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GLMX:
A decade in the making

Brazil country profile | New benchmark on route | Women in Securities Finance panel discussion

HQLA^X blockchain platform passes transaction tests

HQLA^X has successfully facilitated several securities transactions by global banks through its blockchain securities lending solution, ahead of its November launch date.

The HQLA^X platform for collateral swaps leverages R3's distributed ledger technology, Corda, to provide liquidity and collateral management solutions for institutional clients in the global securities financing markets.

The solution is being jointly developed with Deutsche Boerse Group.

The simulated transactions involved the ownership of baskets of securities residing at Clearstream Banking SA and Euroclear Bank being exchanged without the need for them to be moved across the Bridge, the electronic communications platform normally needed to transmit securities.

Commerzbank and ING were among the market participants that tested the front-to-back trade flow across the multiple layers of the HQLA^X operating model.

Guido Stroemer, CEO of HQLA^X, said: "The successful execution of these simulation transactions is particularly important because they test the front-to-back trade flow across the four-layers of the HQLA^X operating model. As such, the simulation transactions are a key milestone in our client on-boarding journey."

The four-layer model aims to facilitate more efficient collateral management of high-quality liquid assets, which are in heightened demand due to increased clearing and margin requirements of Basel III, among other regulations.

Layer one, which is built on Corda, is the digital collateral registry that enables delivery-versus-delivery ownership transfers of baskets of securities. HQLA^X explained that this eliminates the operationally onerous requirement to move securities across fragmented securities settlement systems.

The other layers are: the Eurex Repo F7-trading system, where transactions are executed; the participating custodians/triparty agents, where the securities are deposited; and the Deutsche Boerse Group-owned Trusted Third Party (TTP) entity, which links the custodians/triparty agents to the digital collateral registry.

The TTP acts as an interface between the HQLA^X digital collateral registry and existing securities settlement infrastructures.

J.P. Morgan is currently being on-boarded to the TTP as a collateral receiver and collateral account owner, in the J.P. Morgan triparty programme.

In May, the TTP also became a client of Euroclear as a collateral taker on the triparty platform.

Speaking at the 2019 Securities Finance Technology Symposium, Stroemer said that the link with Euroclear represented an important step for enabling Euroclear clients to mobilise collateral on the HQLA^X platform.

Stroemer added that the TTP will become a collateral receiver at each of the major triparty agents in Europe.

As of September, HQLA^X has confirmed that "advanced discussions are underway with additional leading custodians and triparty agents".

Ahead of the platform's November launch, HQLA^X and Deutsche Boerse Group say they are continuing to actively on-board additional market participants.

HQLA^X was unable to comment on how many market participants it expects to be live on the platform when it goes live.

Inside SLT

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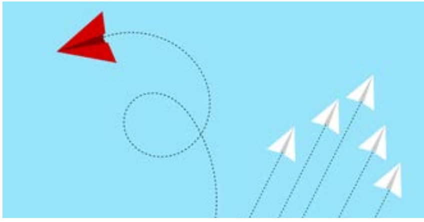

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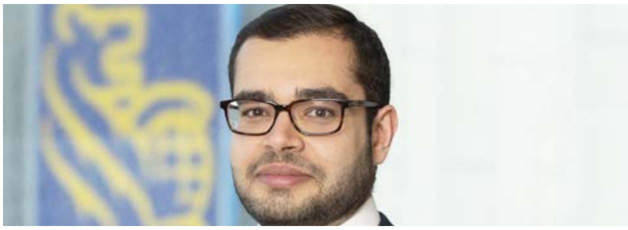

Insight Investment MMF connects to LCH RepoClear

Insight Investment, an asset manager owned by BNY Mellon, has introduced a money market fund (MMF) it manages to LCH's RepoClear service.

The Insight GBP Liquidity Fund, which holds £24 billion as of 31 July, this week completed its first repo trade cleared by the RepoClear Sponsored Clearing service, which is operated by global clearinghouse LCH.

The service provides buy-side market participants with access to central clearing, a facility which until recent years has been largely restricted to the banking community.

According to Insight, the connection of the MMF to LCH will provide its investors with access to a fresh pool of liquidity and marks "a further milestone in the structural development of the liquidity market".

In 2017, Insight became the first asset manager to clear on LCH's RepoClear service, acting on behalf of a UK pension fund client.

Deutsche Bank begins transfer of prime brokerage business to BNP Paribas

Deutsche Bank has begun the transfer of its global prime finance and electronic equities business to BNP Paribas, following the signing of a master transaction agreement.

As part of the agreement, Deutsche Bank will continue to operate the platform until clients can be migrated to BNP Paribas in order to ensure continuity of service.

The agreement includes migration of related technology and key staff from Deutsche Bank. Specific details on the timeframe or scale of the business transfer are currently unavailable.

Today's agreement follows a preliminary agreement between the two banks made in July, which was when Deutsche Bank first revealed it was exiting the equities business as part of a radical transformation aimed at resolving its financial difficulties.

The bank is also looking to shed up to 18,000 jobs and scale back its activities in several investment business lines.

