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Glenn Havlicek of GLMX provides an insight on the OFR's proposed data collection ruling

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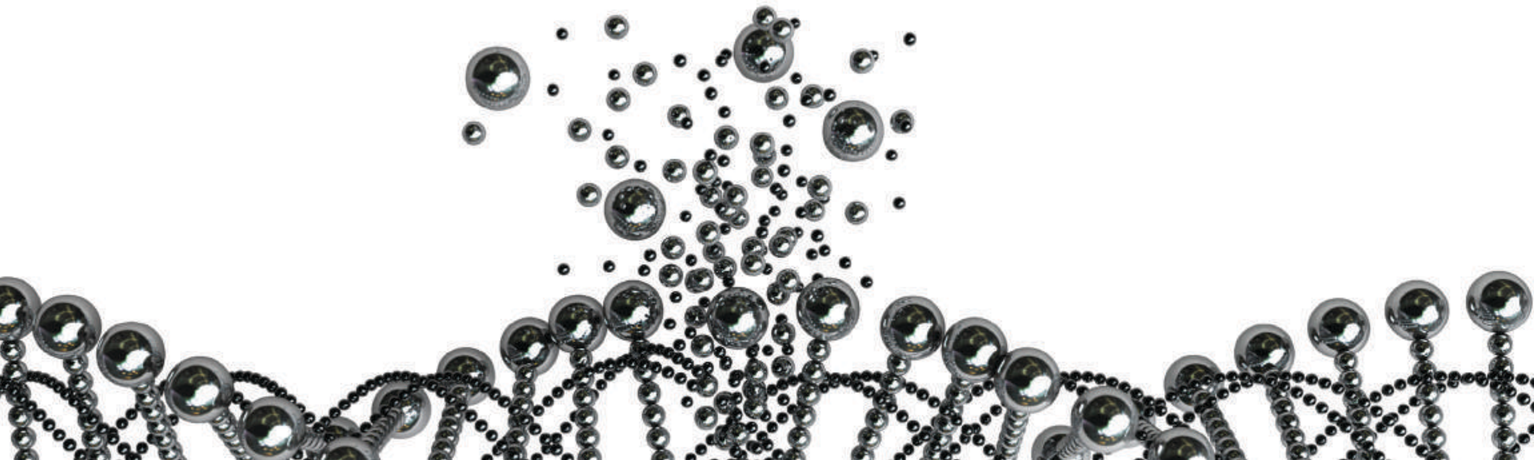

EC to adopt ESMA level II draft legislation

The European Commission (EC) has confirmed that it intends to adopt, with amendments, the draft regulatory and implementing technical standards (RTS) (ITS), submitted by the European Securities and Markets Authority (ESMA) for the Securities Financing Transaction Regulation (SFTR).

The European Commission director general Olivier Guersent confirmed its intentions in a letter to ESMA's chair Steven Maijoor.

Although the EC confirmed the adoption of ESMA's level II draft legislation, it stated that it reserves the right to make a particular change in the future to mandate branches to use legal entity identifiers.

ESMA has stated it also reserves the right to make a particular change in the future to mandate branches to use legal entity identifiers, even though the EC states that only it has such a right.

Specifically, the EC referenced the details of securities financing transactions to be reported to trade repositories in accordance with Articles 4(9) and 4(10) of Regulation (EU) 2015/2365 (SFTR).

It also referenced amendments, accordingly, the ITS with regard to the details to be reported to trade repositories in accordance with Article 9(6) of Regulation (EU) No 648/2012 (EMIR).

The announcement said: "The [EC intends] to endorse with amendments those draft RTS and ITS submitted by ESMA [...] it was, therefore, necessary to make a number of clarifications and slightly restructure parts of the draft standards."

At the beginning of July, Market FinReg revealed that it had been in discussion with the EC as part of the ongoing enforcement action that it had launched against the commission.

Market FinReg advised firms to "ignore industry gossip" suggesting that SFTR would be changed significantly by the EC.

According to Market FinReg, the announcement means that "the EC must have a compelling reason to overrule ESMA's market expertise".

It explained that the next steps, as stated in Article 10, mean ESMA has six weeks to rework and deliver its formal opinion to the EC.

After receiving ESMA's amended draft RTS within the six-week period, the EC may amend the draft RTS on the basis of the authority's proposed amendments or adopt the RTS with the amendments it considers relevant.

Market FinReg analysis suggested: "In other words, the commission has ultimate say in what it adopts, however, it is duty bound by article 10 to adhere to this formal process. The EC must immediately forward the adopted legislation to the parliament and council for final approval."

The analyses urges companies to "get cracking". It said: "SFTR level II is now all but official. There are no unknowns. SFTR is the most complex and arduous reporting regime ever imposed on the industry by some considerable margin. The measure will be adopted by Q1 2019 making Q1 2020 the go-live date."

Commenting on the announcement, Seb Malik, head of financial law at Market FinReg, said: "The EC's announcement that it intends to adopt ESMA's level II draft legislation as is should have come as no surprise. We have been advising clients this all year."

"The EC told us so last month and we reported this back to the industry via the press. We're delighted, all the same, as firms can now knuckle down to implementation for an expected go-live date of Q1 2020."

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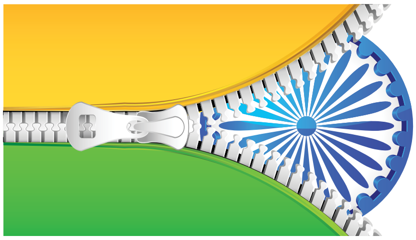

OCC financial safeguards framework approved by SEC

The US Securities and Exchange Commission (SEC) has approved the OCC's proposed Financial Safeguards Framework (FSF).

