securities lending times

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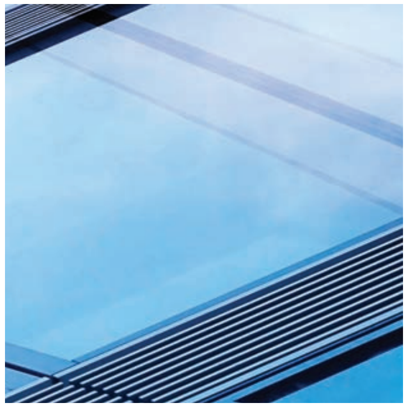
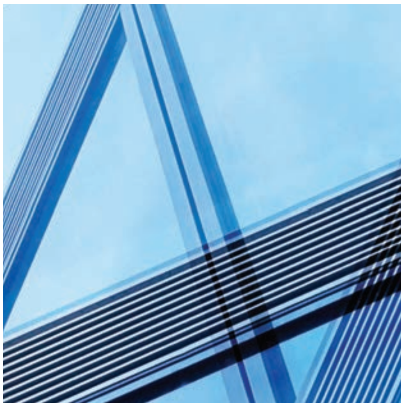
Conference Special

Repo-sitioning the market

Tim Hogben of ASX discusses the growth of Australia's repo business



We clear the path

OCC has the largest centrally-cleared stock loan offering in the world with approximately $80 billion in cleared loan balances. Over the last 25 years, OCC has built an innovative and unique U.S. program for securities lending transactions where OCC steps in as the counterparty (with a two percent risk weight) and guarantees the return of stock or collateral. We continue to enhance and expand access to our stock loan program in order to offer clearing solutions and capital efficiencies for our members and the entire securities finance industry.

As the world's largest equity derivatives clearinghouse, OCC is committed to providing market participants with high quality and efficient clearing, settlement and risk management services. As a Systemically Important Financial Market Utility, we work to enhance our resiliency in order to reduce systemic risk, increase market transparency, and provide capital and collateral efficiencies for the U.S. capital markets.

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THE FOUNDATION FOR SECURE MARKETS

Soc Gen's Global Markets Incubator selects Wematch

Société Générale's Global Markets Incubator has selected Wematch Equity Derivatives, and a further five fintech companies, to join its market activities open innovation platform.

The platform, hosted at Le Swave Paris & Co, will support and accelerate the development of the fintech's products into disruptive business solutions.

In addition to WeMatch Equity Derivatives, these fintechs include the Independent Calculation Agent (ICA), Nephelai, sc.io, SESAMm and TeamBrain.

According to Société Générale, these firms will benefit from Société Générale's expertise in capital markets and Le Swave's coaching.

Starting in February, Global Markets Incubator will help these six fintechs develop and refine their respective solutions for a period of six months.

In September last year, Wematch extended the scope of Wematch Equity Derivatives with delta one products.

Also last September, Wematch Interest Rates was selected to join J.P. Morgan's In-Residence fintech programme and collaborate with the bank to explore ways of applying its technology at scale.

The programme was created by J.P. Morgan to help start-ups looking to commercialise ideas that solve challenges in financial services.

It was also recently announced that David Raccat, CEO and founder of Wematch. SecuritiesFinancing, is to oversee the whole Wematch offering for Europe, the Middle East and Africa (EMEA).

Raccat will be responsible for securities financing, equity derivatives and interest rates.

As part of his new role, he will continue to oversee Wematch Securities Financing but will extend oversight on Wematch Equity Derivatives and Wematch Interest Rates from an EMEA standpoint.

Raccat founded Wematch.SecuritiesFinancing in May 2017.

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OFR adopts final rule for US repo market

The US Office of Financial Research (OFR) has adopted a final rule to establish a data collection covering centrally cleared funding transactions in the US repurchase agreement (repo) market.

According to the OFR, the daily collection will enhance the ability of the Financial Stability Oversight Council to identify and monitor potential risks to US financial stability by closing the data gap related to centrally cleared repo transactions.

The collection will also support the calculation of certain reference rates, particularly alternatives to the US dollar London Interbank Offered Rate (LIBOR).

LIBOR has been used as a benchmark to set interest rates on trillions of dollars of home mortgages, private student loans, corporate loans, derivatives, and other financial products.

OFR said: "LIBOR participation declined after LIBOR-related misconduct, creating the need by industry and regulators for an alternative."

As a result of this need, the Federal Reserve formed the industry-led Alternative Reference Rates Committee, which selected the Secured Overnight Financing Rate (SOFR) as the preferred LIBOR alternative.

Cleared repo data from the collection will be used to enhance the production of the SOFR.

OFR said the data collection will help inform US financial regulators and market participants about potential risks in the financial system, while helping to fill an important need for a LIBOR alternative with minimal regulatory burden.

ESMA to halt publication of MiFID II markets data in no-deal Brexit

Under a no-deal Brexit, the European Securities and Markets Authority (ESMA) has clarified it will receive and process no new UK-related data from 30 March 2019, the day after the UK is due to leave the EU.

ESMA published the statement on the use of UK data in ESMA databases in relation to performance of the second Markets in Financial Instruments Directive (MiFID II) calculations under a no-deal Brexit.

ESMA said it is issuing this statement in relation to the impact on ESMA's databases in a no-deal scenario, whereby the UK's Financial Conduct Authority will cease sending data to ESMA and will no longer have access to ESMA's IT applications and databases.

Alex Dorfmann, senior product manager at SIX, said: "The current discussion about the handling of MiFID II data post-Brexit shows how intertwined, complex and fragmented regulatory data is."

ESMA has set out details for certain areas in case of a 'no-deal' Brexit including reference data, relevant competent authorities and transparency calculations for equity instruments, as well as double volume cap data.

In a statement, ESMA said: "ESMA is aware that there currently remains a high level of uncertainty as to the final timing and

Eurex Clears first swap transaction for US end clients

Eurex Clearing has cleared its first swap transaction for end clients domiciled in the US.

Citi is the first futures commission merchant (FCM) that offers client swap through Eurex Clearing.

According to Eurex, eight fund companies have already joined Citi to take advantage of this service.

Eurex has said the transaction is the next important milestone for Eurex in the strategy to expand US distribution.

Tim Gits, head of fixed income sales Americas, Eurex, said: "Legal recognition was a prerequisite for offering US-based customers an alternative for swap clearing. We are pleased that Citi is the first FCM to successfully connect several fund companies which are now filling this model with business."

Mariam Rafi, North American head of over-the-counter clearing, Cit, commented: "Citi is pleased to pioneer FCM connectivity and to partner with Eurex on the launch of the Legally Segregated Operationally Commingled model."

"Providing this solution responds to our clients' desire to access new liquidity venues for euro interest rates. Citi is proud to offer our clients agnostic clearing connectivity to support their evolving business needs."

conditions of Brexit. Should these change, ESMA will adjust its approach for its IT applications and databases and will inform the public of this as soon as possible."

Dorfmann added: "In the case of MiFID II specifically, many firms have already started work on the automation of sourcing, analysis, aggregation and distribution of data, content and information to ensure the efficient implementation of compliance rules."

"The discussion also shows that financial firms are still faced with the sizeable challenge of how to better cope with this intense period of regulatory rules, changes and updates. It highlights the need for firms to work closely with data providers so that data and respective analytics are fully integrated into business decisions."

Christian Voigt of Fidessa, commented: "ESMA's announcement is a sensible way to deal with an extraordinary situation. The period immediately after a no-deal Brexit will be challenging for all market participants. Halting updates to reference data for a limited time eliminates one possible source of transition issues."

Deutsche Bank moves collateral infrastructure to the cloud

CloudMargin and Deutsche Bank have teamed up to integrate the CloudMargin platform into Deutsche Bank's collateral infrastructure.

CloudMargin clients will be automatically connected to an online hub with a community of upstream and downstream partners who will add straight-through processing opportunities.

The initiative is expected to improve client experience by creating a networked solution for Deutsche Bank's collateral management.

The transition to CloudMargin cloud-based platform also means that Deutsche Bank and its clients will have access to the same information about the obligations and required actions for their cleared and non-cleared over-the-counter (OTC) transactions.

According to CloudMargin, this transparency will significantly reduce manual intervention and eliminate discrepancies that would otherwise take time and resources to resolve.

Joseph Macdonald, global head of collateral optimisation trading for Deutsche Bank, said: "Moving our collateral and margin management on to an online platform means that we and our clients will enjoy a reduction in risk and resource-draining emails and calls."

He added: "The movement of our collateral management programme to CloudMargin is also in line with a number of the bank's goals—enhancing our client service, being technology-led and improving efficiency. The cloud platform will give us a cost-effective means of servicing our clients, regardless of their size."

Steve Husk, CEO of CloudMargin, said: "We're delighted to team up with Deutsche Bank on this initiative to manage not only its global collateral needs but those of its clients of all sizes trading a broad range of instruments."

Citi and HSBC now live on Capitolis Novation

Citi and HSBC are the first foreign exchange (FX) prime brokers to be live on Capitolis Novation. The two banks officially went live on the service in December 2018.

Capitolis Novation is a technology platform which automates the currently manual workflow in both FX prime broking and bilateral trading, working to reduce the time it takes for FX options novations to complete, for the benefit of the sell and buy-side.

The service helps reduce overall balance sheet notional and risk exposures that banks currently employ to meet their regulatory capital requirements.

Launched in May 2018, Capitolis is the first industry-wide platform for end-to-end FX novation processing.

Christopher Perkins, global head of over-the-counter clearing and head of foreign exchange prime broking at Citi, said: "Citi remains focused on delivering industry-leading capital and operational efficiencies to our clients with robust scale and automation."

He added: "We are excited to partner with Capitolis since its inception to drive capital optimisation and reduce costs through automated FX options novation processing."

Gil Mandelzis, CEO of Capitolis, said: "Citi and HSBC have partnered with Capitolis to be at the vanguard of establishing this industry solution for FX novation. We are grateful for them for helping us bring it to market with their incredible support, technical expertise and collaboration to shape what we believe will be a meaningful solution to address a key constraint in the capital markets."

He added: "We are further grateful that they have used this service extensively across all their client activity, with executing banks and counterparties and for their proactive commitment to growing the community of participants across the buy and sell-side."

Tradeweb sets post-crisis repo volume record

Tradeweb has set a post-crisis repo volume record for the month of January 2019.

Average daily volume in repurchase agreements grew 23.6 percent year-over-year, topping $170 billion during the month of January, a new post-crisis record.

Rates derivatives trading volume grew 35.5 percent year-over-year in January while European exchange-traded funds trading volume increased by 36.4 percent.

Overall volumes surged 20.7 percent year-over-year, with an average daily volume of

$624.5 billion across all products during the month of January, an increase of 20.7 percent year-over-year.

SEBI extends on physical settlement schedule

The Securities and Exchange Board of India (SEBI) has notified that stocks of heightened volatility will move to physical settlement in addition to the existing schedule of stock derivatives moving to physical settlement.

It was noted in SEBI's circular that if a stock satisfies their listed criteria, then derivatives on such stock shall be moved to a physical settlement from the new expiry cycle.

The criteria includes stocks which witness 10 percent or more intraday movement on 10 or more occasions in the last six months, or stocks which witness 10 percent or more intraday movement on three or more occasions in the last one month.

Additionally listed in the criteria was stocks which witness 25 percent or more intraday movement on one or more occasions in the last month, or, if the maximum daily volatility of the stock (as estimated for margining purpose) is more than 10 percent either in equity or equity derivatives segment in the last one month.

SEBI outlined that exchanges shall review the conditions listed in their circular on a monthly basis, although existing contracts on the stock shall continue to follow settlement mode as applicable at the time of contract introduction.

