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Conference Special

Navigating the SFTR landscape

DTCC's Valentino Wotton talks about trends, trade repositories and the global possibility of the regulation

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SEC approves OCC RWD plan

OCC has revealed that the US Securities and Exchange Commission (SEC) approved its proposed recovery tools and proposed recovery and orderly wind-down (RWD) plan.

It said that this provides critical tools designed to enable it to successfully manage extreme market disruptions in future financial crises. OCC said it is the first central counterparty (CCP) to receive such approval from the SEC.

OCC said the recovery tools and RWD plan provide several key enhancements to its resiliency.

The improved assessment powers cap each clearing member's aggregate liability to replenish the Clearing Fund at 200 percent of the member's then-existing required contribution, during a minimum 15-day (maximum 20-day) cooling-off period.

OCC said the improved assessment powers will increase the minimum amount of assessments available to it while eliminating the unlimited demands on clearing members (which could have had a destabilising effect during a crisis).

The improved assessment powers will also provide clearing members with better clarity about their maximum exposure to OCC, thereby facilitating their own management of risk and, to the extent applicable, regulatory and capital considerations.

OCC said that if an unprecedented loss event ever threatens to exhaust its Clearing Fund resources (inclusive of assessments), the new recovery tools would provide it with the ability to call for voluntary payments and voluntary tear-ups (of contracts) and, if ultimately necessary, to impose mandatory tear-ups to extinguish the positions causing such losses.

OCC further explained that for positions that are producing losses for a CCP, the CCP would extinguish or tear-up those positions to stop the losses as it goes through its financial resources. Every clearing house has this authority, it added.

OCC said: "It is important to understand that in the US, this has never happened, as a CCP has never failed."

"The need to have strong recovery in place and wind-down plans for CCPs was one of the outcomes of rethinking the clearing system infrastructure after the global financial crisis."

It said that the updated RWD plan better prepares it for potential threats, however, remote, to its viability it lays out critical steps that it could take to ensure continuity of its critical clearing services to participants in times of extreme financial distress.

OCC added that the updated RWD plan now includes its recovery tools and also reflects the significant organisational improvements

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SEC approves OCC RWD plan

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that it has accomplished over the past few years.

On 23 August, Standard & Poor revealed that OCC's credit rating remains unaffected by the SEC's approval of the company's new financial safeguards framework.

S&P said OCC's decision to "size its clearing fund to formally provide enough resources to cover the simultaneous default of its two largest clearing members (cover 2) versus a default of its single largest clearing member (cover 1) in the current framework will put OCC at par with most US and European peers and will be consistent with our expectation, already factored in the ratings".

S&P also said: "We regard it important that a CCP has sufficient resources to withstand the liquidity strain that could arise if two leading clearing members default."

Craig Donohue, OCC executive chairman and CEO, commented: "S&P's announcement is a strong recognition of OCC's efforts to strengthen its financial safeguards framework and to promote stability and market integrity through effective and efficient clearance, settlement and risk management services."

John Davidson, OCC president and COO, added: "This announcement reflects favourably on the outstanding work being performed every day by our team on behalf of our participating exchanges, clearing firms and market participants."

"We will continue to focus our energies on strengthening the resilience, risk management and capitalisation of OCC in order to ensure confidence in the financial markets and the broader economy."

Deutsche Börse expands partnership with HQLAx

Deutsche Börse Group has expanded its partnership with HQLAx by acquiring a minority stake.

The group has made an initial investment of a single-digit euro million amount in HQLAx in exchange for a minority shareholding.

As part of the investment, Deutsche Börse Group will also obtain two board seats at HQLAx, represented by Philippe Seyll and Jens Hachmeister.

Seyll is in charge of the group's global securities financing business, while Hachmeister is responsible for the development of blockchain initiatives across the group.

The expansion of this partnership further strengthens the company's ties with HQLAx, and aims to increase market efficiency by leveraging innovative technologies in a collaborative way.

In March this year, Deutsche Börse Group and HQLAx announced that they would build a securities lending solution leveraging the R3 Corda platform.

Over the last five months, the on-boarding process with an initial set of banks has been launched, and detailed discussions with the relevant regulatory authorities have taken place, Deutsche Börse Group revealed.

Seyll, co-CEO of Clearstream Banking, said: "This collaboration will enable us to create a true blockchain-based solution in the post-trade arena."

"Together with like-minded partners such as HQLAx we want to create a standardised lending marketplace."

He added: "It will allow market participants to redistribute collateral liquidity more efficiently by improving interoperability for pools of securities residing in multiple, disparate settlement systems and locations."

Hachmeister, managing director of Deutsche Börse Group, commented: "We are thrilled to announce the investment in HQLAx, thereby bringing this collaboration further forward."

"This is ... complementary to other initiatives that we are developing in the blockchain and new technologies space across the entire value chain of our market infrastructure."

Guido Stroemer, CEO of HQLAx, added: "This investment represents a major milestone for HQLAx, and it is another example of

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MAS and SGX partner with Anquan, Deloitte and Nasdaq on blockchain

The Monetary Authority of Singapore (MAS) and Singapore Exchange (SGX) are working together to develop delivery versus payment (DvP) capabilities for the settlement of tokenised assets across blockchain platforms.

According to MAS and SGX, this will allow financial institutions and corporate investors to carry out the simultaneous exchange and final settlement of tokenised digital currencies and securities assets, improving operational efficiency and reducing settlement risks.

MAS said that three companies—Anquan, Deloitte and Nasdaq—have been appointed as technology partners for the project, which will produce a report on the potential of automating DvP settlement processes with smart contracts and identify key design considerations to ensure resilient operations and enhanced protection for investors.

MAS revealed that the report will be released by November this year.

Sopnendu Mohanty, MAS chief financial technology officer, noted that blockchain technology is radically transforming how financial transactions are performed today.

He said that the ability to transact seamlessly across blockchains will open up a world of new business opportunities.

Tinku Gupta, head of technology at SGX and project chair, said the initiative will bring together multiple players to pursue real-world opportunities that will benefit the ecosystem.

Deutsche Börse Group's strong commitment to our platform. We look forward to our journey into production."

Rialto Trading and Bittrex team up

Rialto Trading, a next-generation Alternative Trading System (ATS), and Bittrex have teamed up to offer a digital securities trading platform.

The expanded platform will combine Rialto's licensed broker-dealer ATS, tools, and securities industry experience.

This will be combined with Bittrex's expertise in blockchain technology, cybersecurity, and cryptocurrency trading to create a comprehensive securities offering.

According to Bittrex, the ATS will support US dollar (fiat) trading for digital securities.

Additionally, Rialto will provide services to the entire digital asset securities ecosystem, including issuance advisory services, placement, trading, and custody.

Currently, Rialto operates a regulated ATS for trading fixed income products, Bittrex revealed.

While pending approval from regulators, Rialto will expand its ATS operations to include blockchain-based (digital) securities.

Shari Noonan, Rialto Trading CEO, said: "We are excited to share Rialto's expertise in building

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networks and trading solutions in the regulated securities industry to develop this new venture in partnership with Bittrex."

"By working together, we'll be able to expand our current client offerings to not only include digital securities but also provide them access to a globally advanced and reliable trading platform."

Bill Shihara, Bittrex CEO, commented: "It takes a unique combination of advanced technology and financial expertise to build and launch an efficient, reliable and secure platform for trading digital securities, and we found the ideal partner in Rialto and its CEO Shari Noonan."

Shihara added: "We're merging Bittrex's technology, cybersecurity and blockchain expertise with Rialto's deep knowledge of the securities industry."

"When you add that foundation with Rialto's extensive background in financial services, including Noonan's experience at Goldman Sachs and Deutsche Bank, this new venture is well-positioned to further advance blockchain's adoption by offering a comprehensive solution at the right time."

Preqin: investors look to diversify with alternative assets

Half of investors now allocate to three or more asset classes, up from two-fifths in 2015, according to a survey by Preqin, a source of data and intelligence for the alternative assets industry.

Preqin found that in June 2015, some 39 percent of investors allocated to three or more different alternative assets, but in 2018, that figure stands at 50 percent (as of June).

Some 79 percent of institutional investors allocate capital to alternative assets, and half invest in three or more asset classes.

The largest proportion of investors have exposure to private equity and real estate funds—57 percent and 59 percent of investors, respectively.

Across all asset classes, investors reported that diversification is the main reason for investing in alternative assets.

Investors also cited reliable income stream as a reason for allocating to real estate, infrastructure and private debt, as well as citing low correlation to other asset classes as a reason to invest in hedge funds and natural resources.

Across most asset classes, larger proportions of investors plan to invest more capital in alternatives than those that plan to invest less in the coming year, the survey found.

Across all asset classes, portfolio performance over the past 12 months met or exceeded investor expectations.

However, the majority (56 percent) of institutional investors believe that the equity market is at a peak, and investors' return expectations for private equity, real estate and infrastructure have fallen from June 2015.

Across most asset classes, more investors plan to increase investments in alternatives in the coming year than those that plan to invest less—43 percent said they plan to invest more in infrastructure.

While some 47 percent of private debt investors view Europe as presenting the best opportunities in the next 12 months. In all, other asset classes investors cite North America as the region of most interest.

Preqin's results were based on a survey of 530 institutional investors carried out in June 2018.

Amy Bensted, head of hedge funds at Preqin, said: "The diversification benefits of alternative assets continue to attract institutional investors. Four out of five institutions now have exposure to at least one alternative investment fund, and one in ten have exposure across all six asset classes."

She added: "Investors seek to diversify into alternative assets for many different reasons: for private equity, it's the potential for high absolute returns; for real estate, infrastructure and private debt it is to add a reliable income stream; and for hedge funds to reduce correlation to other assets."

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PIMFA warns of the consequences of a no-deal Brexit

The Personal Investment Management & Financial Advice Association (PIMFA) has raised concerns about the potential impacts of a 'no-deal' Brexit and how it will affect private investors and PIMFA's member firms.

PIMFA stated a no-deal situation at the end of March 2019 "remains a distinct possibility in the light of continuing differences and numerous unresolved issues".

For PIMFA members a no-deal outcome would be "disruptive and expensive", the association stated. It added: "The people who would ultimately pay for any increase in costs or reduction in investment possibilities would be the clients of our firms."

"In order to avoid this consequence for ordinary citizens, PIMFA has consistently argued that a no-deal Brexit must be avoided and that a broad-ranging and well-founded UK/EU agreement based on the principles of mutual recognition should be in place by the end of a transition period."

The association said it is "vital the Withdrawal Agreement is not jeopardised", as this would adversely affect employment, growth, costs, tax revenues and investment, leaving little benefit to UK consumers or firms.

PIMFA said: "[We call] upon the Government, EU member states, and the European Commission and Parliament, to ensure that a proper phase 2 with a minimum transition period—as enshrined in the March 2018 version of the draft Withdrawal Agreement—is retained and not sacrificed in negotiations on the principles of the phase 3 agreement."

John Barrass, deputy CEO of PIMFA, said: "PIMFA has repeatedly made it clear that an orderly, 3-phase approach to Brexit is both essential and achievable. This necessitates securing consensus around a Withdrawal Agreement in phase 1 to include a transition period as the core of phase 2 in which the final agreement for phase 3 is negotiated and agreed."

He concluded: "The aim is to secure a one-step Brexit at the point of implementing phase 3, which firms can be aware of and plan for well ahead of time. This would minimise disruption and the costs of changing to business patterns suitable for a non-EU state."

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Trax's SI determination service performs quarterly SI assessments by calculating a firm's market share and provides a daily indication of a firm's potential for becoming an SI per instrument ahead of the official assessment period.

According to Thomson Reuters, this service, in conjunction with Trax's intelligent rules-based engine for regulatory reporting, helps firms improve efficiency and confidently meet their regulatory obligations.

Thomson Reuters has previously announced a suite of MiFID II solutions to help its clients navigate MiFID II compliance, including the addition of reference data and real time data for APAs and mutual traded funds.

Chris Smith, head of Trax, said: "Although MiFID II implementation took place on 3 January 2018, the industry is still confronted with impending regulatory obligations, including the start of the SI regime."

He added: "As one of the leading providers of both trade and transaction reporting services through a centralised platform and also SI determination services, working with a reputable partner like Thomson Reuters is paramount."

SSE adjusts market-closing trading mechanism

To further maintain the price stability at the closing market stage, the Shanghai Stock Exchange (SSE) has adjusted the market-closing trading mechanism to adopt the call for the three-minute market closing.

According to SSE, the call auction time of market closing is 14.57 to 15.00. An order is allowed during the call auction of market closing, but the withdrawal of the order is banned.

Quotation disclosure is the same with the call auction of market opening, SSE revealed.

However, the methods for forming the closing prices of bonds, bonds repo, funds, and other products are unchanged. Further adjustments have been made in the resumption time after the trading suspension of securities.

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When the suspension of trading lasts till 14:57 or later, the trading will resume at 14:57 and enter into the follow-up trading stage; with regard to the stipulation that "the in-session trading suspension lasts till 14:55", the SSE revealed. Meanwhile, in order to simplify the price control methods and to enhance investors' order efficiency, the range of order price on the first day of shares' listing has also been adjusted.

SSE said: "The valid order price shall be neither higher than 120 percent of the issuing price nor lower than 80 percent of the issuing price."

Additionally, the valid order price during the continuous auction, the call auction of market closing, and the trading suspension of the market opening has been adjusted to be "neither higher than 144 percent of the issuing price nor lower than 64 percent of the issuing price", SSE revealed.

The other three listing situations for shares has remained the same as before, and other price control methods on the first day of shares' listing previously specified by the SSE are no longer applicable.

Order acceptance and order withdrawal are both permitted for trading-suspended shares during the market opening, and when trading is resumed, call auction will be adopted for the accepted orders to match trading at one time.

Next, the SSE will organise a market test on the above adjustments to guarantee the successful implementation of the adjustments to the market-closing trading mechanism.

NSD releases Q2 results

Russia's National Securities Depository (NSD)'s value of securities under custody reached RUB 42.4 trillion, a 20 percent increase on the same period in 2017 (RUB 35.5 trillion).

The Q2 results also showed the number of foreign securities issues (ISIN) the depository serviced increased by 63 percent, while the broader total number of securities issues serviced increased 34 percent.

The total number of companies that joined its centralised platform for record-keeping and distributing unit investment trust (UIT) units reached 16, being nine brokerage companies/nominees and seven asset management companies.