The framework, which effects how the OCC sizes its clearing fund and allocates contributions to the clearing fund from the OCC's clearing members, is expected to be implemented on 4 September.

The framework means the size of the OCC's clearing fund will now be based on stress testing results that include historical and other "extreme but plausible scenarios", rather than trebling margin variances.

The new FSF will reduce pro-cyclicality by decoupling the simultaneous increase in margin and clearing fund contributions that can place undue liquidity demands on OCC's clearing members.

It will also make the manner in which the OCC handles stress shocks on index options products and single-name equity options consistent.

The framework will eliminate the $1.8 billion "prudential margin of safety" given the improved methodology enhancements.

The OCC's new clearing fund will also now be sized to cover the simultaneous default of its two largest clearing members (cover two) versus a default by its single largest clearing member (cover one).

While the new cover two approach exceeds US regulatory requirements, this higher standard better aligns OCC with other systemically important derivative clearing houses, according to the OCC.

The OCC's clearing fund will now be allocated to clearing members, based on 70 percent margin risk, 15 percent open interest, and 15 percent cleared volume, rather than 35 percent margin risk, 50 percent open interest, and 15 percent cleared volume.

Margin risk provides a transparent and easily understood metric for clearing firms and aligns incentives with clearing members by increasing the allocation to members with more margin risk.

Craig Donohue, executive chairman and CEO of the OCC, said: "Our current clearing fund methodology, which has been in place since 2012, needed significant modifications in order to meet new and evolving regulatory requirements and industry best practices."

"Our new financial safeguards framework will provide a significantly improved methodology and enhanced resources to our clearing firms and liquidity providers."

He added: "Enhancing our resiliency as a systemically important financial market utility is critical to our ability to reduce systemic risk, increase market transparency, and provide capital and collateral efficiencies for the users of the US exchange-listed options and futures markets."

UnaVista: Prepare ahead of time for SFTR implementation

Prepare ahead of time for Securities Financing Transactions Regulation (SFTR), warned Steven Holland, product manager, and Andrea Ferrise, compliance manager of UnaVista.

The UnaVista duo explained that SFTR will be the next big regulatory change following the implementation of the second markets in financial instruments directive (MiFID II) in January this year.

Holland and Ferrise suggested that it is expected to have a significant impact on clients and the market as a whole.

SFTs are any transaction where securities are used to borrow cash or vice versa, and SFTR aims to enhance transparency in the use of these by market participants.

This will enable regulators to better monitor risks in the securities financing markers, UnaVista revealed.

Phased implementation of SFTR is expected to start from 2019, but firms should be preparing already, which includes applying for an legal entity identifiers (LEI).

Holland commented: "The process to get an LEI is not complicated but investment firms should be applying for these well before the SFTR implementation date to avoid any undue delay."

ISLA forms CSDR working group

The International Securities Lending Association (ISLA) has formed a Central Securities Depositories Regulation (CSDR) working group. The working group met for the first time on 19 July.

The group will be chaired by James Montgomerie, executive director of Morgan Stanley.

It was developed in recognition that ISLA needs to consider settlement efficiencies, notably in readiness for CSDR.

Early this year, ISLA undertook a settlement survey of its membership, which highlighted a number of settlement inefficiencies including the manual process of Supplemental Security Income management, manual pre-matching processes and counterparty shorts.

ISLA explained that some of the main objectives of the group will be to provide the market with clear guidance around the application of CSDR in the securities finance market.

It said: "This may include the preparation of best practice for the application and management of the regulation, as well as assistance with interpretation."

It will also be looking at identifying settlement inefficiencies in European Securities financing transactions and seeking potential solutions.

This will include the identification of common manual processes and potential improvements/automations, as well as a review of TARGET2-Securities functionality and reasons why this has not been deployed more broadly.

LEIs are required by issuers of all securities, which seek admission to trading on a regulated market and offer securities to the public as defined in the prospectus regulation.

Holland warned: "There could be a spike in the number of applications for LEIs as SFTR mandates them at a branch level, and firms need to be aware of this; if they don't have an LEI in place, then they won't be able to report or trade."

He added: "Firm's need to plan ahead, there is never enough testing time. A recent survey we conducted found that around 48 percent of firms are already evaluating processes in preparation for SFTR."

According to Ferrise, the European Market Infrastructure Regulation (EMIR) and SFTR infrastructure will basically be the same.

Ferrise said: "Under EMIR investment firms can use multiple formats for data whereas SFTR requires information from a single source. Through Unavista clients can send files in any structured format and our rules engine will convert it into the ISO 20022 standard."

In terms of challenges, Holland said that examples of fields which may be an issue would be the execution timestamp and pricing fields.

"There is an awareness of these issues and we [the industry] are working on how to best deal with them", he continued.

Another challenge is data as there is so much of it and it is somewhat dispersed, Holland added.

Looking to the future, a recent survey we conducted found that around 60 percent of firms said that they are planning to directly report, Holland revealed.

ICMA publishes CSDR briefing paper

The International Capital Market Association (ICMA) has published an information brochure on CSD Regulation (CSDR) mandatory buy-ins.

Not to be confused with ICMA's other recent report titled 'How to survive in a mandatory buy-in world', this four-page document briefly summarises the CSDR.

It also details, amongst other elements, who is affected by it, what constitutes a buy-in and sets out the mandatory buy-in time-frame.

The CSDR buy-in provisions are expected to come into force in September 2020 and will also apply to non-EU/EEA-domiciled trading entities, noted ICMA.

ICMA explained that the brochure is part of its ongoing work to ensure industry awareness and preparedness in the international cross-border fixed-income markets.

The association has also drawn the attention of its members to a paper recently published by the Bank of England (BoE).