This follows their circular in January that announced that stock derivatives, which are currently being cash settled, will move to physical settlement as part of an initiative to help promote securities borrowing and lending. Exchanges have been directed to put in place proper systems and procedures to ensure a smooth implementation of physical settlement.

FCA aim to improve shareholder engagement

The Financial Conduct Authority (FCA) has published a new consultation paper on proposals to improve shareholder engagement.

After the consultation paper release, the International Securities Lending Association revealed it is now in the process of reviewing the proposals and the implications for securities lending activity.

The consultation proposes measures to implement the provisions of the amended Shareholder Rights Directive (SRD II) for FCA-regulated life insurers and asset managers, as well as for issuers of shares in respect of related party transactions.

The directive comes into effect in June this year and, assuming a transition period for EU Withdrawal is agreed, will need to be transposed in the UK. SRD II aims to promote effective stewardship and long-term investment decision-making.

Torstone expands London HQ

Torstone Technology has doubled the size of its London office to cater for European growth over the course of the past year and through 2019.

The expansion follows Torstone's entrance into new markets and is part of its broader ambitions for growth in Europe, Asia, and, more recently, North America.

This follows Torstone's recent growth of over 50 percent in revenue year on year, which fuelled the hiring of over 50 percent more staff in Europe and globally last year.

The company said it has a strong presence in Europe, currently servicing clients in the UK, Germany, the Netherlands and Norway. Additionally, they are looking to expand further into Scandinavia as well as France, Belgium, Spain, Italy, Portugal, Luxembourg and Switzerland.

Brian Collings, chief executive, Torstone Technology, said: "We're delighted that Torstone saw a year of incredible growth in 2018 and we look forward to capitalising on this success to bring our products and solutions to our existing clients and new markets in the future."

Deutsche Börse ends Q4 2018 with strong growth

Deutsche Börse AG generated net revenue of €2,770.4 million in 2018, an increase of 13 percent compared to the previous year.

Following strong growth in 2018, Deutsche Börse Group said its expectations for the year 2019 are "slightly more subdued, given the general economic slowdown, risen economic risk and political uncertainty".

The company said it still expects secular growth opportunities this year to yield net revenue growth of at least 5 percent.

It also anticipated adjusted net profit to grow by around 10 percent in 2019.

The results noted that depending on the equity market volatility, net profit growth "could show slightly higher or lower levels".

Theodor Weimer, CEO of Deutsche Börse AG, commented: "Deutsche Börse Group is looking back on a really good year. In 2018, we also made important strategic decisions.Given the economic environment, we are taking a slightly more subdued stand on our expectations for the current business year."

ISLA creates new GMSLA

International Securities Lending Association (ISLA), with Clifford Chance and key industry stakeholders, has developed a pledge collateral version of their existing Global Master Securities Lending Agreement (GMSLA).

ISLA noted that the development of GMSLA (Security Interest over Collateral 2018 version) provides an important alternative to the existing title transfer legal frameworks.

It also allows market participants to potentially optimise the consumption of binding capital constraints such as risk-weighted assets (RWA) as well as managing collateral reporting obligations more effectively, ISLA revealed.

The new agreement is based on the existing GMSLA 2010 and provides ISLA members with an alternative to the title transfer framework.

For members who would like to use GMSLA Security Interest over Collateral 2018 version, they have developed a security agreement that creates a security interest over the relevant collateral accounts.

According to ISLA, it has also worked with several tri-party service providers to develop tri-party collateral agreements that serve as a control document between the borrower, lender and tri-party agent.

These additional documents are available for business undertaken using BNY Mellon, Clearstream, Euroclear and J.P. Morgan in their capacity as tri-party agent.

They have been reviewed by Clifford Chance to work alongside the GMSLA (Security Interest over Collateral 2018 version).

Additionally, in order to support the validity of the legal structure of the new framework, ISLA will also be making available a legal opinion from Clifford Chance.

Once available, ISLA will notify member firms accordingly, and the security agreements applicable to each of the tri-party agents are available via the ISLA website for member firms.

Framework creates SFA in Indonesia

The Indonesian Financial Services Authority has issued a regulation, which provides a framework to establish a Securities Finance Agency (SFA) in order to boost transaction volumes and liquidity in the Indonesian stock market. The regulation entered into force on 5 December last year.

According to Elsie Hakim and Novario Asca Hutagalung of Indonesian law firm,

Ali Budiardjo, Nugroho, Reksodiputro, the SFA will provide securities financing to brokerage firms that are currently hindered by limited internal resources and lack of access to funding from banks and other sources.

The SFA is expected to provide an alternative source of financing to brokerage firms to fund margin trading, short selling and othertypes of transaction.

Upon securing approval from the Financial Services Authority, financing may also be provided for other types of securities transaction, including public offerings on the primary market, repo agreements and securities lending activities.

ESMA to recognise UK CCPs under EMIR regime

European Securities Markets Authority (ESMA) have started the process to recognise UK central counterparties (CCPs) under the European Market Infrastructure Regulation (EMIR) third country regime.

This follows the temporary equivalence decision issued by the EU Commission in December last year, explained Steven Maijoor, chair of ESMA, during his speech at the European Financial Forum 2019 in Dublin.

Maijoor highlighted that the area of central clearing of derivatives is generally considered to be the securities markets area to entail the highest stability risks in the event of no-deal.

To respond to those possible risks to the stability of EU financial markets, ESMA identified the need to ensure access to UK CCPs for EU clearing members and trading venues.

ESMA aims to adopt the recognition decisions well ahead of Brexit date, and so far, the recognition process has progressed without delay. Meanwhile, non-centrally cleared over-the-counter derivatives in the event of a no-deal Brexit will not entail a stability risk that would need public intervention.

Maijoor said: “We will facilitate the repapering of contracts by avoiding that moving contracts from the UK to the EU27 would result in new margin requirements or a central clearing obligation.”

“The relevant amended draft technical standards were submitted to the commission in December last year, and following their adoption by the commission, we now await the conclusion of the scrutiny period by the EU Parliament and Council for them to enter into force.” **SLT**

Got a story you would like us to cover? Contact us at: maddiesaghir@blackknightmedialtd.com

The Great Brexodus

Seb Malik of Market FinReg suggests the economic destruction of Brexit is no longer a hypothetical discussion; it is a painful reality

On 29 January, the Companies Court of the High Court handed down a judgement approving a scheme by Barclays Bank PLC (BBPLC) and Barclays Capital Securities Limited (BCSL) to transfer business to its Irish entity—Barclays Bank Ireland. The scheme will transfer "about 5,000 clients" and an estimated "€190 billion of external assets". In the words of Justice Snowden: "On any view, the scale of the transfer of business…under the scheme is huge."

He also noted the "scheme is designed to deal with the consequences for BBPLC and BCSL of a no-deal (hard) Brexit, which it is envisaged would result in the two companies losing their passporting rights which currently permit them to provide investment services and conduct investment activities in the remaining 27 EU Member States."

The investment banking business includes derivatives transactions; repo transactions; and securities lending transactions. By way of figures, as at the end of September 2018, Barclays had borrowed approximately $7 billion in fixed income securities and $1 billion in equities from one particular EEA agent lender. In terms of prime brokerage margin, Barclays is an active player and will be transferring out the agreements to the Irish entity.

Jobs will travel too "with employees of BBPLC and BCSL who work in relation to the in-scope products will transfer to [Barclays] in Ireland or to one of the seven branches in Europe".

Asides from securities lending, RBS is shifting a third of its investment banking clients to Amsterdam; Lloyds is relocating the business and HSBC is shifting business to Paris. According to German regulator Bafin, 45 financial firms are setting up Frankfurt bases due to Brexit.

As for the European Market Infrastructure Regulation (EMIR) derivatives reporting, in the event of a no-deal Brexit, reports submitted by UK counterparties and central counterparties (CCPs) pertaining to outstanding derivatives will be cancelled with 29 March 2019 as the termination date. Following this date, EU trade repositories (TRs) will no longer attempt to match trades with a UK-based entity.

For the Securities Financing Transactions Regulation (SFTR), with no mutual recognition for each other's TRs, firms will potentially be required to report to both a UK TR and an EU TR.

In terms of the real economy, leaked documents show the government offered Nissan £60 million in state aid (labelled by some as a 'bribe') in order to remain in the UK post-Brexit. With a rudderless government, and a parliament seemingly incapable of providing direction, the probability of a car crash Brexit next month increases with every day.

Meanwhile, the EU has struck "the largest bilateral trade deal ever concluded" in the form of its Economic Partnership Agreement with Japan (EUJEPA), which came into force on 1 February.

According to the EU's analysis, "the EUJEPA actually becomes more valuable by some €124 million across the EU 27 Member States following Brexit. EUJEPA is expected to increase the EU's GDP by 0.14 percent and total exports to Japan by €13 billion by 2035". So much for the economic benefits of Brexit!

For those who cling on to the dream of renegotiating the UK Prime Minister Theresa May's current deal based on allowing state subsidies, the EU's new generation free trade agreements "prohibit government subsidies to guarantee the debts or liabilities of an enterprise".

The economic destruction of Brexit is no longer a hypothetical discussion; it is a painful reality. While the EU forges ahead with ambition-free trade deals, the UK is haemorrhaging trade flow and jobs. Should the UK turn its back on Europe and leave the Customs Union, the UK will be able to strike trade deals with jurisdictions. What is disputed is the terms the UK will be able to secure. What bargaining power will the UK have against the US or China?

In an ironic twist, I find myself drawn to a line from the late Conservative MP seen as the Godfather of right-wing populism that ultimately fuelled Brexit: "We must be mad, literally mad." **SLT**

Seb Malik
Head of financial law
Market FinReg

Repo-sitioning the market

Tim Hogben of the Australian Securities Exchange discusses the growth of Australia's repo business and how it is changing the way the country's financial markets operate

Maddie Saghir reports

What is ASX's role in Australia's financial markets?

The Australian Securities Exchange (ASX) is at the heart of Australia's financial markets, offering a full suite of services, including listings, trading, clearing and settlement, across a comprehensive range of asset classes.

ASX has over 150 years of exchange experience and a highly skilled team of around 630 people. We put our customers at the centre of everything we do—6.7 million share owners, 180 participants, and more than 2,200 listed companies and issuers.

As the first major financial market open every day, ASX is a world leader in raising capital, consistently ranking among the top five exchanges globally.

With a total market capitalisation of around $1.85 trillion, ASX is home to some of the world's leading resource, finance and technology companies. Our $47 trillion interest rate derivatives market is the largest in Asia and among the biggest in the world.

Market leading technology has always been a focus for ASX. Our network and data centre are connected to leading financial hubs. Speed, reliability, state-of-the-art technology and the diversity of the user community are fundamental to the success of the Sydney-based ASX Australian Liquidity Centre, which opened in 2012.

It's a compelling time for financial markets. There's increasing demand for new and contemporary financial products and services, and a desire to leverage the opportunities presented by fresh technologies to transform the way exchanges and financial services operate. This stimulates innovation and growth opportunities, thereby improving efficiency and lowering the cost of back-office processes.

ASX recognises the role we play in financial markets comes with great responsibility—to invest in new products and services to help grow the market and, just as importantly, to enhance the resilience and reliability of the critical infrastructure we operate.

What relevant services does it offer participants?

The ASX Collateral tri-party collateral management service was launched in 2014. ASX Collateral connects collateral givers and cash providers on a secured financing repo and securities lending platform, with the advantage of trades being safe-settled via Austraclear. It can also be utilised for central counterparty (CCP) and over-the-counter (OTC) margining. ASX operates in a regulatory environment that meets the highest global standards. Our clearing houses are among the most secure and well capitalised in the world, and help underpin the stability of Australia's financial markets. In 2016, T+2 settlement was implemented for the equity market.