The number of inventory operations in the CSD increased 17 percent year-on-year (YoY) and reached 829,000 operations in Q2 2018 (compared with 708,000 in Q2 2017). This includes 640,000 exchange-traded operations and 190,000 over-the-counter (OTC) trades.

In Q2 2018, the value of delivery-versus-payment (DVP) transactions grew to RUB 2.4 trillion, 36 percent more than in Q2 last year (RUB 1.7 trillion).

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The NSD said client interest in using the new services (linked transactions and instruction prioritisation) remained stable. In Q2 2018, the total number of operations involving these services amounted to 1,413.

In Q2 2018, two commercial bond programmes worth a total maximum amount of RUB 30.5 billion and eight commercial bond issues worth a total amount of RUB 1.73 billion were registered. Ten commercial bond issues worth RUB 1.94 billion were completed.

The results come as the NSD and ARQA Technologies completed testing of the integrated solution of the UIT platform with QUIK software. According to NSD, this move will enable investors to conduct UIT unit transactions on the primary market via QUIK terminals.

In Q2, the NSD was also named the authorised depository Belarus; this allows o to record the rights to government securities issued by the Ministry of Finance—on behalf of the Republic of Belarus—and to expand the range of NSD services provided to clients in Commonwealth of Independent States (CIS) markets.

In Q2 2018, the NSD together with MTS, Russia's leading telecommunications operator, and Sberbank CIB, Sberbank's corporate investment business, placed commercial bonds denominated in rubles and based on blockchain with cash settlement for the first time in Russia.

The NSD and Sberbank CIB also announced their intention to test an initial coin offering (ICO) technology on the Bank of Russia's regulatory platform.

In Q2 2018, 2,039 meetings of security holders were held using e-voting technology; 87 repurchases of shares and 12 corporate actions to exercise the pre-emptive right to purchase shares were also initiated. The total value of repurchased shares reached RUB 8.3 billion in the second quarter.

Totally, 4,981 corporate actions involving Russian securities were conducted in Q2, down from 5,117 actions in the same period of the previous year.

The number of corporate actions involving foreign securities grew 61 percent due to the increase in the number of securities issues serviced by the NSD (up from 4,102 issues in Q2 2017 to 6,592 ones in Q2 2018).

In Q2 2018, against the background of an increasing liquidity surplus, the value of repo transactions, which the Federal Treasury performed using the NSD's collateral management system (CMS), reached RUB 4.4 trillion; the value of repo transactions with the Bank of Russia performed using the CMS was RUB 138.8 billion. **SLT**

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Navigating the SFTR landscape

DTCC's Valentino Wotton talks about trends, trade repositories and the possibility of the regulation going global

What trends are you currently seeing in the trade repository space?

Trade repositories (TRs) are becoming an increasingly important tool for monitoring trading activity in key markets. Regulators have recognised TRs as essential elements of regulatory compliance because of their ability to consume, validate and store vast amounts of transaction data that regulators seek to monitor and analyse for trends in trading activity and risk.

They proved themselves as effective trade reporting solutions for over-the-counter (OTC) and exchange-traded derivatives contracts, so TRs are now being harnessed to implement Securities Financing Transactions Regulation (SFTR), the new regulatory mandate in Europe and the UK for securities financing transactions (SFT). For example, DTCC created the Global Trade Repository (GTR) in 2012 to help firms meet their derivatives trade-reporting requirements. Today, we're adding functionality so that GTR will also help users comply with SFTR.

Beyond extending TRs' role into a new market, the other notable trend is TRs with the capacity not just to collect and store massive volumes of data but also to enhance the quality of that data and analyse it. TRs that offer this added value can enable users to sharpen their market intelligence and reduce trading risks. Through its new portal GTR offers custom search capabilities along with detailed statistics on things like industry and client overall matching rates, the top five reasons for rejected submissions and historical statistics.

How has the TR landscape become more competitive?

More TRs have come to market over the past few years, both in existing jurisdictions as well as in a growing number of new jurisdictions as regulatory mandates for OTC derivatives expand across the globe. We expect the same geographic expansion will occur with SFTR. SFT reporting is a G20/Financial Stability Board requirement in which EU and UK regulators are first movers with SFTR but regulators in the US and other jurisdictions will most likely adopt similar rules for securities financing transactions in the coming years.

The result is that users now have more choices for their trade reporting. And, while TRs are highly regulated, that doesn't mean all TRs offer the same capabilities or level of experience.

Firms looking to choose a TR to support their trade reporting compliance for derivatives and securities financing should vet their options carefully to identify those that can best address today's evolving regulatory demands.

For instance, look at a particular TR's track record—does it have solid relationships with clients and regulators along with proven data security? Looking forward, can the TR handle compliance beyond Europe if SFT regulation is enacted in additional jurisdictions? And, not least, can the TR support the various potential Brexit scenarios post-March 2019?

DTCC's GTR is arguably the largest and most experienced TR in the market today both in terms of global and the European Market Infrastructure Regulation (EMIR) reporting. In terms of experience, we are simply the most experienced player in the global derivatives processing space. In 2006, DTCC established the Trade Information Warehouse (TIW), a centralised credit derivatives utility, which services 98 percent of cleared and bilateral credit derivatives, valued at $10 trillion.

TIW set the precedent for collecting trade data in a single place and served as a blueprint for the future of global trade reporting.

In terms of size, our European repository is the largest for EMIR reporting, processing more than 500 million messages a month. We have 6,000 clients worldwide, 3,500 of them in Europe. We have long-standing relationships with regulators and operate in seven jurisdictions around the world, from Europe to North America to the Asia Pacific region.

What are the main challenges of SFTR? And how does it differ from EMIR and MiFID II?

Coping with high reporting volumes and a large number of data fields will be some of the biggest challenges. Due to the complexities of securities financing, many firms use manual processes in their trading and post-trade activities. As a result, complying with SFTR will create extreme pressure to automate these processes. For example, SFTR mandates 155 data fields, compared to 129 required under EMIR for OTC derivatives. As a result, firms should seek out TRs that can help them automate, and therefore better integrate their processes with those of the repository.

DTCC's GTR offers a number of features that promote automation and simplify integration with firms' internal processes, such as user-friendly dashboards, ad hoc reporting options and data extraction for exception management. In the future, we plan to add scheduling functionality to create and manage bespoke recurrent reports. GTR also incorporates management information systems that record and track accepted and rejected trade details, and analyse the status pairing and matching of reported trades.

Additionally, firms shouldn't minimise the complexity of the regulatory reporting function they must fulfil under SFTR. SFTR rules are notably more detailed than EMIR and MiFID II for derivatives, in part because they address the very diverse universe of SFT products: repo and reverse repo, securities and commodities lending and borrowing, sell/buy-back, buy/sell-back, margin lending and borrowing. And as we know from experience, these rules will likely be revised and updated over time. Other challenges of this regulation involve pairing and matching and effects on a firm's booking model, agreeing on the unique trade identifier (UTI) and the reuse of collateral.

How is DTCC working with clients on SFTR?

GTR was built through collaboration with our users and that continues to be our approach as we adapt our infrastructure to accommodate this new trade reporting mandate. As a user-owned and governed TR, which sets us apart from the competition, GTR works with users to develop reporting solutions that integrate with their workflows to ensure compliance with reporting requirements.

In the case of SFTR, we started user outreach early this year and will continue to host SFTR industry user group forums to help highlight industry issues and facilitate dialogue amongst market participants. We have been engaged with both the International Capital Market Association (ICMA) and the International Securities Lending Association (ISLA) for over two years in preparation for SFTR, as well as prominent industry players, like IHS Markit and Pirum, Equilend and Trax, for a similar period. Engaging through trade associations and within the existing infrastructure helps us work with the market to solve big challenges. For example, how best to exchange UTIs, leveraging the benefit of our experience of operating under the European Securities and Markets Authority (ESMA)'s first systemic

risk monitoring regime, EMIR, as the largest trade repository. Between now and mid-2019 we'll be reaching out to users to explain updates to GTR functionality resulting from SFTR. We're making it easy for existing users to extend their service to SFTR by requiring them only to sign an appendix to the operating procedures under their existing contract. Those clients can continue to use existing connectivity with GTR, or connect to us via a number of partner firms.

GTR will conduct a full six months of end-to-end user acceptance testing (UAT) with clients, starting in mid-2019, and will go live as early as possible so that testing in production can start. As we have with other recent large initiatives, we are looking to provide a testing simulator to give firms the ability to begin identifying gaps in their data in advance of UAT. That should be available in the next couple of months.

This launch schedule ought to convince firms to begin their own internal preparations ASAP.

If firms haven't started implementation, what advice would you give to them?

Don't wait another day. Q1 2020 is the target for the first phase of compliance and will impact investment firms and credit institutions. That date may seem like a long way away, but as we all know, it will be here quicker than we realise and as there is so much to do, you should start now.

Securities finance transactions have never been subject to the depth and breadth of data collection and reporting SFTR will demand, so firms in this market will need to enhance and test their processes for data gathering and, in many cases, retool their workflows that currently sit at the core of the securities finance markets.

There has been a lot of talk about collaboration in recent months. In what ways are you seeing firms collaborate for SFTR?

Besides our collaboration with clients, we have strong relationships with leading vendors. GTR already has 150 vendors connected via an established partner programme for derivatives reporting. We are forging additional strategic relationships in the securities financing space to support our mutual clients' SFTR requirements. As of now, these announced partnerships include Equilend and Trax, IHS Markit and Pirum, amongst many other software providers, data aggregators and trading platforms.

Given the ISO 20022 reporting requirements, it's anticipated there will be extra dependencies on technology solutions to facilitate reporting to a TR. Vendors specialising in SFTR are key to the implementation effort for gathering the new data sets and testing against GTR's standards. Our partner programme not only gives users more options for connecting to GTR, it offers us additional opportunities to expand GTR's straight-through processing, reconciliation and data management capabilities and provide seamless links to mutual clients' existing infrastructure.

Alongside cost-effective vendor connectivity, we regularly share insights with our partners and contribute to each other's SFTR working groups. Collaboration within an increasingly connected ecosystem is vital in delivering an SFTR solution that adds real value to the end user.

How are TRs preparing for SFTR?

All TRs that plan to seek authorisation to provide SFTR reporting need to become intimately familiar with the detailed requirements of the regulation. One challenge here is the fact that the regulatory details, namely a number of technical standards, are not nailed down yet and are still awaiting approval by the European Commission. So, ongoing vigilance in monitoring the reporting requirements is important.

Overall, though, it's clear that, structurally, SFTR is quite similar to EMIR for derivatives. For instance, parties must report details of the conclusion, modification and termination of any SFT to a TR by no later than T+1. The regulation includes a dual-sided reporting obligation. Open positions need to be backloaded to a TR. Reports need to be paired and matched, with very tight tolerance levels.

This similarity between the regulations means that TRs' existing functionality can be adapted fairly easily to cover SFTR. For GTR, this fact is allowing us to focus our preparation efforts on the user community. Besides our extensive UAT programme, we offer a GTR training certification to users and are giving them early access to our testing simulator.

Our industry forums will continue to address questions and challenges around SFTR compliance, and our global client support team is always available to answer users' questions.

I should also note that, while it wasn't specifically designed to accommodate SFTR, the global portal we built for GTR last year will yield positive benefits for SFTR users. The portal is self-service and enhances the user experience by consolidating functionality at a single entry point. The portal gives users direct, electronic access to the data stored in GTR, which means they can control the content, number and frequency of reports we produce.

How will DTCC's GTR help users once the regulation moves beyond Europe?

We expect jurisdictions beyond Europe to enact reporting requirements for securities financing transactions over the next few years. Firms with global trading activity should keep this point in mind in choosing their TR for SFTR reporting.

A repository like GTR with global experience and operations has already weathered numerous regulatory changes and has established long-standing relationships with dozens of regulators. GTR has a proven capability to adapt its functionality to accommodate the unique requirements of different jurisdictions and also to help users build flexible compliance frameworks suitable for multiple sets of rules. **SLT**

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LOOKING
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FUTURE

In the run-up to the SFTR deadline, and through the midst of differing balance sheet considerations, the beneficial owner's world is beginning to change

Jenna Lomax reports

Unfortunately, unlike Marty McFly, the securities lending industry doesn't have the 'doc', or the DeLorean to help correct the past, or indeed, see into the future. But as beneficial owners look ahead, past the challenges of regulation, and the quagmire of constraints borrowers and agent lenders are currently under, what do beneficial owners need to consider? How can they prepare for the future?

As James Day, head of securities finance for Europe, the Middle East and Africa at BNY Mellon, states: "The first thing that beneficial owners should understand, is the major binding constraints that borrowers and agent lenders are operating under–namely capital requirements, leverage ratios and balance sheet considerations. Understanding these dynamics and tailoring a lending programme that enhances the returns for beneficial owners should be the focus."

As it stands, the Securities Financing Transactions Regulation (SFTR) ruling states trade repositories will need to create a trade-state report, on top of a reconciliation status report, as well as a rejections report, and indeed, a missing collateral report. The SFTR ruling is set out clearly, in that, to some extent, the same rules have to be followed by everyone.

But with respect to a beneficial owners lending programme, the guidance and structure that should be set is not always so clear.

Mark Jones, head of securities lending for Europe, the Middle East and Africa (EMEA) at Northern Trust, states: "The definition of a successful lending programme varies widely across different beneficial owners."

"For some, a low-risk programme with modest returns that offset other asset servicing costs is sufficient, whereas others will be seeking to maximise revenue with a more aggressive attitude to risk. With the diversification of potential routes to market increasing, beneficial owners must decide which strategies fit their objectives and then challenge their providers to implement a programme that fits those objectives."

As a spokesperson for State Street reiterates: "Whether a beneficial owner adopts a principal, agency, exclusive or under an indemnity, will depend entirely on their own bespoke parameters, mandate and risk profiles."

The State Street spokesperson adds: "How they adopt these, like agents and borrowers themselves, will depend on their own binding constraints and their motivations for lending."

Opportunity knocks

The current securities lending landscape uncovers a rocky, yet golden path of opportunity. These opportunities lay within emerging markets and finding new, inventive ways of routes to these markets, or re-approaching existing ones.

Northern Trust, for one, is implementing new markets such as Saudi Arabia. As Jones says: "We encourage our beneficial owners to be leaders in the industry by implementing flexible programme parameters, by lending in new markets and by adopting new routes to market as long as those new strategies fit into their internal risk framework."