The paper relates to new issuance of sterling bonds referencing London interbank offered rate (LIBOR) by the working group on Sterling Risk-Free Reference Rates.

ICMA said the considerations in the paper are likely to have relevance for issuance of international floating rate bonds in all currencies for which LIBOR is quoted.

The association added that it is playing an important role in the work that is underway globally to transition away from LIBORs generally and towards risk-free rates.

As part of that, Paul Richards, ICMA's head of market practice and regulatory policy, chairs the Sterling risk-free rate bond market sub-group and is a member of the working group behind the BoE paper.

Thomson Reuters Financial & Risk to rebrand

Thomson Reuters Financial & Risk has rebranded and will now be known as Refinitiv.

The announcement was made following the closing of the partnership transaction between Thomson Reuters and private equity funds managed by Blackstone, the Financial & Risk business.

OCC sees securities lending activity rise

OCC's securities lending central counterparty clearing house activity was up 19 percent in new loans from July with 218,786 transactions last month.

Year-to-date stock loan activity increased by 22 percent from last year with 1,611,382 new loan transactions in 2018.

The average daily loan value at OCC in July was $169 billion.

Total cleared contract volume in July reached 373,984,999 contracts, up 15 percent compared to July 2017 volume of 324,718,888.

OCC's year-to-date average daily cleared contract volume is up 21 percent with 20,551,805 contracts compared to 17,045,133 contracts last year.

Overall exchange-listed options volume reached 367,568,020 contracts in July, up 17 percent from July last year.

Equity options volume reached a total of 333,216,875 contracts, a 20 percent increase from the previous July

Futures cleared by OCC reached 6,416,979 contracts in July, down 43 percent from July last year.

OCC's year-to-date average daily cleared futures volume is 428,430 contracts, 23.3 percent less than 2017.

Closing of the transaction is expected to occur in the second half of 2018 and until then the business will continue to be known as Thomson Reuters Financial & Risk.

The new name was created based on feedback from customers and industry influencers.

According to Thomson Reuters, Refinitiv is a name that aims to blend definitive action in financial markets and a bold focus on the future.

As a standalone company, Refinitiv will continue to focus on providing data and insights, trading platforms, market data infrastructure and open technology platforms that support and connect the global financial markets community.

David Craig, president of Thomson Reuters Financial & Risk, and future CEO of Refinitiv, said: "Thomson Reuters Financial & Risk has a rich history and reputation and it was important to us that our new name celebrated both our pride in our legacy and also the defining role we will continue to play as an integral and innovative part of the financial markets community."

Craig added: "As we innovate with our customers and partners at the intersection of data, technology and financial services, we firmly believe in a trusted financial system that empowers smart and sustainable investment and financing."

"We are excited about the role we, as Refinitiv, will play in this future to the benefit of our customers, financial markets and the wider world."


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"The event format was professional, well organised and interactive, with the content relevant for all types of beneficial owners. The agenda's for all of the sessions provoked welcome and healthy debates and reflection on important aspects, due to the diverse attendees and participants involved."
GLOBAL HEAD OF PASSIVE EQUITIES, HSBC GLOBAL ASSET MANAGEMENT
"IMN's 2017 Beneficial Owners' Securities Finance Conference was a tremendous success. We are currently considering returning to the securities lending space, and all of the panels were extremely relevant. The issues that we needed to hear about were all discussed and I walked away with the knowledge we needed to move forward. The conference was oriented towards beneficial owners' and I was able to discuss current market conditions with my peers. I would highly recommend the conference to anyone considering attending next year."
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Innovation is a necessity, according to Julia Streets

"Innovation isn't a nice to have, it's a necessity", according to Julia Streets, founder and CEO of Streets Consulting Limited.

Streets made the comment at SimCorp Investment Summit last month in London, where she delivered a state of the union keynote on life after the second Markets in Financial Instruments Directive (MiFID II). Her comments are now part of a question and answer SimCorp blog.

Streets indicated that change is also "being driven by a desire for efficiency that can give firms a competitive edge in a highly competitive world".

She said: "This is about doing what you do today, but better and data is a large part of that. The agenda is once again about becoming fit for growth and capable of scaling. Thriving not just surviving."

Streets was asked, amid the backdrop of growing volumes, whether data is becoming too big a beast for today's buy side operations.

Of which she answered: "All of this comes back down to how you manage data. Some firms are embracing the digitalisation journey, where they are investigating innovation including artificial intelligence (AI), to help manage and normalise data processes."

Streets went on to explain: "Is there still a reticence, a hesitancy for some, towards cloud data management? Yes, but there is no denying that it is fast becoming a crucial element when it comes to alpha generation, whether that's enriching and unlocking data analytics at speed and scale, or identifying trading patterns and creating new lines of business."

Concerning technology, Streets surmised that AI is still in the "fairly early stages of consideration".

She added: "There are buy-side firms harnessing such technology for better insights. On the sell side, many firms are already using AI for fraud, compliance and trade surveillance. Regulators are now looking at AI too, to manage their data."

Concerning the cyber risk synonymous with technology, Streets warned: "This is at a time when we are seeing increasing attempts of cyber attacks."

"All institutions including tier two and three investment firms, not to mention wealth management firms managing the assets of high net worth individuals, should be on high alert."

Streets added: "I was reading a report just recently where only 15 percent of the buy-side participants asked, were confident about their ability to tackle cyber risk. If we are to tackle this head on, cyber security must be heeded as an organisationally aligned approach to threat management."

"Already the preserve of boardroom executive responsibility, cyber reporting and regulation is fast climbing to the top of the agenda."

Canadian pension plan experience ninth positive quarter

Canadian pension plans and university endowments reported an increase of 2.16 percent in returns during Q2 of 2018, marking their ninth straight quarter of positive results.

