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Options Markets Stability Act passed

The US House Committee on Financial Services has unanimously passed HR 5749, the Options Markets Stability Act.

The legislation, authored by US Representative Randy Hultgren, is aimed at facilitating liquidity in options markets by calling on bank regulators to provide targeted capital relief.

HR 5749, as amended, requires federal bank regulators to establish a methodology for calculating the counterparty credit risk exposure, at default, of a financial institution pursuant to the risk-based and leveraged-based capital rules.

The legislation provides 360 days for the federal banking regulators to adopt a rule. It also requires them to consider a number of items including the availability of liquidity, the economic value of delta weighting and netting of positions, safety and soundness of financial institutions, and overall financial stability.

The legislation, which also requires the Federal Reserve to submit a report to Congress assessing the impact of their final rule, is consistent with the US Treasury Department's October 2017 Report on capital markets.

That report recommends that regulators properly balance the post-crisis goal of moving more derivatives into central clearing with appropriately tailored and targeted capital requirements.

The OCC is seeking to draw attention to its own pivotal involvement and that of the US Securities Markets Coalition in leading this effort on behalf of the US exchange-listed options industry.

In a statement, Representative Hultgren said: "Illinois is the birthplace and home of listed options markets. Healthy options markets provide ample opportunity for investors to plan for the future and hedge risk."

"The market volatility seen in equity markets earlier this year exposed the extent to which existing rules are restricting liquidity when it is needed the most. Unfortunately, market-makers who provide liquidity for listed options are indirectly constrained by bank capital rules from fulfilling their role in maintaining price stability, leading to less liquidity and higher costs for investors who want to hedge risk."

"Investors do not have the luxury of waiting any longer on our bank regulators to act. I sponsored the Options Markets Stability Act so investors can manage risk in volatile markets at a lower cost. I thank the Financial Services Committee for its support and look forward to the full House taking up this legislation soon."

Representative Hultgren serves as the vice-chair of the subcommittee on capital markets, securities, and investment. He is also a member of the subcommittee on housing and insurance.

David Prosperi, senior vice president, communications, at the OCC said: "OCC, the US Securities Markets Coalition, which consists of the US financial exchanges, and other industry participants, has been working with members of Congress, regulators and their staffs to educate them on the importance of liquid and centrally-cleared exchange-listed options markets and increased capital calibration and risk sensitivity in order to benefit the users of those markets."

"This educational process has been ongoing. We are pleased that the House committee unanimously approved Congressman Hultgren's bill, but we understand that several steps remain in the legislative process."

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Lendingblock partners with Octagon Strategy

Lendingblock, an institutional platform for collateralised cryptocurrency lending, has partnered with Hong Kong-based Octagon Strategy.

As part of the partnership, Octagon Strategy will join the Lendingblock Institutional Advisory Group to trial and launch its new partner's real-time exchange for the fully collateralised cross-chain borrowing and lending of cryptocurrency assets.

Steve Swain (pictured above), CEO of Lendingblock, said: "Octagon Strategy has established itself as the go-to institutional brokerage for the cryptocurrency market, and brings extensive industry expertise and unique market insight that will be invaluable leading up to our launch later this year."

He added: "There's a great compatibility between Lendingblock and Octagon Strategy teams, as we are fully aligned in our aim to create the highest standard of financial services within the cryptocurrency space."

Wayne Trench, CEO of Octagon Strategy, added: "Securities financing plays a vital role in efficient capital markets, but barely exists for digital assets. We're very pleased to be working with the innovative team at Lendingblock as they bring the securities lending model to the digital assets economy."

New York Federal Reserve Bank expands repo reference rates

The Federal Reserve has been further expanding upon the three repo reference rates.

The Federal Reserve works in tandem with the US Office of Financial Research to produce the rates, based on overnight repo transactions secured by treasury securities.

The aim is to provide the public with more information regarding the interest rates associated with repo transactions.

The secured overnight financing rate (SOFR) provides a broad measure of the general cost of financing treasury securities overnight.

It is calculated based on the data used for the broad general collateral rate (BGCR), plus transactions cleared through the Fixed Income Clearing Corporation's delivery-versus-payment (DVP) repo service.

In the DVP repo market, counterparties identify specific securities to serve as collateral for each trade, in contrast to the tri-party repo market, in which cash providers stipulate a population of acceptable collateral, also known as general collateral (GC).

As a result, the DVP repo market can be used to temporarily acquire specific securities.

Repos for specific-issue collateral may be executed at rates below those for GC trades

SIX opts for Clearstream as fund processing partner

Swiss financial infrastructure provider, SIX, has chosen Clearstream Banking as a partner to consolidate its fund processing activities.

Deutsche Börse Group added that Clearstream's investment fund processing infrastructure, Vestima, enables processing of all types of funds—from mutual funds to hedge funds—on a single platform.

Thomas Zeeb, head of securities and exchanges, and member of the executive board at SIX, said that partnering with "an organisation that places the same focus on operational integrity and efficiency as SIX" was a "critical requirement for it when conducting a review of its primary fund provider".

Philippe Seyll, co-CEO of Clearstream, said: "This collaboration will create high operational synergies in investment fund processing for both sides. SIX will profit from our one-stop-shop portal as well as robust and proven infrastructure."

He added: "This will enable SIX to foster efficiencies for underlying clients and scale their investment fund businesses. We are looking forward to working together with SIX in the future."

if cash providers are willing to accept a lesser return on their cash in order to obtain a particular security. In this case, the specific securities are said to be trading "special".

In the calculation of the SOFR, DVP repo transactions are filtered to remove some (but not all) transactions considered "specials". The SOFR represents a median of rates across GC and trimmed DVP repo transactions.

In June last year, the Alternative Reference Rates Committee selected the SOFR as its recommended alternative to US dollar LIBOR.

The BGCR is a measure of rates on overnight Treasury GC repo transactions, and is calculated based on the same tri-party repo transactions used for the tri-party general collateral rate, plus general collateral finance repo transactions cleared through The Depository Trust & Clearing Corporation's GCF Repo service.

Specific-counterparty transactions refer to those in which the counterparties involved know each other's identity at the time of the trade.

S3 to offer real-time short interest analytics to Nasdaq

S3 Partners, a New York-based financial technology and analytics firm, is to provide Nasdaq-listed companies with direct access to its range of financial analytics.

Citi to provide agency securities lending solutions to KIA

The Kuwait Investment Authority (KIA) International Equities business has reappointed Citi as its preferred agency securities lending solutions provider.

Citi will also provide global custody and portfolio administration including performance compliance and risk reporting.

Citi was one of the first foreign banks to set up a branch in Kuwait offering corporate and investment banking services.

For more than 30 years, Citi has developed strong relationships with Kuwait's financial institutions and top corporations.

Historically, Citi served its institutional clients in Kuwait from its regional headquarters in Bahrain, Dubai, and London.

Okan Pekin, global head of prime, futures, and securities services at Citi, commented: "We have been honoured to retain and grow this mandate building on our long-lasting relationship with KIA."

Pekin continued: "This appointment is reflective of Citi's commitment as a trusted partner to KIA, and highlights our ability to leverage Citi's unique market access to meet our clients' evolving needs across products, solutions and geographies."

The company said that the analytics include a real-time short interest forecasts on a per share, percentage-of-float, and notional basis.

The analytics also gives explanations of how short selling, short covering, long selling, and potential short squeezes drive and affect investor behaviour.

It also gives accurate finance rates and comparative analyses of short interest trends and finance rates for industry peers.

S3 said as part of this offering it is also available to consult directly with Nasdaq-listed companies about selling trends that the firm's research desk is seeing in specific securities.

eVestment: Hedge funds generally positive in May

Hedge funds were generally positive during the month of May, according to the latest Hedge Fund Industry Performance Report from eVestment.

Hedge funds returned an average of +0.65 percent in May, and +0.84 percent in 2018.

Nearly 63 percent of reporting products were positive in May, but the difference between the average positive and average negative returns was the largest in almost two years.

This continued the established 2018 trend, said eVestment, but certain segments of the industry were hit by notable events.

The re-emergence of European sovereign debt issues, for one, caused losses, which dragged down both macro and fixed income/credit segments.

Losses were not widespread, but some large losses likely related to volatility in European bond markets dragged down overall macro and fixed income/credit strategies in May.

For credit strategies, nearly three-quarters of reporting products were positive during the month, but the average return of -0.76 percent was the lowest since January 2016.

