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A WELL-MAINTAINED STRUCTURE

TAIWAN'S SECURITIES LENDING MARKET ANALYSED

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PAIF launches securities lending

Asian bond fund (ABF) Pan Asia Bond Index (PAIF) has launched a securities lending programme, effective 10 July.

From this date, certain Asian local-currency-denominated bonds held by PAIF will be available to qualify borrowers in the securities lending markets.

PAIF primarily invests in local currency government and quasi-government bonds in Asia.

Additionally, PAIF is the first fund among the Executives' Meeting of East-Asia and Pacific Central Banks' (EMEAP) ABF series to launch a securities lending programme.

State Street Global Advisors said that it is an important milestone for the ABF initiative to further develop the Asian bond markets. HSBC is the lending agent of the securities lending programme.

June Wong, senior managing director and head of Asia ex-Japan at State Street Global Advisors, commented: "The fund is expected to generate income from the securities lending programme, which can offset some of the associated costs of the fund and potentially enhance its returns."

"At the same time, we believe the addition of Asian local-currency denominated bonds into the lending pool will deepen liquidity in the secondary markets, ultimately benefiting all investors", Wong continued.

"Since the launch of PAIF in 2005, State Street Global Advisors has been working closely with EMEAP to develop the Asian local currency bond markets, as well as to promote the asset class among investors in the region. We are very pleased to see the remarkable growth of the markets over the past years."

Wong added: "Many major investors participate in securities lending and we are proud to be part of this significant market development and contribute to the development of local currency bond markets in the region."

"We are also very excited about the markets' future growth as we see Asian local currency bonds becoming an increasingly important asset class for investors both in the region and globally."

Roy Zimmerhansl, global head of securities lending at HSBC securities services, said: "The launch of PAIF into the securities lending market is an important milestone in the growth of secondary market demand for Asian local-currency government bonds."

He added: "The assets available from the fund will broaden and deepen the liquidity pools in underlying assets contributing to a better market for all investors while contributing revenue to the fund. HSBC is honoured to be involved in this landmark development."

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Lendingblock and Quoine announce partnership

Collateralised digital asset lending platform, Lendingblock, has formed a partnership with financial technology company, QUOINE.

The partnership will see QUOINEX and QRYPTOS exchanges and the LIQUID platform integrated within the Lendingblock platform.

QUOINE will join Lendingblock's institutional advisory group and list Lendingblock's LND token on QRYPTOS and LIQUID.

Steve Swain, CEO of Lendingblock commented: "QUOINE is one of the world's leading blockchain financial services firms. We look forward to working closely with them to provide our lending exchange and loan lifecycle management services to Quoine and their customers."

He continued: "They will be an invaluable partner as part of our institutional advisory group as we roll out our institutional product offering."

Seth Melamed, senior vice president and head of operations at Quoine, said: "We are thrilled to be working with the Lendingblock team, who share our vision for making financial services accessible to the broad spectrum of investors. Lendingblock is leveraging blockchain to efficiently introduce the ability to borrow and lend cryptocurrency in a secure and transparent manner."

Melamed added: "We are truly excited to be a part of the innovation Lendingblock is bringing to the blockchain financial services ecosystem. Both of our communities will benefit from the partnership by making new pools of liquidity available and we look forward to a long and prosperous friendship."

Top of hot stocks: Norwegian Air Shuttle ASA

Norwegian Air Shuttle ASA (NWC) led the FIS Astec Analytics hot stocks list for Europe, the Middle East, and Africa last week.

NWC, the Norway-based airline, saw an increase by midweek, with a fall back to give net reduction of some 2 percent overall.

Utilisation grew from 65 percent to 69 percent, suggesting a contraction in supply as some long investors took advantage of the price bounce and sold out, which indicates a potential lack of confidence that the shares can climb any further despite the interest from Germany.

Following NWC was Vallourec SA, the France-based steel tube manufacturer. In contrast to the prior three weeks, short interest volume did not rise any further, but instead remained flat over the week, while utilisation fell a net 3 percent from 89 percent to 86 percent as supply increased slightly.

FIS said: "With short sellers stubbornly retaining 86 percent of the available shares, and gaining a small amount over the last week as the shares dipped a net €0.07 to close the week at €5.26, the belief that Vallourec remains overvalued is still high."

Camping World Holdings (CWH), a provider of products and services for recreational vehicle enthusiasts, topped the Americas hot stocks list this week.

After its arrival to the market in October 2016, the company shares rose to a peak of $47.31 in January this year, before sliding sharply to a low of just $18.10.

FIS said: "Short sellers largely ignored Camping World until April, building positions more quickly after May, growing by 512 percent between April and last week's close."

The shares recovered a little during June, closing last week at $26.44.

Following CWH was Tesla, the US-based manufacturer of electric vehicles and solar power generation and storage machines.

Last week saw volume decrease 20 percent, bringing levels back to where they were exactly three months ago, while utilisation stood at 83 percent three months ago but closed last week at 86 percent.

Torstone builds momentum in Nordic Market

Torstone technology, provider of post-trade securities and derivatives

processing, has signed a multi-year agreement with Nordic investment bank ABG Sundal Collier (ABG).

The agreement aims to provide access to Torstone's cloud-based platform, Inferno, and acts as a further testament to its growing presence in the Nordic region.

This follows Torstone's entrance into the Norwegian market by connecting the Inferno platform to the Norwegian Central Securities Depository, Verdipapirsentralen ASA (VPS).

Inferno enables connectivity to multiple markets including Norway and Sweden. It will provide ABG with a flexible and future-proof operational platform to support their global business.

Additionally, Inferno will handle ABG's trade capture, confirmations, settlement, accounting and reconciliation, as well as static data management data.

As part of the project, Torstone has also built out connectivity to a major Norwegian custodian bank, as well as to regional payment and regulatory reporting service providers.

Record $11.3 billion traded on BondLend NGT

A record notional volume of $11.3 billion was traded on BondLend NGT on 22 June.

According to BondLend, the company has continued to see "increased trading on BondLend NGT as more US Treasury flow comes on to the platform".

Usage of NGT Targeted Availability has risen as regulations such as the Second Markets in Financial Instruments Directive, and the Securities Financing Transactions Regulation encourage participants to move more volume on to trading venues.

The amount is for fixed income securities only, as equities are traded on EquiLend NGT.

The daily notional traded on both EquiLend and BondLend NGT combined averages $39 billion total traded each day, according to BondLend.

LCH clears first trade for a Mexican bank

LCH Limited (LCH), a global clearing house, has cleared trades on behalf of a Mexican-domiciled participant.