In December 2017, we announced our intention to replace Clearing House Electronic Subregister System (CHESS) using distributed ledger technology (DLT) developed with our technology partner Digital Asset. CHESS is the post-trade system used by ASX to record shareholdings and manage the clearing and settlement of equity transactions in Australia. This will be transformative for the Australian financial markets and a global first, with go-live planned for Q1 2021.

Replacing CHESS with a DLT solution will significantly simplify and speed-up post-trade processing. For ASX clients, this should remove risk and reduce back-office administration and compliance costs. While investors could experience significantly faster settlement of equity transactions—potentially in near real-time.

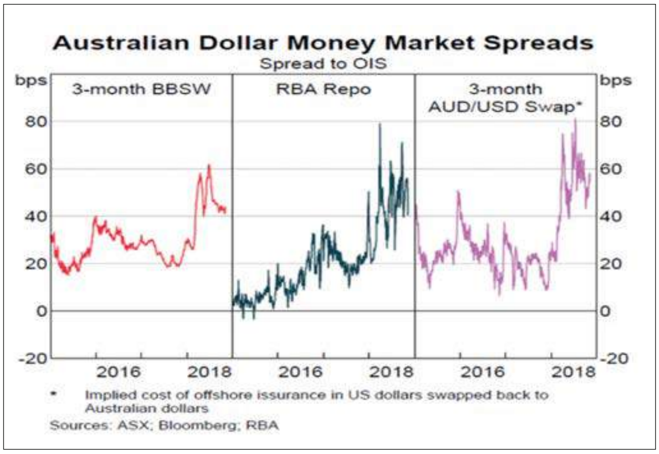
Adoption of DLT has the potential to stimulate greater market innovation and lead to the development of new services for intermediaries, end-investors and listed companies. This would create a more competitive marketplace across a broad range of services.

ASX is always seeking to leverage its expertise and infrastructure to provide opportunities for our customers. A good example of this is the recent development of a new data platform to improve the range, availability and analytics of data. We recognise data is now very much seen as a strategic asset. So building capability to provide better customer insight, decision-making and potential growth opportunities is a must.

Australia's fixed income repo market has grown in recent years. What has contributed to this success and do you see this growth continuing this year?

Looking at the RBA repo figures, the average RBA repo balance for 2018 was AUD 62.9 billion, up 15 percent from 2017. The average percentage of RBA repo trades executed via the ASX Collateral tri-party service increased from 28 percent in 2017 to 34 percent in 2018, with the average ASX Collateral balance up 44 percent to $21.5 billion in 2018.

The weighted average repo rate in 2018 was 1.95 percent with an average term of 40 days. This was 45 basis points above the official cash and 10 basis points higher than the average one-month unsecured bank bill rate. This compares to 2017, with a weighted average repo rate of 1.73 percent and 38-day term. This was 23 basis points over cash and 11 basis points over average unsecured one-month bank bills.



The focus for the banks has been to manage their net stable funding ratio (NSFR) and the liquidity coverage ratio (LCR) ratios, optimise their holdings of high-quality liquid assets (HQLA) and fund their trading inventory. Repo has played a key part in the management of their short-term liquidity needs. However, as seen in the numbers, the cost to participate in repo has increased substantially in the past two to three years and has enhanced returns for cash providers above unsecured levels. We are seeing continued interest from new entrants looking to enter the AUD secured funding market, particularly via the ASX Collateral tri-party platform. This includes interest from offshore banks, local superannuation funds and from corporates.

An interesting case study is the ASX Clearing Corporation (ASXCC). ASXCC manages AUD 8 billion of cash received from margining activities across the ASX clearing houses. It has a robust investment mandate with a conservative risk profile. ASXCC shifted its re-investment activities from unsecured to a blend of unsecured and secured lending via repo. This provides the flexibility to optimise returns across the respective markets as short-end rates shift, particularly around quarter and year-ends, without changing their maturity profile. It also offers the ability to operationally scale the activity by executing repo via ASX Collateral tri-party.

From an OTC Clearing perspective, the ability of participants to convert HQLA to cash via repo for OTC derivatives margin is an important driver. ASX also provides the benefit of being able to cross-margin between OTC derivatives and listed futures positions, and then automatically lodge and substitute non-cash collateral via ASX Collateral on daily net margin positions.

How is the repo industry changing Australia?

The main themes have been tighter funding markets and adjustment to regulatory changes. Tighter AUD funding markets have been driven by a combination of onshore and offshore effects. Increased US treasury bills issuance, US capital repatriation and continued tapering of the US Fed reverse repo facilities have all drawn liquidity out of the system pushing up rates.

Given the reliance of the Australian banks on the US markets to raise funding, the cost to swap US Dollar (US) back to Australian Dollar (AUD) has increased, as reflected in wider cross-currency swap basis and foreign exchange (FX) forward rates.

Domestically, bank balance sheets have been adjusting to NSFR requirements and absorbing the cost of the ASIC banking levy.

Structurally, as per the earlier numbers, there has been a continued shift towards the use of tri-party for fixed income repo as banks look to optimise and scale their business models, reduce operating costs and operational risk, and maximise returns.

What does the future landscape look like?

ASX is looking at a number of opportunities across the Australian financial markets ecosystem.

The most high profile are the opportunities arising from the replacement of CHESS with our DLT solution. There are currently separate stores of data across the market creating risks, inefficiency and costs. Our DLT implementation can create a real-time, shared source of truth while preserving participants' data privacy.

Users, including ASX, will be able to develop new applications directly from the ledger data to create more efficient client and internal workflows, greater data analytics, risk and compliance automation, and cost savings. They can do this through reduced reconciliations and real-time position updates. There is also the potential to retire existing tools and systems.

We will keep a close watch on market conditions in the coming 12 months as the various geopolitical and economic situations play out across the globe, including Brexit, the US and China, interest rate differentials, outcomes from the Australian banking Royal Commission, the Australian housing market and the Australian Federal election. **SLT**

Driving in the right direction

Stuart Jones and Jane Wagner, PASLA/RMA conference co-chairs, discuss what delegates can expect from this year's event and what the association will be working on over the next 12 months

Maddie Saghir reports

What has changed in Australia's securities lending market since the last conference was held there?

Stuart Jones: The industry was at its most bullish when we last held the conference in Australia. We were on the cusp of the financial crisis, but still, securities lending and short selling remained largely out of the press and unscathed. As a business, cash reinvest by beneficial owners was almost more lucrative than the rates on the actual loan of securities—latterly we know why of course.

The Australian economy emerged 'relatively' unscathed when compared to many of the worst hit economies, however, there were spectacular defaults by retail brokers, pushing securities lending and short selling into the press for the first time. The impact of that saw Australia as one of a number of markets in Asia to institute a short-selling ban and then later we saw more stringent rules implemented around short selling and securities lending. During that period, in an event not unique to Australia, we saw many beneficial owners reduce or restrict securities lending on their portfolio as they reevaluated the value proposition.

The overall globalisation of investment strategies has also had the unintended consequence of increasing liquidity in securities lending markets, as in many cases assets purchased by onshore asset managers are made available in lending pools. As time has gone on a lot of those assets that pulled out of lending programmes have come back and increased the domestic pools of liquidity as well. But, it's fair to say that everyone is far better educated on the product as well as the risks associated with collateral and what credit or counterparty risk is in the securities lending space. While Australia has quietly become more aligned to global norms on operational models, other markets have also adopted similar short sell reporting practices to Australia.

Jane Wagner: From a securities lending and borrowing perspective, the market is active and stable. On-loan balances have been growing but in a measured, incremental way. Desks are active, and the inventory of Australian securities available to borrow has been increasing. Hopefully, this is telling us that beneficial owners are becoming increasingly comfortable with securities lending.

Regarding trading, large issuers such as banks are again offering dividend reinvestment incentives to their shareholders, which brings back an element of borrow demand that we have not seen in recent times. The need for collateral has hit the Australian market in the same way that it has in other jurisdictions, and the demand for collateral upgrade trades—when a borrower uses one profile of securities to exchange for another with a strong credit profile via a loan transaction—has continued to increase.

As more over-the-counter (OTC) trades become subject to mandatory clearing and collateralisation obligations with new global regulatory deadlines, it will also fuel an increased need for collateral. This holds particularly true in Australia where the OTC market was typically collateralised on a limited basis and then by Australian dollars only, which can be expensive because of the cost of funding. As the scope of transactions requiring collateral increases, the cost of the trade and position increases.

Switching from cash to non-cash reduces this cost, particularly for many in the market, who have large pools of securities, such as pension funds. Collateral and balance sheet management or optimisation was historically a topic for group treasurers but is now a key element of discussion across all trading floors. From a balance sheet management perspective, optimisation has become key. For large prime brokers, the increased growth in demand for synthetic short exposure has mandated that they change the way they cover or hedge these trades to optimise balance sheet efficiency. Large asset owners with an inventory of high-quality liquid assets (HQLA) have a new revenue source via lending these to treasurers looking to strengthen their balance sheet and liquidity coverage ratios.

What can delegates expect from this year's PASLA conference in Sydney?

Wagner: Globally, we have seen two major themes in the securities financing industry emerge: regulatory capital constraints of borrowers and agent lenders, and increased regulatory reporting and transparency. These topics were discussed in previous Pan Asia Securities Lending Association (PALSA)/Risk Management Association (RMA) conferences.

While we will continue to discuss these same issues in this conference, we will also discuss the current updates as well as further insights and developments that have evolved since the last conference. Regulatory capital constraints of the borrowers and agent lenders plus the increased regulatory reporting and transparency have made the industry more complex, and the economics of the business more challenging and expensive for many participants. These themes were just beginning to emerge during the last conference and this year we will explore the reactions and methods that participants have developed to deal with these challenges.

Jones: This year's event will, once again, provide the industry with the opportunity to review developments across the region over the last 12 months as well as look forward to upcoming opportunities. The PASLA executive committee will give an update of the areas that PASLA has been working on as well as a regional market panel, which will focus on the current barriers of entry within certain markets and consider ways in which these might evolve with the assistance of local regulators and exchanges.

As per previous conferences, we are leveraging our location to consider that particular market. One panel will focus specifically on your previous question—what has changed since the conference was last held in Sydney in 2008.

We are, for the first time, including a panel that will focus on women in finance and the challenges faced in a continually changing work environment. Senior women professionals will consider the impact of the recent global focus on gender balance and diversity as well as review the challenges that remain. Given that International Women's Day is on 8 March, the timing is definitely appropriate.

One of our keynotes, Dr Adam Fraser, will be using his expertise to consider the psychology of performance and how productivity can be improved while maintaining a healthy work-life balance.

We try to make sure that this is all as relevant as possible to the challenges and opportunities facing Asia. While it's important to address and acknowledge the global issues that face the industry, we are here to make a conference that tells an Asia story. There will be a lot of visitors from out of town and we want them to hear a slightly different story from the conferences that they already attend and speak at.

Lastly, it's important to us to ensure that this conference continues to provide some positive surprises (as with a lot of the fintech skew last year), while also being driven by the asks from the industry. We don't organise this in a locked room, we want contributors from the industry and we want critique from all. We only get better that way.

How does it differ from previous years? And what do you expect the hot topics to be at this year's event?

Jones: This is key to us. While we will indeed have panels that are the same every year, as we hope there will always be developments and exciting changes to discuss, we want this conference to look and feel slightly different every year. We aren't talking about reinventing the wheel, but we are talking about being a forum for thought-provoking debate, disruptive discussions and speakers that are engaging and true leaders in their fields.

This year we have continued to focus on all aspects of diversity, work in a changing economic climate, regulation and how that impacts the allocation of scarce resources. We couldn't ever miss technology off the agenda. Technology and fintech were core components of our conference last year and they always stir solid debate, especially around disruption. We've come a long way in all these topics, as an industry, but as an association, we want to evolve that further still.