Yann Gérardin, deputy COO and head of corporate and institutional banking at BNP Paribas, said: "We are now looking forward to welcoming staff and serving these new clients. This agreement demonstrates BNP Paribas' strong commitment to institutional investors globally."

Philippines insurance firms to enter SBL market

The Philippines' Insurance Commission (IC) is allowing insurance companies to engage in securities lending for the first time.

The IC issued a circular letter providing guidelines for lending transactions this month, which stated that securities listed in the Philippine Stock Exchange, issued by the Bureau of the Treasury, or by the Philippines central bank are now eligible to be borrowed.

For modes of conducting securities lending, it was explained that for an insurance/reinsurance company, securities lending may be conducted through direct lending, lending agent, lending pool systems or other schemes subject to the evaluation and approval of IC.

In terms of loan tenor, the IC confirmed that the borrowing period must not exceed two years from the date of execution.

Collateral can be offered in either peso or securities listed in the Philippine Stock Exchange.

ISLA to launch new working group to promote technology compatibility

The International Securities Lending Association (ISLA) has warned that the market's current trajectory could cause costs and risks to rise to "potentially unsustainable levels," in a whitepaper released this week.

In the paper titled 'The Future of the Securities Lending Market | An Agenda for Change', which was drafted in partnership with international law firm Linklaters, ISLA analysed the increasing complexities surrounding the securities lending market in terms of operational flows and systems, as well as pervasive and onerous regulatory imperatives.

"On the market's current trajectory, costs and risks will continue to increase – potentially to unsustainable levels," explained ISLA CEO Andy Dyson in the paper.

"The alternative is to recognise and engage with these changing conditions by standardising, automating and streamlining processes."

"This will yield significant future benefits, future-proof this vital industry and contribute to the smooth running of the global financial markets."

To address these concerns, ISLA is creating a working group of market participants to drive and support the development of a common domain model (CDM) for the securities lending markets.

The CDM group aims to replicate the achievements of the International Swaps and Derivatives Association (ISDA), which has already created a CDM that offers a single, common digital representation of derivatives trade events.

ISLA has proposed the formation of a similar solution that would help coordinate the industry's adoption of technological solutions for the securities financing markets and avoid the need for market participants to use potentially duplicative and inconsistent systems.

Lago Kapital adds Nordic conglomerate to its automated liquidity service

Boutique securities lending firm Lago Kapital has signed a market-making agreement with Northern European conglomerate Aspo, which will switch from its current liquidity provider, Nordea Bank, next month.

The market-making agreement aims at increasing the share's liquidity and decreasing the share price volatility in order to facilitate trading for private investors.

Aspo has terminated its agreement with Nordea Bank, which will end on 18 October, and will begin its contract with Lago on 21 October.

Under the agreement, Lago will provide Aspo shares with bids and offers so that the maximum spread is 3 percent, as calculated from the bid quotation.

Both bid and offer sides include a number of shares corresponding to a value of at least €3,000.

The agreement is in force for a fixed three-month period and will continue until terminated with one month's notice.

The agreement follows the liquidity providing requirements issued by Nasdaq Helsinki.

Commenting on the latest mandate win, Lago's CEO and founding partner Jarkko Järvitalo said: "Our service has been very well received in the market and during 2019 every single new liquidity providing (LP) agreement in Finland was won by Lago."

Järvitalo added that he believes Lago's success is due to the fact that its service is fully automated and offers a high level of performance transparency in the form of monthly reports.

Lago has been offering LP services for listed companies since 2018 in both Finland and Sweden and is looking into expanding into the Danish market by the end of 2019.

Earlier this year, Aallon Group Oyj signed up to Lago's liquidity programme, and Lago explained that its wide network of lenders enables it to have more flexibility with securities lending on the back of any possible short positions providing liquidity.

Taskize boasts new users and unveils a CSDR settlement discipline service

Taskize, a UK-based fintech inter-company workflow provider, has unveiled a new service for the in-coming Central Securities Depositories Regulation (CSDR) settlement discipline regime, with Euroclear already on-board as a partner.

The CSDR settlement discipline framework, which enters into force in September 2020, is aimed at pushing for more reliability in transaction settlement, but has caused concern among industry participants by threatening cash penalties for settlement fails—a first for the securities finance market.

In a statement on the product launch, Taskize said that there needs to be a solution for when settlements fail and that different parties must work together, especially during the extension, buy-in and pass-on processes.

The Taskize solution promises to enable financial industry participants to prepare for the manual processes required for when CSDR comes into force and allow users more time to improve their straight-through processing.

The new CSDR solution is a standard part of the service, available to all subscribers, Taskize confirmed.

Euroclear, which owns a stake in Taskize, has committed to extend its existing relationship with the fintech firm, which began in 2016, in order to offer the CSDR solution to its clients.

Jo Van de Velde, managing director and head of group strategy and product expansion, commented: "Taskize has been the preferred client service channel for Euroclear for almost three years and extending its use for CSDR settlement discipline will bring even more value to our clients and the wider market, offering a service to address issues related to the penalty process and reporting buy-in activity."

Early in September, LCH's RepoClear and EquityClear London-based entities also went live on Taskize to access a real-time view of their enquiries and response status.