Aggregate returns showed a third loss in the past four months for managed futures funds, resulting in strategy-leading losses in 2018.

Long/short equity strategies rebounded after losses in February and March, noted eVestment.

Many of the largest quantitative equity strategies are performing reasonably well in 2018, even before the strong gains seen aggregately in May, eVestment added.

Brazil-focused funds posted their largest losses since November 2016. India is now the worst performing segment of the hedge fund industry in 2018.

The Middle East and North Africa-oriented funds experienced their first loss of this year. Performance seems more related to Africa exposure than to the Middle East, suggested eVestment.

Comyno joins forces with IHS Markit

Comyno has partnered with IHS Markit to market the Securities Financing Transaction Regulation (SFTR) reporting solution from IHS Markit and Pirum Systems.

Comyno is currently utilising its securities finance consulting footprint in central Europe to help organisations comply with all aspects of SFTR.

Markus Buettner, CEO of Comyno, said: "The comprehensive SFTR reporting solution from IHS Markit and Pirum can greatly benefit institutions of all sizes in the securities finance market."

He added: "From our perspective, this solution is the clear leader for SFTR reporting because it is collaboratively designed with industry participants, which can help significantly reduce the cost and complexity of implementation."

Pierre Khemdoudi, managing director and global co-head of equities, data and analytics at IHS Markit, commented: "Comyno serves an extensive and diverse network of industry participants, and our scalable solution can help firms save time and resources as they work to address SFTR requirements."

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Zürcher Kantonalbank

Clearstream and Lombard Risk enhance triparty connectivity

Lombard Risk has partnered with Clearstream to enhance triparty connectivity ahead of the regulatory deadline for initial margin requirements Phase 3, under the European Market Infrastructure Regulation (EMIR).

With this partnership Lombard Risk's collateral management clients will gain access to Clearstream's triparty collateral management services in order to improve liquidity on a global basis.

According to Lombard Risk, this will further improve collateral efficiency, enabling a straight-through collateral management process across all asset classes, promoting data accuracy and increasing visibility of the collateral management lifecycle on a global basis. The new triparty connection will also allow joint customers of Clearstream and Lombard Risk to leverage their triparty collateral management activities in regards to repo, securities lending and borrowing as well as access to central bank money collateralisation at a Eurosystem level. EMIR aims to increase transparency in exchange trading and reduce systemic counterparty as well as operational risk within the international financial system.

The new legislation requests all standardised derivatives contracts to be cleared through central counterparties.

In addition, large parts of over-the-counter trading will have to be settled on a collateralised basis and reported to central trade repositories. The next phase of margin requirements will require counterparties to exchange two-way initial margin on a non-netted basis for uncleared derivatives exceeding €1.5 trillion.

According to Lombard Risk, this puts additional pressure on tier 2/3 size firms to get their collateral management solutions in place. The necessary collateral must be segregated at a non-affiliated third-party custodian or triparty agent, such as Clearstream.

Helen Nicol, global product director of collateral solutions at Lombard Risk, said: "This new triparty connection enriches connectivity through our flagship collateral management solution, Colline, and will enhance our clients' experience and choice."

She added: "Clearstream is a leader in this field and enables our customers to further increase their collateral efficiency and accuracy through real-time straight-through processing (STP) connectivity."

Jean-Robert Wilkin, head of market development, global funding and financing at Clearstream, commented: "We always strive to further increase collateral efficiency in the market."

He added: “This partnership allows our sell and buy-side clients to benefit from simplified access to an STP collateral management process and to leverage a single collateral pool, while re-using netting opportunities across both cleared and uncleared segments across multiple jurisdictions.”

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Nasdaq has joined the Systematic Internaliser Registry Data Group

Nasdaq has joined the Systematic Internaliser (SI) Registry, which provides a hub for SIs to register financial instruments in a centralised database through their approved publication arrangements (APA).

The second Markets in Financial Instruments Directive II (MiFID II) requires that industry participants identify whether trading counterparties are SIs for the financial instrument that they are trading, so that they can determine which counterparty must report the trade.

To help, SI Registry data assists trading firms to meet their post-trade transparency obligations and allows buy-side firms to identify upfront whether they, or their selected brokers, will be required to report the trade. The date on which it becomes mandatory for financial firms to comply with the SI regime is 1 September 2018.

Nasdaq joins the existing participants, Bloomberg, Deutsche Boerse, NEX Regulatory Reporting, TRADEcho, Tradeweb and Trax.

The announcement was made by The SmartStream Reference Data Utility.

The SI Registry has been in operation since the 3 January 2018 for participating APA and contributing SIs and the addition of Nasdaq to the group extends the coverage to more than 60 SIs, with further SIs registering regularly.

The service is open to all APAs and SIs on equivalent terms and has been supported by The European Securities and Markets Authority.

Fredrik Ekström, vice president and head of Nordic fixed income at Nasdaq, said: “One of the key ambitions on MiFID II is to promote transparency and investor protection.”

“The ability to provide markets with accurate and complete data, regardless of trading type, is an important component in this ambition, and one that Nasdaq is happy to support by joining the SI Registry.”

David Bullen at Systematic Internaliser Registry Data Group, commented: “It’s very rewarding to see key industry players pulling together to close this gap in the market infrastructure introduced by MiFID II.”

He added: “Nasdaq is an important addition to the group adding geographic reach and taking us closer to complete coverage. The SI Registry serves as a ‘golden source’ of SI status to help market participants meet their regulatory reporting obligations.”

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Collateral Management Solutions

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- Pre-funding examination
- SPAN/VaR analysis

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- Minimizing the cost of collateral allocation

Self Service
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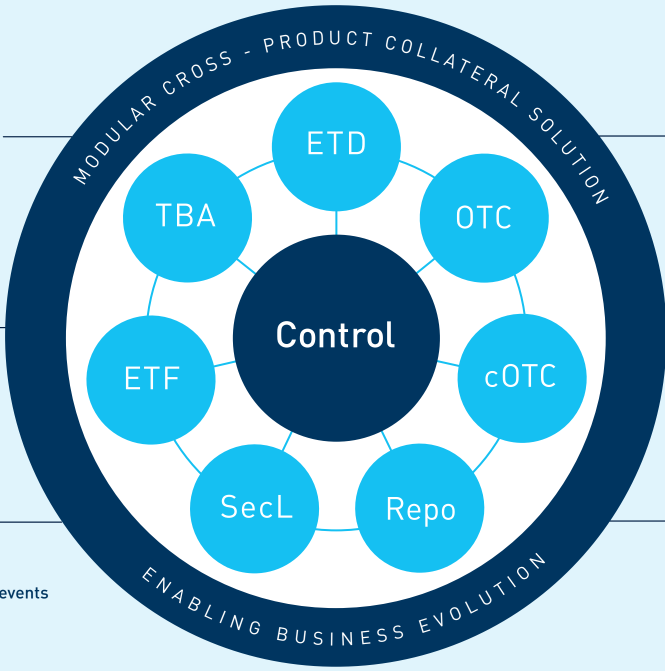
- Immediate on-line access to portfolios
- Quick identification of 'critical' events



Connectivity
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- MarginSphere
- Settlements/Payments

Operations
- Exposure management
- Regulatory compliance
- Intuitive dashboards
- Process automation

Inventory
- Liquidity management
- Risk and inventory projection
- Forward funding
- Real time reporting/MIS

Ask how Lombard Risk solutions can bring agility and competitive advantage to your business. Contact us at info@lombardrisk.com

Taking the spotlight

After a meeting in Riga, the European Central Bank has revealed it is going to start reducing the volume of bonds it buys under its asset purchase programme

Brian Bollen reports

After a Governing Council of the European Central Bank (ECB) meeting on 14 June in Riga, the ECB is going to start reducing the volume of bonds it buys under its asset purchase programme and it expects interest rates to stay at current levels at least through the summer of 2019.

For the formal record, the official line is that the Governing Council undertook a careful review of the progress towards a sustained adjustment in the path of inflation. It also took into account the latest Eurosystem staff macroeconomic projections, measures of price and wage pressures, and uncertainties surrounding the inflation outlook.

Based on this review the Governing Council made the following decisions: first, as regards to non-standard monetary policy measures, the Governing Council will continue to make net purchases under the asset purchase programme (APP) at the current monthly pace of €30 billion until the end of September this year. The Governing Council anticipates that, after September, subject to incoming data confirming the Governing Council's medium-term inflation outlook, the monthly pace of the net asset purchases will be reduced to €15 billion until the end of December 2018 and that net purchases will then end.