The BNY Mellon Canadian Master Trust Universe, which tracks the fund activities of 83 Canadian corporate, public, and university pension plans, noted a one-year return of 7.59 percent, while the median 10-year annualised return was 7.14 percent.

Canadian equity posted the highest median plan return in Q2 2018, at 5.48 percent, just slightly ahead of US equity. They reported a median return of 5.24 percent.

Elsewhere, real estate experienced a median return of 2.38 and Canadian Universities saw a quarterly median return of 2.05 percent.

Catherine Thrasher, strategic client solutions and global risk solutions of CIBC Mellon and BNY Mellon, commented: "All Canadian plans had positive returns in the Q2 of 2018."

"Canadian Foundations and Endowments posted a positive median return of 2.61 percent in Q2, and 2.46 percent since the start of 2018. Most asset classes posted positive returns for the quarter."

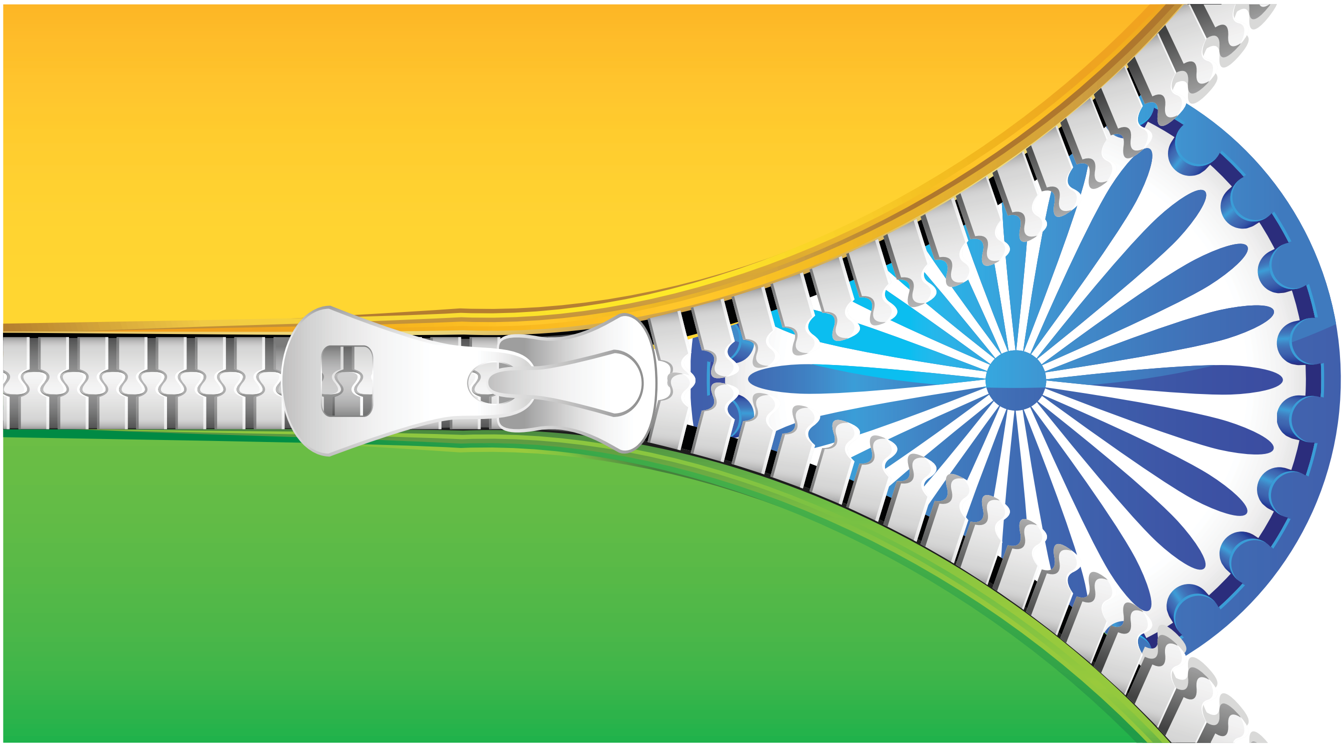
Thrasher added: "International and non-Canadian equity medians returned 0.44 percent and 2.31 percent respectively, assisted by the declining value of the Canadian dollar. Emerging markets was the only asset class that recorded a negative median return at minus 6.2 percent. Fixed income produced a median quarter return of 0.74 percent."

OneChicago continues to see volumes decrease

OneChicago, a securities finance exchange, revealed that its July volume was 378,641, a decrease of 73 percent year-over-year.

This figure compares with June's results where they reported a volume of 554,378, a decrease of 77 percent year-over year.

OneChicago is a Commodity Futures Trading Commission and Securities Exchange Commission regulated exchange offering Single Stock Futures (SSF). SSF is a delta one product, on approximately 1,800 equities, including American depositary receipts and exchange-traded funds.



A promising candidate

Over the last year, India's securities lending model has continued to grow. With plans to introduce tri-party repo and showing signs of achieving derivatives success, what else can it brag about on its securities lending CV?

Jenna Lomax reports

Key skills

Few emerging markets promise what India can, but different elements of its securities lending structure are like a squeaking door and need their hinges tightening. This is particularly true where it concerns Indian hedge fund growth, or lack thereof, especially in the last 12 months. But overall, India's securities lending market is still showing signs of ongoing expansion.

Fairly new in its creation, an emerging market, the country has become a heavy anchor within Asia's market since its National Stock Exchange started operating in 1994 and its framework for securities lending was first specified in 2008 by the Securities and Exchange Board of India.