Wagner: One difference this year is that we will be delving into current industry trends from the beneficial owner's perspective. Securities lending is no longer just a way for certain beneficial owners to cover operational costs, such as custody; it has emerged as a vehicle to capture alpha.

We will explore how the new complexity and economic challenges of the industry are affecting the approach and revenue streams of beneficial owner lending programmes and what could possibly be their new routes to market.

As the challenges in the economics of securities lending continue, situations that could increase costs or risk are being discussed more frequently. For example, corporate actions, which are complex and if not properly handled, could cause a costly error. Securities Financing Transaction Regulation (SFTR) reporting is extensive and consequently may become expensive. Some of the rules have still not been finalised, such as minimum haircuts for securities financing transactions, single counterparty credit limits, and the Basel capital rules. Therefore, we will need to continue to discuss these topics and the solutions that can be developed to deal with the impacts of these rules on the industry and revenue streams.

As a result of the regulatory capital constraints of the borrowers and agent lenders as well as the increased regulatory reporting and transparency, the evolution and development of technology have become even more important today than in the past. Any new trend that eases the regulatory capital and makes the transaction economical has become more common in the discussion. Central clearing counterparties (CCPs) and equities as collateral have always been discussed but the discussion is becoming more prevalent.

What were PASLA's biggest challenges last year? And how did the association overcome them?

Jones: Challenges are the starting point for us as we look to evolve and develop the securities lending markets in Asia. The challenge that we needed to overcome was in organising ourselves in a more effective manner and giving ourselves a clear mandate and roadmap to execute that. Using more of the connectivity and resources across our member firms was a significant shift. We were aware of the risk of the competitive nature at an individual firm level, being prioritised over the greater good. I can tell you that everyone that sits on the executive committee wants to do what is in the best interests of the industry and put that first.

We asked for that a few years ago and are now in a position where we are focused on execution and not organisation. We know we need to have relationships with the right people in the right places. Whether that's at an exchange or regulator, or the work we do with our partners at the Asia Securities Industry and Financial Markets Association (ASIFMA), we have been building those dialogues.

Additionally, we understand the need to be accurate in representing the industry as a whole. Filtering out individual nuances in favour of targeting the ideal format or structure takes a bit of time, but allows us to be more credible in our dialogue.

Wagner: There are quite a few issues facing the industry that will be challenging. The first would be regulatory challenges such as the implementation of the International Swaps and Derivatives Association (ISDA) stay protocol/stay protocols across regions, the single counterparty credit limit (SCCL) and how market participants have adjusted since implementation. And finally, the Basel III rules being finalised and recognised in SCCL.

The second area is data reporting and transparency. The big issue is the SFTR and the reporting issues and challenges lending firms are facing. The other issue the industry needs to consider is Agency Lending Disclosure requirements and the changes that need to be made to consider such things as authority and capacity, as well as the consideration of legal entity identifiers (LEI).

The third issue is an issue that has been lingering and will continue to get more attention from the industry: collateral management and cash reinvestment. There are issues around managing risks in rising short-term interest rate environment, especially considering we haven't been in a rising rate environment in over a decade.

Additionally, in terms of non-cash collateral, there has been a focus on increasing the use of non-cash and what role a tri-party could play in the future collateral management infrastructure. This will take on greater importance if equities is a potential form of collateral for securities lending activities. There have been discussions in the industry around accepting equities as collateral impacts securities lending going forward.

I am also concerned about voluntary and mandatory corporate actions including processing issues and how the industry looks to address the identified challenges, challenges within the front and middle settlements teams, and potential solutions and overall market impact.

The last issue is something that all firms need to be thinking about and I think they are, and that is around innovation and automation. Questions of concern that institutions need to be asking themselves are: What have been the challenges from a governance and controls perspective? What are the anticipated benefits for all participants in the lending value chain? How do firms see automation (artificial intelligence, machine learning, natural language) changing the lending execution and collateral/cash management activities?

Do you think 2018 was a year of growth for Asia's securities lending market?

Wagner: The Asia Pacific region continued to generate securities lending demand in 2018, specifically in Hong Kong, Japan and Korea. For Asian securities lending markets, lending revenue increased throughout the year, primarily due to an escalation of US-China trade tensions, which increased volatility across the region. Hong Kong saw initial public offering and broad capital raising activity. Meanwhile, Chinese government tightening in the online game sector hurt developers.

Lastly, Japan and South Korea saw directional short interest in the technology, biotech and pharmaceutical sectors as investors grew concerned about valuations after a strong market rally in 2017.

Jones: Indeed there has been plenty of activity on many fronts in 2018 that has certainly kept PASLA busy—which should not be surprising as one contemplates the nine active, two onshore and two emerging markets that span our geography across the region. We have been working on a lot of initiatives and with a lot of markets that are opening or developing.

As mentioned, ASIFMA has been a great partner on a lot of these work streams and our partners at the regulators and exchanges across the region have been excellent. We feel that engagement and communication are currently the best it has been.

What will PASLA be working on over the next 12 months?

Jones: A lot—naturally, we will continue ongoing dialogues with the multiple active and developing markets across the region. We have some excellent and advanced dialogue with ASIFMA, Hong Kong Exchange and our partners in China.

Discussions with the Philippines on the pending short selling mechanism continue and we are also engaging the Singapore exchange following the impact of moving to T+2 settlement.

The unknown is always what keeps us busy and is why we have more regular board meetings. We don't want to wait for problems to arise and everyone 'figure out' their own way of resolving an issue. We want to continue to drive the industry forward.

We know there will never be a single perfect model that we can give to every single country/market but we should strive towards a place where we get close. **SLT**

Stuart Jones
Conference co-chair
Head of securities finance
Jefferies Hong Kong

Jane Wagner
Conference co-chair
Global head of
securities lending
Vanguard, Valley Forge

Unlocking Asia

While the Asian market is still seen as an emerging marketplace, industry participants suggest technology and innovation remain a key component for growth in the securities lending industry

Panel participants:

Simone Broadfield, head of agency securities lending, APAC
BNP Paribas Securities Services

Paul Solway, head of securities finance, APAC
BNY Mellon

David Lai, executive director, agency securities lending product manager
J.P. Morgan

Zubair Nizami, head of securities lending trading, APAC
Brown Brothers Harriman

Mark Snowdon, head of capital markets, APAC
Northern Trust

Asian equity owners have enjoyed revenue growth over the past few years. What has contributed to this growth and do you see this trend continuing?

Paul Solway: Asian markets are still seen as emerging marketplaces that continue to bring new stories both in terms of corporate and economic activity. This helps to provide traders with a plethora of long-short opportunities.

Japan and Hong Kong are still at the core of volumes and activity, given the former's size and breadth domestically and the latter's liquidity and access to corporate activity related to China.

Five out of the top 10 earning stocks in Asia last year were from Japan. The country is also the number one revenue earner with huge volumes. South Korea is third and, despite lower on-loan volumes, spreads of more than 300 basis points make up for that.

Going forward, the market in Asia will continue to grow. There are now nine securities lending markets with a further two markets potentially opening up as well, with the Philippines recently adding new short-sell rules and Indonesia looking at potential models.

However, there are risks, while Asian markets are often seen as engines of global demand, impacts can be felt if even one company's performance is down. For example, Taiwan felt Apple's lower Q4 results last year which no doubt impacted supply chains.

Zubair Nizami: An increase in specials activity across the Asia Pacific in the past few years has contributed to strong lending returns for asset owners in the region, specifically high asset values, healthy borrower demand, increased beneficial owner participation, and strong corporate deal activity. And while Asian markets overall have generated strong lending returns, we continue to see Hong Kong, Korea and Japan leading the way.

In Hong Kong, we saw renewed confidence in the local and mainland Chinese economies early last year, which led to an increase in the initial public offering (IPO) and secondary capital activity. In the second half of the year, US/China trade tensions and rising US interest rates resulted in increased market volatility and consequently increased directional trading opportunities for hedge funds.

In Japan, lending activity was boosted by robust corporate deal flows, as Japanese corporates, flush with cash in a continued low-interest environment, look to consolidate or seek opportunities abroad to diversify their revenue streams.

In addition, we saw demand driven by familiar themes in the past such as corporate governance concerns and accounting scandals, as well as directional demand in the consumer electronics sector as increased manufacturing competition from China continues to place further pressure on leading firms in this industry.

South Korean lending demand was once again strong due to renewed interest in the heavy industry and shipbuilding sectors. Biotech and pharmaceuticals also generated demand on speculation of industry consolidation, concerns over accounting irregularities in specific firms and the overvaluation of the sector.

David Lai: At its simplest, the continued upward trend in index levels and equity prices have accounted for some of this increased revenue. We have also seen global funds allocate more to Asia, which has not only increased the amount of inflows into the region but also led to the need to hedge some of this inflow. Finally, the continued development of the regions' markets and securities lending frameworks has been critical.

We see the potential for this growth to continue; as a whole, the percentage of total Asian assets available for lending is still relatively low compared to a European or US perspective. Further, there are still some Asia Pacific markets that have yet to launch their own securities lending frameworks.

From our perspective, our agency securities lending clients have been actively seeking more of the potential alpha, which our 24-hour/'follow the sun' trading approach can support. Clients located in Asia have also benefited from local support in the region from a dedicated team, who combine their deep understanding of the Asian markets with global expertise.

Simone Broadfield: There is a higher prevalence of assets trading on a specials basis within the region with market

> ***Trading automation and greater transparency across the region in recent years has also allowed traders to better optimise performance***
>
> **Simone Broadfield**
> Head of agency securities lending, APAC
> BNP Paribas Securities Services

volatility providing frequent event driven and directional short opportunities. A smaller supply of lendable assets in the emerging markets is also a contributing factor with markets such as South Korea and Taiwan consistently returning high average lendable fees. Trading automation and greater transparency across the region in recent years has also allowed traders to better optimise performance.

Mark Snowdon: Our experience is that securities lending is increasingly viewed by clients as an integrated investment vehicle to complement the suite of front office activities in pursuit of meeting performance objectives. In this regard, beneficial owners are looking for ways to ensure their securities lending programmes are being optimised within prescribed levels of risk tolerance—allowing agent-lenders to work closely with beneficial owners on initiatives such as expanding collateral profiles or reviewing alternate trading structures such as pledge in order to drive increased returns. This is markedly different from previous days of securities lending being deployed almost to solely offset costs. It is also a trend that we see continuing.

How are technological advancements driving the securities lending industry in Asia?

Nizami: Speaking for BBH, the increased drive towards digitisation and automation continues to be a key trend not just within trading but also throughout our broader lending programme. We are investing significantly into both our e-trading platforms and enhancing our digital client experience for beneficial owners.

These enhancements have already had a positive impact across our entire business, with the trading execution discipline seeing some of the greatest benefits. Using modern data science tools, we are able to draw upon our historic execution data to optimise future performance, optimised pricing algorithms support and assist traders in their decision making and ensure e-trading and manual execution strategies are closely aligned.

A key benefit of technology deployment is increased efficiencies between counterparties, especially in executing volume activity, which enables our trading team to maintain a strong focus on higher revenue generating opportunities. As an intrinsic lender, with a strong focus on book optimisation, e-trading allows our trading team to increasingly focus their attention on oversight and extracting additional value for our clients.

Solway: Unlike other geographies, Asia still remains behind the curve in terms of technological advancement. Despite that, it is only logical that this gap will narrow in time as more institutions connect to new systems and improvements that have been made in other markets, like the US.

The make-up of the market also makes it harder for technology to develop in Asia given its disconnectedness, with traders in different markets having a diverse set of customs. This takes additional time and money for standardised systems to develop.

However, I expect there to be huge technological gains in Asia in 2019 given that investment is now starting to flow into the market in this region.