Second, the Governing Council intends to maintain its policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Third, the Governing Council decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at zero percent, 0.25 percent and -0.40 percent, respectively. The Governing Council expects the key ECB interest rates to remain at their present levels to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path.

ECB vice-president, Luis de Guindos, said in his opening remarks to the press conference that followed in Riga: "The risks surrounding the euro area growth outlook remain broadly balanced. Nevertheless, uncertainties related to global factors, including the threat of increased protectionism, have become more prominent. Moreover, the risk of persistent heightened financial market volatility warrants monitoring."

It added that the monetary policy decisions maintain the current ample degree of monetary accommodation that will ensure the continued sustained convergence of inflation towards levels that are below, but close to, 2 percent over the medium term.

Reaction was immediate and widespread. Bill Blain, head of capital markets and alternative assets at Mint Partners, admitted he called the result of the Russia versus Saudi Arabia opening match in the 2018 FIFA World Cup, and said in his regular Morning Porridge commentary: "I was equally wrong when I predicted ECB President Mario Draghi would prevaricate, dither and kick the quantitative easing can further down the road following yesterday's Riga ECB meeting."

"Nope. The ECB took a decision! Draghi made clear the €30 billion programme ends by December and the buying will be scaled back in the final quarter."

"I was expecting more mumble-swerve about data dependency and such. On the other hand, his decisiveness on quantative easing (QE) was neatly balanced by an absolute blank retiming guidance on when the ECB is going to start hiking rates."

"Summer 2019? Maybe, maybe not. It was a masterclass in both give and take, playing to his political masters in Brussels and his financial benefactors in Berlin. Bravissimo!"

Mati Greenspan, senior market analyst at the eToro social trading platform, also dragged football into his own mix of comments.

He said: "It was a perfect play by the ECB. They've been worrying for months about the strength of the euro and finally, in the 90th minute, they managed to pull off a power play that brought the ball all the way to the goal line."

"The timing was impeccable. On Wednesday [13 June], the ECB's counterpart in the US announced a more aggressive monetary policy and plans to raise their interest rates more rapidly than expected. At the same time, a decision was expected from the ECB to end their 'money printing' stimulus package very soon."

"During the press conference, the ECB not only confirmed the market's expectations by announcing an end to the stimulus as of September, but they also surprised everyone by indicating that they will not be raising their interest rates until the summer of 2019."

"See, while everyone was concentrating on the striker (stimulus) and expecting him to kick the ball into the goalkeeper's hands, he actually kicked it to his teammate (interest rates) who nobody was watching."

"They haven't quite won the match just yet though. Looking at the chart of the Euro/US dollar, we can see that they failed to carry the euro below the critical level of $1.15 and therefore any further downward pressure will be difficult to maintain."

Timothy Graf, head of macro strategy for Europe, the Middle East and Africa at State Street Global Markets; and Brendan Lardner, active fixed income portfolio manager at State Street Global Advisors, offer their views.

Graf commented: "No alarms and not too many surprises other than quite dovish forward guidance on rates from the ECB. Going into the meeting, markets were expecting some hint that their QE programme would start to wind down at some stage this year—we now have confirmation that QE will end in December."

"Looking ahead, the ECB does not have an easy task in setting policy for the medium to long term. Growth and inflation conditions are much improved, but more evidence is needed to see if the Q1 slowdown was, indeed, temporary—a very difficult judgement to make. For that matter, core inflation is still a long way from the ECB's target of 'below, but close to, two percent'."

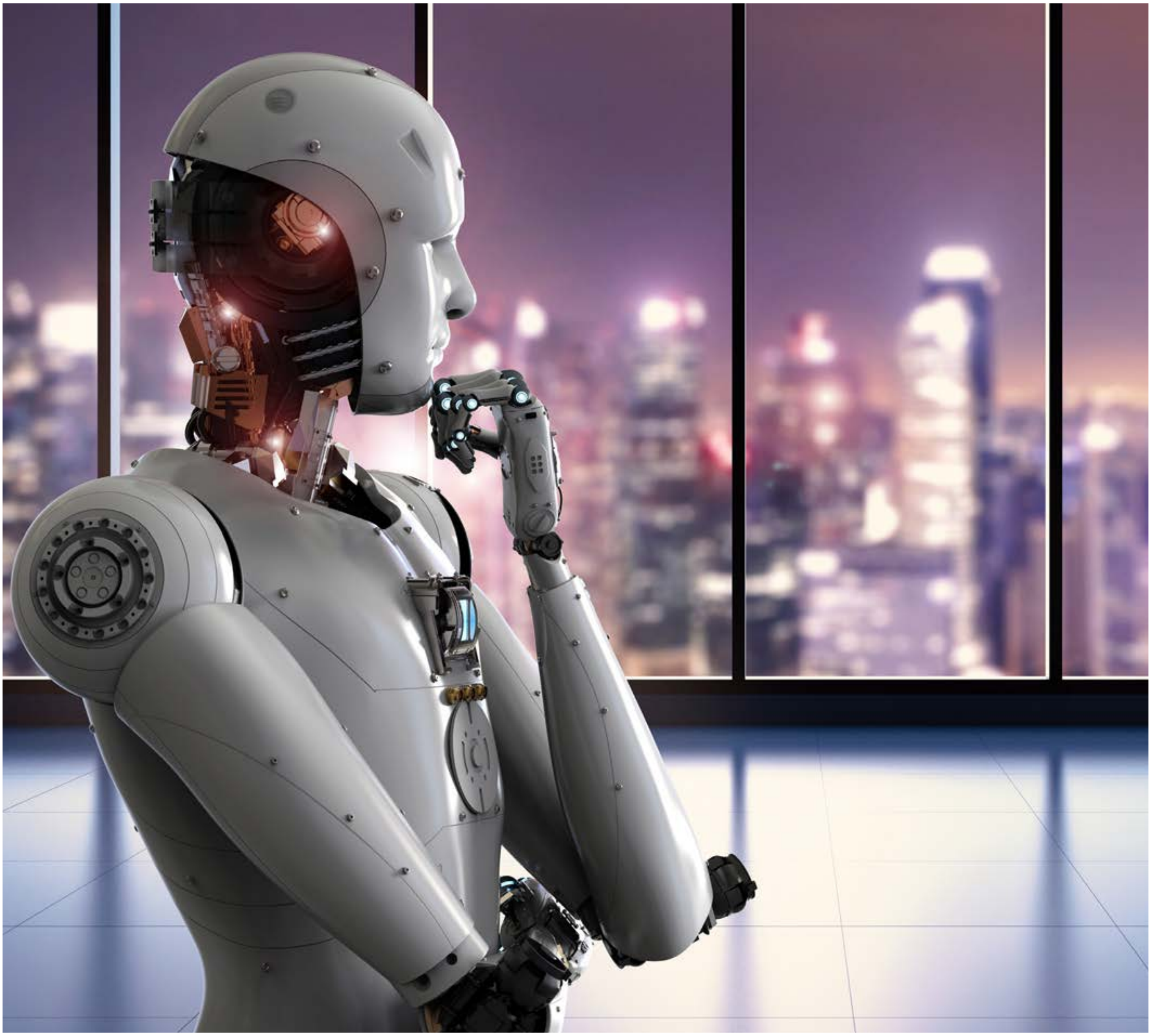
Lardner added: "The ECB delivered a mixed message. The announcement that they intend to wind down asset purchases by the end of the year ties in with the recent comments from the central bank."

"The ECB is clearly willing to overlook recent weaker growth data from the Eurozone, focusing instead on the inflation outlook, which has improved as indicated by the upward revisions in ECB staff forecasts."

"In the ECB's view, the criteria it has set to end QE has been met. It could also be read that the ECB wished to end its asset purchase programme as early as possible so as not to be seen to be adjusting purchases due to political considerations."

"Against the somewhat hawkish implication of the ending of asset purchases, they looked to counter this with more dovish comments on the path of rates going forward, and on the reinvestment of maturing ECB bond holdings."

"Rates were left unchanged and the ECB announced their intention to leave them as such at least through summer 2019. This may indicate that the first hike might not be until September 2019, on balance a little later than the market had been expecting. The initial market reaction has been for a weakening of the euro and a fall in core bond yields as the market re-prices the policy path." **SLT**



It ain't what you do, it's the way that you do it

With the rise of technology, machines have already transformed much of the landscape beyond imagining. Market participants explain what they are doing in the securities finance space

Brian Bollen reports

The march of technology in the securities services industry is as pronounced as in any other sphere of commercial activity. Machines have already transformed much of the landscape beyond imagining.