Banco Bilbao Vizcaya Argentaria (BBVA) Bancomer completed a cleared Mexican-peso denominated TIIE interest rate swap, with BBVA South Australia (SA) Madrid acting as the clearing broker.

Following LCH's recognition as a foreign central counterparty (CCP) by Banco de México, the transaction marks the first time that a Mexican participant has used LCH SwapClear.

Recognition was granted in June this year, which has enabled Mexican-domiciled to benefit from a greater choice of CCPs.

According to LCH, Mexican Peso is one of the 21 currencies offered by LCH SwapClear. The service plans to expand its product offering in the near future with the introduction of additional Latin American and Asia-Pacific currencies, subject to regulatory approval.

John Horkan, LCH Group COO and head of North America, commented: "We're excited that BBVA Bancomer has become the first Mexican participant to clear its interest rate derivatives at SwapClear. This milestone swiftly follows LCH's recent recognition as a foreign CCP by Banco de México, allowing Mexican entities the benefit of accessing the global liquidity available in SwapClear."

Álvaro Vaqueiro, head of global markets, BBVA Bancomer, said: "We're proud to be a

Hong Kong introduces use of LEIs partnership

The Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) has issued conclusions to a joint consultation on further enhancements to the over-the-counter (OTC) derivatives regulatory regime in Hong Kong.

Based on market feedback, the mandatory use of legal entity identifiers (LEIs) in trade reporting will only apply to the identification of entities that are on a reporting entity's side of a transaction.

This requirement will apply to the reporting of new transactions and daily valuation information beginning 1 April 2019.

HKMA and SFC ruled reporting entities should continue to identify their counterparties in transaction reports in accordance with identifiers specified in their Supplementary Reporting Instructions for OTC derivative transactions.

Reporting entities are expected to establish a process to request LEIs from their clients.

Regulators will communicate with reporting entities and keep in view international developments to assess the need for further requirements in this area.

The clearing obligation will be expanded to include specified standardised interest rate swaps denominated in Australian dollars.

Regulators also adopted the trading determination process proposed and are using the process to determine for which products it's appropriate for Hong Kong to introduce a platform trading obligation.

pioneer as the first Mexican participant to use the SwapClear service."

"Clearing at LCH allows us to service our clients and work with our counterparties at a new CCP thus giving everyone the possibility to optimise pricing and exposures", Vaqueiro continued.

Ian Downes, head of post trade business development, BBVA, said: "We're pleased to have supported BBVA Bancomer in clearing this trade, which is a milestone for the Mexican derivatives market."

Downes concluded: "Having a choice of clearing houses is important to our clients, and we are delighted to now be offering access to LCH to our Mexican client base, in addition to our other customers."

ECB announces methodology for calculating ESTER

The governing council of the European Central Bank (ECB) have made a decision on the final methodology for calculating the Euro Short-Term Rate (ESTER).

The ESTER is an overnight-unsecured rate based entirely on money market statistical reporting (MMSR), and the publication of this will begin by October this year.

Additionally, the governing council have decided to release the time-lagged publication of daily rate, volume and dispersion

OCC THE FOUNDATION FOR SECURE MARKETS

OCC launches new brand identity

OCC has launched its new brand identity.

The OCC explained that the new brand identity is aligned with its increasingly visible role as a "systemically important financial market utility", "influential thought leader" and "steward of the US exchange-listed options industry".

OCC said its new logo represents the stable foundation the company provides to financial markets. The square shape is a building block and the basis of a pattern found throughout the company's visual identity, it explained.

According to OCC, the brand is as much about reputation and risk management as it is about identity.

It also provides OCC with a way to "live the brand" by translating its values into tangible action. The new visual identity, guiding actions and rally cry, in conjunction with the company's mission, purpose and values, emphasises brand promise to enable a stable tomorrow, stated OCC.

Craig Donohue, OCC executive chairman and CEO, said: "This new brand identity is an exciting change for OCC. It represents our evolution from being not only an important market utility, but also becoming an acknowledged industry influencer and thought leader."

"Over the past 45 years, our talented team of colleagues has built a solid foundation with a strong reputation for delivering sound risk management and capital efficiencies to the markets we serve."

David Prosperi, senior vice president of communications at the OCC, added: "This new branding will support our tireless work to clear the path and enable a stable tomorrow for market participants in our role as the foundation for secure markets."

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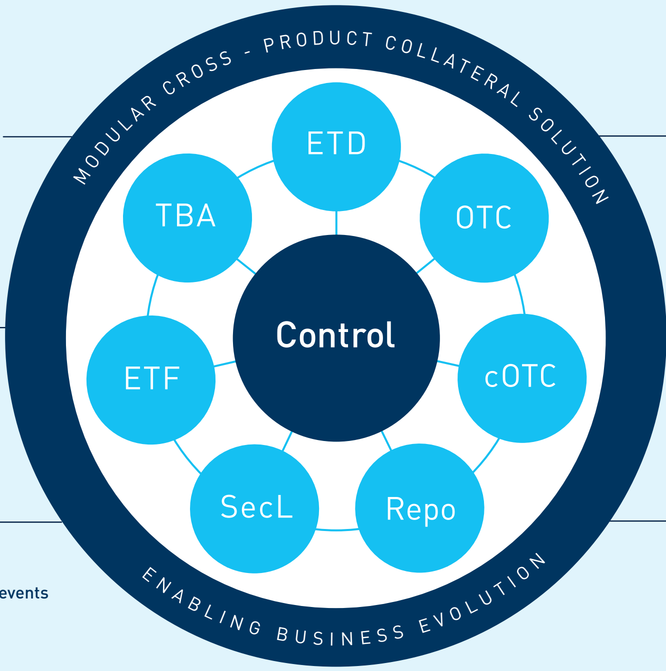

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data based on the main methodological features of the forthcoming ESTER, called pre-ESTER.

The first publication of pre-ESTER covers historical time series data for the reserve maintenance periods from 15 March last year to 2 May this year. Regular releases for each reserve maintenance period will be issued starting in the summer of 2018.

The governing council said that they would like to “thank all respondents to the two ECB public consultations on the design of the interest rate. The feedback provided valuable guidance in the preparation of the final methodology”.

The ICMA has released mandatory buy-in advice

The International Capital Market Association (ICMA) has published a new report on the potential market consequences of the settlement discipline provision of the Central Securities Depository Regulation (CSDR).