According to a panel at the Finadium Investors in Securities Lending conference in London earlier this year, technology is another opportunity within the securities lending landscape, for the benefical owners taking.

At the conference, one panellist was asked: "With the advancement in technology does it make it harder or easier for the beneficial owner to directly access the market?"

A panellist answered: "Technology makes it easier for beneficial owners to access the market, in theory, it should be easier to access without a service provider."

Preparation

Although there are always elements that can bring opportunity, inevitably, there is always a risk. During a panel at the IMN's 24th Annual Beneficial Owners' International Securities Finance and Collateral Management conference, panellists advised beneficial owners on how to safeguard their assets and avoid such unnecessary risk.

One panellist said indemnity is critical to consider before starting the securities lending programme because agent lenders don't always specify what is covered in the indemnity.

It was also discussed another important element for a beneficial owner to deal with is whether cash or non-cash will be accepted as collateral. Setting the duration of lending is another issue not to neglect, as panellist agreed, the responsibility lies in the hands of the beneficial owner.

The aforementioned, however, could be considered more of a 'starter-pack' for beneficial owners entering the industry. What further advice is there for established beneficial owners who are looking to update their lending programme?

According to Harpreet Bains of J.P. Morgan, reacting to counterparty demand is another factor beneficial owners should take into account.

Bains says: "As an agent lender, we continue to react to changes in counterparty demand as a result of borrowers' need to comply with regulations, and it's key that the market dynamics as it relates to borrower demand preferences are understood by beneficial owners."

"Those that are willing to work with their agents to adjust programme structures, take a fresh look at non-traditional structures, and be open to re-evaluating their risk appetite to take advantage of non-cash and cash collateral reinvestment strategies, can position themselves to monetise market opportunities and optimise revenue."

As well as following changes in counterparty demand, beneficial owners should be mindful that borrowers are looking for greater collateral flexibility in an ever-changing market, Bains adds.

She says because of this "it's important that beneficial owners consider both kinds of collateral and adjust their parameters and guidelines accordingly".

"This is especially true given the continued demand from borrowers for less balance sheet-intensive loans against non-US—non-cash collateral, as well as increased yields which create new opportunities for lenders to reinvest cash using different strategies to earn better returns in a risk-controlled manner."

Another concern is changing clients as they seek out "balance sheet relief", according to Bains.

Bains states that as a consequence of this, beneficial owners in certain jurisdictions are no longer lender of choice for a borrower, and in light of this "counterparty diversification becomes a necessary consideration for beneficial owners".

A bit of faith

Although there are many bumps in the road, let's not forget that there are capital efficient solutions coming to market, as Day discusses.

Day states that moving forward, "broad collateral acceptance and eligibility will enable clients to maintain high utilisation levels as the makeup of available collateral on the street changes over time".

He uses the example of accepting collateral under a pledge structure rather than a title transfer, which can, he states "enable clients to increase utilisation rates and revenue".

Jones further adds at Northern Trust, "[we] are working with our beneficial owners to support capital efficient transactions such as collateral pledge [...] At Northern Trust, we are proud of the flexibility our programme offers and our ability to meet the whole spectrum of beneficial owner requirements".

To be fit for the future, Jones suggests "beneficial owners must decide which strategies fit their objectives and then challenge their providers to implement a programme that fits those objectives".

Ultimately, it seems embracing technology, enabling collateral flexibility, exercising an openness to pledge structures and CCPs, will ensure beneficial owners lending programmes remain current in an ever-changing market landscape—knowledge and preparation should eradicate the need for a time machine. **SLT**

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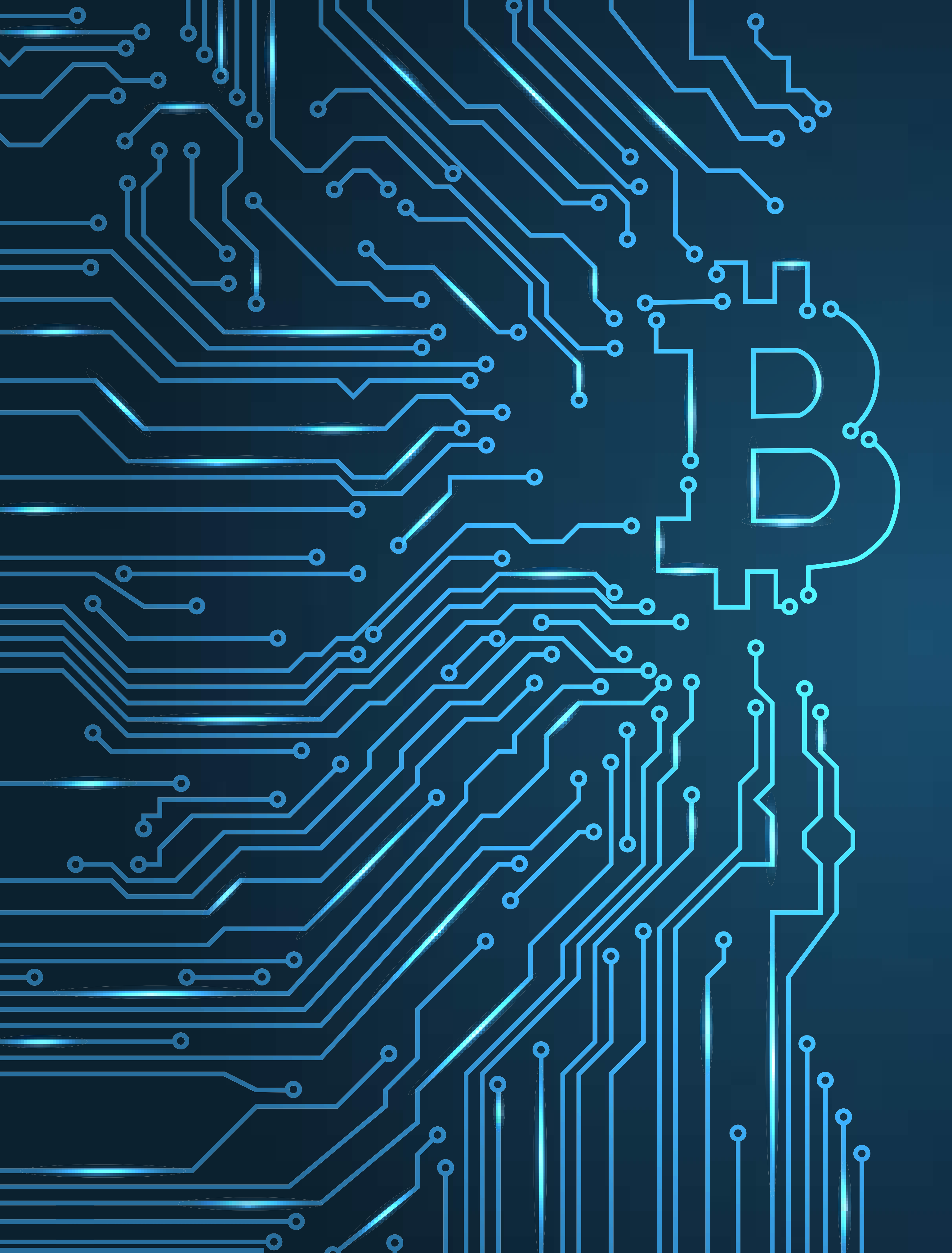

The developing world of crypto custody

Industry participants discuss the development of crypto custody and the role it might play if cryptocurrencies were to be accepted into mainstream thinking

Brian Bollen reports

How would you define crypto custody?

Graham Rodford, Archax: The act of storing and safeguarding the private keys needed to access digital assets in a secure way.

Steve Swain, Lendingblock: A crypto custody is similar to the service that a traditional custodian provides. A crypto custodian would provide security and would safeguard clients' digital assets. This would be facilitated by a third-party trustee who would hold these digital assets either directly or indirectly. This would help minimise risk, loss, and theft on behalf of institutions and individuals that are dealing in digital assets.

How will it differ from traditional custody?

Rodford: Most digital assets tend to be akin to simple bearer instruments. Therefore, the holder of the private key has full control over the assets. With a private key, bitcoin could be moved from holder A to holder B with the transaction being totally public, unstoppable, and immutable. Once this has happened, there is no realistic way to undo the transaction due to a core tenet of this new asset class, decentralisation.

Swain: The concept of a third-party crypto custody, in theory, is similar to a traditional custody service. The difference is the assets that are accepted. For example, a crypto custodian would hold digital assets such as bitcoin, ether, and XRP, whereas a traditional custodian bank would accept stocks, bonds, commodities, and currencies. A unique aspect of crypto custody is hot versus cold storage, which currently necessitates a trade-off between security and convenience. Hot storage, also known as a hot wallet, stores the assets online and consequently allows assets to be more easily transferable yet prone to attacks and theft.

To minimise this risk, protections of hot wallets are managed by each institutions' own information security and technology teams. On the other hand, cold storage takes the assets offline and typically stores them on memory devices in vaults, which require multiple signatories to access. It is not feasible to keep custody of crypto assets secure at all times in cold storage, as there will be times in which the assets are in transit. Transfer out of cold storage can take up to a day.

Lendingblock has been assessing companies such as VOLT and DACC for its crypto asset custodian and provider of a deep cold storage vault. We will be working with some of the best providers in the industry in order to deliver a secure and resilient custody solution for our institutional clients.

Crypto custody and the crypto post-trade environment is a relatively new service, which is being applied in the crypto markets. Therefore, firms such as Lendingblock will also be offering a component of fund administration and reporting. However, services such as clearing and settlement are still under review.

Why do you think crypto custody is important?

Rodford: Most institutions that are considering operating in the crypto space will be forced to look for institutional methods to custody their assets. Since they often have fiduciary responsibilities to their clients, custody is key.

Swain: Crypto custody is a fundamental next step for the development of the crypto post-trade environment. It would be a vital service for supporting wider market adoption among institutions who are already dealing in digital assets or for those that are considering becoming active in crypto markets. This is because it brings a more secure and trusted structure when transacting in these assets. For example, 40 Act Funds in the US, which is a large amount of US investment vehicles, are required by the regulators to maintain their investments with custodians, which are designed to ensure the safety of the fund's assets.

At Lendingblock, we believe that crypto custody could play a role that is systemically important for wider institutional adoption of cryptocurrencies. It is an immediate area to be addressed if we are to see a significant upgrade in the strength of the post-trade environment for cryptocurrencies.

Some might feel that it is impossible to provide custody for non-existent assets. How would you respond to that suggestion?

Rodford: The storage for the private key allows access to the crypto wallet. There are many different types of solutions operating in the market at the moment for vast amounts of money.

In applying this logic to the traditional world, envisage an individual storing a key which can unlock a door to a room that contains a gold bar. This room is impenetrable and can only ever be opened by this key (the room represents the decentralised immutable blockchain that is bitcoin).

The individual may store this key underground in a vault, or cut this key up into five pieces and glue it back together, should they ever need to use it to access this room. Once they have this key, nothing can stop them from taking the gold bar. However, the transaction of moving the gold bar out of the room is recorded on a public blockchain for all to see.

Therefore, a custody solution in the digital asset space is focused on the safekeeping of the key. Essentially, we are highlighting that there is a lot of good which has been built in the traditional world, which should not be forgotten about when designing this new world.

Swain: The lack of a physical presence does not necessarily translate to a lack of tangible value which doesn't need protecting. This is part of a broader transition from a physical world to one that is digital. Appropriate measures to safeguard and avoid the misuse of personal data, cloud storage, or internet browsing history are expected.

Likewise, cryptocurrencies are a digital representation for value transfer, record keeping, and so forth. As such, crypto custody is a natural next step and it will provide an additional layer of security and it will also provide post-trade support for institutions and individuals who are transacting in this space.

Assuming that it does become a reality, what might the role of traditional custodians be in helping cryptocurrencies by providing crypto custody?

Rodford: Custodians have been providing services to traditional asset classes for many years, and their controls and processes are built around running these businesses in a regulated and professional manner. They will need some to adapt to cryptocurrencies but fundamentally, the principles are the same. If a private key is a piece of digital information, then the custodian needs to keep it safe.

Swain: If traditional custodians accepted cryptocurrencies as assets, this would be an early step in the wider industry acceptance and adoption of digital assets. We are already seeing the likes of Northern Trust exploring ways of holding digital assets for their hedge fund clients. They bring an existing framework that works in the traditional space. Some customisation will be needed due to the unique nature of cryptocurrencies, however, they bring value as a benchmark along with their years of experience operating in safe custody of assets.

Do they have the relevant skills and tools? Or might they have to build them? Or will new players emerge?

Rodford: The institutions that we have spoken to are in different stages of research. Most institutions have financial technologies or blockchain centres which are exploring the asset class. Nearly all of them already have the foundations from the traditional assets upon which they can build. They will certainly need to enhance or adapt their traditional offering. New specialist players are entering the custody, bank, and prime brokerage space.

Swain: As with all emerging market trends and opportunities, there will be winners and losers. Traditional custodians will be considering how they can keep up and stay relevant, so that they do not lose out to the agiler and digitally focused smaller players. We see a lot of the big banks testing and developing use cases for how the technology that underpins the crypto market—blockchain—can enhance or expand their current services, such as foreign exchange payments or the settlement of securities.

While the larger companies have the budgets and resources, the question will be whether they can move quick enough to compete with the fintechs and smaller, more nimble companies. Management expertise, funding, and bringing a solid product quickly to market is what a lot of the smaller players are competing against, and we will definitely see some winners and losers here as well.

Where will new players emerge from?

Rodford: Many new entrepreneurs are entering the digital asset space to help build the infrastructure for the future.

Do you think the geographies that are lacking legacy systems, traditions, and practices could leapfrog more developed markets?

Rodford: There are some less well-known jurisdictions that are trying to take the initiative and leapfrog the more developed markets by implementing a regulatory framework. This may help to allow them to be competitive in the future.

Swain: Not necessarily. The majority of flows in the current financial system occur in regions with robust legal systems and property rights, trading documentation, and have minimal friction in conducting business. Whilst a region lacking legacy systems may quickly implement the technology and an execution platform, it won't draw flows away from the developed markets if the appropriate safety engineering isn't there.

How prepared is your own institution?

Rodford: Archax understands these requirements and is developing an institutional custodian as well as a segregated offering as part of our exchange.