The majority of securities lending in India takes place through the National Stock Exchange (NSE). The Organisation National Securities Clearing Corporation Limited, a wholly-owned subsidiary of NSE, carries out clearing and settlement of the trades executed in the equities and derivatives segments of the NSE.

As it stands, securities lending participants can conduct trades for terms of up to 12 months, with early recalls embedded in. A rollover facility of three months exists, and transactions are charged at a rate of 2.5 percent, payable to the NSE, on each lend, borrow and rollover.

Strengths

Asia's significant growth profile is unlikely to change anytime soon, according to a source from PASLA, speaking at the 15th Annual Pan Asian Securities Lending Association (PASLA) conference.

India was named one of the emerging markets, which presents "significant opportunity" for industry participants in the long term.

They explained that from a beneficial owners perspective, the industry is seeing increased engagement in many institutions, who recognise the benefits of a securities lending programme.

In addition, The Securities and Exchange Board of India (SEBI) has altered its securities lending rulebook, following market calls for change. As of 1 January 2018, position limits of borrowed shares have been capped at 10 percent of the free float capital of the company in terms of the number of shares. The rule change effects both institutional investors and clearing members.

Room for improvement

In July 2017, India-focused funds continued to lead in returns, putting up 4.96 percent in July which brought year-to-date returns to 24.90 percent.

After leading returns for hedge funds last year, India-focused hedge funds are having a tougher time this year with performance, as eVestment, a data firm covering analytics for institutions managers indicates.

Last year, hedge funds were on track for their best annual revenue since 2013 with average returns of 7.7 percent.

But eVestment found that for June, in terms of emerging markets, India overtook Brazil for volumes of losses this year, at a loss of 12.3 percent.

Peter Laurelli, global head of research at eVestment said: “We track about a total of 71 products that invest in India primarily. About 25 of those have reported their returns for June. The universe itself has been—prior to this year—one of the better performing emerging market groups, if not the best next to China since 2013.”

“This has been a stellar year for India, which is somewhat surprising given the results year-to-date.”

Laurelli added: “What is interesting is, for the first quarter [India’s] performance was in line with what was going on with the start of the year with the clients, but since then, in the second quarter, it looks like things have changed significantly. This group of product has produced almost equally negative returns than they did in the first quarter of the year.”

In addition, late last year, IHS Markit has found that economic activity in India was hampered by the double shock of demonetisation and the introduction of the goods and services tax. Could this be the reason why 2018 has seen ups and down?

In light of the uncertainties added to the markets and the lingering effects on economic growth, IHS Markit reviewed its Research Signals India model.

IHS Markit found from July 2018 the average India equity returned 1.06 percent monthly on average, with the stocks in the top quintile (longs) returning 1.75 percent and the bottom quintile (shorts) returning 0.23 percent on average.

Let’s talk equities and repo

In a discussion paper, released late last year, SEBI acknowledged the need for growth and development of equity derivative market in India, focusing on issues surrounding physical settlement in stock derivatives.

In the paper, SEBI stated: “A prerequisite for successful introduction of physical settlement of derivatives is efficient and transparent lending and borrowing mechanism in cash segment.”

The board added that a “vibrant mechanism” for securities lending and borrowing is essential to avoid a short squeeze in the India’s financial markets. SEBI also outlined its intentions to phase in physical settlement in stock derivative contracts with single stock contracts.

The Reserve Bank of India has also set out a framework for a tri party repo market to enable participants to use underlying collateral more efficiently and facilitate the development of the term ‘repo market in India’.

IT skills

NSE was the first exchange in India to implement electronic or screen-based trading.

Recently, the NSE officially signed an agreement for Nasdaq to deliver a customised real-time clearing, risk management and settlement technology to one of the world’s largest stock exchanges.

In addition to the post-trade agreement, Nasdaq has also signed an agreement with NSEIT to utilise NSEIT’s capability in implementations and project augmentation globally.

According to NSE, the technology will provide a state-of-the-art architecture utilising the Nasdaq Financial Framework, which will enable all asset classes to be cleared and settled in one system.

These changes will increase efficiency, effectiveness of the market, supported by a modern, flexible and efficient technology that reduces risks in the post-trade area alongside international best practices and standards.

Future prospects

A further source from PASLA sees foreign participation as a key concern. Adding “It’s expensive for foreign borrowers in India. I can understand concerns around opening up the market to foreign institutions.”

“India has the potential to be a significant market. It’s probably second only to China in Asia in terms of opportunity. We anticipate in due course changes will materialise to move towards what we see in more developed capital markets.” **SLT**

Don’t fear the repo

Glenn Havlicek, CEO of GLMX, discusses the OFR’s proposed data collection ruling and why the repo market is so important to the global financial market

Jenna Lomax reports

The Office of Financial Research's (OFR) proposed data collection would supposedly enhance the ability of the Financial Stability Oversight Council to identify and monitor potential risks to US financial stability. What implication could this have for repo markets down the road?

It is a complex topic. I was at J.P Morgan for 22 years and was responsible for all of our wholesale liability instrument issuance—it's a complex ecosystem. The repo market has been the largest unknown market in the world for decades.

It is a market, which developed out of abject need for short-term financing for a variety of entities and because it evolved from an operational, sometimes referred to as a 'back office' perspective, there has not been a lot of transparency in those markets for a long time.

If you look back at some of the major firms that were 'victims' of the 2008 financial crisis, these firms relied a lot on short-term security financing.

> ***In my opinion, secured overnight financing rate (SOFR) does not exist in the absence of LIBOR***

The outgrowth of their demise led to regulators wanting, and needing, to understand the market more clearly. The challenges of the London interbank offered rate (LIBOR) scandal set off a further confluence of events in this complex ecosystem, which led to where we are today. With that backdrop, for repo markets down the line, many from the regulatory side would suggest that more transparency into the market is important.