The report titled: ‘How to survive in a mandatory buy-in world’, explains the additional market risks and economic uncertainties the CSDR buy-in regime will create for bond market participants, buyers and sellers, as well as intermediaries and lenders of securities.

While CSDR deals mainly with the regulation of Europe’s settlement systems, it contains a section on ‘settlement discipline’, which includes measures to improve settlement efficiency, such as cash penalties for fails. Among these is the provision for mandatory buy-ins.

ICMA chief executive, Martin Scheck, said: “The CSD regulation, while undoubtedly well-intentioned, will in one respect present major challenges for anyone transacting business in the European cross-border bond markets.”

“This report prepared by ICMA’s secondary bond market committee of active bond market participants, aims to make clear the consequences of making buy-ins mandatory, well in advance of the regulation coming into force in two years’ time.”

OneChicago sees decrease in trading volume for June

OneChicago, a securities finance exchange, revealed that its June volume was 554,378, a decrease of 77 percent year-over-year.

The results show a similar pattern to the securities finance exchange’s May results which with a volume of 554,378, saw a decrease of 64 percent year-over-year. 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.

Securities lending activity increases

OCC has calculated that its securities lending activity was up 17 percent in June and 22 percent year-to-date.

Year-to-date stock loan activity increased 22 percent from 2017 with 1.3 million new loan transactions in 2018.

The average daily loan value at OCC in June was $180 billion.

Total cleared contract volume in June reached 409 million contracts, up six percent compared to June 2017 volume of 387 million.

OCC's year-to-date average daily cleared contract volume is up 22 percent with 21 million contracts compared to 17 million contracts in 2017.

Overall exchange-listed options volume reached 401 million contracts in June, up seven percent from June 2017, marking the highest June on record for total options.

Equity options volume reached a total of 363 million contracts, an eight percent increase from June 2017. This includes cleared exchange traded fund options volume of 142 million contracts last month, a five percent decrease compared to June 2017 volume of 149 million contracts.

Year-to-date average daily cleared futures volume was 449,071 contracts, 19 percent less than 2017.

Futures cleared by OCC reached 7 million contracts in June, down 42 percent from June 2017.

OCC's year-to-date average daily cleared futures volume was 449,071 contracts, 19 percent less than 2017.

J.P. Morgan goes live with CDSClear

J.P. Morgan has gone live as CDSClear's first US bank to offer client clearing.

As a result, Swedish pension fund AMF is now clearing European and US credit default swaps through CDSClear, using J.P. Morgan Securities as its clearing broker.

CDSClear began offering client clearing in 2017, and according to The London Stock Exchange (LCH), the go-live builds on its growing credit default swap (CDS) clearing business.

Frank Soussan, global head of CDSClear at LCH, said: "As the first US bank to offer CDSClear's services to its clients, we're delighted to welcome J.P. Morgan as our latest clearing broker. We're focused on continuing to grow our reach and extending clearing broker access is an important part of this."

Nick Rustad, head of global clearing, J.P. Morgan, commented: "We are focused on providing clients with a choice of derivatives clearing solutions, and access via LCH. CDSClear will further open up a wide range of European and US credit derivatives to them. The associated cross margining opportunity is also one of the core benefits that clearing has to offer."

Bengt Björkén, head of fixed income at AMF, said: "Risk management is a high priority for us and clearing offers us an efficient way of mitigating counterparty risk. CDSClear offers access to clearing a wide range of credit products and AMF are very pleased to be working with LCH and J.P. Morgan in this area."

Eurex sees increase in daily cleared volume

Average daily cleared volume in interest rate derivatives increased to €67 billion in June this year, compared to €8 billion last June.

Notional outstanding stood at €7.2 trillion compared to €1.5 trillion at the end of June last year. Eurex Clearing reports that because of this it now holds a market share of roughly 8 percent in the global Euro-denominated interest rate derivatives market.

According to Eurex, there is no evidence for the concern that a fragmentation of the existing liquidity pool would lead to significant cost increases in particular for EU27 buy-side firms.

For almost all relevant tenors, 19 banks supply quotes on request via Tradeweb and/or Bloomberg, and eleven banks currently stream live prices on the platforms largely at the same bid/offer spread and size as LCH.

Some 29 market participants from the US, the UK, Asia and Continental Europe have joined Eurex Clearing's Partnership Programme.

The initiative is set to give a liquid alternative to clear Euro-denominated over-the-counter interest rate derivatives in the EU27.

Eurex Clearing has also installed a fixed income and currency (FIC) board advisory committee for the purpose of consulting with and making recommendations to the executive board of Eurex Clearing with respect to the general FIC strategy as well as product and service expansions.

The committee consists of ten members. They are nominated for a two-year term to the committee based on their performance in the Eurex Clearing Partnership Programme.

The five most active participants of the Partnership Program are represented in Eurex Clearing's supervisory board.

A well-maintained structure

The Taiwan securities lending market has remained stable for the last six years, showing growth year-on-year since 2012

Jenna Lomax reports

Overall Taiwan's securities lending market would appear a well-maintained structure. Fairly new in its creation and an up and coming market, the country has become stalwart in the Asian financial services industry.

This year, Taiwan is launching further updates to its securities borrowing and lending (SBL) model, which will involve a change to pre-sale borrow matching and recall delivery requirements, as well as changes to on-lending capability, corporate action reform, a reviewing of the local lending income tax and dividend tax requirements.

In addition, the Taiwanese stock exchange is now monitoring short selling volumes on its platform more closely, which is set to increase efficiency of daily trading between brokers and custodian banks and improve post-trade efficiencies.

In recent years, some in the industry have pointed to Asian markets, specifically Taiwan, as an example of where perceptions of short selling changed from benefiting from someone else's loss to a legitimate hedging strategy.

The aforementioned assumption was made by a panellist at ISLA's 25th Annual Securities Finance and Collateral Management Conference back in 2016. But what has changed in the last two years?

Wayne Chang, manager of securities lending at the trading department of The Taiwan Stock Exchange (TWSE), says: "Brokers' SBL business has grown significantly since 2016, while SBL brokers have their own discretion over deciding each customer's credit. The [expansion of eligible securities for securities lending] is to ensure consistency with TWSE SBL system."

Though, there is the topic of short-selling to consider. Taiwanese short selling quotas remains a sufficient cog in the machine, if not as robust as some other components—as the Pan Asia Securities Lending Association (PASLA) says "a few processes could indeed be improved".

PASLA adds: "One of the main challenges that prevents increased participation in Taiwan is its current short-sell quota. TWSE is aware of [this]. The good news is that they continue to work with authorities, industry bodies and participants to assess and enhance their rules on an ongoing basis."