Swain: As the institutionalised platform for cryptocurrency lending, Lendingblock is bringing crypto to crypto securities lending to hedge funds, exchanges, market makers, asset managers, and banks. This is an important piece of market infrastructure, which ensures that liquidity is transferred to where it is needed and that all market directional views are captured in the price of an asset. Until now it has been easy to open up long exposure to cryptocurrencies.

However, the channels for hedging have been almost non-existent and the same is true for those looking to short digital assets—needless to say, this has resulted in asset price bubbles.

Our team also has long-standing experience in finance and technology, and we understand the needs and challenges of institutions. This skill set means that as well as providing the platform, we also bring the necessary risk management, legal structure, and regulatory compliance, which is paramount for providing a healthy financial market. **SLT**

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Navigating the repo waves

Industry experts give an insight into the main challenges the market faces today, including compliance with evolving regulation and managing cyber risk. But how are they navigating these waves of change?

What trends have you seen in the European repo market over the last year?

Godfried DeVidts: Implementation of mandatory clearing obligations contained in European Market Infrastructure Regulation (EMIR), and the Dodd-Frank ruling, and associated margining requirements for over-the-counter (OTC) derivatives, increased the demands for collateral and have led to increasing participation in the repo market by insurance companies, pension funds, and asset managers from the 'shadow banking' system.

Frank Gast: As the European Central Bank (ECB) is buying up a significant amount of high-quality liquid assets (HQLAs) as part of its asset purchase programme (QE), a shortage of bonds available for securities financing arises.

Collateral shortage and bank regulations for liquidity have caused a significant increase in demand for HQLAs and increased activity in securities-driven financing markets, including special repo, as well as securities lending.

Since the ECB reduced the net purchases of the asset purchase programme from a monthly pace of €60 billion to a new monthly pace of €30 billion starting in January this year, a stabilisation of volumes in the cleared cash driven repo market has been observed.

In addition, several pension funds and asset managers are in the final steps of onboarding to our 'Select Finance' offering in order to raise cash in our interbank market via central counterparties (CCPs). The new Eurex Select Finance model will enable buy-side clients to trade fully flexible as cash provider and cash taker. Select Finance is designed to accommodate buy-side needs, specifically those of pension funds and asset managers, for variation margin funding.

What opportunities do you see for investors and repo traders?

Gast: New regulatory requirements, such as Basel III, EMIR and Liquidity Coverage Ratio, substantially increase cost for banks in offering client clearing, either directly or indirectly. In order to enhance capital/balance sheet, margin and collateral efficiencies, sell and buy-side participants need to look for advanced CCP models.

With the introduction of new buy-side offerings infrastructure, providers, like Eurex, broaden their target group by enabling clients from outside the financial sector to participate in these markets.

DeVidts: When deciding which investments are right to pick, investors should be carefully considering whether or not they can later raise cash against them—equities, for example, are not eligible for CCPs or for central bank financing. This is nothing new, but it can be advantageous to invest in securities which have a deep liquid market or are easy to liquidate.

As for repo traders, although they still face balance sheet restrictions they have benefitted from the re-pricing of the repo product over the past few years. As a consequence, if mixed with other business within their firm, the repo product has become relatively attractive again. Repo has proven to be resilient but it now has to be seen as part of the overall function of collateral management within financial institutions.

What do you think are the top three biggest challenges for investors and repo traders?

Juliette Kennel: In this context, the three main challenges we see are compliance with evolving regulation, managing cyber risk, and ensuring the harmonisation and standardisation is in place to enable the industry to really take advantage of new technology.

On the post-trade side, the biggest challenge for investors and repo traders is probably understanding the impacts of new regulation and ensuring back-office operations are in place to comply with the new requirements.

DeVidts: The stability of the underlying assets is an ongoing concern. To take a current example, there is a risk in emerging markets, such as

Turkey, which may spill over into other markets. We should also watch out for the unwinding of QE, specifically because the list of eligible assets acceptable by central banks will be curtailed over time.

There are some major challenges ahead linked to the mandatory buy-in regime being introduced by the EU Central Securities Depositories Regulation. This will create perverse behavioural incentives, which will likely include increased volatility in markets—especially where there are identified short positions—and challenge the ability of participants, especially from the buy-side, to react quickly to the situation.

Gast: Regulatory requirements arising out of Basel III, Central Securities Depository Regulation (CSDR) or the Securities Financing Transactions Regulation significantly add to the cost of capital required to run a repo book and are assumed to reshape the structure and dynamics of repo markets.

Brexit, US politics and elections in the European area create volatility over financial markets and lead to a flight-to-quality towards core European markets. Given the role that London plays in the repo market, where a lot of the collateral comes from core investment banks, Brexit may have a significant influence on the repo market in the coming year.

How could the repo market benefit from innovation and technological advancements?

Kennel: Advances in technology can doubtlessly benefit the repo market—whether in optimising or in automating processes or in gathering and analysing data—ultimately facilitating greater collateral efficiency and mobility. To reap the benefits of these advances, however, standardisation is going to be key.

While distributed ledger technology might bring a number of business benefits, as with any technological solution the data, processes, inputs and outputs will need to be properly standardised.

DeVidts: Financial technology solutions may, at last, overcome the problems with the legacy settlement infrastructure of Europe, which has not thus far been solved with TARGET2-Securities implementation.

There are still too many CSDs remaining in the Eurozone, with no rationalisation in settlement yet achieved, making it ever more expensive, and still complicated, to effect settlement completion. There are huge opportunities here to reduce the hidden costs of the settlement.

Gast: Innovations in the area of blockchain, cloud computing, machine learning, robotics or artificial intelligence may be implemented and used to mitigate inefficiencies in the European repo market.

Deutsche Börse Group is currently working on a blockchain-based collateral swaps market to mitigate the collateral mobility problem across custodians. With the implementation of bank regulations for liquidity, mandatory clearing and margin requirements for OTC derivatives, efficient HQLA portfolio management has become critically important for institutional treasurers.

How have electronic trading platforms affected transactions?

DeVidts: Electronic trading platforms are helpful in achieving well-organised trade execution. This is currently directed towards CCP cleared transactions, but given the increasing use of non-government bonds, electronic trading platforms could also help to deliver faster and safer markets for bilateral trades, once the multiple settlement channels are satisfactorily streamlined.

Gast: Electronic trading is creating many market participants, improving market quality in normal times, lowering transaction costs and segmentation.

Electronic trading providers, such as Eurex Repo, aim to provide possibilities for market participants to increase efficiency in capital and liquidity management. One initiative to reduce the number of outstanding trades is compression as a new trade type. Compression can be used to tear up a trade by partially or wholly offsetting positions against other positions held by that financial institution.

In the next two years, what developments do you expect to see in the European repo market?

DeVidts: I expect to see larger outstanding volumes and wider participation in the market. And there may be a growth in term trades, driven by the new behavioural incentives, which will be created by the introduction of new net stable funding ratio liquidity requirements.

Undoubtedly there will also be more electronification, including in emerging markets, leading to more efficiency. I expect digitisation to further enable the trend, which we are already observing, with business to business transactions becoming the norm and diminishing interbank transactions. I hope that this will lead to the clear recognition of the value of the repo product.

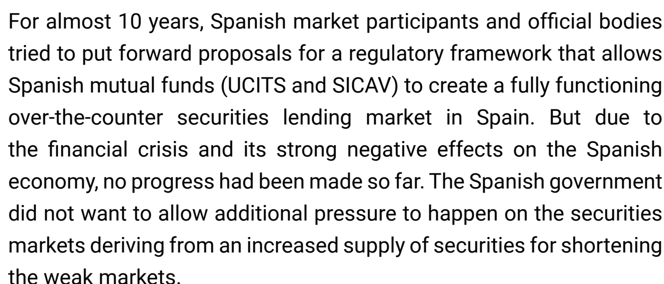
Kennel: In both markets, we'd expect more budget and investment being allocated to handle regulatory and cyber issues, which unfortunately is not so much a licence for industry participants to develop new business lines, but rather a requirement to defend their 'licence to operate'.

On the collateral management side, it will be interesting to follow the evolution of the ECB platforms and to see how EU-based changes will impact on other markets. This will be especially critical for global firms acting in multiple markets and jurisdictions.

Gast: The European repo market will inevitably be dominated by regulation. Given the market's experience with EMIR, SFTR will likely be a drag on the market for the next year or so, with firms switching a lot of resources to deal with that. **SLT**

Joining the club

After almost a decade in the securities lending market, big things are happening in Spain. Walter Kraushaar of Comyno explains more



For almost 10 years, Spanish market participants and official bodies tried to put forward proposals for a regulatory framework that allows Spanish mutual funds (UCITS and SICAV) to create a fully functioning over-the-counter securities lending market in Spain. But due to the financial crisis and its strong negative effects on the Spanish economy, no progress had been made so far. The Spanish government did not want to allow additional pressure to happen on the securities markets deriving from an increased supply of securities for shortening the weak markets.

Meanwhile, the markets are rallying and the economic situation in Europe as well as in Spain have improved substantially. Most of the European countries have found a regulatory framework for securities lending transactions of their investment funds. This has enabled them to create a decent additional income by conducting a successful securities lending business through several new structures like 'evergreens' and 'collateral upgrade trades', as well as high-quality liquid asset (HQLA) lending.

In 2016 Inverco, Spain's association for collective investment institutions and pension funds updated the initial proposal submitted in 2008 and recommended changes to the country's securities lending framework, to eliminate the competitive disadvantage currently faced by the Spanish investment fund industry as compared to their European peers (namely France, Germany, UK and Italy where securities lending for UCITS funds has been allowed for a long time).

At present, securities lending is only allowed to be used by Spanish mutual funds to cover settlement fails. Those short-term transactions, do not provide the revenues that can be achieved by the longer term and higher volume transactions mentioned above.

Government officials finally launched a consultation in April this year on the proposed changes to the country's stock loan regulatory framework, to eliminate the disadvantageous treatment of Spanish mutual funds compared to their peers in other European countries.

The International Securities Lending Association (ISLA), a trade association established in 1989 to represent the common interests of participants in the securities lending industry, responded to the consultation in May this year to support the initiative and to harmonise

the strict existing rules and regulations for securities lending of UCITS fund assets in the EU countries where securities lending is already allowed for mutual funds.

Those rules and regulations were made for reaching a higher profitability while protecting the investments in the light of a unique Capital Markets Union agenda across Europe. The new regulation—most likely to be announced in Q1 2019—will allow Spanish mutual funds to perform its securities lending business on the same legal framework as most of the other European-based investment funds already do.

According to sources who are familiar with the situation, the current ministry of economy, Nadia Calviño, has approved the suggested new regulation. It now must be published first in a public audience/hearing and after receiving the comments of interested parties it will be sent to the Council of State for final approval.

An analysis of Inverco with data provided from DataLend lead to very promising results of the upcoming new opportunities for the Spanish investment fund industry.

Following Inverco's proposal, allowing funds to lend their entire portfolio, in line with the European Securities and Markets Authority (ESMA) guidelines, the study delivered the following results: It is likely to lend more than 60 percent of the current assets of respective Spanish investment funds.

In absolute terms, it will mean new liquidity of about €180 billion asset value available for lending.

Market analysis indicates that the potential additional income, created by the new types of securities lending transactions will be at least around 10 to 14 basis points (0.1 to 0.14 percent), which equals an annual income of approximately €255 million.

This huge—currently untouched—market potential will force Spanish and international custodians, asset managers as well as investment banks and broker-dealers to provide a reliable infrastructure to Spanish investment fund managers to help them to distribute the lendable assets, manage the respective collateral properly and enable them to receive the forecasted additional revenues on their investments.

Given the size of the lendable assets and the number of new participants in the market, there will be some investments in the Spanish securities lending market necessary to enhance the current basic IT infrastructure.

Strategic consulting is also essential to evaluate the best strategy for the respective funds and asset managers to enable them to lend out those newly available assets.

Given the short preparation time, it is crucial for the business to put the necessary infrastructure in place within a short time frame, to gain from 'first mover advantages' with an early entry in this new market segment.

It will be essential for any market participant who is after a part of this 'big new cake' to develop and provide a proper digital IT-platform with full connectivity to the respective investment funds as well as to other service providers like market data providers, post-trade and settlement providers and reporting tools for Securities Financing Transaction Regulation as well as CCP's.

Comyno is already active with strategic advice about this topic and it's newly enhanced 'C-one' platform has been upgraded to be able to deliver tailor-made solutions and full connectivity to enable investment funds, broker-dealers, banks, custodians and agents to explore and make use of this new market opportunity arising in Spain in the coming year. SLT

> ***It will be essential for any market participant who is after a part of this 'big new cake' to develop and provide a proper digital IT-platform with full connectivity to the respective investment funds***

Walter Kraushaar
Head of advisory services
Comyno

Non-cleared margin: the opportunity for securities finance

Industry experts provide an insight into the main challenges the market faces today, including compliance with evolving regulation and managing cyber risk. But how are they navigating these waves of change?

Featured in the Collateral Annual 2018

Without a doubt, the biggest issue facing collateral management today—and for the next couple of years—is the ongoing implementation of margin requirements on non-cleared derivatives in the majority of the world's developed markets.

This process started in Pittsburgh in 2009, when G20 finance ministers met in the wake of the financial crisis to agree reforms designed to strengthen the global financial system.

Under the agreement reached at that summit, the future treatment of derivatives was to be two-pronged: standardised derivatives would be cleared at central counterparties, while non-standardised derivatives unsuitable for clearing would remain bilaterally traded and be subject to the mandatory exchange of both initial margin (IM) and variation margin (VM).

The first phase of the non-cleared margin requirements took effect in September 2016, as the largest US banks with notional derivatives exposure above $3 trillion began posting margin.

In September 2017, the threshold dropped to $2.25 trillion and dropped again to $1.5 trillion in September 2018, requiring a few dozen more institutions to comply.

In these first three waves, almost all of the entities captured were banks and broker-dealers, but events are poised to become much more interesting from here on out.

The number of impacted entities is expected to spike in September 2019 as the thresholds drop to $750 billion, but then expand dramatically in September 2020 as any market participants with derivatives notionals above just $8 billion will be included.

Although $8 billion is not a very large number in terms of notional derivatives exposure, a large swathe of buy-side firms have a little over two years to prepare themselves to meet the new margin requirements.

A rare opportunity

While the challenge of complying within that deadline is a significant one for impacted firms, it also presents a fantastic opportunity for beneficial owners and asset lenders not captured by the rules. This is because the changes are likely to drive a vast group of new participants to enter the securities finance market for the first time in order to meet their margin requirements.