A clerk transported from Midland Bank International's securities department in Mariner House in London in 1981 to its equivalent at any major custodian today would be like fictional Royal Navy Captain Horatio Hornblower stepping off the deck of any of his 19th century vessels and onto the bridge of the USS Enterprise.

Some wags would, however, suggest as a retort that it would be more like walking on to the rickety set of an early Doctor Who episode. The rise of the robots is an enduring theme in industry commentary, but the fax machine and Excel cling stubbornly on.

One market participant observes: "It's a bit of a mixed bag in the securities finance industry."

They add: "You have many firms using the latest and greatest technology, like EquiLend's Next Generation Trading, but then you also still see some firms (sometimes even different desks at the same firms) sending faxes for reconciliations and the like."

"So while the technology, and the adoption of it, has come quite a long way over the past decade and a half or so—you can see this with the massive increase in trade and post-trade volumes on EquiLend over the years (trades on EquiLend, for instance, are up a reported third overall since it launched Next Generation Trading three years ago)—there remain plenty of opportunity for firms to automate more of their activity and benefit from the associated efficiencies."

Another market participant, said: "It depends on whose office you are in."

"In terms of business, the complexity of trades and structures is unrecognisable, but in terms of systems not so much. Some firms have full automation, interoperability etc, whereas other participants are still using legacy systems and technology-savvy traders are managing mission-critical parts of the business on Excel spreadsheets or macros."

Ken DeGiglio, CIO of EquiLend revealed that for the first time the firm is working on certain new technologies.

DeGiglio said: "These are exciting times in the financial technology space. I have been in the financial technology industry for more than three decades. I can count on one hand the number of true inflection points there have been in this space through that time: the shift from mainframe to PCs and client server; the advent of the internet and the world wide web; the migration to relational databases; the proliferation of mobile computing; and now the movement to cloud native platforms. These were all very gradual paradigm shifts. In the future, I believe we will see more rapid technological change as new, disruptive technologies emerge. Ultimately, as technology is revolutionised and reinvented, firms will be able to redirect their staff toward more impactful activities as human-machine collaboration becomes more important than ever."

He explains that when it comes to technology investment, especially in the securities finance industry, "firms are laser focused on driving down costs, maximising efficiency and keeping up with evolving regulations".

He notes: "EquiLend, in its function as a securities finance industry utility, is uniquely situated to help firms accomplish all of these things—and that is and has always been our primary focus."

"However, when most technology investment by firms these days is directed toward these must-haves, emerging technology that may offer a competitive advantage oftentimes takes a back seat. Technologies such as artificial intelligence (AI) and blockchain are real, valid and exciting, and they have the possibility to truly revolutionise the way we all operate, but I think they will be somewhat more slowly adopted by securities finance market participants than some of the buzz would suggest.

"That said, a technology provider such as EquiLend is ideally placed to incorporate these revolutionary technologies into services already used by firms throughout the industry, such as NGT, EquiLend Clearing Services, DataLend or our post-trade suite. In fact, we are doing exactly that. We are currently building enhancements to our post-trade suite that leverage AI, and we expect to extend the technology to other services as well."

DeGiglio explains that EquiLend are actively working on cloud deployments as well as implementing a shared ledger model that can be easily extended to leverage distributed ledger technology (DLT) and "smart contract" frameworks in the future.

He says: "By incorporating these technologies into our services, firms can reap the benefits of them via their existing connections to a trusted intermediary, EquiLend, with little to no extra technology investment on their end."

"This is a true value-add for our clients. As with all of our services, we have always said that we will implement new features, small or large, as and when there is an appetite from the market to use them. AI, shared ledger and smart contracts are all examples of us listening to where our clients' pain points are and building technology to alleviate them," he concludes.

Also active in the DLT space, is Zurich-based HQLAx, which completed the first blockchain-enabled securities lending transaction in the first quarter of this year. Guido Stroemer, CEO at HQLAx, explains that the firm is close to the completion of the build phase of its technology and that to prove it could be done it executed a real transaction in which Crédit Suisse and ING Bank exchanged bonds.

"During the live pilot transaction, each bank moved €25 million of government bonds into a segregated custody account, which was then linked to digital collateral record (DCR)," he says.

"These DCRs were then exchanged automatically on our platform on a delivery versus delivery basis. The DCR exchange effected legal title transfer of the accounts (and the inventory of securities within the accounts) and we proved this by each bank removing securities from the DCR account for which it had taken ownership via the DCR exchange.

"The live pilot was a big milestone for HQLAx, and we have received a great deal of incoming interest from market participants eager to learn more about our platform. We are also very excited about the letter of intent we signed with Deutsche Boerse Group to form a strategic partnership, which will accelerate market adoption of the HQLAx platform."

Specifically, he explains, the Deutsche Boerse partnership will provide front-end connectivity of the Eurex Repo platform to facilitate bilateral DCR upgrades/downgrades. Very importantly, Deutsche Boerse will also provide the back-end connectivity to multiple custodians to create a network effect to mobilise pools of securities sitting in different locations, thereby improving collateral fluidity.

"The improved operational efficiency will allow market participants to save on costs related to balance sheet management for intra-day credit liquidity exposures, settlement fails, and the liquidity coverage ratio," he states.

Trading Apps, which expands its customers' technology solution without disrupting downstream solutions and decommissioning obsolete technology, states the case for further advances in automation, as the trend towards increased volumes and decreased spreads experienced by the securities finance market is unsustainable.

It is against this backdrop that the market has welcomed a number of new technology vendors who offer trade automation and matching services which allow for a more sophisticated marketplace, she observes.

Laura Allen, director of sales at Trading Apps, says: "Looking forward, I believe the ability to seamlessly connect and auto-trade will become increasingly critical and organisations will put more emphasis on data analysis."

"Traders will become more quantitative in nature and will require tools to manipulate and use data to analyse pricing trends and dislocations to ensure trades are accurately priced for both profitability and risk."

Regardless of where in the value chain a firm sits whenever a big technology investment is being considered, stakeholders from various functional and regional divisions have to reach consensus on a strategy in order to move forward, she adds. Therefore it is of paramount importance that the process requirements and business objectives are clear and known.

"All financial markets are moving towards a standard, integrated and more transparent model. Whether that's regulatory driven or just common sense, technology is constantly evolving to support the process. Although blockchain is a relatively new entrant, it is a very viable vehicle that is perfectly tailored to support changes that were already happening. The industry is evolving from a silo'd to a fully integrated structure; blockchain should continue to fuel that integration and along with it the standardisation of data and workflows."

"New trading platforms offer targeted access to multiple pools of liquidity meeting the growing capital and regulatory needs of participants and further new entrants are to be expected as the market calls for disintermediation, increased automation and complexity. Technology will improve efficiency by delivering tools to create smarter workflows and effective decision-making processes, providing and consuming real-time data feeds and developing digital highways for interoperability, which will drive the change that will ultimately re-shape the structure of our market.

Allen issues a note of caution about the hype surrounding the potential role that AI, and the rise of machine learning. She says: "Some market practitioners suggest that AI and robotics will reshape the financing market and drive change; this is a massive claim considering the global securities lending market continues to be a predominately fractured marketplace where many transactions continue to happen the old-fashioned way via email, Bloomberg Message and the telephone. I suggest market participants get the basics right first, enabling them to respond systematically to multiple vehicles on a global basis."

"There is a theory that algorithms will replace free thought and decision-making across many industries, and there is some evidence of this already within securities finance. However, algorithms are only one of the ingredients that extract the power from data, the other is knowledge of what the data holds and for this, human input is required," she concludes.

She thus provides further confirmation that carbon-based life forms will retain a role in the industry for some time yet. **SLT**

Greenwich Associates blockchain

The financial services industry is spending about $1.7 billion per year on blockchain, as banks and other firms move beyond the proof-of-concept stage and start rolling out commercial DLT products.

This is one of the main conclusions of a new report by Greenwich Associates, which presents the results of one of the largest and most comprehensive studies on the topic to date. The firm says that for "Blockchain Adoption in Capital Markets - 2018" it conducted over 200 interviews with market participants covering blockchain budgets, team sizes, use case exploration, key challenges and other issues. The study results show that blockchain budgets increased 67 percent last year, with one in 10 of the banks and other companies now reporting blockchain budgets in excess of $10,000,000.