Taskize removes emails from operational processes and aims to ensure clients know the progress and status of their queries, enabling LCH to prioritise, resolve and manage client enquiries more effectively.

It also allows different firms to resolve multi-party issues, always knowing who is responsible for the next action with traceability.

Mike Jones, head of securities clearing operations at LCH, said: "Taskize's secure, automated workflow system enables LCH to enhance its communications with its clearing members and provide them with an improved customer experience."

CGS to offer ISIN-to-LEI mapping for US and Candian Securities

CUSIP Global Services (CGS) has created a new mapping capability to provide linkages between international securities identification numbers (ISIN) and their corresponding legal entity identifiers (LEIs) for newly issued and legacy securities in its ISIN database.

The new ISIN-to-LEI mapping capability was developed to support the Association of National Numbering Agencies, of which CGS is a founding member, and Global Legal Entity Identifier Foundation (GLEIF), mapping initiative, which was initiated to improve transparency and counterparty risk exposure in the global financial markets.

CGS ISIN-to-LEI is free to use and available immediately at no cost and will be available on the GLEIF website.

The ISIN is a global standard for identifying securities from more than 120 different nations in a machine-readable, 12-character alphanumeric code based on the ISO standard 6166, CGS explained.

An LEI is a 20-character, alphanumeric code based on the ISO standard 17442, which created a universal code for identifying the ownership structure of entities around the world.

According to CGS, the new tool will allow market participants to gain a clear view of their securities exposure within a given issuer and its related entities.

Scott Preiss, managing director and global head of CUSIP global services for S&P Global Market intelligence, commented:

"The underlying mission of the LEI, from its conception in the wake of the financial crisis, was to create an easy-to-use and widely accessible standard for identifying underlying entity exposures."

"By linking the ISIN directly to the entity-level data in the LEI, we are taking an important step forward to enable risk management systems to more accurately capture entity exposures within a securities portfolio."

Robin Doyle, GLEIF board member, added: "From a market user perspective, having a GLEIF-certified connection between identification standards that enables firms to aggregate data about securities exposure in relation to individual issuers and related entities delivers a peace of mind that was simply not available a decade ago."

CGS works to identify instruments and entities to support efficient global capital markets, and this new initiative aims to improve transparency and counterparty risk exposure in the global financial markets.

It is responsible for issuing and maintaining ISINs for over 35 markets in North, South, Central America and the Caribbean.

BNY Mellon and Bloomberg to deliver front-to-back integration

BNY Mellon and Bloomberg have partnered to integrate the bank's data, analytics and servicing capabilities with AIM, Bloomberg's portfolio management, trading and compliance solution.

The new connectivity enables clients to access BNY Mellon's data and analytical workflow tools through Bloomberg AIM.

According to BNY Mellon, the integration means clients will experience faster onboarding, higher straight-through processing rates and more efficient data exchanges.

Clients will be able to leverage BNY Mellon's reporting and transaction applications together with AIM's oversight functions, thereby providing all the details and drill-down capabilities to support settlement cycles and accurate tradable positions in one place.

The integration is accessible to clients across the traditional asset management, hedge fund, and asset owner segments.

Tradeweb Markets launches new trading package on IRS platform

Tradeweb Markets has launched a multi-asset trading package on its global interest rate swaps (IRS) platform.

The tool has been developed to compress existing cleared trades and trade custom swap strategies and packages, to facilitate the migration of portfolios from the London Interbank Offered Rate to new risk-free rates, and to trade across multiple central counterparties (CCPs).

The Tradeweb multi-asset package functionality builds on the firm's net present value list trading tool to enhance the execution of IRS, inflation swaps and government bonds in a single package.

In addition, Tradeweb uses its live market data to present buy-side trading desks with analytics and pricing for each instrument in the package, increasing transparency and help clients to fulfil best execution requirements.

Clients also benefit from a streamlined post-trade workflow, as Tradeweb automatically sends swaps transactions for clearing and bond transactions for booking.

The first fully-electronic multi-asset package transaction using in-competition request-for-quote took place between Legal & General Investment Management and Bank of America Merrill Lynch.

Tradeweb first launched net present value list trading in November 2013.

Vermeg secures Santander as first Brazilian client

Banking and insurance software solutions specialist Vermeg has opened its first office in Brazil, with Santander Securities Services Brazil (S3 Brazil) onboarded as a local user of its securities and custody solution, Megara.

S3 Brazil began to utilise Megara in July as part of an expansion to Santander's existing deal with Vermeg to access the post-trade processing software in several other territories.

The extension of the mandate makes S3 Brazil a founder client for Vermeg's new office in Sao Paulo, which is led by general manager, Wagner Antunes.

Wagner, who joined Vermeg in January, brings experience from holding director-level positions at Ebix, IBM and DXC Technology.

In his new role, Wagner will be responsible for building the team and client base for Vermeg in the region.

Wagner commented: "I am delighted that we have been chosen by Santander to provide post-trade processing solutions in Brazil, and to build on our existing relationship with this leading global bank."

"This is a landmark client for our new Brazil office and is an important step in realising our ambition to grow the Vermeg presence across Latin America."