To practically demonstrate the point, let's take the example of an insurance company.

"While the challenge of complying within that deadline is a significant one for impacted firms, it also presents a fantastic opportunity for beneficial owners and asset lenders not captured by the rules"

A US life insurer is running a large book of variable annuities for policyholders. The insurer hedges the interest rate risk posed by these annuities using bilaterally-traded long-dated swaps. Due to the notional swap exposure the insurer is running, it will be captured under the non-cleared margin requirements in 2019.

Both IM and VM will be required to be posted against these long-dated swap hedges, and arguably the simplest way for the insurer to access government securities and the other eligible collateral is to access the securities finance market.

However, the need to borrow securities from asset owners does not stop there. As the insurer's older grandfathered swap hedges that are uncollateralised roll-off, they must be replaced by new in-scope hedges that require collateral.

Further, in the current rising interest rate environment, variable annuity books are more susceptible to market moves, meaning that the insurer will need to stockpile an inventory of eligible collateral assets in order to promptly post additional margin in response to VM calls upon changing market dynamics.

Collateral shortfall

With such a marked increase in the amount of collateral required by just a single institution, concern has been expressed in recent years over the total volume of collateral that compliance with the non-cleared rules will consume.

A wide variety of numbers have been quoted on the aggregate collateral drain the new rules will entail. In 2012, research firm TABB Group estimated the shortfall at $1.6 to $2 trillion, while the following year the Committee on the Global Financial System, a subsidiary of the Bank for International Settlement, put the number as high as $4 trillion.

Some of this demand has already been digested by the market during the first two waves of non-cleared margin compliance in 2016 and 2017 as the largest banks and broker-dealers were impacted.

Based on flows observed internally within BNY Mellon, certainly, hundreds of billions of dollars in additional high-quality collateral has been sourced by counterparties over the past two years—with the number perhaps having already exceeded the $1 trillion mark.

Despite the progress we've already seen, there is much more activity to come as hundreds of buy-side firms begin the compliance process. This promises to be a hugely positive development for beneficial owners and asset lenders, as they are well-positioned to capitalise on the increased demand to borrow collateral assets in the years ahead.

The non-cleared margin journey

To provide a sense of the many stages involved in complying with the non-cleared margin rules—and to demonstrate where the opportunity lies for beneficial owners—here is a brief step-by-step guide.

Pre-trade

Am I included? The process begins with this simple question. If a trading entity's derivatives exposure exceeds the threshold for inclusion, they're captured.

Custodian selection: Captured entities need a third party custodian to which collateral is posted. Custodians with large securities lending programmes may prove particularly useful in sourcing eligible collateral for clients.

Select segregation model: Most custodians offer a choice of segregation models. At BNY Mellon, clients can choose either: Triparty Segregation, which handles many processes on clients' behalf, including identifying unencumbered assets, screening assets

and applying haircuts, or; Margin DIRECT, in which clients have a more direct hand in controlling the collateral workflow.

Collateral schedule: Collateral schedules need to be agreed between trading counterparties, specifying the types of securities each are willing to accept as collateral and the applicable haircuts and concentration limits.

Trade execution

Calculating margin: Following execution, a margin call is issued from the trade counterparty requesting a certain amount of collateral. The entity on the other side of the trade will need to verify that it agrees with the calculation—requiring either internal capabilities or the assistance of a third-party collateral administrator.

Dispute resolution: If there is a discrepancy between the two margin calculations, a mechanism—such as a reconciliation service—will be required to resolve the dispute.

Eligibility analysis: With the margin amount agreed upon, each party has to determine the eligible collateral the other is willing to accept and compare it against the securities in their custody account.

Collateral selection and transformation: This is where the opportunity lies for asset lenders and beneficial owners. Let's imagine that a counterparty will only accept US Treasuries, but the client's portfolio only contains corporate bonds and equities.

In this case, the client's options are to either buy treasuries (assuming it has ready cash available) or sell securities to fund the purchase, which is something the client does not want to do.

Securities finance presents a third option. As one of the world's largest agent lenders, BNY Mellon can connect the client with one of the market's largest communities of beneficial owners and asset lenders.

As non-cleared margin rules drive more buy-side entities into borrowing assets through securities finance, BNY Mellon sits at the centre of a network providing borrowers with the collateral they need, and providing lenders with a potential source of additional yield, creating solutions for the needs of both parties.

Deliver and receive assets: With the eligible margin assets sourced, the collateral is delivered to both counterparties' segregated accounts at their designated custodians.

Post-trade

Post-settlement obligations: For each trade, counterparties are required to mark-to-market every live position every day, and post or receive VM accordingly. This will be an ongoing requirement that will necessitate daily and intra-day maintenance.

Connecting lenders and borrowers

Whether you are a buy-side party in line to be impacted by the non-cleared margin rules, a broker-dealer already subject to the requirements, or an out of scope asset manager, the changes to come in the next two years will make securities lending an even more invaluable service for market participants than ever before.

If the higher collateral shortfall estimates prove to be correct, the requirements will present a once-in-a-generation opportunity for beneficial owners to capitalise on these hugely favourable market dynamics as incremental demand for more high-quality collateral only heightens in the market.

As BNY Mellon continues work to onboard more buy-side clients into our collateral administration service, we are adding more potential borrowers to participate in securities finance.

On the other side, we continue to induct new asset owners into our agency lending programme, ensuring that we'll be able to connect holders of margin assets with those that will need collateral going forward.

That is good news for beneficial owners, good news for buy-side borrowers, and good news for the stability of global markets. **SLT**

"As BNY Mellon continues work to onboard more buy-side clients into our collateral administration service, we are adding more potential borrowers to participate in securities finance

Jonathan Spirgel
Head of global liquidity and segregation services
BNY Mellon Markets

A GOLDEN OPPORTUNITY

SLT takes a look at the last 12 months in the securities lending industry: the latest trends, the changing borrower behaviour under different market pressures, challenging regulations, as well as thoughts on the future

Overall, it has been a positive 12 months for the European securities lending industry, with industry participants noting that the industry has seen new entrants coming into the market, emerging hedge fund manager clients being considerably more active, as well as a big borrower trend around capital efficient solutions.

Not only has it been a fairly stellar year, there are also pockets of opportunity for the industry's future as Mike Lambert, securities lending product manager of Broadridge, notes that there is a golden opportunity in sight for the securities lending industry to standardise its data model.

Lambert also highlighted the positives of the past 12 months, "We have seen new entrants coming into the market, with beneficial owners being one source of demand for new technology systems".

Lambert added: "High-quality liquid asset trades are driving the industry, with many new lending programmes being fixed income-based."

Massimo Labella, head of multi-asset execution sales at GPP, commented: "With the markets more turbulent at the turn of the year, we saw a lot of our emerging hedge fund manager clients being considerably more active on the short side."

"Overall short balances increased, as did the level of personal interaction on hard-to-borrow names. We certainly noticed clients taking a more involved approach to manage their short book—both on rates and quality of supply."

Meanwhile, James Day, head of securities finance for Europe, the Middle East and Africa at BNY Mellon, noted that ahead of Basel III regulations coming into force, the big trend for borrowers is around capital efficient solutions, so the big change there is the pledge of collateral under Global Master Securities Lending Agreements.

Under pressure

Different market pressures can sometimes change and affect borrower behaviour. Elaborating on this, Labella, said: "Borrowers appear to no longer be driven by pure fee-based decisions, especially for general collateral activity as there are a lot of implications from other factors such as credit, netting and capital impact."

He added: "A number of borrowers are reducing their breadth of coverage to focus on core activity and internal netting opportunities as well as reciprocity from their clients."

"However, we are expanding the breadth of our coverage as a result of client-driven demand."

Day commented: "Central funding desks are looking to optimise balance sheets, capital, and liquidity across the entire business."

"Borrowers are looking at the resources that they deploy, making sure that they have got capital efficient solutions and the flexibility of posting collateral, which can help with their balance sheets, term structures, and liquidity profiles."

Regulatory challenges

Following the implementation of the second Markets in Financial Instruments Directive (MiFID II), Securities Financing Transactions Regulation (SFTR) is set to be the next biggest regulatory change and it is expected to have a significant impact on the industry.

Highlighting this, Labella noted the extensive preparation for MiFID II, but continued to say that there is an opportunity given the industry's position in the market.

He said: "Banks seem to have now absorbed the impact of Basel related regulation. From our perspective, this has been an opportunity for business growth in the smaller and emerging hedge fund manager space."

Commenting on what has been some of the most challenging regulations in the last 12 months, Lambert said: "SFTR continues to be challenging for the industry, with the recent slippage in the timeline. Also, market participants are in various stages of the process with a wide range of states of 'readiness'."

"Some firms have yet to get a project off the ground. Broadridge is continuing to take a proactive approach to the regulation rather than a wait and see view and we are working with clients, industry associations and other market participants to ensure a smooth transition."

Lambert added: "Central Securities Depository Regulation is also coming more into focus, and we can anticipate the workload increasing significantly over the next few months."

Also discussing SFTR, Juliette Kennel, head of securities and foreign exchange markets at SWIFT, said: "In the EU, regulation such as the SFTR and Markets in Financial Instruments Regulation (MiFIR/MiFID II) involve reporting of some kind and the use of ISO 20022 standards."

"From a regulator's perspective, it is critical that all reporting entities interpret the specification of the data to be reported in the same way—hence the requirement for using ISO 20022."

"Without this consistency, data from different entities cannot be meaningfully compared or aggregated, and the policy goals of the regulation can become difficult or impossible to achieve."

"The rigour and precision of the definitions found in the ISO 20022 business model make it an excellent resource through which to ensure that data elements specified in a regulatory reporting context are interpreted consistently by implementers."

Kennel continued: "At the same time, the ISO 20022 standard is appealing to regulatory initiatives because it is an open and transparently governed standard that is platform neutral, and free to download, implement, and extend."

"Reporting entities need to ensure not only that their systems are capable of extracting and collating all the relevant data for each reportable transaction, but also for converting it into the required ISO 20022 format, validating it and sending it within the strict deadlines set out in the regulations."

"While for some market participants the transition to ISO 20022-based reporting may be a significant transition, the standard is rapidly being adopted by regulators the world over for trade and transaction reporting."

Noting further challenges besides regulation, Labella highlighted the challenges surrounding technology and platform integration. Adding that 'plumbing-in' the various platforms has not been without its challenges.

Key factors and disruptors impacting the market

Discussing the key factors that will disrupt and impact the market for this coming year, Lambert noted that an in-production blockchain solution with a reasonable degree of participation could become a reality this year with Eurex HQLA segment.

"It will be interesting to see how that develops. We can expect more similar blockchain initiatives."

"Peer to peer, all to all and other new trading platforms have been promoting their products this year with no immediately obvious front-runners appearing. We continue to watch this area with interest."

Similarly, Kennel also listed technology as a key factor in the market. She said: "The phenomenal growth in digitalisation and connectivity has revolutionised business and stimulated unprecedented economic growth in recent years."

"However, our increased dependency on information and communication technology has also introduced new threats and risks—not least the dramatic rise in cybercrime."

For Day, the focus will be looking at people who are talking about the winding up of quantitative easing by global central banks.

He said: "There will be increased volatility out there, so I think that's one of the areas that could disrupt the wider marketplace and impact the securities lending business."

Moreover, Day discussed the areas in which agent lenders are perhaps feeling the biggest squeeze, he elaborated on this by saying that the industry continues to be competitive.

"We have to continue to focus on delivering solutions for our clients, and extracting value out of their assets", Day said.

Ongoing developments

Looking to the future, in the next two years, further growth is expected in the securities lending market. Lambert said that Broadridge expect to see particular growth in HQLA trades, as the need to source collateral for derivatives margin increases with more firms falling under the uncleared margin rules.

"SFTR will drive firms to examine their securities lending infrastructure, and ensure that technology solutions are fit for purpose before the regulatory deadlines."

"In-house builds are falling out of favour and there is more interest in mutualising compliance costs by using vendor solutions. More utility services could also arise to mutualise costs across the industry."

He continued: "Once SFTR is out of the way and greater standardisation in place, then firms will look to process improvement and intelligent automation to achieve further cost savings and hit profit and loss targets."

As well as this, Lambert noted that an increasing ecosystem connectivity will continue to gather pace, and all of these trends will be driven by technology.

Continuing on the point of technology, Labella said: "We're seeing a more open-minded attitude towards technology. This could help further disrupt the dominance of incumbent securities lending providers, the bulge-bracket banks."

Labella added: "Platforms focusing on automation and peer-to-peer lending seem likely to gain traction. This could have wide-scale benefits for end-clients like hedge funds in terms of increased supply and lower rates. Furthermore, the efficiency gains arising from these technologies should reduce overall operating costs, making hedge funds more attractive to end-investors from a cost perspective."

"This would, in theory, benefit emerging hedge fund managers proportionately more so than the billion-dollar club, who already enjoy extremely low operating expense ratios."

Further focusing on technology, Kennel said that it is expected that the industry will look to how it can use new technologies to help alleviate operational pain points and streamline the post-trade process.

Day added: "Participants in Europe are focused on the wider adoption of pledge models."

Concluding on a positive note, Lambert said: "Transaction reporting mandates in other jurisdictions should also start to appear on the horizon.The securities finance industry now has a golden opportunity to standardise its data model if it is to achieve some benefits from SFTR and other reporting mandates." **SLT**

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The Nordics:

focused, flexible and distinctive

This year has seen the return of volatility to global markets and regulations governing the use of securities data. Fiona Mitchell of Northern Trust explains how these are playing out in the Nordic region

What distinctive activity has 2018 seen in the Nordic equity securities lending markets?

Firstly, we have observed a distinctive shift in activity around equity 'specials'. The oil sector and related supply chain companies have seen a reduction in short demand as global oil prices recovered and hedge funds, therefore, looked to other opportunities to deploy capital. Directional demand has moved to the retail sector, particularly for those companies burdened by large rental costs and less established online capabilities.

There continues to be a noticeable shift to move investment away from the high street and into e-commerce, to meet consumer demand for more convenient internet-based retailing. In the financial sector, increased short interest has developed across debt collecting companies, given concerns regarding overly complex balance sheets and cash flow accounting, coupled with a very crowded marketplace.