Chang mirrors PASLA's comments that work is progressing in the right direction. He says: "As SBL business expands, TWSE will try to give flexibility to SBL brokers to the greatest extent, as short selling limits has proved inefficient to the securities market, TWSE will continue putting efforts to remove the limit."

The TWSE also introduced a control mechanism to prevent the blocking of the short-sell quota, as well as an extended ability to rollover stock lending transactions twice—to a maximum tenor of 18 months. The results of which were a mixed bag.

PASLA says: "The additional 10 percent quota increase was welcomed but many strategies are still negatively impacted by the remaining uncertainty of such absolute quota limits that could still prevent the ability to hedge properly on the short-side, even if sufficient inventory pools are available."

PASLA uses the deal maturity period as another example of where Taiwanese securities lending processes could be refined.

The association says: "Although the deal maturity period has been extended it's still a burden for brokers, borrowers and lenders to monitor and source replacement shares."

It added another concern is the access to offshore inventory for global or offshore lenders.

Of this, PASLA adds: "Given the effective requirement for pre-notification for selling securities, the majority of inventory or borrow pools still come from domestic or local lenders that, whilst useful, are relatively smaller."

To add to the burden, extended trading hours didn't bring as much liquidity and activity as expected when first introduced back in 2017.

But are we being too harsh, or maybe too cynical to an up and coming market, that is indeed, still up and coming?

A panellist at this year's PASLA Annual Conference was more optimistic, as they included Taiwan as one of Asia's emerging markets which presents "significant opportunity" for industry participants, though they said this in context of the long-term.

Chang emphasises this notion. He says: "TWSE will continue fine tuning the system and rules according to participants' needs."

Weighing up the numbers

Average daily on loan balance thus far for 2018 reflects this "up and coming" notion, with Taiwan's standing at $8.55 billion on loan per day.

Average utilisation for Taiwan has been 11.85 percent so far in 2018 (as of 6 June).

Though utilisation has generally been trending down in Taiwan this year—reaching a low of 10.6 percent in January—DataLend found a recent upswing back to 15 percent in June.

But though some of these figures may sound impressive, PASLA says: "Year-on-year, we have seen an overall decrease in both average balances on loan as well as utilisation of the lending pool."

"This trend is not necessarily specific to Taiwan only, but is in line with the general trends that we have seen in several markets across Asia Pacific."

When neighbours become good friends

In addition, there are a range of emerging markets in Asia, such as the Philippines, India, Indonesia and China.

Particularly where China is concerned, PASLA says every country can't be treated as separate entities and that China's trade tensions with the US could have a knock on effect when predicting Taiwan's possible future success.

It says: "[The trade tensions] which, whilst perhaps may not be as significant as originally thought, can nevertheless potentially cause negative sentiments especially across the heavy technology indices of Taiwan."

In addition, PASLA has warned that the short selling framework of Taiwan's neighbour, the Philippines, still needs work.

The Philippines short selling infrastructure is due to launch this year, however, a PASLA board member suggested in March that 2018 might not be a "realistic launch date".

After a consultation paper was released by the Philippines Stock Exchange in November last year on the launch of the Philippines short selling infrastructure, a PASLA executive committee member suggested that there is still work to be done in certain areas.

But it also said: "While for some markets short balances have increased, looking at notional value on a normalised basis, the overall trend [for Asia Pacific] has been more on the covering side."

It added: "Hong Kong is a good example of a market which has seen a good amount of covering on the back of a number of positive catalysts. Clearly we have recently experienced the largest MSCI equity rebalance, where, in addition to many positions being sold and bought, over 200 Chinese companies were added to the benchmark index."

"Specifically in Taiwan, there were just a handful of changes," it concludes. **SLT**

Top 5 hottest securities by revenue in Taiwan

1. Au Optronics
2. Yageo
3. Macronix International
4. Innolux
5. HTC

(As of 6 June, DataLend)

Life, the Universe and Digital Assets

While the answer to life may not be the number 42, it may not be digital assets either, despite what some may think

Brian Bollen reports

The answer to life, the universe and everything is not 42 after all, despite what Douglas Adams demonstrated in his iconic Hitchhiker's Guide To The Galaxy series.

The answer is, in fact, if one is to believe the torrent of quasi-religious outpourings on the topic, cryptocurrencies, digital assets, and blockchain.

The technology that underlies digital assets is often identified as the one true way to the future, from the newly ultra-fashionable non-fiat 'currencies' to, in the case of Australia, government services.

Lendingblock recently announced itself as a digital asset lending exchange platform for fully collateralised cryptocurrency loans, linking institutional borrowers and lenders. It claims to be the first company to bring cross-blockchain lending to the crypto world.

Global fintech company QUOINE, the owner of digital asset exchanges QUOINEX, QRYPTOS and the forthcoming LIQUID platform, announced a partnership with Lendingblock in late June. This will see the QUOINEX and QRYPTOS exchanges, as well as the LIQUID platform later, integrated with the Lendingblock platform to facilitate the sharing of liquidity, and also extend borrowing and lending to exchange users.

QUOINE, which has offices in Japan, Singapore and Vietnam, combines what it describes as a strong network of local partners with extensive team experience in banking and financial products to deliver best in class financial services for its customers.

It will join Lendingblock's Institutional advisory group and list Lendingblock's LND token on QRYPTOS and LIQUID.

Seth Melamed, senior vice president and head of operations at QUOINE said that the Lendingblock team shares his company's vision for making financial services accessible to the broad spectrum of investors.

"Lendingblock is leveraging blockchain to efficiently introduce the ability to borrow and lend cryptocurrency in a secure and transparent manner," he said.

"Both of our communities will benefit from the partnership by making new pools of liquidity available and we look forward to a long and prosperous friendship."

Soon after, Lendingblock was advising the world that Genesis Capital—which offers institutions the ability to borrow bitcoin, ether and other digital currencies in large sizes from a trusted and regulated counterparty—had become the latest participant in the Lendingblock institutional advisory group.

Whether for institutional market-making, hedging or speculating, Genesis Capital offers both open-term and fixed-term loans from two weeks to six months with a minimum loan size of $250,000.

It will work with Lendingblock to ensure that the platform meets the complex needs and high standards demanded by institutional users.

However, sceptical lifelong financial market participants sound less impressed with the shift to digital assets.

It could be that for older financial specialists, an understanding of digital assets is to them what programming a video recorder was for their parents—simply beyond their know-how.

