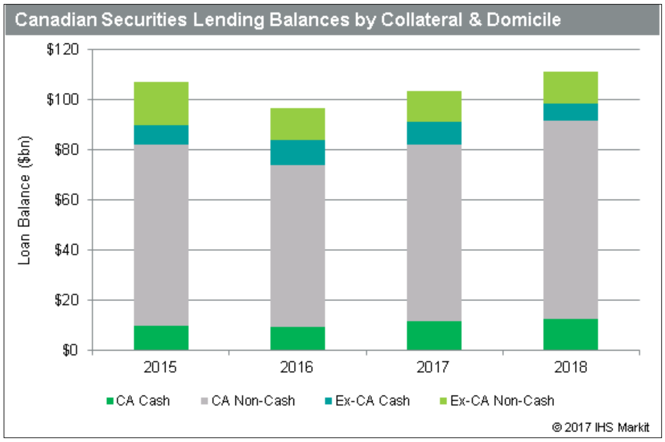
Corporate bond demand increasing

Demand for Canadian corporate bonds has also been increasing, albeit more slowly than the government bonds and from a lower base. The demand for Canadian dollar denominated corporate bonds has been primarily driven by investment grade bonds, which now make up 87 percent of balances, up from 84 percent in 2015.



Balances by collateral type

The increasing demand for Canadian securities is certainly a boon to all holders, but it's worth noting that Canadian domiciled holders are increasing market share of total loan balances. This chart shows the percentage of loan balances across all Canadian securities, which are on loan, broken out by the domicile of the beneficial owner.



The increasing share of demand going to Canadian domicile holders is also part of a larger trend toward non-cash collateral, with the cash portion of all Canadian securities loans moving down to 14 percent as of the end of April this year, having been 18 percent at the same point last year. This has worked to the benefit of Canadian beneficial owners, given their historical usage of non-cash collateral, as compared with many US holders who are constrained by collateral flexibility. With demand for Canadian securities increasing, and a greater portion of the demand facing Canadian counterparts, this year is off to a good start for Canadian beneficial owners. **SLT**

The increasing share of demand going to Canadian domicile holders is also part of a larger trend toward non-cash collateral

Samuel Pierson
Director of securities finance
IHS Markit

The latest industry vacancies

For more positions, visit www.securitieslendingtimes.com/recruitment

Prime Brokerage Middle Office (AVP)

CassonX

London

CassonX are delighted to be recruiting for one of our favorite Banking institutions, and a business that we have done a lot of work with and have been a lead supplier for a number of years.

Securities Lending Technology - Sales (French / German Languages)

Captura Search

Europe

Captura Search's disruptive financial technology client provides an all-inclusive and functionally rich suite of services to support pre and post-trade processing for securities lending and repo markets.

Network Manager – Cash & Securities

HornbyChapman Ltd

London

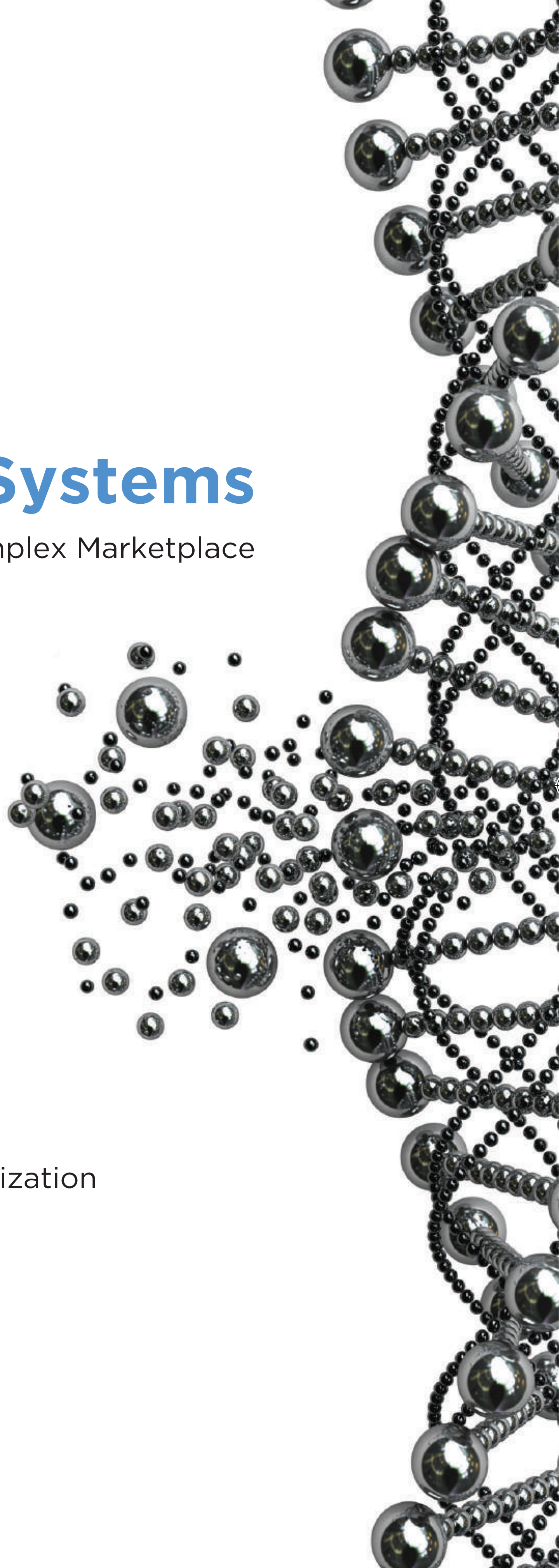
Our client, is looking for a network manager to be responsible for ensuring the firm's Agent Bank Group provides effective and efficient monitoring of sub-custodian banks and other financial organisations through on-site operational review visits within the regional zone of responsibility.