In terms of Nordic lending volumes, an increase in equity market volatility in this year has made it more challenging for traditional equity long/short hedge funds to find the investment conviction to deploy more capital to the short side. In contrast, an increase in trading activity from quantitative strategy funds, which thrive in more volatile conditions, has helped support a growth in lending volumes across the region relative to last year.

Featured in the Nodics Annual 2018

The focus on corporate governance is a well-known characteristic of the Nordic markets, and our clients often choose to structure their programmes in ways that ensure they retain the exercise of voting rights in their domestic market to some extent.

What trends are you seeing in terms of fixed income demand?

Financing trades remain a dominant global theme as borrower demand for high-quality liquid assets (HQLA) remains strong. Borrowers continue to request greater collateral flexibility and term trade structures given the focus on operational efficiencies and satisfying regulatory requirements, so those clients who are comfortable with these parameters will enjoy stronger utilisation and returns.

Going forward, the recently announced tapering and eventual termination of the European Central Bank's asset purchase programme is expected to have little impact on Nordic fixed income lending markets. Any subsequent rise in interest rates across the broader region may fuel some interest, though at this stage it is hard to determine if the motives of demand for Nordic assets will alter.

The regulatory environment continues to evolve. What are the key impacts for securities lending and the Nordics?

The Securities Finance Transaction Regulation (SFTR) is a key focus for the securities lending industry, given the extent and complexity of the data obligations and tight reporting deadlines, with reporting now expected to be live in 2020, staggered by different entity types.

Beneficial owners should be aware of the requirements of the regulation as the reporting obligation rests with them, although Northern Trust will be providing reporting services on behalf of our clients as we recognise we are best placed to perform the SFTR reporting for our clients. We are working closely with the International Securities Lending Association and International Capital Market Association to define new industry best practice.

Regulatory capital continues to be a primary concern for borrowers. Access to assets held by capital efficient beneficial owners or those with less challenging netting opinions, so-called 'smart bucketing' or segregated lending, continues to gain momentum with our borrowing counterparts. Nordic clients typically enjoy a more efficient structure in terms of capital usage and so may benefit from this emerging trade type.

The Agency Lending Disclosure process, an industry standard which enables agent lenders to provide banks and broker-dealers with underlying principle level detail for each loan executed, can be operationally challenging for some banks within the Nordic region. The exclusive arrangement route can, therefore, be particularly suited to facilitating trades with the Nordic borrower community.

EU Money Market Reform, which comes fully into force in January 2019, will impact those beneficial owners who reinvest cash collateral in money market funds. For many money market funds, this will result in conversion to low volatility net asset value from constant net asset value and lenders captured by this regulatory change should be aware of its possible effects.

Finally, can you outline an overarching Nordic trend you're seeing?

Increased interest and engagement in securities lending from portfolio management teams is to the fore. There is now an even greater focus on special term and bespoke trades, as clients look to generate low-risk alpha given 'every basis point counts' in the prevailing investment environment.

Our experience is that this is resulting in institutions now considering the benefits of securities lending, and collaborating with clients who have long-standing experience in lending. Risk management remains a key consideration, particularly in relation to counterparty exposure and acceptable collateral. **SLT**

Stronger than before: a new era for securities lending

Ten years on from the financial crisis, securities lending is more relevant than ever. Keith Haberlin of BBH explains more

It is hard to believe that we are ten years beyond the beginning of the 2008 financial crisis. Most of us can remember exactly where we were when Lehman Brothers filed for Chapter 11, but as shocking as it was at the time, nobody could have imagined just how serious the repercussions would be. In fact, the 2008 IMN in Edinburgh, just a few days later, was full of uncertainty. I remember attending the conference, but many had understandably cancelled their trips. At the time, we did not know what the future would bring or that the impacts would still be felt a decade later.

For example, the quantitative easing programmes implemented by central banks in the aftermath of the crisis in order to get economies back on their feet are only now winding down and remarkably, some of the regulations designed to prevent a repeat are still to take effect. For the securities lending market specifically, the crisis hit hard and had both direct and indirect impacts.

Directly, the supply of lendable assets initially shrank as some investors decided to take a temporary or extended hiatus in the face of credit risk concerns. Others continued and where necessary reigned in credit risk particularly with respect to collateral reinvestment guidelines. Intrinsic value lending shifted from a specialised activity to mainstream.

Indirectly, demand slumped as the Volcker Rule forced investment banks to wind down their proprietary trading desks and Basel III regulations reduced the amount of leverage they could provide to clients. While regulations chilled demand, it was the implementation of near-zero interest rate environments and quantitative easing policies that arguably had greater and more sustained impact. As was intended, these programmes stimulated equity markets, distorting valuations, and creating a challenging environment for hedge funds to sell short. Amidst a period of poor performance and redemptions, many hedge funds found the best strategy to keep investors was to adjust fees and ride a multi-year rally, which suppressed equity borrowing demand. The only bright spot in an otherwise benign environment was the increased appetite for fixed-income assets, itself the result of regulation as capital and central clearing rules created a clamour for high-quality liquid assets.

However, at the tenth anniversary of the crisis, there are distinct signs that across all dimensions, the conditions for securities lending are improving and that the industry can pivot from restructuring and rationalisation towards growth and innovation.

The impact of passive investing

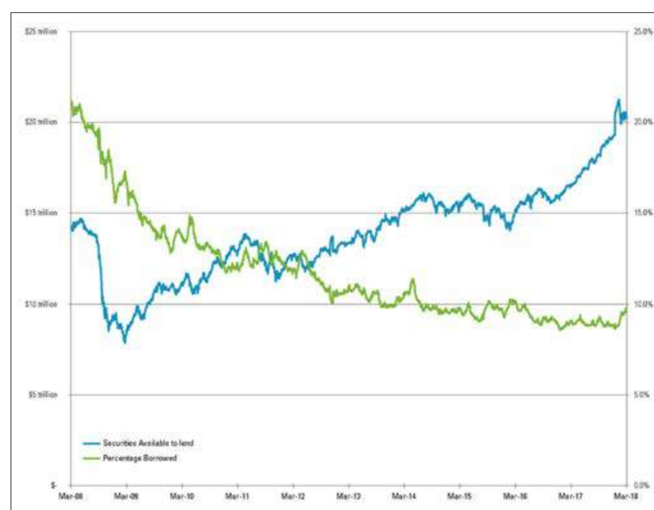
According to industry data providers, the amount of available assets to lend is at an all-time high, in excess of $22 trillion. This reflects not only that confidence in the business has returned since the crisis, but also that its relevance has arguably never been greater. Low yield environments globally and the need to plug pension deficits are both driving increased interest in the returns securities lending can provide, but in the asset management sector specifically, it is the exponential growth of passive investing which is having the most impact and bringing securities lending closer to the core.

For a low-cost passive fund like an exchange-traded fund (ETF), additional basis points (bps) offered by securities lending are key to more closely tracking its index by offsetting the impact of the annual management fee. By our account, of the managers representing 95 percent of assets under management in ETFs, only two are not lending, demonstrating how ubiquitous securities lending has become for these products.

The passive investing phenomenon has, in turn, prompted all investment managers, including active managers, to evaluate the role securities lending can play in helping to mitigate the impact of their comparatively higher fees on performance. In the current environment, five or 10 bps are more meaningful in 2018 than they were in 2008. Today, by our account, 16 of the top 20 global managers by net new sales lend and we expect that number to only increase given the competitive pressures at play.

Figure 1: Securities lending supply and demand 2008 to 2018

While the supply of available assets to lend has rebounded from the crisis to reach record levels in Q1 2018, demand has only begun to recover from a multi-year rally and the dampening effects of regulation (Source: IHS Markit, 2018).



The return of stock picking

Although at different stages, the unwinding of quantitative easing by the Federal Reserve, European Central Bank, and Bank of Japan is gradually creating a market where stock prices are becoming more dispersed, less correlated, and more likely to reflect their fundamentals. This improved environment for investors, both long and short, is also coinciding with assets flowing into hedge funds in 2018 at levels not seen since before the financial crisis—with equity long-short strategies receiving 40 percent of the allocation. With some investors fearing a correction, hedge funds are well placed to continue benefiting from the requirement for downside protection which should be positive for lending returns given most of these strategies require securities borrowing.

The regulatory agenda

A further tailwind for demand may be a more benign regulatory environment. At a minimum, the Trump administration is unlikely to increase the regulatory burden on banks and may even reduce it. The Crapo Bill was recently signed into law easing regulation on certain banks, and the Basel Committee on Banking Supervision announced changes in December, including changes to the calculation of credit risk in the original Basel III rules.

If accepted by local home regulators, these changes could free up balance sheet capacity for the prime brokerage divisions of banks, further stimulating hedge fund activity, and perhaps even leading to a re-emergence of proprietary trading. In the US, the SEC is reviewing potential changes to the longstanding customer protection rule 15c3-3, which would allow borrowers to pledge equity collateral for the first time alongside cash and treasuries. By reducing their financing costs, this change will likely also stimulate demand from borrowers although there are other regulatory and commercial hurdles to clear before lenders can accept this expanded collateral set.

When discussing regulation, it can be easy to view all of it as a burden; however, it can only be positive that regulators have forced more transparency into the securities lending market. This enables regulators to identify future liquidity crises earlier and better inform end investors whose assets are engaged in securities lending. In 2018, market participants are doing a lot of work in both areas to help clients comply with European Securities and Markets Authority (ESMA)'s mandatory Securities Finance Transaction Reporting regime and in the US, the SEC Reporting Modernisation initiative.

The role of emerging technologies

Aside from the regulatory imperative to do so, it is important that the industry provides more transparency and control to help lenders engage in the market in a way in which they are comfortable. While competitive pressures may have brought them towards securities lending, the concerns of some of the more reluctant lenders haven't disappeared either. New digital technologies can play an important role in helping managers balance their need for additional performance with their corporate governance responsibilities and to better understand the potential impacts of lending on their portfolio.

The potential to utilise emerging technologies also extends into the trading discipline. Although securities lending remains an over-the-counter market, a significant and growing portion of securities loans is already on automated platforms. Machine-based learning and algorithmic trading techniques offer possibilities to further enhance this process.

Looking forward

It is said that what doesn't kill you makes you stronger. Perhaps this over dramatises the impact that the events of 2008 had on securities lending, but the industry has proved itself as resilient, adaptable, and arguably more integral than ever to asset owners and the broader capital markets. The industry has done a significant amount of work in the last decade to restructure the business model to comply with the raft of regulations imposed upon it, resulting in a stronger industry where all stakeholders have more visibility into each step of the process. Now is the time resources can begin to pivot toward growth and innovation. With demand recovering and relevance with asset owners increasing, the next decade promises to be an exciting one for securities lending. **SLT**

When discussing regulation, it can be easy to view all of it as a burden; however, it can only be positive that regulators have forced more transparency into the securities lending market

Keith Haberlin
Managing director and head of global securities lending
Brown Brothers Harriman

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The roadmap ahead

Michael Huertas of Dentons explains the six key compliance and operational challenges that lay ahead for securities finance market participants

Tempers are certainly heated as European markets and politicians head back to work after a sizzling August. Put aside for a moment that Brexit has now truly turned messy and done so beyond just Westminster—having even resulted in 'shellfish showdown' among fishing vessels in the English Channel. While the prospect of a securities financing spat are still a way off, things could become quite difficult and possibly farcical on both sides of political divorce proceedings that are now at a very real prospect of a "no-deal" exit with much still needing to be done by many to Brexit-proof arrangements as well as compliance challenges ahead.

This urgency is especially warranted, following the EU's frank rejection of Theresa May's chequers proposal even, if the EU's chief negotiator Michel Barnier, has hinted at the possibility of an olive branch being offered to, or at least discussed with the UK's newest Brexit minister provided that the cherry-picking stops. That requirement may ring bells among certain quarters weary of a deal being dictated by Brussels even if both sides have come to some form of consensus in pushing back points of no-return on the political talks as well as the fact that achieving compliance on day-one post-Brexit, for example, on 1 April 2019 is likely to be folly. Irrespective of all of this, Brexit and prepping readiness in light of known changes is certainly no April fool's.

The following six key compliance and operational challenges lay ahead for market participants regardless of where business lands in the EU27:

1. Lack of timely and complete applications from those relocating as part of their Brexit-proofing plans to the EU and changing tone:

Time is ticking and there is not much left until Brexit-day. This specifically means getting serious about plans, ensuring those plans reflect the EU's Supervisory Principles on Relocations (SPoRs) both when getting the applications approved but following approval. That translates into entities having sufficient substance in terms of business and resources led out of the EU27 in place and in compliance with policies that reflect the EU27 regulatory regime to the satisfaction of EU supervisors.

The EU27 regulatory policymakers and supervisory authorities, notably the ECB, have clearly communicated further expectations on SPoRs as well as the messaging that it expects firms to be compliant rather than cute in workarounds across all areas and not just booking models. This sharpened tone from the EU27 has already meant that the ECB now speaks of firms' 'onshore' capabilities versus 'offshore' exposure. This is more than just semantics but policymaking through a substantial change in positioning and a very real signal that the European Central Bank (ECB)-Single Supervisory Mechanism (SSM) will review the operations of new or expanded EU27 subsidiaries of those relocating as well as, where tolerated/approved, the operations of 'third-country branches' from the UK into the EU27.

2. A need for increased Brexit-proofing of contractual relationships and other client facing documentation:

Even if the urgency on pace is picking up piecemeal in terms of legal entity Brexit-proofing, consensus is beginning to emerge that more needs doing on 'contractual continuity'. This term in itself encompasses many concepts as well as concerns under one hat. Chief among them is the risk that, post-Brexit, contracts, and obligations thereunder, will not be able to be performed or disputes enforced without amendment to terms. Some of that may be alleviated by moving contracts to the new and expanded EU27 legal entities from contractual counterparties historically in the UK or other third-countries, but other issues also present themselves in need of a solution. On the assumption that existing (pre-Referendum/Brexit-day) contracts will not benefit from sort of 'grandfathering', there is no panacea to contractual continuity and the resulting repapering that would be needed to move potentially multiple millions of terms and conditions.

On top of the much-publicised volume are the concerns of how to deal with optionality that exist in various master agreements across asset classes and transaction types. Add to that the bespoke nature of bilateral contracts, cross-default provisions and the paper headache becomes clearly in need of operational heavy-lifting. Getting to solutions may start with a document/risk exposure analysis, involve novation or other 'permitted' means of transfers but will require perhaps greater and more frequent inter-institutional cooperation amongst market participants and dialogue with supervisors.