Technological improvements won't just help traders focus on higher value items like specials or more complex trades, but they also enable back and middle office advancements that are critical in order for the rest of the trade lifecycle to function efficiently. Without this, post-trade issues become inevitable.

Snowdon: Advances in technological capabilities continue to transform not only the securities lending industry in Asia but the broader financial markets globally.

At Northern Trust, we view advancements in technology as an opportunity to enhance everything from trading strategies through to operational efficiencies and are focused on investing in those areas we believe will unlock value for our clients.

We've already seen significant investment across the industry into trading technology, which at Northern Trust, has allowed for greater automation of the trading function, allowing trading teams to focus on those opportunities that derive the most value for clients.

We are also working with a number of new technologies such as machine learning and robotics as well as developing our data analysis capabilities. Our expectation is that the practical application of these technologies will help drive competitive advantage in delivering greater efficiencies, optimising performance and enhancing the client experience.

The make-up of the market also makes it harder for technology to develop in Asia given its disconnectedness, with traders in different markets having a diverse set of customs

Paul Solway
Head of securities finance, APAC
BNY Mellon

Lai: The increasing ability to access accurate and timely industry data is leading to more transparency and the need to refresh transactions on a regular basis. At J.P. Morgan, we believe this is a positive trend that will help beneficial owners continue to utilise securities lending in the future.

We are focused on ensuring that more loans are handled automatically (both pre and post trade)—critical since info from Markit Group Limited shows that over 75 percent of all outstanding loans are at or below 50 basis points across the industry. By providing greater automation or straight-through processing (STP) for those transactions, our trading team can dedicate more time to value-added transactions, working closely with counterparties to identify and agree on trades with the potential to deliver higher value.

As markets in the region evolve, various corporate events affected demand in the Hong Kong market. To what extent has this impacted the Asian market as a whole?

Solway: Hong Kong will always be hugely relevant to Asia given that it is viewed as the easiest route to China, with topical sectors including property, heavy industry, transport and financials.

Last year was also a banner year for Hong Kong in IPOs. Companies such as Xiaomi, Meituan Dianping and China Tower listed and were responsible for 20 percent of the top 10 earners in Hong Kong.

Do you think harmonisation across the Asia Pacific can be achieved? What benefits would this bring?

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> **David Lai**
> Executive director
> Agency securities lending product manager
> J.P. Morgan

Snowdon: Despite the Asia Pacific's regulatory fragmentation, it is not unreasonable to expect the gradual convergence of securities lending rules across jurisdictions over time. Asian economies are all developing at a different pace, and hence regulators will have differing priorities, abilities and willingness to make changes to securities lending rules that align with a standardised model.

However, if one observes the overarching regulatory trends across the region, and recognises that ultimately there are clear benefits to participants in pursuing greater standardisation, it is reasonable to expect the Asia Pacific to follow this trajectory—albeit at a pace which complements the ongoing development of capital markets country-by-country.

Nizami: Harmonisation of rules and regulations in securities lending markets would have clear benefits, such as the standardisation of operational processes and a reduction in costs—ultimately making it easier for markets to thrive. This, in turn, would likely spur greater activity across the industry as it would encourage increased participation from asset owners, especially those who are currently reluctant to lend due to operational complexities. We believe that harmonisation is unlikely to occur in the Asia Pacific region in the near term. Each market in this region has its unique characteristics and differences that are driven largely by local laws and regulations, which would make standardisation difficult to achieve.

That being said, there has been a recent push by regional governments to increase cooperation. Particularly in the asset management industry, increased cooperation is visible through the implementation of passporting schemes, as well as broader discussions in regional platforms such as the Asia Pacific Financial Forum (APFF), whose goal is to accelerate development of robust and integrated financial markets in the region. We believe that over time these initiatives and increased cooperation between regional countries will lead to positive outcomes for the industry as a whole.

Broadfield: The potential upside from harmonising governance, market regulations, market trading rules and securities lending frameworks—to name but a few—across the Asia Pacific region would be significant to say the least, however, the likelihood of this being achieved is low in the foreseeable future, given the number of markets, regulators and exchanges who would need to align—it would be a herculean task.

Lai: While harmonisation may bring benefits that are not limited to securities financing, the idiosyncrasies of each regional market is to an extent what creates potential value in lending opportunities for counterparties.

From our perspective as a global securities lending agent, clients are looking for a provider that has the ability to support different transaction parameters to deal with regional market realities.

This could include booking a T+0 trade, booking across multiple currencies, booking an internal loan swap to make a client sufficient within a strict external cut off deadline, or booking holds that feed into Next Generation Trading.

Solway: Harmonisation in the Asia Pacific would definitely make it an easier market to operate in, and to some extent, the market is already seeing some standardisation such as a shift to T+2 settlement.

However, the beauty of Asian markets is there are a number of different factors which create different trading opportunities and volatility for market participants in the region.

What challenges do you see on the horizon for the securities finance industry in Asia?

Lai: There will likely be a continued focus on regulation and further market volatility. Off the back of this, we have an opportunity to provide further education on the features and benefits of securities lending as part of a well-functioning market. As Oscar Wilde once said: "You can never be (overdressed or) overeducated," so I truly believe that our challenge and opportunity will be to continue to provide education about what our industry does.

In terms of challenges, the various evolving tax regimes in the region may impact the agency lending business. The industry will need to be mindful of these and undertake necessary due diligence to truly understand any potential impacts.

Broadfield: The reluctance of some markets within the Asia Pacific region to open up securities lending to offshore lenders will continue to provide challenges to the securities finance industry, although recent developments within markets such as China bode well for the longer term.

Solway: In Singapore, the Singapore Stock Exchange moved its settlement cycle from T+3 to T+2, which has created some operational difficulties for the local market as a result of early settlement regulations and this makes it hard for institutions to move securities to the right place on time. This has meant some providers of lending liquidity have reduced or stopped their lending activity.

Nizami: The past few years have resulted in robust lending demand in Asia. However, the outlook for the global economy is now looking increasingly uncertain, whether it is because of concerns over the state of China's economy, the fallout from Brexit, geopolitical risks in Continental Europe, or the outcome of US/China trade talks.

While this could provide some pockets of opportunities for lenders in the region, the growing uncertainty and the effect it could have on the markets in terms of increased volatility could be negative for the industry.

We remain optimistic that this year will be another strong year for lending returns in Asia, however, these potential headwinds could result in increased cautiousness for investors, which may impact lending demand throughout the year.

Snowdon: The global challenges we see emerging across the broader beneficial owner community are very much applicable to those participants in the Asia Pacific.

Among these, the drive to enhance performance amidst rising cost pressures, while a challenge, is also helping to grow momentum in the securities lending industry both for asset owners and asset managers.

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

Broadfield: We have seen increased efficiencies and transparency through the use of automation and analytics across the Asia Pacific region.

As per the global execution space, the use of automated trading technology to handle increased volumes of quant driven flow is increasing, as is a more recent trend towards using analytics and algorithms to automate allocation methodologies in order to significantly reduce manual touch points from the very beginning, through to the end of the lifecycle of a trade.

Therefore, it stands to reason, that the continued developments around these topics seen in other trading spaces will also cross-over into the securities lending industry.

> ***The drive to enhance performance amidst rising cost pressures, while a challenge, is also helping to grow momentum in the securities lending industry both for asset owners and asset managers***
>
> **Mark Snowdon**
> Head of capital markets, APAC
> Northern Trust

Solway: Like other markets, technology is going to be a big driver for Asia given its lack of standardisation—this will be relevant for both the trading floor and the operational side of the business, which both need to develop symbiotically in order to get the most out of those developments.

Additionally, traders have a plethora of short-selling rules to consider across each market, so using technology as an enabler to navigate quotas and other exchange limiters will certainly be of benefit to the high-frequency or quant traders.

Lai: Regulatory change continues to be an area of focus in Asia and globally. Commentary in the last year or so has been on the pending Securities Financing Technology Regulation in Europe and the likely extraterritorial impacts; however, it should be noted that the Asia region is also seeing developments in the transparency and reporting space.

One example is the expected launch of Australia's disclosure of interest requirements for the lending industry. Another is the recent introduction of the broker to client identification number model by Chinese authorities for NorthBound China Connect flows, which has the aim of enabling the more efficient monitoring of cross border market surveillance. J.P. Morgan has worked closely with local regulators, such as ASIC, to understand and prepare to meet future transparency and reporting requirements.

We expect a ramp up in the implementation of technology by industry participants at a much broader level, which will further automate low touch activities

Zubair Nizami
Head of securities lending trading APAC
Brown Brothers Harriman

Overall, the need to provide timely transparent information will mean further investment from the industry as we believe Asia will continue to look to align with the objectives of the International Organization of Securities Commissions.

What will be the top securities lending trend in Asia this year?

Lai: Innovation will remain a key component of the securities lending industry in Asia this year as beneficial owners seek solutions to help generate additional alpha for their portfolio. The ability to use collateral pledge, for example, provides a scalable indemnification solution for beneficial owners and their counterparties.

The focus on China continues, as market participants look forward to more open securities and lending frameworks and, in many cases, are liaising with the relevant authorities to foster that environment.

Nizami: This is not necessarily a trend specific to Asia, but rather a focus for the entire industry, we expect the drive towards increasing efficiency and reducing operational costs to continue.

The way this will most likely be achieved is through the usage of more efficient trade structures such as pledge, rather than title transfer, and a continued focus on flexible collateral financing.

In addition, we expect a ramp up in the implementation of technology by industry participants at a much broader level, which will further automate low touch activities.

Solway: This year, from a market perspective, Japan will continue to be the main focus of participants as it pulls out of low growth rates. We have already seen a good uptick in activity this year in corporate activity—such as Takeda Pharm/Shire deal and the SoftBank IPO at the end of last year.

Technology will, of course, continue to be a key trend as it drives further efficiency in securities lending. It will help solve the issue of how to run this business better, faster, cheaper and safer.

Broadfield: Markets across the Asia-Pacific region are continuously developing, providing a plethora of growth and revenue optimisation opportunities.

At BNP Paribas, we anticipate a continuation of borrower demand for high quality liquid assets in particular for those assets held by lenders who are able to offer flexible collateral schedules and commit to longer term trade structures.

2019 will be a pivotal year as we capitalise on the enhancements and changes made across the global BNP Paribas' agency platform throughout 2018 and expand our trading capabilities later this year with the addition of a trading desk in Hong Kong. **SLT**

Latin America: The Final Frontier?

After the recent launch of the Latin America Securities Finance User Guide, Fran Garritt of the RMA and Dan Dougherty of EquiLend discuss their motivations behind the guide and the developments they expect to see in the region

What were your motivations behind the Latin America Securities Finance User Guide?

Fran Garritt: The 2017 Risk Management Association (RMA) Conference on Securities Lending featured a panel on the Latin America market that was well received, and which led to a follow-up web seminar in February of 2018 that many in the industry also found valuable. Based on that feedback and the growing interest in the region, RMA and EquiLend determined that a research paper was needed.

Thankfully, we were able to rely on contributions from industry experts like Jill Rathgeber of BNY Mellon, who co-chaired the conference, and Gene Picone of Scotiabank, who moderated the seminar. The guide is meant to be a "living document" that will bring both a continued focus on the markets and hopefully productive discussions on how foreign investors can comfortably execute their investment strategies. We see what the work of the Pan Asia Securities Lending Association (PALSA) has done for the Asian markets as a good example of how such communication can invigorate a market. PASLA has managed to bring players together and to work effectively with the local regulators and central banks to structure working models, which provide easier entry for participants without necessarily compromising local risk management requirements.