Headcount dedicated to blockchain initiatives doubled in 2017, as banks and other firms launched new proof-of-concept projects or shifted top product implementation. The typical top tier bank now has about 18 full-time employees working on the technology.

Lisbon by night

ISLA's 27th Annual Securities Finance and Collateral Management Conference saw a record number of delegates, as Brexit dominated the discussion

Barney Dixon reports

The International Securities Lending Association's (ISLA) 27th Annual Securities Finance and Collateral Management Conference saw more than 600 delegates arrive in Lisbon for three days of informative discussion and lively debate.

In his welcome remarks, ISLA CEO Andrew Dyson, said that the conference, ISLA's largest to date, aimed to both inform and challenge delegates.

Dyson said that the association wanted to show delegates what it had been doing over the past year, but also wanted to promote thoughtful discussion.

He explained that events like ISLA's annual conference work best when you hear more from the delegates than the speakers.

In the opening keynote speech, Gabriela Figueiredo Dias, chairperson of Portugal's Securities Market Commission, said that financial markets must "reassure" people of their reliability and "rebuild trust" in the coming years.

Figueiredo Dias said that this was one of the "key trends" the financial services industry would be seeing.

She explained: "In general, we as the financial sector are perceived to have failed the global economy at the beginning of the century."

"We must now show that lessons have been learned and that we can build an efficient financial system. This is our most valuable contribution to unlocking the potential growth of our economies. We need to reassure people of the reliability of the financial markets," noting that this was particularly important for Europe.

In Europe, Figueiredo Dias said there were already some positives, with the continent moving towards a market focused economy.

"In the securities lending market, despite some quarterly episodes, the end of 2017 was much less tumultuous than the year before. This was welcome considering the changing regulatory environment that we are facing. In Europe, the worst of the crisis is now behind us."

However, Figueiredo Dias noted that despite these positive trends, the level of uncertainty remains particularly high, with growth momentum stabilising, while private and public debt continue to cast a shadow.

The dominating theme of this year's conference was, as usual, Brexit, with speakers and delegates alike discussing the political impact of the UK's vote to leave the EU, as well as the ramifications for regulation and the industry.

In one session, panellists discussed how a lot of the capital that could be used to innovate, is being used to "maintain the status quo", as a result of Brexit.

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

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

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

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

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

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

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

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

On the topic of politics, another panellist said that it is "incredibly worrying" that the UK Government has remained quiet about the financial services industry in relation to its Brexit strategy, while financial services lead as the UK's biggest export.

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

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

Another panellist opined that it was difficult to see what the opportunities of Brexit are, but noted that his clients may begin to see a more "local touch" in Europe.

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

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

Another panellist said that in the same way Frankfurt opened its doors the day after the Brexit referendum, Hong Kong has been "actively trying to get businesses to relocate there". He added: "I don't think it's fully manifested itself yet, but there's potential for now."

On Frankfurt, discussions were abound over whether Frankfurt would become the new European financial hub, post-Brexit.

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

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

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

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

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


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

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

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

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

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

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

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

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

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

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

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

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

Brexit was not all that was discussed, however, and in an insightful session from Bertrand Huet, senior vice president, partner, and co-head of Financial Services at FleishmanHillard, explained how the "ghosts" of the 2011 sovereign debt crisis are "back in the heads of the people in Brussels".

Huet said that this fear was a result of the market reaction to recent elections in Italy earlier this year and contagion concerns.

The elections were held on 4 March 2018 after Italy's parliament was dissolved by ex-president Sergio Mattarella in December 2017 and

resulted in the League, a centre-right coalition led by Matteo Salvini, coming into power.

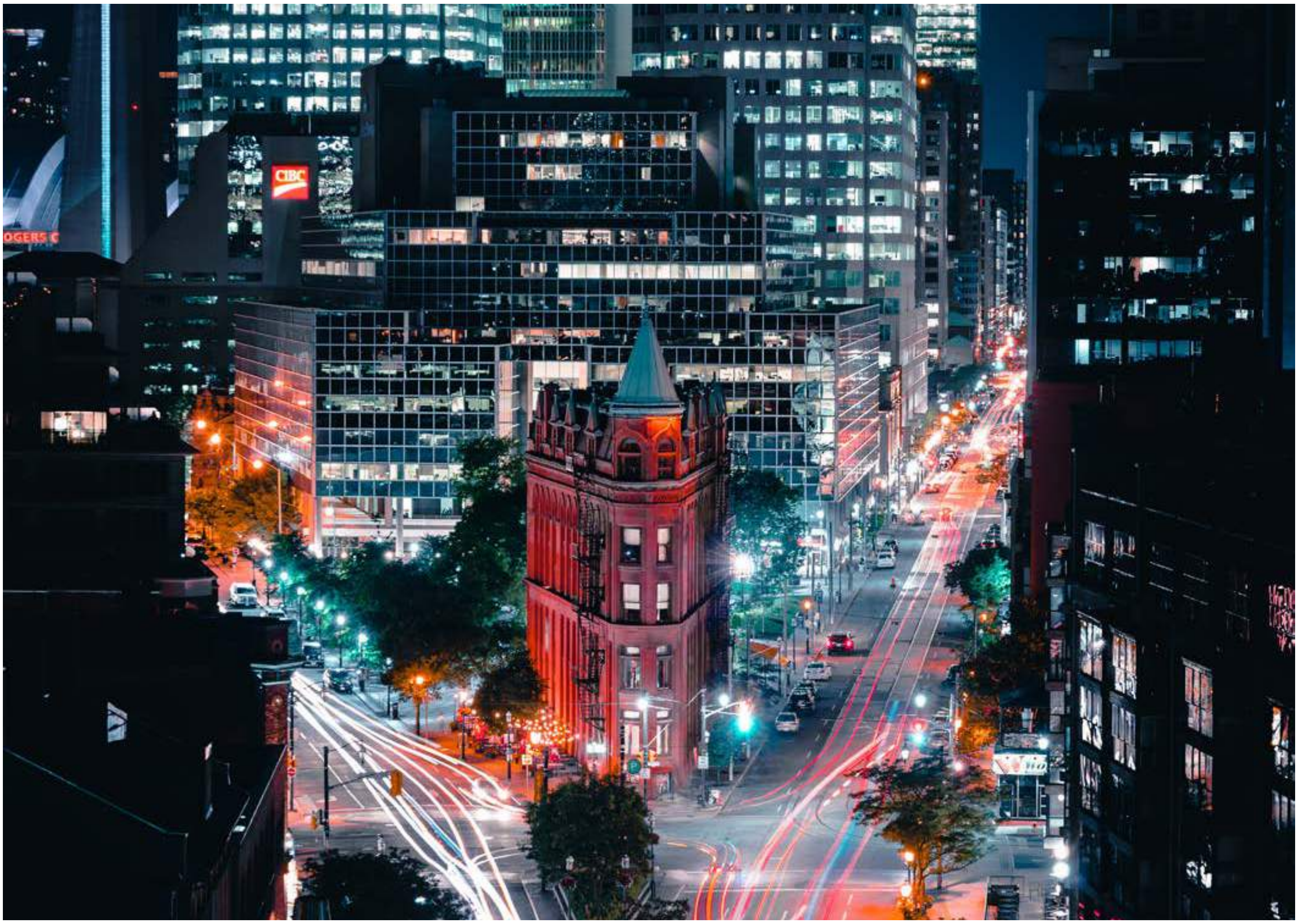
Under Salvini, the party has, to some extent, embraced Italian nationalism and emphasised Euroscepticism and opposition to immigration, he said.

The party has historically advocated the transformation of Italy into a federal state, fiscal federalism and greater regional autonomy, especially for Northern regions.

Huet said that the Italian elections are a "reminder" that populism in Europe didn't end with French president Emmanuel Macron's defeat of Marine Le Pen last year.

Huet noted that Europe "still has another nine elections in the next year and a half".

"Forget Brexit, what's most concerning for the EU leadership is that the Italian government is showing an intention, perhaps not to leave the euro, but certainly to divide Europe, as can be seen from the migration." **SLT**



Going green

Delegates gathered in Toronto to discuss hot topics and trends in the Canadian securities lending industry

Becky Butcher reports

Industry participants gathered in Toronto on 7 June for this year's Canadian Securities Lending Association (CASLA) conference to discuss recent trends in the Canadian securities lending market.

Benjamin Tal, managing director and deputy chief economist at CIBC, kicked off the event after the opening remarks with an economic forecast.