Some of this coordination and cooperation on Brexit-proofing might want to happen prior to the EU and UK supervisory authorities set their own pace and dictate further formal and public expectations to the market. At present, Brexit letters sent to firms are showing differences in tone and that divergence could expand also on timing expectations. In terms of supervisory culture and proposed solutions both sides are approaching their shared problems from different angles and tones. The EU has set supervisory expectations on relocations and the UK has tried to preserve the status quo with its temporary permissions regime (TPR). Besides the TPR still needing to be formally approved, it is worth recalling that activity which the TPR might sanction could still fall foul of the EU's own rules and expectations post-Brexit.

These issues also have some very real cascade effects that range from primary contractual relationships (for example, exposures to counterparties and various chains) through to infinite chains of secondary exposures (for example, EU27 entity facing UK firm but needing to service its own customers) and tertiary such exposures and relationships with financial market infrastructure providers. For securities financing transactions and documentation specifically, contractual continuity may not stop at changing just the contracting party to EU27 legal entities for EU facing business, but will likely require moving to new jurisdiction clauses favoring either alternative dispute resolution or the breadth of specialist courts that are beginning to crop up in challenger centers as well as documenting operational fallbacks along with whether jurisdiction should be exclusive or non-exclusive. The Loan Market Association's (LMA) borrowing of concepts from the EU's recovery and resolution regime and framing Brexit-related rebookings/transfers to a 'designated entity' in a standard form precedent available for the market to use has yet to be replicated by other industry associations.

As discussed below, the debate is only starting to rear its head as whether a change in jurisdiction clause, for example, from English Courts to say Frankfurt's new International Chamber for Commercial Disputes would be best placed to also move to German law as the governing law of the relevant financial transaction. Unfortunately, the answer to that question is rather lawyerly "it depends… including which interests one is looking to serve". This gets tricky and political even before one starts to weigh up the merits of moving exposures from English law governed documentation to documentation governed by the EU27 Member States.

Some industry associations have published standard clauses, drafting guidance including in how and when fallbacks should apply. Others have not. And this poses a potential in delayed timing as firms may push their own 'house standard' solutions with clients and counterparties, many of whom will want to ensure that any revisions to their Global Master Repurchase Agreement (GMRA), the Global Master Securities Lending Agreement (GMSLA), International Swaps and Derivatives Association (ISDA) and other securities financing and derivatives terms are not making changes that are adverse to their interests.

Acceptance for the 'civil law copies' of English law transaction documentation is, certainly in the derivatives space still novel, still subject to distrust on whether an Irish or French court appropriately adjudicate a dispute in the same favourable manner as the English courts, notably with the Financial List, can do. The EU has still taken no major effort to create the right tools for an equivalent to the UK's Financial List to emerge. Aside from that lack of foresight comes the question for policymakers on both sides of the divorce proceedings as to what needs doing to ensure that English law master agreements, their New York law cousins and any 'civil law copies' can find the same amount of use, legal certainty and trust in documentation and market standards as the LMA documentation suites have been able to achieve, for example, a financing transaction using German law Investment Grade documentation on LMA standard receives no lesser treatment.

3. Potential for EU supervisors to increase scrutiny on Article 46(6) MiFIR in addition to existing SPoRs:

Upon the UK's exit it will become a third-country and UK domiciled financial services firms will become third-country firms. Putting aside any prospect of an equivalence or other deal on regulatory recognition, access rights will be limited in line with rules set in EU legislation. Those rules differ across sectors and legislative instruments. Despite EU announcements to reform how it recognises and interacts third-country equivalence unless access rules are harmonised, firms will need to navigate a patchwork on the EU-side and one that gets worse as the UK's rules begin to diverge conceptually. Great news for lawyers (in the know) but not so great for planning.

The European Supervisory Authorities, notably European Securities and Markets Authority (ESMA), European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and the ECB-SSM, acting in the lead in its Banking Union supervisory capacity, have each published SPoRs during 2017 and substantially updated during 2018. These SPoRs set some pretty strict goalposts on how existing EU law, including expectations of dealings with and operations of third-country firms are to be supervised and applications relating to new or expanded EU27 entities are to be completed, assessed and approved.

In addition to this sharpening of rules that apply regardless of whether the EU grants an 'equivalence' deal to the UK, market participants may want to take note of specific legislative provisions that apply in the event that the UK's regulatory regime is determined, in accordance with the EU Commission's discretion, to be equivalent. For securities financing transaction specifically, Title VIII of the directly applicable Markets in Financial Instruments Regulation (MiFIR) sets out criteria that third-country firms will need to abide by when accessing the EU's single market for financial services. One core area that is reinforcing some of the debate touched upon above is that Art. 46(6) MiFIR is unequivocally clear in that: "Third-country firms providing services or performing activities in accordance with this Article shall, before providing any service or performing any activity in relation to a client established in the union, offer to submit any disputes relating to those services or activities to the jurisdiction of a court or arbitral tribunal in a member state."

Consensus on what that means in practice is still emerging as supervisory approaches in this area have yet to find their own Brexit-view. What is conceivable, is that, as with the 2018 updates to the SPoRs, the more active firms in the market will need to demonstrate that they are proactively seeking consent from clients and highlighting risks of what it means if disputes are subjected to resolution in a third country. Whether that communication will go out with an assessment of the impact on say holdings of financial instruments that have an English law nexus whether as a matter of how they are documented or where they are executed, mobilised for collateral purposes, custodial or otherwise in circulation remains to be seen.

4. Extension of EU, and notably the ECB's supervisory mandate to 'bank-like' activities from MiFID investment firms:

The EU Parliament, the Commission and the European Supervisory Authorities, notably ESMA and the EBA have long been worried about 'bank-like' activity being undertaken by non-bank financial institutions, for example, by MiFID Investment Firms as opposed to CRRCapital Requirements Regulation/Capital Requirements Directive IV credit institutions. In December 2017, the European Commission issued two legislative proposals for prudential requirements for investment firms. The aim of the proposals is to create a new simpler and more risk-sensitive prudential capital regime for MiFID investment firms built around quantitative metrics, called 'K-Factors', that define regulatory capital levels. However, the shift in prudential requirements may merit many firms needing to take early pre-emptive action to either source new regulatory capital or to put in place arrangements to limit risks that could flow into the K-Factors, which might lead to looking at rearranging regulated activities and who does what where.

The ECB, acting in its lead supervisory capacity in the Banking Union, which currently extends to the Eurozone has also expressed its own views on needing to extend the supervisory perimeter to include 'bank-like' activity. Most securities and derivatives transactions may be undertaken by non-credit institutions, for example, via so-called MiFID 730,000 firms. These are very much likely to be in-scope of the K-Factors and are also very much part of most structuring solutions for a number of Brexit-driven relocations. Consequently, this risk may require some forward planning at the legal entity but also potentially at the contractual level so as to manage regulatory capital allocation/planning. Change in this area is being advanced at a steady pace and with limited public consultation. Like with the EU's actions on 'shadow banking' leading to the very concrete issues posed by Securities Financing Transactions Regulation (SFTR), the K-Factors and the ECB-SSM's extension of its supervisory mandate to cover certain of those firms is a pretty real horizon risk.

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5. Increased compliance challenges from SFTR and the Benchmarks Regulation (BMR):

The immediate next challenges on SFTR lie mostly with meeting transaction driven but also periodic reporting requirements. As with those regulatory projects that were finally brought over the line in 2018, meeting relevant SFTR obligations also require industry-wide coordination to ensure changes taken by individual firms are interoperable with those taken by others. SFTR's most recent full deadline of Q1 2020 could sneak up faster than expected for a number of firms who may at that point also have to rethink how to implement the European Market Infrastructure Regulation (EMIR) 2.2's changes, which go beyond just reporting.

While a lot of time has certainly been spent prior to and during 2018 on getting sell and buy-side SFTR-ready, with larger firms and their exposures leading the way, and those efforts increasingly cascading down to smaller firms improving their own compliance efforts, a real challenge for financial markets generally potentially rests with BMR not being as fully on the agenda of relevant firms or in quite the manner as EU27 supervisory authorities would like. EU Benchmarks Regulation (BMR) compliance and ensuring clients and counterparties comply extends to probably a larger part of financial markets and the real economy than say MiFID or certainly EMIR and SFTR.

BMR entered into force on 1 January 2018 and essentially requires any user of a benchmark upon which financial instruments or contracts derive price, asset allocation or their return including compensation/fees must observe compliance with governance and control obligations as well as ensuring that any 'benchmarks' themselves comply with the BMR. BMR is the EU response to rate-rigging and manipulation of reference rates such as LIBOR. The race to replacement rates, largely run by the ECB and the Bank of England in the EU is well afoot despite the differing stages of where the contenders are at. For market participants in securities financing transactions tension may arise where there are competing pressures within a firm or multiple firms' communications on topics as mundane as which replacement rate should be used, which methodology and how quickly one transitions from existing overnight/funding or other interbank offer rates. The risk of overlooking BMR's impact is real and understandable—whether supervisors will be as lenient given the pressures they have to police compliance and improve the rulebook in this area is wholly different matter.

6. Decoupling of equivalence of rules and lack of dialogue may mean double-compliance even if UK may introduce 'domestic relief' for some EU regulation, for example, SFTR-lite:

One of the mantras as well as myths pushed forward on the great British Brexit experiment is that leaving the EU will cause a bonfire of all that legislation that Her Majesty's Government does not incorporate into the UK legal and regulatory regime. This is a double-edged sword for the UK as if it burns too much it risks any hope of an equivalence decision from the EU not being granted. Otherwise, failing an unlikely equivalence decision, in particular as the chequers deal confirmed that only (loose) 'mutual recognition' is on the table for the future framework for financial services means that any specific scorching of large parts of the EU's single rulebook for financial services in the domestic regime would reduce that recognition further.

What is however conceivable and something that has been advocated for some time is that for UK domestic only transactions by UK firms, EU principles and rules could be disapplied or have some other form of "domestic relief". It still remains to be seen whether the UK would push for some form of SFTR and/or EMIR-lite for domestic-only transactions as it is an attractive deliverable. However, doing so might very likely run contrary to the UK's adherence to the 2009 G-20 Pittsburgh Commitments as well as on-going work plans of the Financial Stability Board.

And how are we doing for time?

It is not looking great in terms of picking up the pace but also for 'day-one' readiness and compliance. One issue is that, even with some form of political accord, assuming that occurs and yields to an extension of talks, preservation of the status quo on regulatory permissions or some other fix to preserve financial market stability 10 years after the worst of the last financial crisis, market participants need to pick up the pace. Against time-pressures for firms, the political calendar on both sides is quite full and UK parliamentary support for the incumbent prime minister may fall further. Further, the agreement between the UK and the EU on any transition/implementation period is contingent on a deal taking place in the first place. Absent that and the publication on 23 August by the UK on no-deal notices and time is tight and the breadth of critical challenges growing. The hope of the UK Second Referendum runs more risk of a false sense of hope during a period where time is of the essence.

Furthermore, with the EU's State of the Union address on 12 September coinciding with the UK's political party conference season along with the first 'EU27 plus UK' summit in Austria following the summer break, most will return to a full desk with politics and financial market policy-making let alone implementation running at very different paces. This matters as in the event that the Brexit timeline slips to next year without substantial negotiations the Austrian political presidency of the Consilium, one of the EU's legislative bodies are handed over to Romania. Romania, unlike the very successful Bulgarian presidency, may have some very different views than those of Austria's own plans on how to soften the blow from the UK's current determined course towards, certainly for financial services, a hard-Brexit.

The above is a tall and very serious order. There are some quick fixes but most firm-specific decisions will merit perhaps taking advice that is more reflective of the EU's view given that the negotiations and likely outcome are moving towards the UK realising in order to get some deal or the best out of a no-deal it will need to deal with the EU on the standards of engagement set by the EU. Some might argue this is not fair—those that prepare may benefit from first-mover or other competitive advantages over their peers. **SLT**

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Deutsche Börse speaks to BNY Mellon and PGGM as users of its securities lending central counterparty to discuss its benefits and industry trends

As committed clients to Eurex Clearing, can you describe the key business drivers that influenced your decision to use Eurex Clearing services?

James Day, BNY Mellon: There are a number of different drivers from clients to use the central counterparty (CCP), and they differ depending on the client type and the jurisdiction of that client. For the insurance sector, they have identified the capital benefits under Solvency II when facing the CCP.

With the continued focus on capital efficiencies across the industry, clients resident in a jurisdiction with unfavourable netting opinions is finding it more challenging for borrowers to face them, especially in the general collateral space. Clients

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executing lending transactions via the CCP are seeing increased borrowing demand for their assets due to the 2 percent capital weighting when facing the CCP, and the increased opportunities for balance sheet netting.

Clients are viewing the CCP as an additional distribution channel to borrowers if they should reach their internal risk limits. They can continue to arrange loans to the borrowers—and give the loans up for clearing with the CCP—utilising their risk limit with the CCP.

Roelof van der Struik, PGGM: We see the potential of the CCP model but assess all the offerings on their individual merits. In general, the free market economy means that companies shy away from products they deem as not good enough and then buy those they like. PGGM sees Eurex Clearing as the most important innovation in securities lending of the past years. This innovative product needs the backing of committed market parties to make it the success it deserves. PGGM is committed to being one of these parties. For PGGM, the Eurex cleared lending route complements the current lending routes to market and therefore immediately adds value.

What due diligence has your organisation undertaken to enable the implementation of central clearing into your business model?

Day: Clients contract with Eurex Clearing to become a specific lender license holder (SLLH). By becoming an SLLH, they agree and accept the clearing terms and conditions of Eurex Clearing that pertain to securities lending activities. As a result, clients' legal and risk teams are fully engaged and are carefully and thoroughly reviewing the clearing terms and conditions to ensure they fully understand all of the rules and nuances associated with the CCP model.

van der Struik: We have followed the Eurex cleared securities lending initiative for several years but had some reservation which left us sitting on the fence. A year and a half ago, triggered by the involvement of Morgan Stanley, we revisited the offering in earnest and decided to see if we could make a working business case. This business case then fitted nicely into a larger project within PGGM called 'collateral roadmap'. The rest, as they say, is history.

Where do you see an opportunity for more effective pricing and revenue for your business and your clients by using the CCP?

van der Struik: In the short term, operational and balance sheet efficiency should translate into higher earnings for the whole value chain. In the long term, netting over the different products could further enhance revenues.