Dan Dougherty: The Latin American region is perhaps one of the least understood by global securities finance market participants—it has been called one of the "final frontiers" by some in our industry. As we discuss in our user guide, various countries in the region boast considerable GDPs yet their stock markets pale in volume to comparatively sized countries elsewhere. This dynamic results in tremendous opportunity for the future growth of the region's exchanges and, in turn, securities finance markets. From our ongoing discussions in Latin America, it is clear many of the markets in the region understand the benefits of a thriving securities finance industry and are making strides in establishing the necessary infrastructure to support the growth of the industry.

EquiLend and RMA joined forces to produce the user guide to give global market participants a comprehensive view of the status quo in the Latin American securities finance markets, the first time this information has ever been compiled all in one place. We look forward to continuing to work with our partners in the region and collaborating as the industry continues to advance in the coming years.

What trends are you currently seeing in the Latin America securities lending market?

Dougherty: As we cover in the user guide, significant advancements are being made in Latin America, including regulatory changes, alignment to international best practices and technological advancements. Our contacts across the region have been incredibly engaged with us and have a real desire to encourage more domestic and international market participants to enter the securities finance markets in Latin America.

Garritt: Across all of the markets, there is a desire to get investors more involved in the region and to add liquidity within the markets. The nations are at varying stages of market development, with Brazil and Mexico moving at a rapid pace and others making significant strides. Brazil continues to fine-tune its equity stock loan processes in the quest to attract more foreign participants and has announced it is looking to launch a fixed income model in the next year. Mexico recently announced some broad financial changes which include revisions to securities lending to increase liquidity and foreign investment. Peru, with the help of industry participants, has revamped its modified central counterparty (CCP) model and is looking to launch before this summer. At the end of 2017, Argentina went headlong into the product with the goal of refining the process to include foreign players over the next couple of years. Chile has announced its intent to move its local securities lending product into a blockchain-based CCP, while Colombia has recently seen an increase in securities lending activity locally.

What countries would you say are currently set up to excel in securities lending markets?

Garritt: It's hard to predict which countries will excel individually. If you exclude Brazil they are all very linked, not only to each other

> *The Latin American region is perhaps one of the least understood by global securities finance market participants—it has been called one of the "final frontiers" by some in our industry*

Dan Dougherty
Global head, business development
EquiLend

but to what is transpiring in the global economy. However, given its attractiveness to investors today and the aforementioned regulatory proposals, it would appear that Mexico is poised to take a leap forward in its quest to increase liquidity.

Dougherty: Brazil has the biggest and most seasoned securities finance market in the region. What we were especially impressed with while producing the user guide, however, is just how motivated other markets across Latin America are—particularly Mexico, Peru, Argentina and Chile, all of which participated in the development of the user guide—to build up their own securities finance markets. In the past year, we have seen a noticeable shift across the region where there is now real investment being made to grow the securities finance markets in these countries.

What challenges do you think the region faces?

Garritt: To attract the critical mass of US and European beneficial owners necessary to establish Latin America as a robust market for securities finance, several rules that are in force throughout the region will have to be amended, particularly in regards to indemnification, collateral, and clearance and settlement. These markets may continue to find themselves struggling to access foreign supply if the regulators are slow to approve proprietary rule changes. But the potential is huge. With access to the global depositary markets and the ever-increasing trend toward passive investing including mutual funds and exchange-traded funds (ETFs), a considerable amount of local investment resides in the hands of some as-yet very regulated investors.

What developments do you expect to see over the next 12 months? And what role could MILA play?

Garritt: The pace of development of Latin American markets has been slower than the securities finance industry would care for. We hope the user guide will make more people aware of the potential, and will allow the industry to address issues that will transform Latin America to an increasingly robust market. This would make it more accessible to beneficial owners in Europe and the US. Continued discussions with local regulators and exchanges could also quicken the pace of development, especially if it highlights the success some Asian markets experienced when they collaborated with industry participants to create a model that works for all participants as well as regulators.

Dougherty: In addition to the aforementioned regulatory and infrastructure changes currently going on across the region, we see a growing interest among agent lenders and brokers in Latin America to adopt global standards, making it easier to transact with counterparties across the globe. One of the ways they can do this is through investment in technology.

From an EquiLend perspective, we very much look forward to continuing our work with Latin America market participants and connecting the region to the world through our industry-leading trading and post-trade platforms. There remains a lack of transparency in most of these markets on market volumes and activity, so we also look forward to working with entities in the region to incorporate even more robust Latin American market data into DataLend.

Mercados Integrados Latinoamericanos (MILA) was developed to link the exchanges and central securities depository and harmonise best practices across the Latin American region. It has made strides on that front.

While the impact on the securities finance markets of the region has been minimal to date, our analysis, published in the user guide, suggests MILA has helped lay groundwork important for fostering greater cross-border securities lending activity. **SLT**

> ***To attract the critical mass of US and European beneficial owners necessary to establish Latin America as a robust market for securities finance, several rules that are in force throughout the region will have to be amended***

Fran Garritt, director
Securities lending and market risk
RMA

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A range of regulation

George Trapp of Northern Trust provides insights on SFTR, US regulations and how regulation will impact the industry over the coming years

Maddie Saghir reports

Firms are encouraged to be well prepared for SFTR, but with adjustments still being made, do you think some firms will take more of a wait and see approach?

After an initial flurry of activity, some firms did take a pause as the Securities Financing Transaction Reporting (SFTR) implementation date drifted, however, I would be surprised and concerned if any firm is still adopting a wait and see approach. The core of the regulation's requirements are unlikely to change at this stage and there is considerable preparation required in a relatively short timeframe if firms wish to be able to test their functionality ahead of the first implementation date. An example would be ensuring that you have all the necessary data elements (over 100) that are required by SFTR. Any final adjustments and best practices are not going to alter the bulk of the work required to be ready. There is much work that firms should be doing now in preparation for having their solutions in place. There is little time to wait and see. For example, at Northern Trust we are already beyond the planning stage and are well into the required development for SFTR, to be able to service our clients on implementation in 2020.

Arguably, SFTR is one of the most complex regulations yet, however, some industry participants have argued that it will improve market practices. Do you agree with this?

Yes. A good thing about SFTR regulation is that it forces industry participants to start standardising the data structure of securities finance. The industry has worked successfully until now with both borrower and lending agents able to manage the lifecycle of a trade differently in their respective systems. SFTR will provide an opportunity to bring the industry closer to a single model. Standardisation of the industry should make it more efficient. For example, there will be less exceptions and delays in trade processing thus making it easier to trade. Standardisation should also simplify startup for new entrants, particularly technology firms, offering them easier access into the industry. Ultimately, a more efficient market will benefit all participants.

What do you think the securities lending landscape will look like in the next five years? How will regulation impact it?

If history is any indication of the future, regulation will continue to be at the top of everyone's agenda for the next several years. Recent developments on SFTR and resolution stay protocols have provided certainty around details and implementation timeframes. As these regulations are finalised and implemented, they will allow the industry to position itself for the future.

In addition to regulation, alternative distribution channels, alternative trade structures and technology will continue to be a focus for the securities lending industry. Central counterparties continue to gain traction and are working closely with the industry to help provide efficiencies both from a trade matching and balance sheet perspective. Along similar lines, borrowers are looking for different trade structures to meet their specific requirements. These include different collateral and term structures. It will be important for beneficial owners to be flexible in terms of the types of collateral they accept and trade structures they will allow in order to keep pace with the changing securities lending marketplace. As the industry grows and expands to support new distribution channels, regulations will need to be flexible to support these changes.

What regulations are currently impacting the US?

The most direct regulatory impacts for lenders in the US securities lending market in 2019 and 2020 are the resolution stay period regimes becoming effective in significant jurisdictions globally and SFTR. Other regulations impacting the US lending market more broadly are and will continue to be those that affect borrower demand, such as liquidity coverage ratio and net stable funding ratio.

Finally, changes to the calculation for risk-weighted assets have been approved by the Basel committee. Reducing the regulatory costs on securities lending transactions can provide a catalyst for an increase in activity. Northern Trust is working closely with the industry, and with our clients, to ensure that the regulations are adhered to and understood by our clients.

How important is transparency and data provision when it comes to reporting implications?

SFTR is bringing information and transparency to the forefront of the industry. There has been a trend towards more transparency and clients are demanding more information on their programmes. Transparency will continue to be a focus for clients and moving to the broad data requirements of SFTR should ultimately provide more optionality for clients. The challenge going forward will be to understand what the client's need for data and ensuring that is available to them. **SLT**

"If history is any indication of the future, regulation will continue to be at the top of everyone's agenda for the next several years"

George Trapp
Head of business management for securities lending, North America
Northern Trust

On a positive note

Robert Lees of BBH suggests that this year, many of the core themes of last year will continue, leading to another positive year for securities lending returns

Last year, was a turbulent year for global markets and from a securities lending perspective, it offered numerous opportunities to generate returns in what became a banner year for many lending programmes. This year, we expect many of the core themes of last year will continue leading to another broadly positive year for securities lending returns. With the predicted pace of the US Federal Reserve (Fed) rate hikes slowing down, global growth expectations now moderating, and political risk continuing to be elevated, it is our expectation that securities lending demand will be resilient in H1 this year as investors position accordingly.

In H1 last year, steady growth was observed across all regions and global on-loan balances increased by 10 percent over the same period in 2017, more than offsetting a drop in average spread. This, paired with an elevated level of volatility and greater economic uncertainty associated with events such as Brexit, led to a more diversified, stable and long-term set of loan opportunities across the programme compared to 2017, where opportunities were in a concentrated number of stocks. Over the second half of the year, news headlines dominated the markets as trade-tariff based rhetoric, concerns about accelerated monetary policy in the US, and a much-anticipated market correction in October, caught many investors off guard. This erased much of the gains experienced in 2018 and led them to take a 'risk-off' stance. This has led to a marked change in the lending environment, with higher volatility in lending volumes and lending fees as fund managers look to de-risk, cut losses or take a 'sit it out' attitude.

In the Americas, demand has been driven by many factors. The foremost is the worsening consumer sector, as online giants continue to change the way consumers purchase products. The legalisation of cannabis products in Canada has spawned a significant level of borrowing demand as speculation persists whether supply will match the amount of real demand. Many cannabis producers went public in Canada early on, post legalisation, thus priming the market for mergers. Stock prices remain extremely volatile in this sector. Rising interest rates are putting short term corporate bonds under pressure, as many struggling corporations are finding it hard to meet their short-term obligations. As interest rates continue to rise, this will only intensify, and many short-term bond exchange-traded funds (ETFs) are attractive to borrow as hedge funds short the sector.

As we move throughout this year, we expect a much different economic landscape in the US than in 2018. The predicted speed of rate hikes has decreased, oil prices have dropped precipitously, and markets have been disrupted. The expectation is that funds will be as active as they were to start 2018 but understanding of the new landscape. The hedge fund market saw minimal outflows and has seen many new high-profile start-ups in 2018. Demand is expected to be resilient in H1 2019.

In Asia, lending demand has been driven by a combination of themes, not least by the escalation of the US/China trade war which led to an increase in volatility across the region. In Hong Kong, demand has been buoyed by a strong pipeline of initial public offerings and broad capital raising activity, particularly in the e-commerce and technology sectors. In Japan, an increase in corporate scandals and merger and acquisition deals has provided additional impetus for lending demand. Tightening Chinese government regulations in the online game sector has negatively impacted developers across the region. Particularly developers based in China, Japan and South Korea, were further affected by the selloff in the global technology sector in Q3/Q4 2018. Lastly, in South Korea, we have witnessed robust demand in the biotech and pharmaceutical sector on investor concerns that these sectors were overvalued after a strong market rally that began in 2017. As we move throughout the year, demand in the education sector may increase as a result of potential further regulation that will negatively impact private educational operators. Additionally, Chinese automobile manufacturers continue to be a popular short as the industry is beset by a broad slowdown in demand for vehicles.