Damian Billy, founder and CEO of the Econophy Group, a private equity firm applying a proprietary model that focuses on the technologies, products and services within the financial technology revolution, questions borrowing and lending something that does not exist.

He says: "What comes to mind is the following. With Bitcoin approaching a decline of 70 percent in value, how would they intend to maintain any collateral relationship?"

"My understanding is that it is only feasible to 'mine' cryptocurrencies at a certain level of value. If not those mining it can't be profitable, who takes up the slack in activity?"

"Since there are two transactions (lending and borrowing) are there two fees involved? If someone is going to lend their initial coin offerings (ICOs), they would expect some return on investment (ROI). If someone is the conduit for borrowing, they are going to charge a fee for the transaction."

He adds: "If the pledged ICO loses value, is there a margin call by the lender? Many of the blockchain related concepts and technologies are yet to be proven at best. Some are nascent, so how do you establish a hierarchy of what ICOs can be pledged? Or it is all based on a good faith basis that assumes the entire ICO complex does not go to hell in a handbasket?"

"With some institutional interest coming into the market, would they be supportive or be counterproductive to stabilise any lending vs borrowing activity?"

Billy questions, where criminal activity is rampant, what risk management controls are and if there is any regulatory oversight.

He explains: "From what I have read, there are a handful of individuals that control upwards of 70 percent of the Bitcoin market and other ICOs. How do you defend a transaction that cannot be controlled internally?"

"Will it be a one-to-one transaction relationship between the lender and borrower, or will a skewed equity relationship exist between the two sides of the transaction? Will there be more lenders than borrowers or vice versa?"

Billy also discusses the stability of ICO lending and borrowing. He says that, when buying a home, the down payment varies from 5 percent to 20 percent, depending on the lender type versus a borrower's income or credit history.

He asks whether Lendingblock is setting any criteria (for example, 70 or 80 percent of the borrower's request) to offset market volatility.

He explains: "If the ICO loses 10 percent, 20 percent or 30 percent of value, who has the liability for paying off the loan? Is the borrower required to add more ICOs as collateral?

"Can the loan be called due to a market price drop? Is there ever a point in the lender versus borrower relationship where the market environment would just negate it?

"Everything is fine when things are positive, but what happens when neither side controls market movement and ICO pricing collapses? Does the lender just seize the borrower's collateral?"

Another industry veteran adds: "On the future potential of crypto assets in the borrowing and lending space, my guess is that until cryptos get into the mainstream and are widely traded and available at prime brokers, any such peer-to-peer lending platforms will struggle to get volume to justify their existence and their backers will need deep pockets and patience." **SLT**

Time to step up

Christelle Boulic of BNP Paribas suggests that it's time for ETFs to play a more active role in securities lending and collateral optimisation

Exchange-traded funds (ETFs) have seen a surge in popularity among investors, as part of the broader global shift towards lower-cost passive funds. Yet despite the market's growing maturity, ETFs remain underutilised within industry participants' securities lending and collateral management programmes.

Created just 25 years ago, ETFs broke through the $5 trillion in assets under management (AUM) mark in February this year, and are expected to reach $7.6 trillion by the end of 2020. This may remain only a minor slice of the world's invested assets, but the growth trend is clear.

In the US, by far the largest and most mature market, ETFs now make up 13 percent of the funds industry total AUM. Along with new inflows and asset appreciation, this growth in part comes from a shift out of traditional mutual funds, which saw net outflows of minus $277 billion, compared to an increase of $167 billion into ETFs tracking the same types of assets.

Outside North America, ETF markets are more nascent, but that is fast changing. In Europe, AUM has doubled in the past five years, and the forecast is for further growth in the coming years.

Yet while ETFs are becoming an ever more crucial constituent of (especially institutional) investors' portfolios, for the most part in Europe ETFs remain idle in their portfolios, and are not being used within their securities lending programmes to generate additional revenue. At a time of growing collateral demands—especially to meet regulatory obligations, as with the European Market Infrastructure Regulation (EMIR)—ETFs could also serve as valuable collateral instruments for European financial institutions.

Optimising ETFs' untapped value

To date, three main issues have limited the use of ETFs in securities lending and as collateral in Europe. Overcoming these will be an important step in helping the industry further develop and grow.

Understanding ETFs: An ETF is an investment fund that tracks an index, a commodity, bonds, or a basket of assets like an index fund. ETFs offer investors collective exposure to a wide variety of assets, providing almost limitless investment possibilities. ETFs provide a broad exposure to a diversified pool of assets, typically with reduced exposure to single security volatility. They tend to be relatively low cost, although ETFs that track less liquid indices will have higher expense ratios. ETFs are also priced intraday, providing greater transaction flexibility than mutual funds.

Within the broad universe, ETFs can vary depending on their constitution and management. The key distinctions are:

- Physical replication: the portfolio manager buys the same underlying securities that compose the index being tracked
- Synthetic replication: the ETF aims to replicate the performance of an index using swaps, rather than physical securities
- Equity ETFs: the underlying index could be anything from the S&P 500 to an emerging market equity index
- Bond ETFs: span everything from European government debt to corporate bonds
- Other assets: new forms are emerging all the time, and may include commodities, currencies or alternative investments.
- Passive management: the ETF will replicate the index performance exactly
- Active management: the portfolio manager tries to outperform the index, for example using derivatives to create inverse or leveraged ETFs

Addressing common criticisms: Some ETFs have garnered a poor reputation. As a recent article observed, an ETF's price fluctuates according to the value of its underlying assets. The integrity of that price depends on the models and contracts that link everything together.