Basel III ripple effect continues

On 18 September, the UK's Prudential Regulation Authority (PRA) set out its proposed approach to implementing the European Banking Authority's (EBA's) recent regulatory products. These proposals relate to the probability of default (PD) estimation, loss given default (LGD) estimation and the treatment of defaulted exposures in the internal ratings-based (IRB) approach to credit risk, which form part of the Basel III package of reforms. The changes are bound to impact securities lending considerations, although its precise effect is difficult to quantify.

Under Basel III, banks must hold a minimum amount of regulatory capital according to the type of asset they hold. Assets are risk-weighted according to credit; market; operational; counterparty and credit valuation adjustment risk. The riskier the asset, the more capital the bank or credit institution is required to hold.

The approach to credit risk, its valuation and models attracted considerable attention with bodies dissatisfied with the excessive variability of risk-weighted assets (RWA). As the Bank for International Settlements explains: "A key objective of the revisions incorporated into the framework is to reduce excessive variability of RWA. At the peak of the global financial crisis, a wide range of stakeholders lost faith in banks' reported risk-weighted capital ratios." They seek to remedy these deficiencies by constraining the use of banks' IRB models, increasing the risk sensitivity of the standardised approaches, and complementing the risk-weighted capital ratio with a finalised leverage ratio and a revised and robust capital floor.

On a granular level, the PRA previously consulted on the definition of default for credit risk and is now consulting on: the PD and LGD estimation and the treatment of defaulted exposures in the IRB approach to credit risk.

The changes will require updating and recalibration of banks' models.

Deadlines

There are two deadlines banks will work to: 31 December 2020 and 1 January 2022.

The first is the deadline for:

- IRB firms to implement all changes from the EBA roadmap for residential mortgage portfolios, including all of the definition of default changes.
- Firms that use the standardised approach (SA) for calculating capital requirements for credit risk to apply all changes to the definition of default, with the exception of changes from the guidelines on the application of the definition of default for non-mortgage portfolios.

The second is the deadline to:

- IRB firms to implement all changes from the EBA roadmap for all other exposure classes. This includes the changes to the definition of default for the identification of defaults (except for residential mortgage portfolios, where all changes are subject to the 31 December 2020 deadline above).
- Firms that use the SA for calculating capital requirements for credit risk to apply changes from the Guidelines on the application of the definition of default for non-mortgage portfolios.

Sources for change

The PRA intends to adopt from the final draft regulatory technical standards (RTS) on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB approach in accordance with Regulation (EU) No 575/2013 (RTS on assessment methodology); the RTS for the materiality threshold for credit obligations past due (RTS for the materiality threshold); guidelines (GL) on the application of the definition of default (DoD); the RTS on economic downturn; the GL on downturn LGD; and the GL on PD and LGD.

Recession

With the US and UK flirting with a recession, it is useful to note that the PRA is proposing changes to probability of possession given default (PPGD) models for UK residential mortgages. They must appropriately reflect downturn conditions. To this end, firms should estimate PPGD consistent with property values at least 25 percent below their peak and at least 5 percent below their current value.

The proposals and underlying documents run into hundreds if not thousands of pages, rendering a meaningful summary impossible in this short memo.

The PRA is consulting and the deadline for responses is 18 December. I have previously elucidated that with the implementation of Basel III and the Securities Financing Transactions Regulation, the post-Lehman's decade of fundamental financial reform will draw to a close.

Seb Malik
Head of financial law
Market FinReg

GLMX:
A decade in the making

GLMX CEO Glenn Havlicek offers an in-depth look at his technology firm, which is making big waves in financial markets

As chair of JPMorgan Chase's liquidity risk committee, Glenn Havlicek was responsible for managing the bank's global liquidity. While he managed a great deal of investment risk, his core mandate was to make sure the firm was fully funded every day. With that in mind, his homeward commute was often delayed by manual trade booking errors across a fragmented array of money market instruments, which created large swings in the bank's cash balances. Over the course of his 22 years at JPMorgan Chase, Glenn always thought that there had to be a better way to prosecute the funding business.

In April 2010, Glenn put thought into action. He was determined to find a solution for the inefficient processes which caused so many late nights at JPMorgan Chase. With the thought that technology was the key to the realisation of his idea, he made his way to Palo Alto, in the heart of Silicon Valley, and co-founded GLMX. He started by partnering with one of the venture capital world's most successful and experienced firms, Sutter Hill Ventures, then hired seasoned Silicon Valley engineers to grow the team. With his new team, Glenn set out to build technology that would make negotiating, trading and reporting money market instruments more efficient—with the ultimate objective of finding a cure for the operational pain points he had encountered throughout his career.

Securities Lending Times sits down with Glenn to lay out how, after almost a decade, GLMX is emerging as a leading fintech company in securities finance.

Can you explain some of the changes that GLMX is driving in the repo market?

GLMX was created not to change *what* is being done in the funding markets but rather *how* it is being done. We needed to build not just a trading venue, but a technology-aided liquidity ecosystem. At the end of the day, GLMX is not just about technology. It is about enhancing access to liquidity through technology. In the process of gaining understanding of the experiences of the world's asset managers, banks, broker-dealers and hedge funds—big and small—GLMX identified a glaring and immediately addressable need in the repo and securities financing markets. These behemoth markets are, as one of our current clients coined it, "vastly underserved by technology," which provides the perfect environment for the combination of GLMX market knowledge and technology.