Therefore, the repo markets could become more transparent and that is a shock to the system to a lot of participants in that market. This is because it has been a relatively opaque market for a long time.

The proposed rule would require the submission of information by central counterparties. Given that privacy and data security has been such a global hot topic lately, will this be a point of contention?

At GLMX, we are constantly thinking about privacy both in the context of privacy itself but also in the context of secure access to our systems.

There are a lot of examples out there, look at the various stock markets around the world, where clear information on transactions is provided. For example, if you want to know the price of a share of Apple stock, it is not terribly difficult to find that out in real time. The information of who bought and who sold would probably not want to be revealed to the world so there are mechanisms in place to make it anonymous.

The decision widely will be that a clearer view in to the repo market is of greater utility to financial society than the risk of anonymised disclosure.

Cleared repo data from the proposed collection will be used to enhance the production of the SOFR. What are your views on this?

In my opinion, secured overnight financing rate (SOFR) does not exist in the absence of LIBOR and the subsequent problems of LIBOR. LIBOR was a construct from the late 1960s and early 1970s, which allowed loans to be priced objectively.

The market underlying US LIBOR—the euro-dollar deposit market—at that time was fairly large and robust.

LIBOR was a straightforward way to address objective pricing of loans to institutions who aggregated and sold off pieces of loans. In the early 1980s, with the advent of eurodollar futures and then options, you wound up with a situation where eurodollar futures were the largest volume futures contract in the world.

Other derivative instruments, like interest rate swaps, also became colossally larger than the underlying deposit market, which was being used to price them. This became the foundation of the problems that befell LIBOR.

With that in mind, and to avoid those pitfalls today, we would develop a reference rate like LIBOR differently than the market did 50 or more years ago. The industry needs to have objective information, and the more objective information you have the better.

Repo is one of the most active markets in the world, and it's a multi-trillion dollar market globally. From an underlying market of this size, reliable reference rates can be derived.

The data extracted from the repo market will have to represent a non-trivial portion of the marketplace and if you want to create an effective, objective, defensible index. In fact, extracting data for a clear repo reference rate should be relatively straightforward and uncontroversial.

The OFR said the proposed rule will mean minimal regulatory burden. To what extent would you agree with that?

The ecosystem proposes a significant regulatory burden on market participants. We see it everyday and people talk about it every day. Data already are readily available for cleared repo; a transaction occurs and it fits in the databases of all entities and it fits in the database of a central entity—in the US most likely a systemically important institution—which is well-versed in reporting.

The repo market also includes a lot of bilateral transaction—that is non tri-party. Tri-party in the US can be reported through a traditional tri-party agent.

Cleared repo also includes three parties and should offer similar data availability and getting that information for bilateral repo is a lot more challenging than the cleared items.

GLMX is seeking to provide an information flow from those markets. Our view is that we can capture that data and provide it on behalf of our clients, which enhances the objectivity and relevance of a reference rate like SOFR.

If this proposed collection rule isn't put in to place, what could be a possible alternative?

GLMX is part of that solution. One of the reasons that we are in this business is because a well functioning repo market is globally critical. The reason the US market is robust, and a beacon for high levels of liquidity, is because people can buy and sell quickly. Repo and the securities lending market are absolutely integral to being able to do that.

I think if the collection rule isn't put into place, it has implications for something like SOFR. It won't necessarily have catastrophic implications for the repo market itself. It would make it harder for SOFR to be an objective and reliable indicator, though.

Technology to me is the alternative, it is the way to improve the US repo market in the context of providing a viable alternative to LIBOR.

At GLMX we believe the technology we provide will be helpful to the ecosystem. We are not looking at it as a single effort, we are looking at it as a much broader ecosystem. It's a complex ecosystem and a comprehensive understanding of how it works, which we at GLMX possess, is critical to providing real solutions. **SLT**

GLMX has named Phil Buck as managing director for Europe

GLMX Europe has appointed Phil Buck as managing director for Europe. Based in London, Buck will report directly to GLMX CEO and co-founder, Glenn Havlicek.

Buck brings to GLMX over 20 years of direct experience in repo and securities lending technology solutions. Prior to joining GLMX, Buck spent 11 years at ION Trading, most recently as CEO of ION repo, securities lending and collateral management.

He has also served as global head of sales as well as CEO, North America for ION trading.

Commenting on his new role, Buck said: "There are a lot of interesting things happening in global repo markets at the moment from both a regulatory and market structure perspective, and I have no doubt that financial technology is playing an integral role. I'm excited to be joining GLMX to help drive technological innovation in these markets."

Havlicek said: "Between the steady adoption of streamlined technology services, the rise of Secured Overnight Financing Rate as a global index and the impending arrival of the Securities Financing Transactions Regulation in Europe, repo markets are in the midst of a major shift."

He added: "We're thrilled to bring someone of Phil Buck's seniority, experience and reputation onto the GLMX team to engage our rapidly expanding client base and to help build our brand awareness across Europe."

The best yet

Second quarter figures in the securities finance industry have contributed to the best post-crisis H1 revenues to date. Samuel Pierson of IHS Markit explains more

Global securities lending revenue had the best Q2 since 2015, delivering a total of $3.1 billion, increasing 16 percent from Q2 2017. Adding that to the $2.6 billion in Q1 revenues reveals that the first half of 2018 had the highest H1 post-crisis securities lending revenue. (See figure 1: H1 Global Lending Revenue)

For some context, that is still 30 percent lower than the first half of 2008. The internals of that return have changed significantly, however, with government bonds moving from 8 percent to 18 percent of lending revenues between Q2 2015 and 2018. Corporate bonds have also taken on an increased significance, moving from 4 percent to 6 percent of revenues, and the $184 million in Q2 revenue was their best post-crisis quarterly revenue.