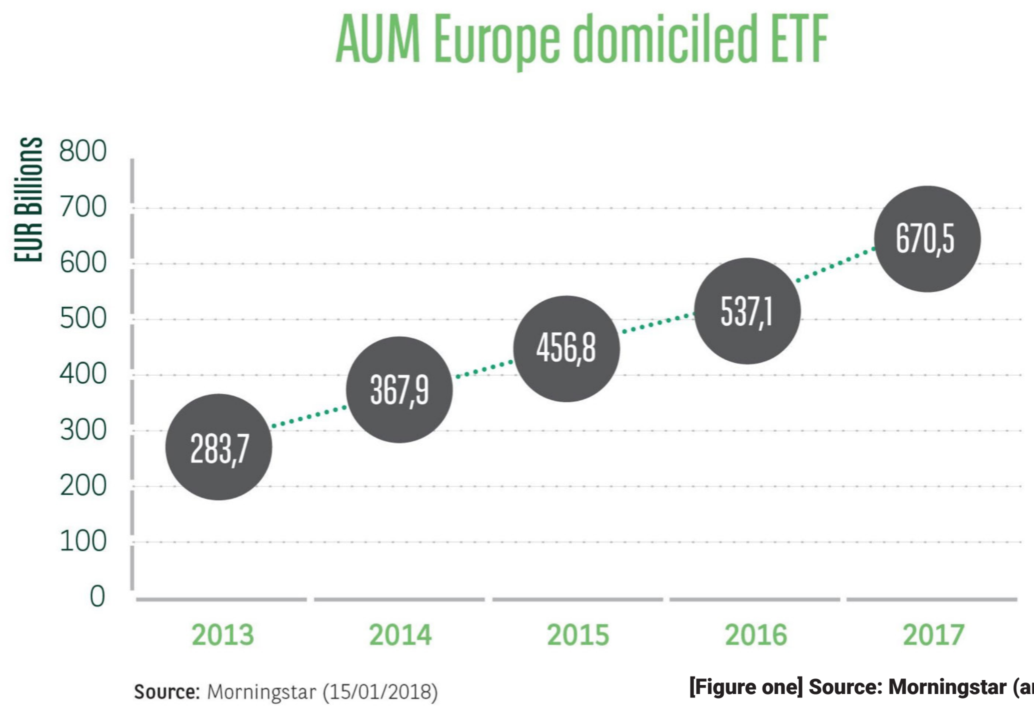
Another complaint has been a lack of transparency. Since the January rollout of the second Markets in Financial Instruments Directive (MiFID II) though, European investors now have access to more information about the functioning, composition, size and liquidity of funds, as seen with the mandatory reporting of over-the-counter (OTC) transactions. In addition, most European ETFs are structured as UCITS, which provide end-investors with the guarantee of a depositary bank, for example for asset restitution.

Risk concerns have been a further factor. Yet, while synthetic ETFs may appear riskier than physical replication vehicles, since March last year, EMIR has required mandatory collateralisation of swaps, which is changing the risk profile.

Ensuring liquidity

Unlike traditional funds, investors have several options when 'selling' their ETF shares: the primary market, the secondary market and via OTC transactions.

In the primary market, liquidity relies on 'authorised participants'. These market makers are charged with the creation and redemption



[Figure one] Source: Morningstar (art. 15.01.2018)

of ETF units, which determine the supply of ETF shares and help keep the funds priced at fair value. Primary liquidity relates to how efficient it is to create/redeem shares, and is therefore a function of how easy it is to access and trade in the underlying instruments that back the ETF.

Approximately 90 percent of ETF units are then exchanged on the secondary market, where most non-institutional investors transact. Secondary market liquidity is determined by the volume and value of the supply of existing ETF shares being traded.

Given an ETF's liquidity is primarily dependent on its authorised participants in both markets, there is a question of what would happen if an authorised participant steps back from this role. The biggest ETFs (great than €750 million in AUM) have an average of 35 authorised participants, with roughly nine of those active in the primary market. Although there is no contractual obligation for them to step in to take over the business, historically they have done so because it presents a business opportunity.

Article 23 of the European Securities and Markets Authority's Guidelines on ETFs and Other UCITS Issues notes that investors should always be allowed to sell their units or shares directly back to the UCITS ETF if the stock exchange value varies significantly from its net asset value. "For example, this may apply in cases of market disruption such as the absence of a market maker," notes the guide.

Fostering liquidity through securities lending

Securities lending—the ability to lend and borrow securities, for example to harness increased yield or allow market makers to cover their short positions—is today a fundamental component in the efficient functioning of financial markets. Securities lending activity improves market liquidity, market makers' ability to perform their role and the market's price fixing mechanism.

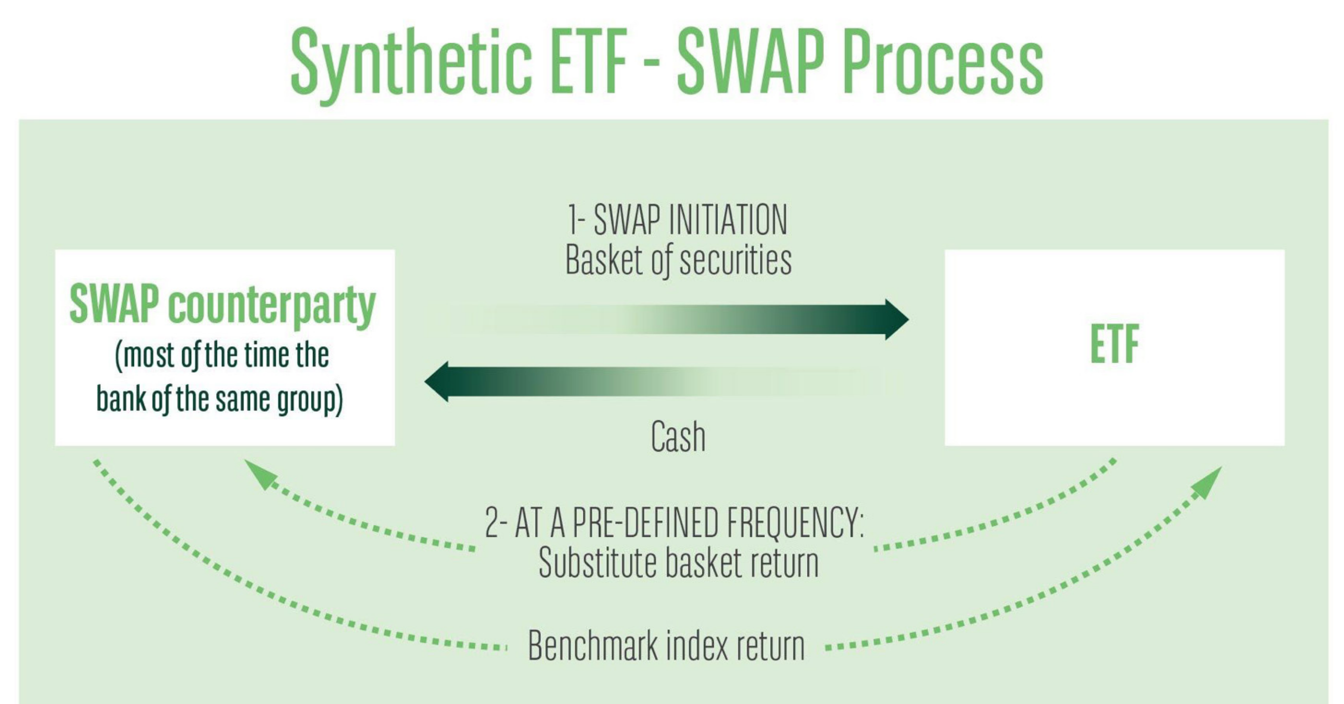
The ETF market is no exception. As it grows and develops, especially the volumes exchanged on the secondary markets, a vibrant ETF securities lending environment will enable authorised participants to operate more efficiently, and reduce the time and cost involved in creating and redeeming ETF shares. As we have seen elsewhere, this will create a virtuous circle by enhancing liquidity and market activity, thereby attracting new participants and further deepening and expanding the liquidity pools. When lending out their ETF units, long holders of ETFs could benefit from additional revenues which can offset some, or even all, of the ETF management fee.