Repo and securities financing markets are unique in that the multi-step and multi-variable nature of negotiation combined with the administrative pain of ongoing trade maintenance create operational inefficiencies for desks struggling to do more with fewer resources. The goal—and I think we've been very successful in this—is to replicate, electronically, the complex communication that goes on among clients, their dealers, their internal colleagues and their external partners. All with the aim of maximising efficiency and reducing operational risk wherever possible. Making an easy-to-use interface for our clients' request for quotation (RFQ) flows results in easier access to liquidity, which is the ultimate objective.

Each account requires a consistent and simple interface for their liquidity pool that accurately reflects the different stages of negotiation. We set out to create a platform to streamline the RFQ-driven flow market participants used each day rather than acting as another communication tool, or on the extreme, attempting to change day-to-day behaviour.

What separates GLMX from other trading platforms?

That's easy: GLMX is purpose-built for the unique, idiosyncratic needs of the repo market. Rather than being a bolt-on to systems developed to buy and sell securities, which is a much simpler flow than repo, it is a ground-up repo technology. In fact, we re-built the entire system from the bottom up in 2018, just to maintain our development flexibility advantage. From super-efficient pre-trade locates to price discovery and comparison to negotiation across dozens of variables to structured trades like term callables to straight-through processing to mid-life re-size, re-rate, substitution capability to data analysis to regulatory reporting, GLMX technology is about repo.

As a company, GLMX's team has diverse yet complementary experience across trading, technology development and system integration. Our combined experiences range from funding management at places like BNP Paribas, J.P. Morgan and Bank of America to technology development and integration at places like Google and ION Trading. GLMX is focused on delivering meaningful change to the securities finance market and having the people to deliver solutions for our clients.

The GLMX technology team delivers prompt, specific solutions to our clients' efficiency—browser graphical user interface, application programming interface or hybrid—are intuitive, easy-to-use and allow our clients to process large amounts of information, and display and mine that information in order to maximise their trading efficiency.

Finally, GLMX is an independent entity, funded by private equity investors who have supported us since the beginning and continue to be extremely enthusiastic about GLMX's long-term prospects. This structure provides us with the support to be laser-focused on building advanced technology which provides our clients—equally buy side and sell side—with the tools, unavailable elsewhere, to heighten their trading efficiency and maximise their access to mission-critical liquidity.

What was the turning point for the market?

It would be an understatement to say that, beyond a very small number of genuine early adopters, the notion to dealer-to-client electronic repo elicited yawns and rolled eyes prior to GLMX's launch into the repo space in early 2016. Since then, there have been numerous powerful influences underlying the now powerful surge into repo trading technology. While it's hard to say whether any one of them alone turned the tide, I would point to the rise of repo in an era of expanding US budget deficits, to the need for both the buy and sell sides to expand their liquidity-seeking efficiency after 10 years of enormous excess system liquidity. I would also highlight the increased reporting demands of efforts like the Securities Financing Transactions Regulation (SFTR), and, of course, the availability of the kind of technology GLMX provides, which embraces repo with all its complexities, rather than as an afterthought. In any case, all of these contributing created a wave of adoption, which we believe makes today the turning point; and there is much more to come.

What is next for GLMX?

GLMX has a very clear and executable path to success. And, while we have medium-term ambitions to bring our technology to the broader, global money market ecosystem, our current focus remains squarely on repo and securities financing.

One of our ongoing, repo-specific and high-priority efforts is with respect to SFTR. A solution to the regulation's reporting requirements is an urgent need for many of our clients who do business in European markets. Additionally, it plays directly to GLMX's strengths. Beyond simple features like unique trade identifier generation, trade time-stamps and initial trade details, we provide full lifecycle reporting capabilities and can deliver that information directly to authorised trade repositories or to our clients in order for them to collate that data for onward delivery to trade repositories. GLMX's capabilities with SFTR bring game-changing efficiencies to our clients' workflows.

Finally, we strongly believe that GLMX technology is applicable to an array of pressing market needs and are enthusiastic about building even more, valuable functionality for our clients.

Trends in North American post-trade automation

Pirum's Phil Morgan breaks down the main drivers behind a successful post trade system in today's market

In today's post-trade landscape, there are many drivers that are shaping how clients embrace post-trade automation. With emerging regulations and a desire to more efficiently process trades and their associated post-trade lifecycle needs, the demand for products to be able to solve these requirements, in a global manner, has never been stronger. As we see them, the main drivers behind post trade today are efficiency, risk management and regulation.

Efficiency

Securities finance post-trade automation providers have automated manual tasks and allowed users to go from reconciling once a day in an overnight comparison process to being able to compare trades in near real-time, as well as automate much of the historical manual intervention. Efficiency, however, is only maximised when clients are able to provide the necessary breadth and depth of data. Despite much talk of standardisation of data in the industry, the stark fact remains that the more able a service provider is to accept and translate the data in a multitude of formats, the more likely it is that the client will in turn achieve optimal efficiency through automation. This is only further exacerbated when one considers the increasing complexity in business and processes across products and regions. By automating trade lifecycle management and increasing data integrity with more efficient processes the industry can reduce latency in processing times, which will allow them to achieve higher straight-through processing (STP) rates and thereby create a more cost-effective and future-proof operating model.