Demand for government bonds has remained near an all-time high, just above $1 trillion. Commensurate with that, revenues have also increased—with just over $900 million earned in the first half of 2018 being the highest on record and 28 percent above the first half of 2017.

For equities, Q2 represented the first year-on-year increase in Q2 revenues since 2011. The first quarter set the tone in 2016/17 and that appears to be the case again in 2018, with a strong Q1 leading to an even stronger Q2. Despite the rise of fixed income lending, equities still account for more than 75 percent of global lending revenue.

The growth in equity lending revenue has been driven by Asia in recent years, with owners of Japanese equities enjoying Q2 revenue growth over 32 percent as compared with Q2 2017. The total Asia lending revenue of $546 million was the highest level for a single quarter recorded; combined with Q1 the $1 billion in revenues is the highest revenue recorded in the first half of year (going back to 2006). No surprise then that matching the latter half of 2017 would result in 2018 being the best year on record for Asian equities lending revenue.

North American equities also showed solid growth, with the $831 million in Q2 revenue being an improvement of 6 percent as compared with Q2 2017, though it is a small decline as compared with the first quarter of this year. For the first half of the year North America equities delivered $1.6 billion, an encouraging result compared with 2016, but still 10 percent below the first half of 2016. While the first quarter saw a surge in Canadian equity revenues, on the back of cannabis related borrows, declining fees in the Q2 depressed revenues, despite demand remaining elevated.

It was a similar story for European equities, which delivered $929 million in Q2, a 21 percent improvement over Q2 2017, though this is still well below the greater than $1 billion in Q2 revenues for 2016. With that said it's encouraging to see the H1 European equity revenue best the prior year comparison for the first time since 2013. (See figure 2: Equity Specials Balances)

Part of the story has been the demand for specials, which has been trending back up since Q1 of 2017. US special balances have bounced back in part the result of the Tesla borrow balance reaching an all-time high in Q2, just over $12 billion. The percentage of global equity loan balances with a fee above 100 basis points (bps) averaged 6.8 percent in Q2, down from 7.2 percent in Q1, though that is more the result of GC balances growing faster than specials. With equity revenues trending back toward the level seen in the first half of 2016, while special balances are still below where they were at the time, there could be further upside ahead for equity lending revenue in the second half of the year. (See figure 3: Sector Balances by Region)

Consumer Discretionary is the most borrowed sector globally, bolstered by $12 billion in TSLA balance, however, it would be the most borrowed sector even excluding that. Similarly, the outsized Asia balances in IT are largely the result of Alibaba, however, even after excluding the just over $30 billion in BABA balances, IT remains the second most borrowed sector.

Zooming in sector specials, the healthcare sector is revealed to have the largest percentage of special balances, with 7 percent of all balances on loan for greater than 500bps fee. Following that is IT, where 2.7 percent of balances are against loans with fees greater than 500bps, though consumer discretionary is a very close second. IT does not include the BABA balances, which remain easy to borrow despite being the most borrowed equity globally.

Borrow demand for corporate bonds has increased 32 percent since the start of 2017 and has bumped up against the $200 billion peak in demand at the outset of Q2 and again in early June. Notably, the balances and revenues associated with specials, defined as fees above 75bps, have also been trending up. The elevated borrow demand comes from a number of sources, however, rising interest rates and related refinancing needs have created trading opportunities which have contributed revenue to beneficial owners amidst the volatility in the first half of the year.

As noted above Alibaba is the most borrowed equity globally, however, that's only part of the story in emerging market equity demand, which reached a post-crisis peak in June. Including BABA, emerging market balances are now over 11 percent of global equity balances, up from 8.8 percent at the start of 2017. Loan balances in Hong Kong, South Korea and Taiwan also peaked in early June, adding to the upswing in revenues in the region. While Asia emerging market rightly attracts most of the attention, it's worth noting that South Africa and Latin America are also seeing increasing demand and revenues. If the current trends persist emerging market equities will generate over $1 billion in 2018 revenue.

There are strong tailwinds at the back of the industry, with equity GC and specials demand robust, corporate bond borrow demand spiking toward post-crisis highs and demand for high quality liquid assets continuing its rapacious increase. The market volatility in first half of the year has only enhanced these trends and borrow demand for emerging market equities and government bonds is poised to drive further revenue increases in the second half of 2018. With trade wars dominating the news cycle, and inflation concerns being expressed on earnings calls, increasing lending revenue has helped offset the market volatility in the first half of the year. **SLT**