According to Tal, 2017 was a fantastic one for growth, where every economy, except the US, had an exceptional year, with Canada leading the way.

Tal suggested that the economy is currently in a "transition period" and things are "changing at the speed of light".

He said: "What was normal in the past is not normal in today's economy. There are a lot of things happening in a short period of time. We are trying to normalise the abnormal."

However, Tal noted that 2017 was not as good as it could have been. He suggested: "Expansion has been long, but not strong and very muted—something is happening here that is very different."

Leading on from Tal, Samuel Pierson, director of securities finance at IHS Markit, also noted the same trend of growth.

According to data from IHS Markit, last year's lending revenue totalled $9.3 billion, with 77 percent of that coming from equity.

Pierson explained that 2017 was a challenge, but revenue growth has been building through the quarters with the first quarter of 2018 being the best post-crisis Q1 revenue.

He said: "If the rest of this year repeats the revenue in Q2 to Q4 of 2017, 2018 will have had the best revenues post-crisis."

Data showed that US revenues were up by 7 percent, while the EU saw a 4 percent increase.

Pierson revealed that Q1 equity revenue of $710 million is a 25 percent improvement compared with Q1 last year. It also saw Tesla return to the top revenue securities on limited supply around record dates.

In terms of Canada, equity demand was down relative to 2015 and 2016. The declining demand was partly a result of energy short coming off in 2016.

Pierson noted: "This year, overall, there has been further ground for short selling, it hasn't been easy, but there has been a good amount of volatility."

The key driver of Canada equity returns so far in 2018 has been the Cannabis stocks, which delivered over 30 percent of Q1 revenues.

Canada become the second country in the world to fully legalise cannabis, after the Senate approved legislation on Tuesday 19 June. It is expected that Canadians will be able to buy and consume cannabis legally from September.

He added: "Borrow costs have trended down, despite increasing demand, largely as a result of share issuance."

Pierson suggested that Canopy Growth could be the new Tesla. He said: "Valuations largely based on status as largest pure-play in a growing industry, with an uncertain timeline for either side to be proven right. Both have significant short positions near all-time highs in price."

The data also showed this year's forecast to stand at over $10 billion, if Q2 to Q4 is a repeat of last year. The industry has also seen the best post-crisis Q1 with global lending revenue of $2.6 billion, while global lendable passed $20 trillion in Q1.

Pierson noted that trends towards non-cash collateral has continued, as well as demand for corporate bonds, which are currently at a post-crisis high set in Q4.

Moving onto regulation, the Securities Financing Transaction Regulation (SFTR) was a topic that featured on the Regulatory and Funding Panel.

Panellists included Chris Ranson of Bank of America Merrill Lynch, Charles Lesaux of RBC Capital Markets, Nick Chan of BMO Capital Markets, Glenn Horner of State Street Global Markets, Sumit Sharma of TD Securities, Lesley Charkow of RBC Investor & Treasury Services and Tamela Merriweather of Northern Trust.

Once SFTR is implemented—most likely closer to the end of next year—it is set to provide transparency on the use of securities financing transactions, and will allow identifying risks associated with the collateral and its reuse.

One speaker suggested that while mortgages are being driven into the dark, SFTR is "going to drive securities lending out into the light—at least that's our intention".

The speaker explained: "We have come a long way, we started out with the European Market Infrastructure Regulation (EMIR) on derivatives, we then moved to the second Markets in Financial Instruments Directive (MiFID II) in the interest of transparency and now the regulators are finally getting to securities finance regulations."

Although the regulation is due to come into force mid-to-late 2019, one speaker suggested it could be introduced as a transition phase, similar to EMIR.

The reporting structure of SFTR is similar to EMIR, but there are a lot more fields to report and to match on.

They added: "Some of the big challenges include timing reporting on T+1 because there is data coming from two sides and sometimes the one side, a non-EU counterparty will not be aware of the reporting requirements and will not have a direct obligation to the regulators. Therefore,. it may be difficult to get the data you need in a timely manner."

There is also the issue of agent lender disclosure, the timing may not reconcile when you have allocated your loans and so you wouldn't know the lender's identity in time to report it. For beneficial owners, it seems their identities and their activities will become more transparent than ever before.

On the implementation date, 62 out of the 117 fields need to match, and there are big consequences for not reconciling and not matching.

One could ask whether firms will take a 'wait and see approach' to assess what others are doing, or if they are getting stuck in now.

For those who have already been through the EMIR and MiFID II experience, leveraging current infrastructure might be an option to consider, as well as looking at lessons learned, according to a panellist.

During another panel session, discussion returned to the cannabis market. Echoing Pierson's comments from earlier on in the day, panellists discussed the growth around the popularity of cannabis and how the market is set to expand further.

The panel featured Tony Venditti of BMO Capital Markets, Greg Taylor of Purpose Investments, Jamie Blundel of Cannabis Growth Opportunity Corporation, Matt Bottomley of Canaccord Genuity and Yury Shmuylovich of National Bank.

One of the panellists explained that with all the research currently available, the cannabis industry will grow to a $12 billion business by 2022 in Canada alone, and that doesn't include the value-add chain. However, according to a study late last year, the market could reach up to $23 billion.

Of the $12 billion, $10 billion is estimated to be recreational and $2 billion is estimated to be medical.

A speaker said: "You also have to take note of the transition from the black market to legal, I think that will really tell whether we have an oversupply sooner versus later in the marketplace."

Another panellist suggested that one of the most interesting things in the market is the demand curve.

They said: "There is no new industry, it is already known, it is a pre-existing product—although there will be new product formations—but the actual cannabis plant itself is a raw material."

The speaker continued: "The $12 billion estimation could be conservative because what it's doing is taking a look at historical information and taking a look at how many people have smoked a joint and how many people have had an edible and that number is at somewhere around 10 to 12 percent, depending on what data you look at."

"I think the incremental user in this space will be someone who doesn't currently have cannabis on their radar."

According to another panellist, the winners in this space are going to be those with raw material input.

The speaker explained: "There are going to be some big game changers as regulation around cannabis is rolled out."

The panel suggested that Canada is in a great position for the cannabis market, but, hoped that the Canadian government allows a little more flexibility in how these companies can market their brands when they come to market.

A speaker said: "We don't want to be in a situation where we are marginalising these brands and then all of a sudden when the US gets their act together they're going to play a significant role in the sector. We want to make sure that Canada has that head start."

They continued: "I think there are going to be some changes in the next few months.There is a lot of talk about shorting, but I think shorting will be a really great source of value add in the sector, because once cannabis is legalised in Canada they are going to have to actually do something."

"A lot of these are concept companies and I think the big risk will be in the Autumn or early next year once it is legal and companies are producing quarterly reports."

"That's when you will be able to separate the winners and the losers and that's when the trading of securities will really get interesting."

Automation was also a topic for conversation during the conference. The last panel of the day, saw speakers discuss how there is now a lot of automation in the industry and how a lot of things that were once manual are now automated processes. The panel included Claire Van Wyk-Allan of AIMA Canada, Brian Lamb of EquiLend, Cezan Duong of BNY Mellon, Jennifer Ocampo-King of TD Securities, Joseph Puliafico of Societe Generale and Mary Jane Schuessler of RBC Investor & Treasury Services.

One speaker explained that it is hard to keep up pace with the change in the industry. The speaker said: "We work closely with the industry to better service our clients, it is about managing the pace, not just managing the change." **SLT**

Lawson's  view

Would you rather

Many things in life can be answered with the single question: would you rather? I have started asking this question more frequently when it comes to my health, would I rather be there for my kids or not? Would I rather be able to afford that holiday or not?

After attending my NHS Over 40's appointment earlier this year, I had a bit of a wake-up call when I was told I had a heart age of 55. I needed to start looking after myself more, with a change in diet and the use of a fantastic product named Herbalife, (excuse the shameless plug, I am a salesman at heart), I have lost some weight. Some of you have even noticed. However, after attending the ISLA Conference in Lisbon last week, my heart was put to the test when I received a rather large food bill.

While at the conference, I had the pleasure of going out to dinner with one of my favourite clients, who has supported Securities Lending Times for many years now. During the meal, I realised it was high time that I footed the bill. Not wanting to argue at the table I went up and spoke to the waiter discreetly—but I was taken aback when the bill was a lot more than expected, taking into account we didn't have a starter or a desert. To be fair the food was amazing and only bettered by the company.

At the end of the meal, I questioned: would you rather choose the wine yourself or accept the hefty bill?