Risk management

The securities lending market in Europe has always been predominantly based on the use of non-cash collateral, while North America has used cash as its main method of collateral exchange. Over the past few years, that trend has changed and now we see an acceleration in the usage of broader types of collateral in North America. This has been driven by the increasing cost of financial resources (e.g. capital and balance sheet) coupled with changing regulations. A major catalyst to the adoption of the use of government bonds as collateral has been regulation such as the US Dodd-Frank Act which, among other things, required non-US banks to establish intermediate holding companies. In short, this caused all non-US banks to re-evaluate their use of balance sheet and cash-based securities lending was a major focus of reduction. The impact of this shift has been that post-trade processes have been forced to change rapidly to accommodate: the cross-margining of different asset classes (e.g. equity versus government bonds); robust exposure management; the introduction of new risks that were not inherent when using only cash collateral. With this sudden adoption of new processes, the need for automation has become a vital part of any business manager's thought process.

As part of these changes, the increased adoption of a third-party facilitator has also grown. Triparty collateral agents are now increasingly sitting in between what has previously been a bilateral collateral market. Triparty agents offer an easier way of managing the settlement of a diverse mix of security types, increased comfort around settlement, and can help alleviate the usage of daylight overdraft (that is driven by making large free of payment deliveries). By enabling clients to connect directly to the triparty agents, Pirum is enabling counterparties to view data in near real-time, which in turn allows institutions to improve efficiency and reduce operational risk. This move is now being adopted globally by most clients as they look to truly achieve enterprise wide collateral efficiency.

Regulation

North American operations are not only responsible for US domestic contracts but are also responsible for international market activities as well, which introduces another level of complexity and oversight challenges for institutions. While trades settled in the international markets often have the luxury of pre-settlement reconciliation to ensure correct settlement, with the Central Securities Depositories Regulation (CSDR) implementation approaching (September 2020), settlement efficiency should be at the forefront of everyone's minds. CSDR is an EU regulation that was adopted in the aftermath of the financial crisis to harmonise EU settlement regimes in order to increase efficiency. CSDR is part of the larger EU reforms, which also includes the European Market Infrastructure regulation, the second Markets in Financial Instruments Directive and the Securities Financing Transactions Regulation. Together, these regulations cover capital markets and securities.

However, unlike SFTR, CDSR will directly affect North American firms if they are trading EU securities that settle in a European CSD. Not unlike Regulation SHO, which established locate and close-out standards and is focused on reducing short selling and creating a tighter control around fails in the US, CSDR is looking to introduce a settlement discipline where mandatory 'buy-ins' for failing transactions as well as penalties; in addition to shortened settlement cycles.

Fixed income automation

Another area of focus for North American has been around fixed income trading and the need to have a robust post-trade solution for 'bond borrow' transactions. There are two legs in a bond borrow transaction where the borrowed bonds is usually versus cash. In order for the borrower to get their cash back on the same day, the two parties enter into second transaction where the securities that are going to be used to collateralise the trade will be allocated via the triparty mechanism. Once those securities are allocated to the lender, the cash is automatically released to the borrower.

These multiple leg to-the-one bond borrow lends itself to automation of the process surrounding confirmations, billing, and instructions to the triparty agents for the amount to be collateralised. Today, those processes are very manual and are prone to error.

Fixed income cash repo is much less manual and labour intensive for the participants who choose to process the activity via a triparty agent. A repo cash provider enters into a transaction with the receiver and is booked for same day settlement. Any errors in the trade booking will be identified by the triparty agent via a comparison of the trade submissions by the borrower and lender or a third party. The triparty agent then handles the collateral allocation and the subsequent transfer of cash to the borrower.

In conclusion, we are seeing more interest in automating post-trade lifecycle events than ever. Changes to domestic processing models are driven by the desire to reduce costs, automation exposure management, and create an enterprise view of collateral. Regulatory demands are also acting as a catalyst to improve data quality and STP as clients look to review their current processes. Against this backdrop of significant and continued change, Pirum is ready to assist our clients and ensure the broader market achieves these goals.

Phil Morgan
COO and head of sales
Pirum Systems

Primed for growth

Sean Capstick, head of prime brokerage for Europe, the Middle East and Africa at Cantor Fitzgerald, speaks about the financial services provider's growth in Europe, market trends and the role of technology in today's market

Cantor Fitzgerald has significantly grown its European team recently. What's driven those hires and would you say you are in prime growth mode?

We are very much in growth mode. We have added a number of new hires in equity finance, origination and client service in our European business. We will be selectively adding more. These are in addition to senior hires we are adding across our broader client-facing equity franchise, where we have also added a new head of European equities and a number of senior sales trading and trading hires in the past few months.

We believe there is a significant opportunity for a nimble prime broker to partner with mid-sized hedge funds that today the 'bulge bracket', meaning more traditional primes, ignore. In the few years since we launched our CF Secured prime brokerage (PB) business we have seen tremendous revenue growth and now service in excess of 100 clients.