Repo Trading Java Developer

Alexander Ash

London

This role is a great opportunity for a front office java developer to join a universal bank to work both independently and/or with a group of other developers to develop, enhance and support repo market data, electronic execution and other trading applications and interact with traders, sales and operations on several requirements/ projects.



Comings and goings at Deutsche Bank, Citi, HilltopSecurities and more

Deutsche Bank has confirmed that Jim Lailey has left his post as director, head of North America securities lending.

New York-based Lailey is describing himself as 'seeking opportunities' after 16 years and eight months at Deutsche Bank.

He was previously responsible for management of CIBC World Markets Securities Lending business in Toronto, Canada, spending a total of 13 years and 11 months at CIBC.

Lailey has 31 years experience in securities lending, prime brokerage, global equity trading, and operations.

Citi has appointed TJ Treadwell as head of over-the-counter (OTC) clearing for Europe, the Middle East and Africa (EMEA) and Asia Pacific (APAC).

Treadwell will assume the extended remit of OTC product head in EMEA, responsible for product agenda in the region.

He will be based in London and will report to Sabrina Wilson for EMEA.

In his newly expanded role, Treadwell will continue to work closely with partners in origination, client executive, product teams, and will partner with operations and technology teams across both regions.

Treadwell will also help shape the OTC clearing product agenda with the various EMEA and APAC central counterparties.

In an in-house memo, Citi said: "We are very excited to welcome TJ Treadwell to London; please join us in congratulating Treadwell on his new role and wish him continued success."

HilltopSecurities (HTS) has named David Rhodes as its new CIO.

Previously, Rhodes held roles as senior vice president, director of application development, and most recently information technology (IT) managing director for HTS.

In his new role, Rhodes will direct the firm's IT efforts including end user support, systems administration, and IT security.

He will report to HTS chief administrative officer John Muschalek.

Rhodes will replace previous CIO, Jeff Hammill, who will continue to work on special projects for HTS until his retirement at the end of this year.

Commenting on his new role, Rhodes said: "Information technology in financial services is an ongoing challenge. Fintech, robo advisors, e-trading and blockchain are continuing to disrupt the traditional broker-dealer business model, spurring a great need for firms to innovate while overcoming legacy infrastructure."

Rhodes added: "These are challenges that all firms face and HTS is no different."

"I look forward to advancing the firm's technological capabilities and integrating innovative systems that streamline operations, meet regulatory guidelines and create a positive experience for our clients."

Chairman and CEO Hill Feinberg, HTS, said: "Broker-dealers need IT leaders who can address the needs of clients accustomed to a service-now culture, while sustaining a modern, secure infrastructure that can attract and retain talent."

Rhonda Lovings has moved from FIS to S3 Partners.

Previously, Lovings served as sales executive at FIS in New York. She also served as senior sales executive at SunGard, before it was acquired by FIS.

In her new role at S3 Partners, Lovings will serve as director.

S3 Partners provide clients with reporting, data and analytics to help with investment processes, risk management and counterparty relationship.

Diane Blizzard, associate director of the Securities and Exchange Commission (SEC) Division of investment management, is leaving the commission.