The moral of this story is don't walk into a restaurant looking as smart and as well turned out as we all looked and accept the waiter's wine recommendation without asking the price!

Brexit or SFTR

For anyone that attended the sessions at ISLA 2018 there were two main themes—Brexit and SFTR.

Although there are still many discussions around Brexit, including the location of the new financial hub, there is still a lot of uncertainty around the outcome. At this year's conference, panellists suggested it was hard to see opportunities in a post-Brexit world. Unfortunately, I didn't even get to vote to remain or stay as I was stuck on a delayed plane travelling back from ISLA—a very hot plane with a very bad hangover.

However, I find discussions around SFTR fascinating. SFTR is another European regulation, whether it is needed is open for debate, but it has certainly captivated the financial industry.

At this years event, there was a mixture of regulatory sessions, workshops and private rooms with discussions ongoing and probably all of them utilising the buzzword of the moment: collaboration.

It has been fantastic reading recent news on Securities Lending Times from the likes of Comyno partnering with IHS Markit and Pirum Systems, Trax and EquiLend working together and the various European trade repositories all involved in discussions with industry vendors to provide collaboration over solutions.

Although there will be competition with solution providers, wouldn't it be great to see an increase in people working together in life?

Securities Lending Times will be producing a publication later this year, with an SFTR focus, covering industry views, guidance and opinions. Feel free to reach out to find out how you can be involved.

Thanks to ISLA

Securities Lending Times would like to thank the team at ISLA and EventRock for organising, once again, a fantastic conference.

We were delighted to be able to produce the ISLA Daily and hope that many of you found it useful.

If you couldn't attend the conference or want to read it again, all three issues of the daily are available in the archive section of **www.securitieslendingtimes.com**

The next 'big short'

David Lewis of FIS suggests there may be another issue looming on the horizon that could have significant European, if not global, ramifications, triggering a tidal wave of economic change across the Eurozone

For those of you that watched the instructive and insightful film, 'The Big Short', you will know that the basis of the story was the structural issues with the value of certain debt products. They were a nightmare hiding in plain sight, denied as an issue until it was too late. While not quite the same, there may be another issue looming on the horizon that could have significant European ramifications, if not global, as it could trigger a tidal wave of economic change across the Eurozone, and little of it good.

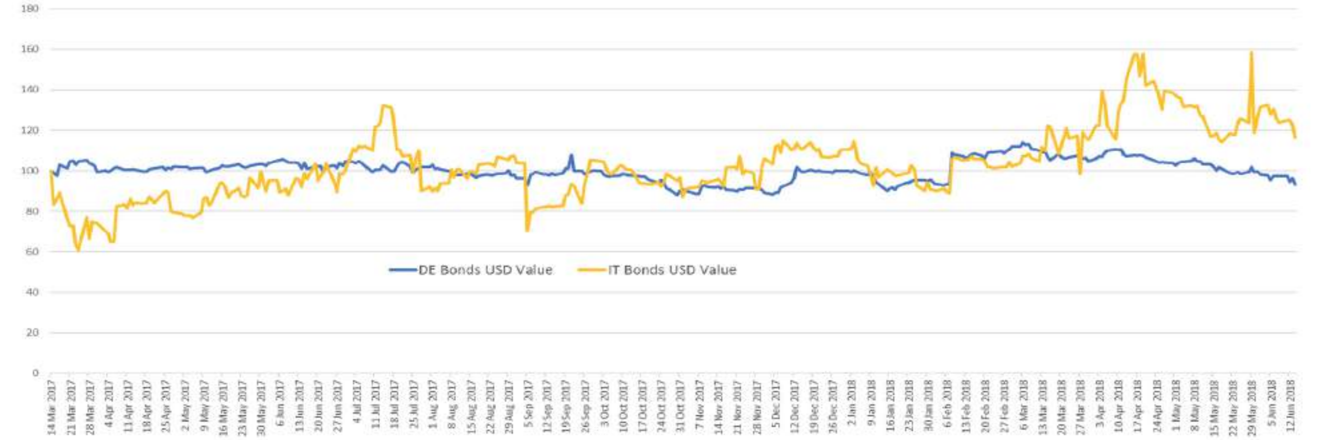
On the positive side, it may divert attention from the constant chatter about Brexit and the effects that change will bring. 'Quitaly' may become the new subject du jour of dinner tables, banks and media economists, exploring the potential impact, including the winners and losers of the fallout should Italy leave the Euro or even the EU. There are, of course, a multitude of factors here, and not all of them based on economics. Few could have missed the recent issues with Italy refusing entry to three ships of immigrants rescued from the waters of the Mediterranean, arguably on a technicality of due process, but perhaps more importantly, a sign that certain parts of Italy are reaching the end of their capacity to accept migrants. Even Germany is embroiled in internal arguments about limiting migration, having accepted perhaps more than any other country in Europe. This, in turn, has brought it into direct conflict with the leadership in the US. The new coalition in Italy, borne of the right wing League party and the difficult-to-describe/pigeonhole five-star movement, has, by the omission of a clear strategy, allowed a space to form into which doubt, fear and speculation has flooded. Remarks regarding the plan to exit the Euro, and even to default on debt to the EU, has sent markets spiraling and the yield on Italian government debt to soar. To add an extra layer of glamour and intrigue, allegations have even been made regarding some Machiavellian plot to destabilise the Italian markets in order to benefit those holding short positions. The hedge fund, Brevan Howard, was specifically mentioned in an article in Corriere della Sera, the Milanese establishment newspaper. A robust response from the fund followed with a hasty revision and an apology was quickly published, but the damage was done.

The yield differential between German and Italian 10-year government bonds jumped from 130 basis points before the article, to 320 basis points after it was published. Brevan Howard made no secret of its bearish view on Italian assets and gained some 37 percent in May, but it was not alone. Public disclosures name eight other large firms, including household names such as Marshall Wace and Lansdowne Partners.

Looking to the financing data around Italian government debt, the 12 months to May showed a remarkably stable environment. The European Central Bank (ECB) has done much to try and balance Eurozone debt, pumping liquidity into the market over an extended period, offset, at least in part, by its own asset lending programme, and this had become the new normal for the market. A recent announcement from the ECB has suggested that the asset purchase programme will begin to scale back in the not-too-distant future, but this appeared to have little effect on the markets compared with the prospect of 'Quitaly'.

Figure one shows the indexed value of German government debt borrowed versus that of Italy. The quantities of debt in real terms are

Figure one: German and Italian Government debt on loan, indexed to March 2017



Source: FIS Astec Analytics

between 10 and 15 to one, German to Italian, so indexing gives the comparison of the overall trend more clarity. As the graph shows, the value of Italian bonds borrowed has risen dramatically, especially if it were adjusted for the collapsing asset prices, implying a much faster growth in quantity.

Figure two shows the intrinsic cost of borrowing German and Italian debt, again indexed for clarity and comparison. Two elements stand out in this graph, the first being at year end last year, when the clamor for high-quality liquid assets pushed the cost to borrow German debt sky high. Notably, the cost to borrow Italian bonds did not flicker, arguably indicating a market distaste for the assets at that time, and, to some extent, providing evidence that borrowing of these assets, when it does occur, is more likely to be for shorting than for balance sheet operations.

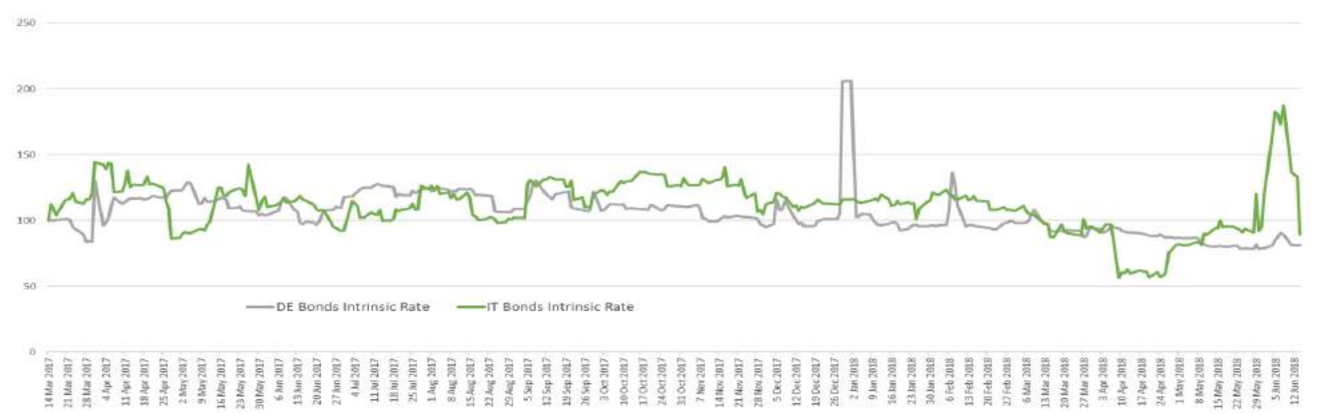
The second is the leap in borrowing costs for Italian debt in May and June, reflecting the increased demand from those looking to short the bonds in anticipation of their prices falling and yields soaring. Is this evidence of some plot to undermine the credibility of the new Italian coalition to make profits in the short term?