In Europe, political uncertainty and a weak consumer environment have proved to be key drivers for lending demand. Demand for retail providers, particularly in the UK, has been strong as several high street names announce store closures, restructuring plans and poor sales because of rising costs and poor seasonal revenue. In Italy, banks continue to face headwinds as the economy continues to stumble. Finally, across the continent, lending demand has increased for companies within the construction sector as output has fallen, contract uncertainty has grown and contagion from the collapse of one of the UK's largest contracting firms, Carillion, has led many to wonder what was in store for similar firms.

We expect many of the themes affecting lending demand to continue in Europe throughout the year with no respite for the retail markets. We expect Brexit to continue to dominate headlines in the first half of the year as the UK Prime Minister Theresa May seeks to close divisions within parliament and hopes to ensure that a deal is agreed upon prior to the 29 March deadline. The outcome of the final deal could have large ramifications for aerospace, automobile and manufacturing industries in the UK and throughout Europe.

In conclusion, we expect lending demand to be steady in H1 2019, albeit masked with extra cautiousness. The market volatility in Q4 2018 has led to a period of de-risking and hedge fund performance in the second half of 2018 came in below expectations. Additionally, several macro headwinds could negatively impact borrowing demand, such as a rapid escalation of the US/China trade war, a sharp economic slowdown in China and an increase in political tensions across Europe. **SLT**

Robert Lees
Global head of securities lending trading and head of securities lending EMEA
BBH

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Growing up

After gaining significant market traction since its launch, David Raccat of Wematch explains how the firm is managing its growth and development

Becky Butcher reports

How's business at Wematch? Was last year a good year for you?

Last year was a very exciting and successful year for the business. We had very significant market traction after going live in September 2017. It was also an outstanding year for onboarding new clients and new dealers—that front of the business was extremely positive. The objective for us was to build out the brand, to communicate on our strategy as clearly as possible, and to get adoption from the banks. I believe we have managed to do this. We have made a solution, which is available to the industry, and has been recognised and even rewarded.

On the industry adoption front, we are now onboarded with 50 financial institutions, and we have reached the threshold of 650 users connected to our platforms. Overall, it has been a great success and we are happy with the way the market has welcomed the initiative.

What's new at Wematch and what have you been working on?

Our strategy remains to build platforms for dealers and to roll out our horizontal development on a cross-asset basis. We have launched our securities financing solution in 2017, and the proof of concept (POC) is now allowing us to develop new platforms in a partnership model. We can now leverage on our experience through the securities financing products and on the onboarding, which is allowing us to welcome new teams, new desks, and new users very quickly.

We have launched two new platforms: Wematch equity derivatives end 2017 and Wematch delta one in September 2018, which has enabled us to enrich our asset class coverage and to welcome new dealers into the Wematch community.

We have also launched a collateral optimiser feature allowing our users to rebalance their collateral pools and automatically trigger recalls/unwinds as per their needs, opening our platform into loads of possibilities on the post-trade and trade lifecycle events dimensions.

Implementing partnerships with banks is proving extremely powerful, and the association of our technology with market expertise is a fantastic recipe for success. At this stage we have launched two major initiatives: the first one is with J.P. Morgan on interest rates and the second one is with Société Générale on equity derivatives. The idea of partnering with those banks allows us to benefit from market expertise and help deliver the best platform on those specific asset classes. Those partnerships will allow us to embark all dealers to contribute and help to build the platforms which are designed by the banks and for the banks.

What does your new role involve?

The new role is a natural evolution of our development. Moving away from a 'single asset class' dimension into a cross-asset platform, there is a need to structure Wematch on a cross-asset basis.

We will also be looking at expanding the team and increasing our product capabilities as the company continues to grow.

We will be pushing as well our offers on a global basis and will be looking at expanding in the US and in Asia with a physical presence as a natural evolution of our current footprint in Europe.

What will be the biggest challenge for Wematch this year and why?

Our first challenge is to manage the growth and the development we are seeing at Wematch. This is obviously very exciting and goes through a lot of different stages from corporate governance to adapted organisation. I believe this is called growing up!

In terms of industry challenges, we are facing the spectrum of SFTR that is keeping all our clients busy. It will also have some impact on our product offering, especially around the creation of the unique transaction identifier (UTI). This is a huge challenge at the industry level but hopefully, it will provide greater transparency.

On that space, we do believe that the solutions we are putting together are helping for more transparency. A platform gathering interests anonymously and used widely by the industry should increase transparency and facilitate price discovery. We are looking closely at the regulatory environment on each asset class and driving our roadmap and matching algorithms with full respect of the regulatory requirements.

Finally, connectivity and interoperability remain a very strong driver for Wematch. We look at connectivity through the client angle (with the ability to implement APIs and interfaces with our clients' front-to-back systems), through the exchange angle (connectivity with exchanges and clearings houses), through the third-party providers angle (tri-party collateral agents, post-trade services providers), and last but not least through the regulatory angle (APIs with data repositories and pre-trade and post-trade reporting service providers). **SLT**

"Implementing partnerships with banks is proving extremely powerful, and the association of our technology with market expertise is a fantastic recipe for success"

David Raccat
Co-founder and EMEA CEO
Wematch.live

Food for Fort

Panels on key market drivers, regulation, CCPs, technology and more provided IMN's conference delegates in Fort Lauderdale with food for thought

Maddie Saghir reports

Near the sunny shore of Fort Lauderdale Beach, Florida, IMN hosted their Beneficial Owners' International Securities Finance and Collateral Management conference, where an array of topics were discussed, providing delegates with food for thought. Panel sessions included topics on key market drivers, regulation, central counterparties (CCPs), technology, collateral flexibility and optimisation strategies, to name a few.

Kicking off the conference, chairperson, Jeffrey Kidwell, repo and securities lending veteran, said: "It has been quite a year [2018] for the securities lending industry. We saw the highest annual revenue for securities lending since the financial crisis in 2008."

"This was driven primarily by emerging markets, global credit uncertainty, and central bank tightening. We overcame trade wars and US political systems problems, which obviously haven't yet ended. Securities Financing Transaction Regulation (SFTR) also remains a major topic especially in Europe."

"Uncertainty was the key [theme] for last year", Kidwell said, and alluding to the conference days ahead, he added: "We are going to discuss these themes a lot deeper in panels...I think you'll find the content has changed dramatically this year."

Discussing data in more detail, one speaker noted that global revenue came in just shy of $10 billion last year. This was made up from $4.65 billion in the Americas, $3.09 billion in Europe, the Middle East and Africa, and $2.22 billion in the Asia Pacific.

Nancy Allen, global product owner at DataLend, commented: "We saw volumes increase pretty much across the board, although the Americas suffered in the second half of the year."

Highlighting the importance of benchmarking and effective use of data, Tim D'arcy, senior vice president, FIS Astec Analytics, advised beneficial owners to be active in managing their programmes so that they are quicker to notice market changes.

In terms of beneficial owner collateral acceptance last year, it was noted that 56 percent of US beneficial owners used cash only, 43 percent used mixed collateral and 1 percent used non-cash only collateral. This compares to 1 percent of non-US beneficial owners who used cash only, 42 percent who used mixed collateral and 57 percent used non-cash only. One panellist noted that if you can expand your collateral flexibility to include non-cash collateral then you should.

Melissa Gow, executive director, IHS Markit, explained that US equities loan balance against non-cash collateral rose through 2018, continuing the trend from 2010. Predicting expectations for this year, Gow said that there is an expectation of a continued strong performance due to the legalisation of derivatives online retail availability, and US state legalisation. She added: "[This year] market expectations see market volatility drive demand, leading to increased fees and revenues."

In a separate panel on the outlook of securities finance, speakers also made some predictions of what they expect to see for the year ahead. In terms of disruptors, one panellist predicted that regulation will be the biggest disruptor this year, replacing technology and macroeconomics.

The panellist explained: "Regulation is the biggest disruptor because it feeds the technology. The regulatory environment has really helped people 'sharpen their pencils' on all of the costs associated with transacting in the securities lending space."

One panellist said they are excited for the future of securities lending. The speaker commented: "I think we will see a few new markets open up, for example in Saudi Arabia, and when new markets open up there will be a different type of activity. We are seeing new entries into the market, and this is all very positive for the industry, however, we are seeing securities lending demand remain somewhat stagnant."

The panel also discussed market volatility and the moderator asked panellists how it has changed securities lending.

One speaker replied: "Hedge funds generally thrive in market volatility and for the first three quarters of 2018 we saw that strength, and we have talked a lot about the record returns that beneficial owners experienced. As we headed into Q4, due to political pressures—for example, the US and China trade wars and concerns around Brexit—there was a creation of a lot of unprecedented market volatility and with that came subdued securities lending volumes and fees."

Another panel at the conference saw speakers provide delegates with an update on CCPs and their role in the securities finance ecosystem. The moderator, Jennifer Whitcomb, managing director, State Street Global Markets, asked panellists what the future holds for clearing in securities financing transactions.

In response, panellist Matt Wolfe, vice president, product development, OCC, commented: "At OCC we are investing heavily in creating a next-generation clearing platform for all products that we clear for and that has given us an opportunity to think creatively about what the future looks like. It is forward-looking and data-driven and it is also intuitive to use and aims to look forward into the future of what our clients need."

In terms of trends, Wolfe said: "There is a trend for data focus and data-based decision making. Ensuring that the platform is real-time, fully automated, has robust data, is important but also the user experience is equally important as automation."

"We are applying human-centric design principal to make sure that the experience of clearing and using our systems is a pleasure and enables participants to focus on what matters most."

James Hraska, managing director, DTCC, said: "We are trying to build products that are user-friendly, and we are continuing to look at different avenues and we are happy to hear feedback."

Whitcomb echoed this: "I would like to encourage that cycle of feedback and find out what it is that peers are looking for. We have been working collaboratively on these efforts so I would encourage participants to seek feedback and reach out to their service providers. Then you can move forward in a way that is helpful for everyone in the industry."

Arianne Collette, executive director, Morgan Stanley, added: "Ask questions about the programmes so that you know what is going on in the marketplace and so that you can provide feedback. It is also important to ask for price points and understand what the pricing looks like."

Meanwhile, a panel on technology looked at the hype and reality for blockchain, distributed ledger technology (DLT) and other emerging technologies. Talking about blockchain, Christopher Ferris, engineer and CTO of open technology at IBM, observed: "Blockchain is a team sport, it only works when everybody is willing to participate."

Armeet Sandhu, CEO, Stonewain Systems, remarked: "Blockchain and hype around this technology has been around for a while. I see the efficiencies that technology brings in from all of the post-trade services, and the value of that efficiency is one big benefit for the providers. What value are the beneficial owners going to reap if the providers implement blockchain? Transparency could be one, this is a big plus and it allows participants to be better informed by listening to this shared ledger."

It was noted that blockchain is often referred to as a solution looking for a problem, and so the question was asked: "If blockchain is the solution, what's the problem in securities finance?"

Some of the problems listed included SFTR, pledge structures and collateral optimisation, and cash collateral pools. Ed Blount, executive director, centre for the Study of Financial Market Evolution, commented: "SFTR is a big issue facing our industry and we need to assess to which degree that might change agent lender disclosure and how blockchain might be a solution for that."

Discussing technology more broadly, Ferris cited: "Technology is evolving rapidly and as people try out new use cases they are finding out one of two things. They are either finding that they have a nice optimisation but the expense of implementing the solution into the enterprise is going to be greater than the benefit that they might reap from. Second, there are the solutions which are transformative, where essentially a problem is being solved which hadn't previously been solved from technologies such as blockchain and DLT."

On day two of the conference, there was a panel entitled 'Progressive Approaches to Lending and Cash Management Programmes in Today's Market', which saw panellists delve into the future environment for the securities finance industry. Panellists noted that the industry could be heading to a non-cash environment.