Our business today is primarily in the US but our footprint in Europe is expanding rapidly and we see huge opportunity here. We believe the mid-sized European hedge fund is very under-serviced and the combination of service, pedigree and balance sheet we offer positions us very well.

How is your balance sheet positioned for future growth in the market?

Cantor Fitzgerald has a long history in the investment banking industry dating back to 1945. Our balance sheet has grown since then, along with our client footprint and offering. In PB specifically, our CF Secured entity has built a substantial balance sheet to support our rapidly growing clients franchise.

How would you describe the European PB scene in contrast to other markets?

The hedge fund industry continues to be in decent health. After a tough 2018, where the average fund lost 4.1 percent in performance, things have picked up in 2019 so far, with the Global Hedge Fund Index up by 4.6 percent as of the end of July, according to HFRX.

Industry assets, in contrast to what much of the press would have you believe, are still at near record highs at over $3.2 billion. European-based managers have participated in this, and have also had their own source of growth with the flow of assets that have gone into UCITS strategies over the past few years.

Clearly though there are a number of issues affecting Europe, most obviously Brexit, and EU growth expectations, and these do present challenges (and opportunities) to allocators looking at the region.

In light of the recent troubles Deutsche Bank is facing in the PB space, do you see opportunities in the European market?

This year will go down as a watershed year for the PB industry. The retreat we are seeing from a number of European banks across the equity space is a major event and changes the complexion of the industry in a big way. We believe there is a large opportunity for Cantor Fitzgerald, with its US heritage, but local presence, to become an alternative provider of choice relative to the traditional bulge bracket providers.

We have invested in our client service, technology and capital introduction, among other areas, and believe these position us well to partner with many mid-sized fast growing funds.

How is technology assisting you to better understand your clients ?

Technology is at the core of what we do and of the product we deliver. We have a dedicated prime brokerage technology team in New York and London, supported by an extensive team of developers in India who are constantly ensuring our reporting tools are state of the art, not encumbered by a lot of legacy systems.

Are the low interest rates globally affecting the industry? If so, how and what can be done to mitigate against it or capture any opportunities?

What feeds the hedge fund industry and ensures its ongoing success is performance. The low interest rate environment since the global financial crisis has clearly been a boon to developed markets in particular and a tail wind to hedge fund performance. Many hedge funds benefitted from their long books and market exposure.

Equally, many prime brokerage books were long-biased, and shorts were more scarce. As the interest rate environment has changed we should now expect managers to make more use of the short side of their balance sheets, which in turn should be a decent revenue source for the stock lending desks. In the recent survey we received very strong reviews for our stock lending capabilities from clients, and we have invested extensively in this area as we believe we should be a big beneficiary if short volumes pick up.

What other trends are you noticing in Europe?

The defining phenomenon in the European alternatives space for the past five years has been the trend towards asset growth in UCITS strategies. Again, as mentioned above, with negative performance in 2018, this trend slowed.

However, the long-term structural interest in European allocators preferring this structure has not gone away. Working with clients via the International Swaps and Derivatives Association in synthetic instruments continues therefore to be an ongoing trend and swap balances are growing at the prime brokers.

With the bulk of the European hedge funds run from London the main issue most allocators are watching is Brexit and which way it will break.

Managers comment that the rate of fund flows has slowed as people take a wait and see approach to the Brexit story. A resolution here will help lift this cloud and hopefully be a reason for allocators to once again add to their European fund holdings and make fresh allocations.

Sean Capstick
Head of prime brokerage, EMEA
Cantor Fitzgerald


PROGRESSO

A new model in the making

Brazil stands proud as the top securities lending market in Latin America, but its unusual model still poses challenges for investors. To address this, the country's exchange and clearinghouse, B3, is developing a new products to entice more market participants

Maddie reports

Brazil's financial markets have seen plenty of successes and opportunities in recent years and its securities lending market especially has gone from strength to strength as its financial industry matures along with the rest of Latin America (LATAM).

Research by the RMA and EquiLend published in their Latin America User Guide shows that the country has chalked up growth in several market segments (see figure one, overleaf). The guide, published this year, lays out the evolution of the different markets over the past few years, and highlighted that average daily trading volume for these equities was BRL16.4 billion ($3.94 billion) as of October 2018, a significant increase over the previous years.

Meanwhile, the country's securities lending market has also continued to boom (see figure two, overleaf). As of 2010, open interest stood at BRL 22.2 million ($5.3 million) and has since soared to BRL 51.6 million ($12.3 million) by the end of 2018. Moreover, B3, the country's central counterparty (CCP), highlighted that over the past five years securities lending open positions grew 14 percent year-over-year, but interestingly, this only represents only 2.5 percent of all stocks under custody, meaning that there is huge potential for further growth.

Impressive though these figures may sound, the picture that they paint masks a major hurdle that exists between many international investors and engagement with the Brazilian market, namely the regulatory requirement for all securities lending transactions be put through B3, which is the only venue in Brazil that provides trading and clearing services for the country's equities markets, and it is the only venue offering securities lending clearing. This creates challenges in attracting new market participants.