Fine tuning the classification of ETFs

Today, neither the regulatory authorities in Europe nor the US consider ETFs as high quality liquidity assets (HQLAs), even if the underlying securities are government bonds (which are considered to be HQLA Level 1 assets under Basel III rules).

This is paradoxical. In fact, the US and European authorities' analysis was restricted to equity ETFs, and did not even consider fixed income vehicles.

The environment has also changed and continues to evolve. ETF volumes and liquidity are rising. In addition, UCITS, EMIR and MiFID



[Figure two] Ex schéma de swaps synthétique (source AMF)

II have increased investor protections and have gone a long way in addressing regulators' previous counterparty credit risk concerns.

If the regulatory classifications were to be fine-tuned to reassess individual ETFs' values in light of their true risk profile, market participants would be able to use the instruments more broadly.

At a time of growing margin demands, this would help expand the pool of available collateral, and reduce firms' collateral and capital costs. With the European Central Bank planning to roll out a Eurosystem Collateral Management System by November 2022 to harmonise collateral operations across Europe. This is an opportune time to reassess the role of ETFs as collateral instruments in Europe.

Next steps

Significant interest already exists among European market participants in using ETFs as collateral. BNP Paribas Securities Services, like several other banks, has accepted ETFs as collateral for some time.

Classifying an ETF's profile, to determine its eligibility, is a major challenge at present though.

Today, assessing the suitability involves considerable manual effort by firms' risk departments to analyse exactly what is inside each ETF on a one-by-one basis. For many, the workload involved outweighs the benefit gained.

The solution, in addition to a regulatory reclassification, lies in more automated market data.

IHS Markit has made a first positive contribution by producing ETF collateral lists, which use its own filtering criteria to publish an inventory of eligible equity and fixed income ETFs.

But only just over 100 names make the lists, out of a universe of some 6,000 ETFs.

There is still some way to go then until ETFs become widely accepted and used as collateral and in securities lending programmes. But with progressive change already evident, it is only a matter of time before ETFs can realise their full potential. **SLT**

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Signs of improvement

Samuel Pierson of IHS Market suggests that EU equity lending revenue improved 19 percent in first half of 2018

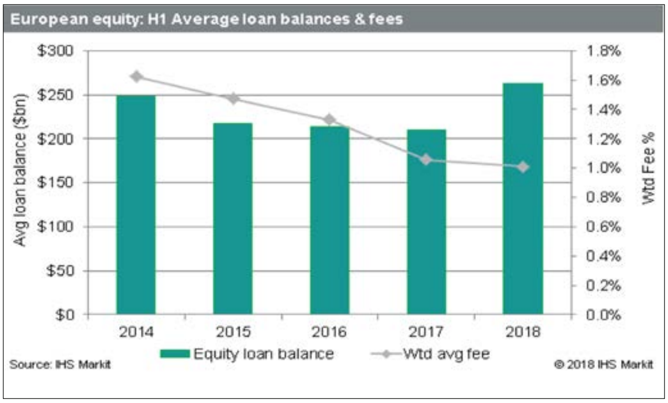
- Germany leads on increasing specials demand
- French equity revenue improves after challenging Q1
- Increasing revenue primarily driven by higher balances

European equity lending revenue was just over $1.3 billion in the first half of 2018. That was an improvement of 19 percent compared with the first half of 2017. After outperforming in Q1, EU equity lending revenues managed a 21 percent improvement for Q2 relative to 2017. Germany led the way, improving on both balances and fees to deliver $124 million in Q2 revenue.

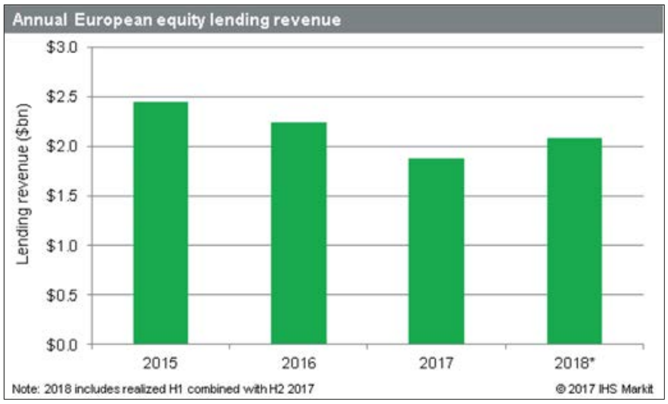
Revenues for French equities also improved in Q2, relative to 2017, after lagging in Q1. Revenues in the Nordic countries were up 9 percent, primarily driven by improvement in Finland, while Sweden posted the only declining revenue in the top five markets.

	Q2 2018 lending revenue ($m)	Change from Q2 2017
EU Equity	**$929**	**21%**
France Equity	$338	18%
Germany Equity	$124	64%
Sweden Equity	$85	-8%
UK Equity	$58	18%
Italy Equity	$57	22%

The increasing revenue is primarily the result of increasing loan balances, which registered a Q2 average just below $300 billion across the region. The largest contributors to the increase were UK, France, Germany and the Netherlands. Some good news for beneficial owners is that the increase in their loan balances outpaced the 18 percent increase in lendable inventory, causing EU equity utilisation to increase for the second consecutive quarter. The increasing borrow demand pushed the average balances for the first half of 2018 above $250 billion, the highest level for the first six months of a year since 2011. While increasing balances drove the majority of improved revenue, and in fact overall average fees fell slightly for EU equities, there were some notable



exceptions. Average fees improved by 35 percent in Germany and 12 percent in the Netherlands. Even more impressively, the average lending fee for equities in Greece doubled, to a 10 percent average annualised fee.