Figure 1: H1 Global Lending Revenue

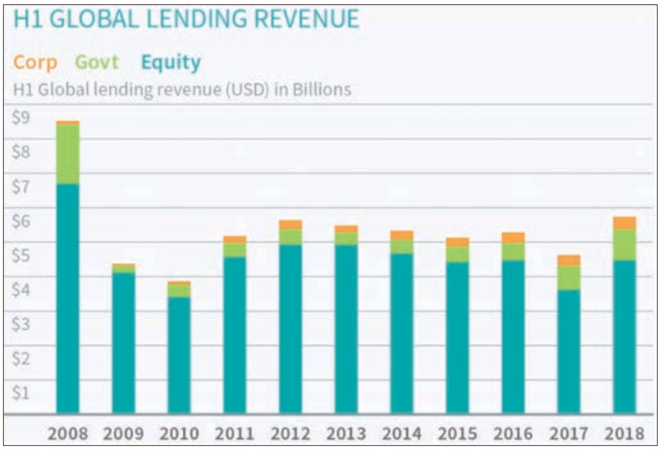


Figure 2: Equity Specials Balances

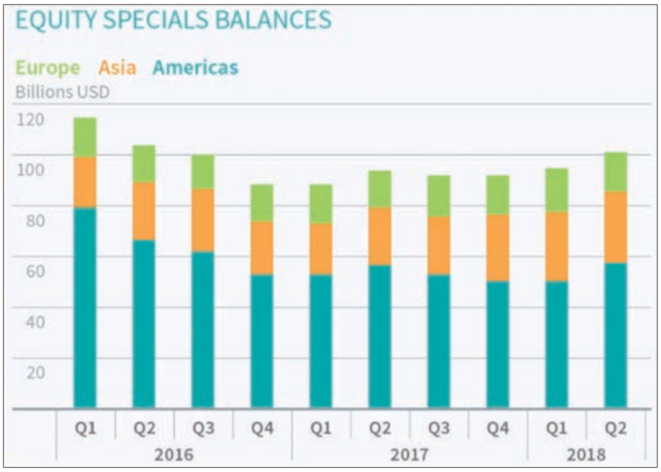
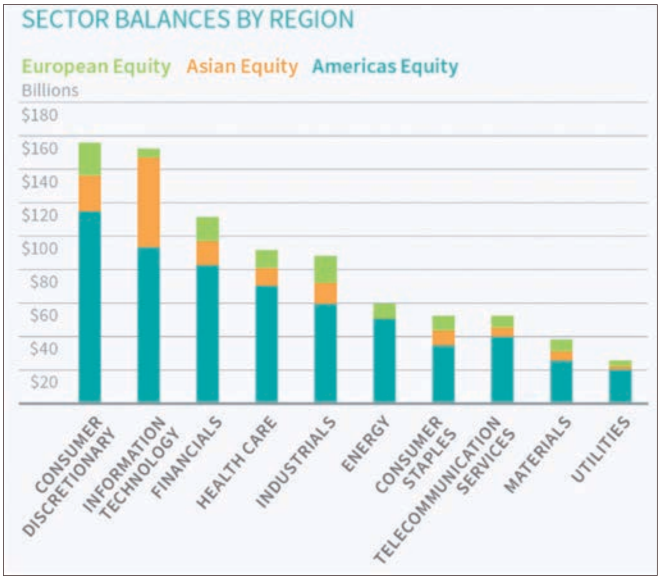


Figure 3: Sector Balances by Region



Comings and goings at State Street, Citigroup, Pirum and more

Lynden Howie, Bradley Statham, Tom O'Toole and Simon Heath have all separately resigned from roles at State Street within the securities finance Europe, the Middle East and Africa (EMEA) team, it is understood.

Howie has left his role as head of enhance custody for EMEA.

Heath is also understood to have resigned from his role as managing director of securities finance for EMEA.

In addition, Statham departed his role as part of the enhance trading team, and O'Toole left the enhance trading client service team. The departures follow Ina Budh-Raja's recent resignation.

Budh-Raja was most recently managing director and global markets for EMEA head of regulatory strategy.

Previously, she was head of regulatory affairs for security finance EMEA.

Citigroup has made four new hires as it expands its Japan prime brokerage business serving global hedge funds.

The four new recruits include Thomas Morrison, Kentaro Takao, Maki Mizukoshi, and Takaomi Kitayama.

Morrison and Kentaro will take up newly created positions. In his new role, Morrison will manage the firm's way of using its balance sheet to offer securities to hedge funds. Morrison, who will join in September, currently serves as head of financial resource management at Deutsche Bank.

Meanwhile, Takao who joins from Fortress Investment Group LLC will lead capital introductions.

In his new role, Takao will help hedge funds raise money from institutional investors, such as pension funds.

Additionally, Mizukoshi from Mizuho Financial Group will join Citigroup as a trader for stock borrowing and lending.

Kitayama from Deutsche Bank will join Citigroup as a senior features sales trader.

Pirum has appointed Neil Taylor and Scott Brown as senior product manager and business development manager, respectively.

Taylor and Brown will both be based in London.

Prior to Pirum, Taylor served as vice president of transaction reporting for the Securities Financing Transactions Regulation at Morgan Stanley from 2017 to 2018.

Before joining Pirum, Brown was vice president of product solutions at J.P. Morgan from 2017 to 2018.

Euroclear has appointed Sander Baauw as part of its product management of securities lending and collateral team.

Baauw will be based in London.

Previously, Baauw served as product manager for European Central Counterparty from 2016 to April 2018. Baauw also held senior roles at ION Trading and Synechron.

EquiLend has appointed Paul Lynch as a strategic adviser, effective immediately.

Based in New York, Lynch will be responsible for enhancing the firm's client engagement model with an aim to strengthen relationships with users of EquiLend's suite of services.

Most recently, Lynch was global head of trading and short-term investment management at eSecLending, and before that served as its COO.

His other roles include 13 years at State Street, where he was a senior managing director in its securities lending business. Lynch has also worked with the New York Federal Reserve, the Securities and Exchange Commission, the European Central Bank, the Bank of England and the Hong Kong Monetary Authority.

Brian Lamb, CEO of EquiLend, commented: "Paul Lynch has a wealth of expertise in the securities finance industry, and we are thrilled to welcome him to EquiLend. His experience working with clients around the globe over the past three decades will be an asset to EquiLend as we roll out an enhanced client relationship management model across the firm."

Commenting on his new role, Lynch said: "I have been intimately involved with EquiLend since before it even had a name, and I've been a user since day one of its launch. It is a testament to EquiLend's ability to meet, exceed and adapt to the evolving needs of the industry that it continues to thrive nearly two decades after the business launched. I look forward to working with the EquiLend team to continue building our relationships with our clients." **SLT**