While the statistics could be used to suggest such a plot, and as mentioned above, some did just that, the coalition members have made little secret of their dislike to the Euro and, in some quarters, dissatisfaction with the EU itself. This is enough to damage confidence in the markets without the need for underhand tactics. The normal economic reaction in such situations, whether personal or governmental, is that the less attractive borrowers will need to pay more to raise capital. While the spread between German and Italian 10-year bonds has narrowed a little following calming words from Italy's economy minister, the doubts about the plans from the coalition remain, and those holding short positions continue to gain from the uncertainty about where this issue goes next.

While the rise in borrowing activity around Italian debt could well be attributed to those large funds taking positions, there is much less evidence of some nefarious plot; the issues in Italian politics and the structural weaknesses in its economy are there in plain sight, just as they were with collateralised debt obligations in The Big Short.

It may just take a while for others to see the issues for what they really are. **SLT**

Figure one: German and Italian Government debt on loan, indexed to March 2017



Source: FIS Astec Analytics

Comings and goings at BNP Paribas, BlockFi, South African CSD and more

BNP Paribas has appointed several new executive members to its senior management team.

Jean-Yves Fillion, CEO of BNP Paribas US, and CEO of Corporate and Institutional Banking (CIB) Americas, will be chairman of CIB Americas and will continue to serve as CEO of BNP Paribas US.

In these two roles, Fillion will be responsible for the bank's regional corporate strategy and will sponsor the bank's relationships.

Fillion has been with BNP Paribas for 33 years, 26 of which he has spent in the US between Chicago, Los Angeles and New York.

Bob Hawley, deputy CEO of CIB Americas, becomes CEO of CIB Americas.

Reporting to Fillion regionally and to Yann Gérardin, head of corporate and institutional banking, globally, Hawley will continue to serve as head of the institutional platform Americas and head of global markets Americas.

Hawley will also be responsible for the Brazilian CIB platform.

He has been with BNP Paribas since 1997 in increasing roles within CIB in Tokyo, Hong Kong, London and New York.

Pierre Veyres has been appointed as deputy head of CIB Americas and head of the corporate platform Americas.

Reporting to Bob Hawley, Veyres will be responsible for leading the group's strategy to grow the corporate franchise and will be a member of the CIB Americas Executive Committee.

Veyres will oversee the CIB platforms in Latin America and Canada. Veyres joins the Americas team from Asia Pacific, where he has served as the CEO of the BNP Paribas Singapore branch as well as the head of territory for Singapore and head of CIB Southeast Asia since October 2013.

Philippe Ricard has been appointed COO of CIB Americas.

Ricard, who has been in the region since 2017, is replacing Bruno d'Illiers, who is moving to a new role with the Bank in Paris.

Ricard will report to Bob Hawley and will continue to serve as COO of BNP Paribas US for which he reports to Fillion. Since joining the group in 1989, Ricard has held a wide range of leadership positions across BNP Paribas' key regions and businesses, most recently as global head of asset and fund services within BNP Paribas Securities Services.

Sonja Volpe will be appointed as country head of Canada.

Volpe brings more than 17 years of experience, covering Canadian financial institutions and public sector clients.

She first joined BNP Paribas in 2015 as head of financial institutions coverage in Canada, developing the bank's institutional client franchise in the region.

Volpe will develop Canada as an operational platform in the region.

Thalès Gabay has been hired as head of asset and liability management Treasury (ALMT) for CIB Americas.

Gabay is replacing Jonathan Light who is retiring.

Gabay most recently served as head of ALMT for APAC, following a tenure as head of ALMT for the Latin America region.

Meanwhile, Amanda Rajkumar has been appointed as head of human resources for BNP Paribas US and CIB Americas.

Emmanuelle Bury has been hired chief conduct and control officer for BNP Paribas US and CIB Americas.

Bury comes from BNP Paribas Paris where she was the global COO for the ALMT group.

She will be joining the CIB Americas executive committee.

All appointments are effective from June except Volpe, Ricard and Veyres, who will join later in the year.

Gérardin said: "BNP Paribas has experienced solid growth over the past few years, and now, backed by the bank's commitment to invest substantial capital and resources in our Americas platform, we are poised to elevate our business to the next level."

He added: "A key factor in our success remains our continued focus on our clients: supporting their needs globally and providing them with strategic guidance. To support this mission we are investing in our leadership, which includes these appointments."

Fillion, CEO of BNP Paribas US and chairman of CIB Americas, commented: "BNP Paribas is at a pivotal moment for the Americas platform."

"As the competitive landscape evolves, our business is well-positioned to continue our strong progress toward becoming one of the top European banks in the region."

He added: "We have a tremendous opportunity in front of us in both our wholesale and retail businesses as a unified region with a global offering that differentiates the bank in the marketplace. I am excited for what the bank will achieve in the years ahead."

Cantor Fitzgerald has hired Emma Sugarman as managing director and global head of capital introduction.

Sugarman will be based in Cantor Fitzgerald's New York office.

Sugarman was previously head of business development and Serafima Investments from 2017 to 2018.

Prior to that, she was head of investor relations at Hudson Executive Capital from 2015 to 2017.

BlockFi has appointed Rene van Kesteren as chief risk officer.

Kesteren will be responsible for the company's risk models and product development in addition to general strategic influence as part of the company's executive team.

Prior to BlockFi, Kesteren was managing director of equity markets at Bank of America (BOA) Merrill Lynch.

While at BOA Merrill Lynch, Kesteren built the equity structured lending platform, including risk and regulatory compliance frameworks.

He brings more than 16 years of financial services expertise across traditional and non-traditional prime brokerage as well as knowledge of machine learning and data science.

After leaving BOA Merrill Lynch, Kesteren joined BlockFi in September 2017 to serve as a member of the company's advisory board.

According to BlockFi, Kesteren's appointment highlights the mounting interest from mainstream finance, despite an early dismissal of bitcoin.

Commenting on his move to the company full time, Kesteren said: "I've developed a strong belief in the potential of cryptoassets and am excited to contribute to the growth of the ecosystem at BlockFi."

"An institutional quality lending infrastructure for crypto is currently missing and we're going to bridge that gap."

Zac Prince, CEO of BlockFi, commented: "Rene van Kesteren's expertise in securities lending, commodity lending, and margin lending, from a risk management and regulatory perspective, are incredible assets to add to our team."

He added: "While serving on our advisory board, Kesteren developed a thorough understanding of our business and the crypto ecosystem. His contributions to our efforts will be incredibly beneficial as we continue to grow and diversify our products and markets."

The South African Central Securities Depository (CSD), Strate has appointed André Nortjé as its new CEO, effective from August this year.

Nortjé was most recently COO of Momentum Investments.

Nortjé will take over from Maria Vermaas, the head of Strate's legal and regulatory division, who was appointed Strate's interim CEO in September 2017.

Nigel Payne, chairman of Strate, said: "After a rigorous and comprehensive recruitment process, the board is pleased with the appointment of André Nortjé and we believe he is the best individual to lead a key financial market infrastructure like Strate."

Commenting on his appointment, Nortjé said: "Strate is an exceptional organisation that has achieved great accomplishments since its inception, contributing greatly to the development of South Africa's financial markets."

"I am honoured to be at the helm of such an organisation and I am looking forward to working closely with its talented professionals."

Valentina Crovato has departed BNP Paribas and joined Euroclear.

Information on her new role has not yet been disclosed.

Previously, Crovato served as head of agency lending trading at BNP Paribas Securities Services for Europe, the Middle East and Africa for more than three years.

Prior to that, Crovato was a securities lending trader at BNP Paribas from 2012 to 2013.

She has also held roles at LCH.Clearnet and Mitsubishi UFJ Securities International. **SLT**

Do you have a industry appointment we should cover?

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