Blizzard, who has worked at SEC for 18 years, is planning to leave the agency at the end of May.

Blizzard has led the division's rulemaking offices in developing policy recommendations and rule changes under the federal securities laws affecting investment companies and investment advisers.

Prior to her position as associate director, Blizzard served as managing executive of the division, senior adviser to the director, and assistant director of the Office of Regulatory Policy.

Most recently, Blizzard helped shape new regulations designed to enhance regulatory safeguards—these included new rules and forms, adopted in 2016, that enhance and modernise data reporting by registered funds and require mutual funds and exchange-traded funds to implement liquidity risk management programmes.

According to SEC, Blizzard also played a key role in the SEC's efforts to reform the regulation of money market funds and to implement rules mandated by the JOBS Act and the Dodd-Frank Act, including the Volcker Rule.

SEC chairman Jay Clayton, said: "Main Street investors are better off today because of Diane Blizzard's public service and commitment to enhancing and modernising the regulatory landscape for the asset management industry."

Pirum has appointed Jim Malgieri as strategic advisor to CEO Raj Sheth and CCO Philip Morgan.

Based in New York, Malgieri will focus on expanding the firm's North America franchise.

Previously, Malgieri served as a member of the BNY Mellon senior leadership team, heading the collateral management and segregation businesses globally. Before joining BNY Mellon, he held various management roles at Lehman Brothers, Chase Manhattan Bank, Cantor Fitzgerald, and Morgan Stanley.

Sheth said: "It is my pleasure to welcome Jim Malgieri to our team. Bringing on someone of Malgieri's calibre and stature, with his vast depth and breadth of knowledge of our industry is a huge boost for Pirum. Malgieri will be invaluable in developing our business and strategy for the North American market as we continue to help clients manage the multiple challenges of today and tomorrow. I very much look forward to working with Malgieri."

Commenting on his appointment, Malgieri added: "I am extremely excited by the opportunity to assist Pirum in their aspirations in the Americas and beyond. After spending time with the management team it became abundantly clear that they are building something unique in providing levels of automation, efficiency and connectivity that is critical to the market."

Societe Generale Corporate & Investment Banking (SG CIB) has appointed Alexandre Fleury as head of equities and equity derivatives within global markets.

Based in Paris, Fleury will begin his new role in June and report to Frank Drouet, head of global markets.

Fleury has more than 20 years experience in financial markets where he held managing positions in Asia, Europe and the US, having worked for both European and US banks.

Commenting on Fleury's appointment, Drouet said: "Alexandre Fleury's international experience and solid understanding of financial markets, and of derivatives products in particular, are key assets to pursue the development of our equities and equity derivatives activities."

He added: "This appointment will allow the bank to strengthen its edge as a global leader in derivatives, an area in which Societe Generale has offered innovative solutions to its clients for more than 30 years."

Four new directors are joining the board of directors at the International Swaps and Derivatives Association (ISDA) as it continues to expand its regional and business diversity.

As part of the move, ISDA said it is expanding the central counterparty (CCP) representation on its board to two, and has appointed Daniel Maguire, chief executive officer of LCH Group.

Maguire joins Kevin McClear, corporate risk officer at Intercontinental Exchange, who joined the board last year. Each CCP will serve for a two-year term, on a revolving basis.

The other three elected directors represent different areas of the derivatives business, and are based in three geographical locations.

The new directors include Yutaka Amagi, managing director, head of global markets planning division, MUFG Bank, Ltd; Marc Badrichani, head of Americas sales & marketing for markets and investor services, JP Morgan; Jacques Vigner, head of strategy, conduct, risk and financial resources, global markets and corporate and institutional banking, BNP Paribas.

Seven other directors were re-elected. New directors include Biswarup Chatterjee, global head electronic trading & new business development, credit markets, Citigroup Global Markets; John Dabbs, global head of prime derivatives services, Credit Suisse; Jeroen Krens, managing director, credit, rates & emerging markets, HSBC Bank; Max Nuttall, head of global structured products & IST strategy, BP; Will Roberts, managing director, head of global rates and counterparty portfolio management, Bank of America Merrill Lynch; Neh Thaker, global head of FX, rates and credit, Standard Chartered Bank and Rana Yared, managing director, principal strategic investments, securities division, Goldman Sachs & Co.

Two directors were also re-appointed, McClear and Axel van Nederveen, managing director, treasurer, European Bank for Reconstruction and Development. **SLT**