If EU equity lending revenues only match 2017 in the second half of 2018, the overall revenue for the year will only be 7 percent below 2016, a remarkable comeback after some challenging times at the end of 2016 and early 2017. With increasing borrow balances outstripping lendable supply growth, and the potential for global macro pressures to drive increased hedging activity, the last half of 2018 could make this a very strong year indeed for European equity lending revenues. **SLT**

Latest industry comings and goings at Citi, Eurex, Lombard Risk and more

Gareth Mitchell is set to leave his role as managing director at Citi, according to multiple industry sources.

Mitchell served as global head of securities finance equity trading, for Europe, the Middle East and Africa and Asia head of securities finance.

He has worked at Citi for more than 18 years.

It is understood he is currently under notice of redundancy.

Mitchell also worked at Deutsche Bank as director from 1998 to 2000.

Layton Road Group has welcomed new managing director, Daniel Cohen, with the aim to target brokerage and custodial space.

Cohen will seek to introduce and expand Layton Road's outsourced capital introduction solutions to the prime brokerage and custodial services industries.

With more than 20 years of experience in the industry, Cohen joins the Layton Road Group after leading sales teams at Cantor Fitzgerald, J.P Morgan and Bear Stearns.

He has contributed more than two decades in the prime brokerage industry having held senior roles in sales and risk management.

Cohen stated: "I am thrilled to be reunited with Tom Mahala and join Layton Road's veteran marketers and experienced sales professionals."

"Mahala has developed a ground-breaking offering that provides a better way to offer capital introduction services to alternative investment managers, institutional investors and prime brokerage divisions."

Tom Mahala, president at Layton Road Group, commented: "Daniel Cohen's 20 years plus of experience, and abundant industry relationships on the West Coast, puts him in an ideal position to deliver a better capital introduction experience to investors and managers alike."

He added: "The industry is changing and hiring someone like Daniel Cohen helps Layton Road fulfill a growing need to partner with high-quality, connected professionals, to assist investment managers meet their asset-raising goals."

The board of directors at Citi has elected Jay Jacobs as a new independent director.

Jacobs most recently served as president and managing director of Pacific Investment Management Company (PIMCO), a global investment management firm, prior to his retirement in September 2017.

Jacobs was at PIMCO, serving as the firm's president from 2014 to 2017.

As president, Jacobs led the firm's operational, administrative and infrastructure areas and chaired PIMCO's global risk committee and served on its executive, compensation and audit committees.

Prior to PIMCO, Jacobs served as managing director and global head of human resources at PIMCO. He currently serves as an outside consultant to the firm.

Michael O'Neill, chairman at Citi, said, "We are pleased to have Jay Jacobs join Citi's board of directors. Not only does he have deep operational, administrative and business experience in the financial services industry, but he also brings board insights gained from being an institutional investor and a client."

He added: "I'm confident Jacobs's perspective from these various viewpoints will prove immediately valuable to Citi."

Jeffrey Tessler has been appointed as chairman at both Eurex Frankfurt and Eurex Clearing.

Tessler will replace Hugo Bänziger, who has been in the role since 2012, as he resigns at his own request.

As part of the appointment, Gregor Pottmeyer has been elected as vice chair.

Thomas Book, CEO of Eurex Frankfurt, said: "We are delighted to welcome Jeffrey Tessler as our new chairman."

Book added: "We will benefit tremendously from his profound industry experience and clear client focus."

"At the same time, I cannot thank Bänziger enough for his work, his commitment and his guidance. He brought Eurex forward and accompanied us through times of change by constantly bringing his industry experience to our business. This helped us to benefit from new legislation like the European Market Infrastructure Regulation and made Eurex what it is today."

In the new term, the number of board directors has decreased from nine to three.

Tessler and Pottmeyer will be joined by Hauke Stars.

The previous members Richard Berliand, Serge Demolière, Martin Klaus, Susanne Klöss, Petra Roth and Jürg Spillmann have left the supervisory board.

The Eurex Clearing supervisory board will be joined by the five most active participants of the partnership programme. These include Charles Bristow of J.P. Morgan, Nikolaus Giesbert of Commerzbank, Stefan Hoops of Deutsche Bank, Raphael Masgnaux of BNP Paribas and Thilo Roßberg of LBBW. Alongside the partnership programme, Jutta Doenges from Deutsche Finanzagentur was elected.

Altogether, Eurex Clearing's supervisory board comprises twelve seats.

Erik Müller, CEO of Eurex Clearing, said: "The inclusion of five client representatives in the supervisory board marks further progress for the Eurex Clearing partnership programme."

He added: "I welcome the new supervisory board members and their contributions to establishing a liquid alternative to clear Euro-denominated over-the-counter interest rate derivatives in the EU27."

Vermeg has terminated the employment of Lombard Risk CEO Alastair Brown and CFO Nigel Gurney.

Both Brown and Gurney have stepped down with immediate effect from the board of directors of Lombard Risk and all associated group entities.

Additionally, the Vermeg Board intends to effect redundancies in respect of up to three other senior management personnel within Lombard Risk.

The decision was made after Vermeg recognised a material decline in revenues from Lombard Risk.

Vermeg acquired Lombard Risk in February and expected an increase in revenue and a turnover of €100 million.

However, the unaudited full year results displayed a material decline in revenues, negative earnings before interest, taxes, depreciation, and amortisation, as well as a significant loss before tax, compared to the prior financial year.

In the offer documentation that followed the acquisition, it was stated that Lombard Risk would continue to operate under its existing executive management team within the Vermeg group.

It was also stated that apart from the mutually agreed resignations of Lombard Risk's four non-executive directors and a limited number of planned redundancies, Vermeg did not intend to make any other material changes.

According to the company, it is now intended that the planned redundancy programme is likely to involve a material number of redundancies within the operational and professional services areas and a limited number of redundancies within the sales and marketing team.

The Vermeg Board noted that, while the scope of the redundancy programme is now wider than had previously been anticipated.

It said: "The overall total level of redundancies across the enlarged group, as a result of the implementation of the alternative integration strategy is still expected to be relatively limited and will have no impact on client support."

Carsten Hiller will rejoin Deutsche Börse Group, effective 1 August.

Based in Frankfurt, Hiller will join as senior vice president and be responsible for sales and relationship management of Deutsche Börse Group's funding and financing team.

He will report to Frank Gast, managing director of Eurex Repo and global co-head of GFF sales and business development.

Previously, Hiller served as director of sales and relationship manager at Moody's Analytics, based in Frankfurt, Germany. Hiller worked at Moody's from October 2016. He has also worked as director, head of short-term sales at HSBC and Trinkaus & Burkhardt. **SLT**