Day: As discussed earlier, capital efficiencies across the industry are in focus. Clients lending via the CCP are seeing a pricing premium from borrowers for providing them with capital efficiency.

Clients are able to increase their capacity to lend via the CCP. Their risk departments are comfortable extending larger risk limits to the CCP than they are to individual borrowers, thereby increasing their ability to lend.

From an agent lender perspective, the CCP reduces the capital employed to support the transactions. Where clients are comfortable accepting the risk of the CCP and don't require the agent lender default indemnification, there is no capital required. Where indemnification is required, it reduces the level of capital.

Have recent regulatory requirements influenced your decision to participate in a cleared solution for securities lending and repo?

Day: Regulatory factors have been a major force in shaping the securities financing industry over the last several years, which has resulted in changing behaviour among borrowers and lenders. Regulators have been clear about their wish to see more of the securities financing business move to a centrally cleared environment. Clients are aware of the changing environment in which they operate in, and are keen to remain relevant to borrowers and continue to generate revenue from their lending programmes. They are viewing the CCP as one of the tools to enable them to meet that objective.

van der Struik: It is not so much recent regulatory developments that triggered PGGM. In general, we see no harm in embracing good initiatives that have the backing of regulators. But again, first and foremost is that the product should be worth purchasing. It is in everybody's interest to help build a robust securities financing transaction infrastructure and cleared solutions certainly play an important role in this.

What should CCPs focus on for the medium-long term so that they can assist the market further?

van der Struik: In the short to medium term it is important that the universe of eligible assets (countries) is increased. As mentioned before for the medium term netting over the different products could further enhance the offering. For 'any' term we hope that all the CCP initiatives help break down the silos and bring back liquidity to the securities finance market.

Day: The major benefit of transacting through the CCP comes with the economies of a scale. From a borrower perspective, providing netting benefits from their securities lending, repo, derivatives and cash businesses through the CCP improves their efficiency, which will increase demand for centrally cleared transactions. This, in turn, should result in pricing improvements for clients lending via the CCP and the re-investment of the cash collateral via the repo CCP. It should also simplify the documentation and onboarding process to make it easier for clients to sign up to the CCP. **SLT**

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Shorts bail on UK grocers

Following Tesco, shorts have covered positions in Ocado, Sainsbury and Wm Morrison. Sam Pierson of IHS Markit explains more

- UK grocers reach five-year high market capitalisation in August
- Short position lowest since 2015, in GBP terms
- Marginal uptick in Tesco shorts following year-to-date high price as of 10 August
- Shorts stick with a position in Marks & Spencer

Shares of Tesco have traded up 23 percent year-to-date (YTD), as the turnaround under CEO Dave Lewis gathers steam. Short sellers have substantially covered their position in the UK's largest grocer, with shares short declining 89 percent in 2018. Roughly a third of that position, 200 million shares, was linked to an arbitrage trade regarding the acquisition of Booker and was closed out on consummation in early March.

Another 200 million shares were covered over the next month leading up to the firm's earnings report on 9 April, the positive results of which caused another 50 million short shares to be covered. Since then the upward price trend has caused the majority of remaining shorts to cover, however, there has been a marginal uptick of 15 million shares short since the TSCO price reached a YTD high on 10 August.

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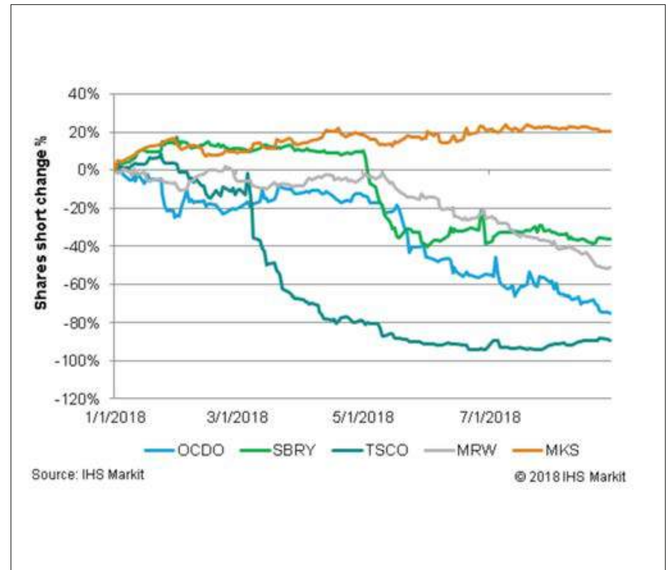
While the Tesco turnaround has certainly been positive for shareholders, it pales in comparison with Ocado Group Plc, shares of which are up a massive 168 percent YTD. The online-only grocer's performance has given short sellers cause to cover, reflected in a 75 percent YTD decrease in shares short. The short covering trend began in earnest after the face-melting 65 percent share price rally which accompanied the firm inking a deal with US grocer, Kroger. The deal allows Kroger to leverage Ocado's robotics technology with the aim of competing with Amazon in the online grocery delivery business.

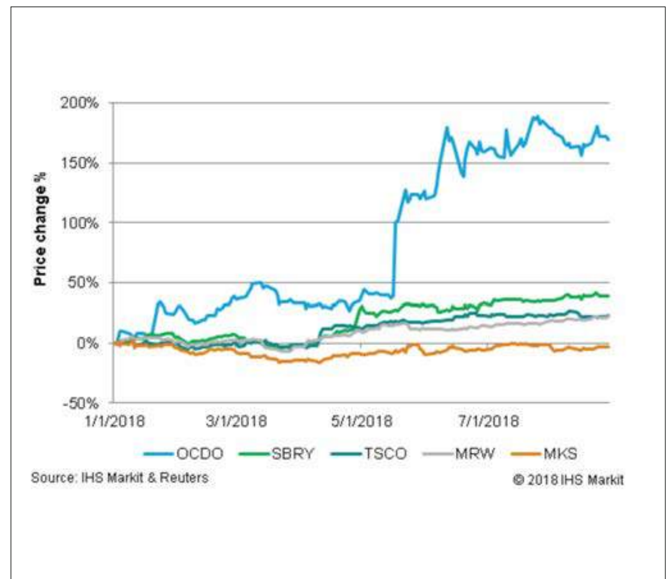
After Ocado, the next best performing UK grocer in 2018 has been J Sainsbury, whose shares are up 39 percent YTD. Following the rally in early April, short sellers started to cover, with the current 185 million shares short reflecting a 37 percent decline from the start of the year. In a similar vein, the 22 percent rally in Wm Morrison shares has inspired short sellers to cover 51 percent of the short positions they had on at the start of the year.

The outlier is Marks & Spencer, which is still down 3 percent after a rally off the YTD low in April. Short sellers have stayed the course, increasing the shares short by 21 percent YTD. The stock has likely benefitted from the rally in other UK grocer stocks; if the price continues to rise, the shorts will be put in a challenging position in deciding to stick with the position.

The demand from short sellers and related lending revenue highlight a key benefit of securities lending for beneficial owners, namely that lending revenues often pick up offset losses in underperforming stocks. Ocado alone accounted for $3.5 million of lending revenues in H1 this year, 4.3 percent of all UK equity lending revenues. The other four UK grocers combined for further 2.3 percent of UK equity lending revenues. Since the start of 2016, these five stocks have combined for $43.5 million in revenues or 11 percent of total UK lending revenues (Ocado represents 2/3 of that revenue). While the decline in short demand is having a depressing impact on the lending revenues in Q3, from a total returns perspective, shareholders will be happy to forgo that revenue in exchange for the significant share price appreciation. **SLT**

Samuel Pierson
Director of securities finance
IHS Markit





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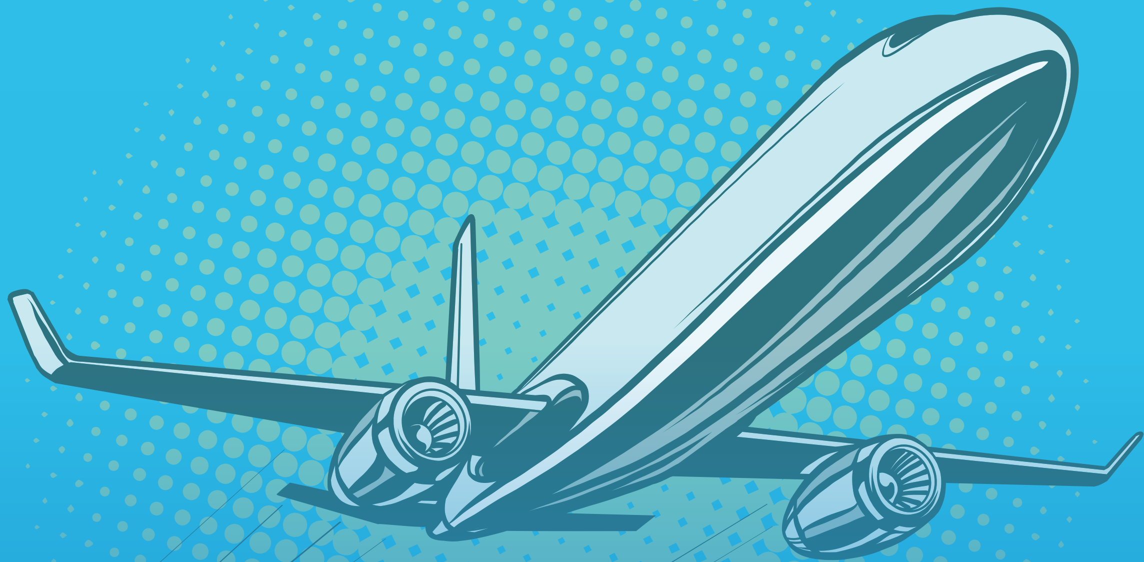

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Comings and goings at Reed Smith, State Street, Lago Kapital and more

John Lukanski will rejoin Reed Smith as a partner in its financial industry group.

Based in the company's Princeton office, Lukanski brings to the global law firm his expertise in representing broker-dealer and wealth management clients in regulatory investigations, compliance counselling and internal reviews.

Commenting on the move, global chair of the financial industry group Ed Estrada, said: "Very few attorneys possess the versatility and experience that John Lukanski has in representing broker-dealers."

"We are happy to welcome him back to the firm, and look forward to our clients benefitting from Lukanski's capabilities, especially those with broker-dealer operations."

Diane Bettino, managing partner at Reed Smith's Princeton office, said: "We are so excited to have Lukanski back. He brings substantive experience as well as the type of steady counsel that clients seek out."

Lukanski added: "When the opportunity came up to return to Reed Smith, a firm I am familiar with, it hit the bulls-eye."

"What stands out most for me is the firm's emphasis on the team and its people, and its commitment to knowing its clients and delivering value to them. We really have a great opportunity to be an industry-leading broker-

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dealer law practice. The feedback from clients about my move has been entirely positive."

Alex Jeffcoate is leaving MUFG and will be joining HSBC, effective 20 August.

Jeffcoate served as senior associate, securities lending at MUFG for six years.

At HSBC, Jeffcoate will take on the role of securities lending trader.

He will serve on the agency lending side of the business and report to Reshad Mullboccus, global head of trading strategy at HSBC.

Jones Day has appointed Lee Federman and Ewen Scott, who will both join the firm's banking, finance and securities practice in its London office, as part of a continued expansion in key European financial centres.

This follows the hiring of Ben Fox, who recently joined the banking, finance and securities practice in Amsterdam, and Michael Fischer, who recently joined the practice in Frankfurt.

Federman brings with him experience in cross-border syndicated financing transactions with a particular focus on leveraged finance and corporate lending.

Scott represents lenders, borrowers, and sponsors on a range of cross-border, bilateral and syndicated financings, refinancings and restructurings, on a national and international level, including in emerging markets.

Fox works with clients on a range of financing matters, including secured and unsecured syndicated lending, real estate finance, asset finance, and leveraged transactions.

He also has experience in domestic and cross-border transactions, and having represented both lenders and borrowers, and counselled major international and Dutch financial institutions, alternative capital providers, and other non-bank lenders.

Previously, Fischer spent seven years as general counsel at UBS Europe in Frankfurt. He also held leading roles with the German financial market stabilisation authority as well as with international hedge funds and asset management companies.

Giles Elliott, who co-leads the firm's banking, finance and securities practice, said: "Adding Lee Federman and Ewen Scott, along with Ben Fox and Michael Fischer, to our global team sends a very strong message that Jones Day remains committed to providing our clients access to experienced, effective talent in Europe."

"Cross-border deals, particularly in the leveraged finance area, are becoming significantly larger and even more complex. All four of these new partners have demonstrated the ability to structure, manage, and close significant transactions on behalf of a client pool that crosses borders and industries. They will be great additions to what is already a very strong global team and I welcome them to Jones Day."

John Phillips, partner-in-charge of Jones Day's London Office, added: "The addition of Federman and Scott add great transactions depth and skill to our strong London team. Their broad experience across numerous financing arrangements is a valuable resource for our clients. I look forward to working with them and welcome them to Jones Day."

Lago Kapital has appointed Jussi Siukonen as head of operations.

Based in the Helsinki office, Siukonen will report to CEO, Jarkko Järvitalo and will be responsible for back-office operations.

Prior to Lago Kapital, Siukonen worked at United Bankers for more than 20 years.

State Street Corporation has appointed Andrew Allright as CEO of InfraHedge, the firm's managed account business.

Allright has been with InfraHedge since March 2011, serving as head of client solutions.

Allright will work alongside Ravi Raman, COO, as well as new hires, including Robert Vanderpool, president of InfraHedge North America, and Lizzy Buss, head of Europe, the Middle East and Africa, as well as Asia Pacific business development.

InfraHedge has more than $30 billion of client assets and designs, builds and operates customised platforms for institutional investors to manage their third-party investment programmes.

Commenting on Allright's new role, George Sullivan, global head of State Street's Alternative Investment Solutions business, said: "The InfraHedge business has shown tremendous growth over the last few years."

He added: "I look forward to Andrew Allright and his team driving it through the next stage of its development by taking advantage of the attractive market environment."

"Managed accounts are increasingly becoming the preferred choice for institutional investors, and we have great confidence in the attractiveness of our platform business, which has been designed since inception to focus entirely on the needs of investors in order to help generate the best possible outcomes."

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.

In addition, Statham departed his role as part of the enhance trading team and O'Toole left the enhance trading client service team.

The resignations 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. **SLT**

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