Patrick Morrissey, head of product, strategy, and implementation, securities lending at Vanguard Group, cited: "The environment that we are moving into is seeing participants move into the non-cash space."

The moderator, Peter Bassler of eSecLending, asked panellists: "Everyone [at the conference] wants to pledge non-cash on the borrower's side. The interesting thing for me is that the cash markets are giving you a great deal, you can make 20 to 30 basis points with your cash, but the borrowers want to give you non cash—so how do you balance that and what are you doing today in your programmes with the cash/non cash dynamic?"

Dan Kiefer, investment manager, opportunistic credit, CalPERS, affirmed: "You have to do something with cash when you have a lot of it and sometimes yields aren't good. We run an intrinsic only programme so we weren't searching for cash yield and our balances would run between $20 to $24 million."

"When we moved to non-cash it's about finding that table for a smaller cash balance, which gives you a lot more flexibility. The other thing we noticed when we were bidding off our portfolios was that we weren't getting cash bids because it has become non-economic for a lot of bidders to give us cash bids."

Bassler then asked the panel: "What are the biggest challenges of getting the treasury management function?"

One panellist observed: "The idea of securities lending, while they understand risk and rewards, is not necessarily something that they understand on a deeper level, and so it's about getting their attention on what the opportunity set looks like."

"A lot of this peer to peer action has been incredibly helpful. Once they understand what we're talking about, the economics story will be easier to tell." **SLT**

Employing technology to its full potential

Given the forthcoming demands that our market faces, David Lewis of FIS explains that the full potential of current and new technologies must be employed if the market is to stay afloat, let alone develop

We live in an increasingly exception-based society where repetitive processes are undertaken more and more by machines or automated processes. These can range from the mundane tasks, such as washing clothes in the washing machine, to truly transformational events such as the breaking of the Enigma code in World War II. The inventor of the code-breaking machine, Alan Turing, commonly referred to as the creator of modern computing, recognised that the task of breaking the nearly 159 quintillions (159 billion billion) possible combinations in each discrete 24-hour window available to them was simply beyond any human capability, instead developing a machine to meet the challenge. In more recent years, with the advent of the smart devices we all carry around or have in our home, we have seen what was previously truly transformational in terms of processing capability become almost mundane.

Industrial processes, such as vehicle manufacturing, are dominated by automated factories populated by robots. Using humans to build such products no longer makes economic sense, as global competition has increased, and margins have been squeezed. Our own financial markets are seeing robot advisors providing banking services and even replacing fund managers as the “fee free” investment fund becomes more common, and costs must be cut in an ever more complex environment. Securities finance is no different. The increasingly complex regulatory environment drives change in our own processes and structures, but it is also pushing demand for securities finance and collateral management services ever higher.

The GFF Summit in Luxembourg at the end of January produced a great deal of interesting analysis and commentary, including reporting a belief among 83 percent of attendees that the demand for high-quality liquid assets (HQLA) would either “increase” or “increase significantly” over the next two years. With only 48 percent of the same audience indicating they believed the supply of HQLA would “increase” or “increase significantly” over the next two years, the effect on the market will not be hard to predict. In simple supply and demand logic, this will bring even greater pressure to bear on the market mechanisms charged with mobilising collateral to meet the increasing demand.

To put this into some kind of perspective, consider the expanding influence of initial margin requirements for non-cleared derivatives. Following the Pittsburgh Summit of 2009, when the G20 Heads of State met, the Financial Stability Board (FSB) was charged with finding ways to “improve both the quantity and quality of bank collateral and to discourage leverage…” as well as mandating all standardised over-the-counter (OTC) derivatives to be centrally cleared and those outside the central counterparty system be “subject to higher capital requirements.” All laudable aims, but the task before the market and its regulators would be enormous. In 2011, for example, the OTC market had a notional outstanding value of $708 trillion, or 10 times the GDP of the world at that time. The Mark to Market value at the same time was equal to around half the GDP of the world.

As the regulation rolls out, the market will have to source new collateral to provide both initial and variation margin. The phased-in approach of the regulation commenced in September 2016 and ends in 2020, with new market participants falling within its jurisdiction as the compliance level, based on notional trades outstanding, is lowered incrementally. September 2018 saw the entry levels set at over $1.5 trillion average notional outstanding, capturing just seven of the world’s largest banks; September 2019 will see the entry-level lowered to $0.75 trillion, bringing a further 35 organisations into the fold. However, the final increment will be the most transformational. In September 2020, all firms trading uncleared OTC derivatives with an average notional outstanding of over just $8 million will have to comply with the bi-lateral collateral delivery requirements. This is estimated at bringing 985 further entities into the scope of the new requirements.

Given that International Swaps and Derivatives Association (ISDA) estimated the value of collateral requirement to be around $1.4 trillion as at September 2017, roughly equivalent to the GDP of South Korea, the effect of this rollout across so many market participants, in terms of the collateral requirements they need to satisfy, should not be underestimated. At FIS, we are seeing increased activity from our clients looking to combine their securities financing and collateral management operations, with the objective of making the best use of all the collateral they may already have.

While looking internally rather than to the street, for ways to supplement the increasing thirst for collateral may lessen the strain on the financing market, it does threaten to disrupt the existing transaction chain. Increasingly, large asset managers are looking to manage their own collateral needs as far as they are able, developing repo and securities lending capabilities to manage the forces of supply and demand across their own organisation, before addressing the wider market. In order to manage this, increasingly complex collateral management systems are being developed, coupled with enhanced position management systems to give an overall, multi-discipline, multi-market view across the company. Standardisation of contracts, such as the ISDA Credit Support Annex (CSA to the ISDA Master Agreement), will help smooth the process of calculating bi-lateral initial margin between counterparties, but the enormity of the task and the demands it will place on the financing industry cannot be underestimated.

The opportunity it brings cannot be underestimated either; such an increased level of demand for collateral will likely bring a significant rise in activity across the transaction chain. However, to achieve that effectively and efficiently, the industry will need ever more advanced systems and capabilities, the likes of which Alan Turing could only have dreamt. Returning to the January GFF conference, another relevant discussion demanded attention and should ring alarm bells in some quarters. A panel on emerging technologies observed that technology employed “remains well below its full potential”. Given the forthcoming demands that our market faces, the full potential of current and new technologies, such as DLT and smart contracts, must be employed if the market is to stay afloat, let alone develop. The latest FIS Readiness Report indicates 80 percent of industry leaders in banks and brokers are embracing such digital innovations and seeing results. Are you? **SLT**

Comings and goings at State Street, EquiLend and more

Pirum has hired Nancy Steiker as head of business development across the Americas, while Gareth Day joins as product manager for CollateralConnect.

Steiker will be ably supported by the existing New York team, including strategic advisor Jim Malgieri.

She brings with her North American experience across trading, collateral management and operations from her previous roles at Citigroup and Lehman Brothers among others.

On 6 February, SLT reported that Steiker had left her role at EquiLend as associate director, global trading product specialist lead.

Meanwhile, Day joins Pirum after spending 20 years at Morgan Stanley where he managed the secured funding operations team and was involved in a number of regulatory and efficiency projects.

Pirum COO Phil Morgan commented: "We are excited by the addition of these two high calibre individuals to the Pirum team, which is reflective of the business and product demand we are seeing from our clients globally across all facets of the business."

State Street has let go of four senior executives in its securities lending, alternative financing solutions and enhanced custody sectors.

Jim McDonald, Doug Brown, James Bryant and Jamila Jeffcoate have all been axed from their posts.

McDonald served as head of global for securities lending and worked in State Street's Boston office.

Brown worked as global head of alternative financing solutions in the firm's Boston office and had worked there for over seven years.

Bryant who had worked at State Street for 14 years in a number of roles, was global head of business development, enhanced custody, working out of Massachusetts.

Jeffcoate, head of agency securities lending in Europe, the Middle East and Africa, was based in London and worked at State Street for 16 years.

A spokesperson for State Street said: "Securities finance is committed to creating a high performing organisation in line with State Street's broader strategic goals."

"To deliver this, we are restructuring our business to move towards a more integrated and agile model. This new model will enable us to better leverage our talent, provide even stronger client and counterparty coverage globally and contribute to the firm's goal of creating the industry's first-ever global, interoperable, front-to-back platform."

Northern Trust has promoted Lori Paris as head of client management for securities lending in North America.

Paris succeeds George Trapp, who has assumed a new role as head of business management for securities lending, also in North America.

Prior to her new role, Paris served as senior client relationship manager and before this she was an online client consultant. She has held various roles at Northern Trust over the last of 21 years.

Meanwhile, Trapp has been with Northern Trust for 31 years and has held roles, which include regional manager for Asia Pacific securities lending business, and sales, client servicing and product development for securities lending.

MarketAxess has hired Sunil Daswani as a consultant for its securities lending and repo business.

Daswani, who served at Northern Trust since 2002, left his role as head of international securities lending for Europe, the Middle East and Africa in March last year.

Daswani was also chairman of the Pan-Asia Securities Lending Association from 2004 to 2008. He has also held positions at Citi and UBS.

AxiomSL has promoted Joao Serodio as product manager for the trade and transaction suite, including the Securities Financing Transaction Regulation (SFTR) solution.

Serodio takes on the expanded role as AxiomSL approached the launch of its SFTR solution, following the European Commission adoption of the SFTR regulatory technical standards on 13 December last year.

Serodio joined AxiomSL last year and has been focusing on the SFTR solution.

Ed Royan, Europe, Middle East and Africa CEO of AxiomSL, said: "We're quite excited to have Joao Serodio expanding his influence in the role of product manager for trade and transaction solutions."

"Serodio's experience and knowledge of trade and transaction reporting, and his specific experience with securities transactions complements our established team and provides strategic guidance for the addition of the SFTR component to the existing solutions."

Commenting on his expanded role, Serodio added: "AxiomSL's focus while developing our SFTR solution was to 'nurture' an SFT along its lifecycle to achieve SFTR purposes for our clients."

"The solution will interface with different source systems, both at a trade level and at the confirmation and settlement levels, enriching the trade information with reference data, and ultimately defining the lifecycle event. We foresee the potential beyond the challenges of reporting SFTR trade events for getting a greater return on data investment by using the AxiomSL solutions, for example, to tackle the margin and reuse file calculations or managing the resolution of unpaired and unmatched trades."

Dinosaur Merchant Bank has appointed Andrew Truman-Williams as its new head of European portfolio and securities finance businesses, based in London.

Previously, Truman-Williams served at VTB Capital, where he was the head of securities finance for over eight years.

He joins with more than 20 years' experience in securities finance, and has secured senior positions at Commerzbank AG, HBOS and Man Group.

Taking on the newly-created role, Truman-Williams will report to Ed Reid, managing director of Dinosaur Financial Group in New York and to Paul Becker, managing director of Dinosaur Merchant Bank in London.

Commenting on his new role, Truman-Williams said: "I'm delighted to be joining Dinosaur Merchant Bank. It's a true challenger bank and I am particularly attracted to its combination of access to markets, good technology and compliance structures, coupled with international networks and personal relationships. The bank clearly has an in-depth understanding of what clients need and how to work effectively."

Jean-Jacques Cuerq has joined Torstone Technology to focus on growth in key European markets.

Based in France, his expertise of the European markets, sales, operations, and capital markets will help him drive Torstone's expansion on the continent.

He has over 20 years of experience in capital markets, including over 10 years as head of post-trade sales Europe, the Middle East and Africa for FIS.

Cuerq commented: "I'm delighted to join Torstone Technology at a time when cloud-based, agile technological innovation is bringing together a single integrated cross-asset platform rewiring the post-trade space especially as revenue streams are challenged by uncertain economics and growing competition."

"I'm excited and looking forward to working with the dynamic, talented team at Torstone to further strengthen its footprint in Europe." **SLT**