Foreign beneficial owners especially struggle with the fact that collateral offered by the borrower is held within the CCP in broker-level accounts and therefore the lender does not receive or have clear sight of the collateral. While central clearing is widely seen to be a more secure method of conducting business, this can be a problem for beneficial owners who are accustomed to having full control of their collateral management process.

In a joint presentation by B3, Citi, Scotiabank and several LATAM banks at the RMA's conference on securities lending last year, attracting additional lenders to the Brazilian market was cited as "one of the greatest challenges is to increase the supply".

Commenting on the friction that the mandatory clearing model poses today, a B3 spokesperson explains: "Despite the benefits of the CCP model, this is not the standard practice for securities lending around the world. Educational initiatives are crucial so that international investors better understand our markets and feel comfortable to trade."

Outlining further challenges that still exist, a spokesperson for MUFG in Brazil also notes that that another measure to be addressed is the improvement of market conditions for hedging instruments, in order to attract long-term investments from international investors and multilateral agencies. The spokesperson adds that this will mean some sectors should seek to achieve improvements in specific legal and regulatory frameworks.

"Our country has been concentrating its efforts on improving the level of transparency and the efficiency of regulations," the spokesperson explains. "These actions are also considered essential for maintaining a healthy business environment and incentivising local market development."

Equities Market

Average Daily Number of Contracts Traded	Jan '10	Jan '11	Jan '12	Jan '13	Jan '14	Jan '15	Jan '16	Jan '17	Jan '18	Oct '18
Interest rates in BRL	1,134,778	1,937,192	1,636,092	1,560,963	1,851,032	1,253,309	1,563,187	1,347,322	2,153,504	2,055,593
FX rates	524,604	438,164	541,144	474,180	500,127	459,499	455,457	423,337	610,206	821,967
Interest rates in USD	81,611	132,842	166,009	130,801	186,885	251,210	270,702	224,069	258,588	391,587
ADTV Total / Total Derivatives Volume	1,906,175	2,655,532	2,615,170	2,409,674	2,852,458	2,452,042	2,443,562	2,208,814	3,462,878	4,200,025

B3 breakdown

B3 offers clearing, settlement and collateral management services. Securities lending transactions are currently negotiated over-the-counter, then registered by the brokers at with the CCP, namely B3. Therefore, those wishing to engage in securities financing in Brazil must place their collateral with B3 as well as maintain a relationship with a local broker, which is responsible for executing these transactions.

The challenges this transaction prospect poses is well documented among those inside Brazil and with ambitions to do business there. Those hoping for Brazil to radically U-turn to conform to European or US market standards any time soon will likely be disappointed, but the exchange has laid out a series of product launches and expansions across several markets, including securities lending, over the next year in its 2019-2020 Roadmap.

One of the first of these market reforms came about in May when Brazil made the leap from a T+3 to T+2 settlement cycle to bring it back in line with other markets in the region, including Chile, Mexico and Peru.

A new platform in the pipeline

To begin addressing the sell-side concerns, B3 is currently developing an electronic trading platform for stock lending, which is set to create opportunities and provide enhanced transparency to overcome the hurdle of the lack of visibility of collateral. This new model allows investors to directly access the book with full pre-trade transparency.

Investors can directly access the book with full pre-trade transparency and additional product improvements will be implemented like securities lending and cash market will be settled on a net basis, and contracts will be renewed automatically reducing the operational tasks.

Commenting on the pipeline, a B3 spokesperson says: "We expect that this new stock lending platform and improvements in the product will benefit all sorts of participants, from professional investors to individuals. Currently B3 offers only securities lending for stocks but we plan to provide the market with new solutions regarding government bonds lending."

"We believe this will create opportunities to pension funds given the current interest rates level, as well as an alternative hedging for treasuries and assets managers. Together, B3 and the market will push the fixed income market liquidity, safety and transparency."

Elsewhere, B3 is also developing the introduction of securities lending and repo services for local government bonds. The main public fixed-income securities in Brazil are government bonds issued by the National Treasury. The country's government bonds are divided into two categories: floating-rate bonds and fixed-rate bonds.

These new features are due to go live throughout 2020, but no fixed schedule has been set. **SLT**

Securities borrowing and lending market size
OPEN INTEREST (BRL MILLIONS)

2010	22,162
2011	35,917
2012	41,424
2013	39,224
2014	31,378
2015	34,118
2016	41,017
2017	39,154
2018*	51,592

* THROUGH 5 DECEMBER

Brazil by numbers:

- Brazil stands as one of the region's leading economic lights today with a gross domestic product (GDP) approaching $2 trillion, according to the World Bank; making it the largest economy in LATAM.
- It is closely followed by Mexico, with a $1 trillion GDP.
- B3's Q2 results reported solid volumes in growth in equities and derivatives drove revenue and earnings before interest, tax, depreciation and amortisation (EBITDA) to increase.
- B3 reported that total revenues for the quarter reached $1,579.9 million representing a 14 percent increase over the same period in 2018, while recurring EBITDA totaled $999.1 million, up by 2.9 percent.
- The exchange's recurring net income in Q2 totalled $785.4 million.

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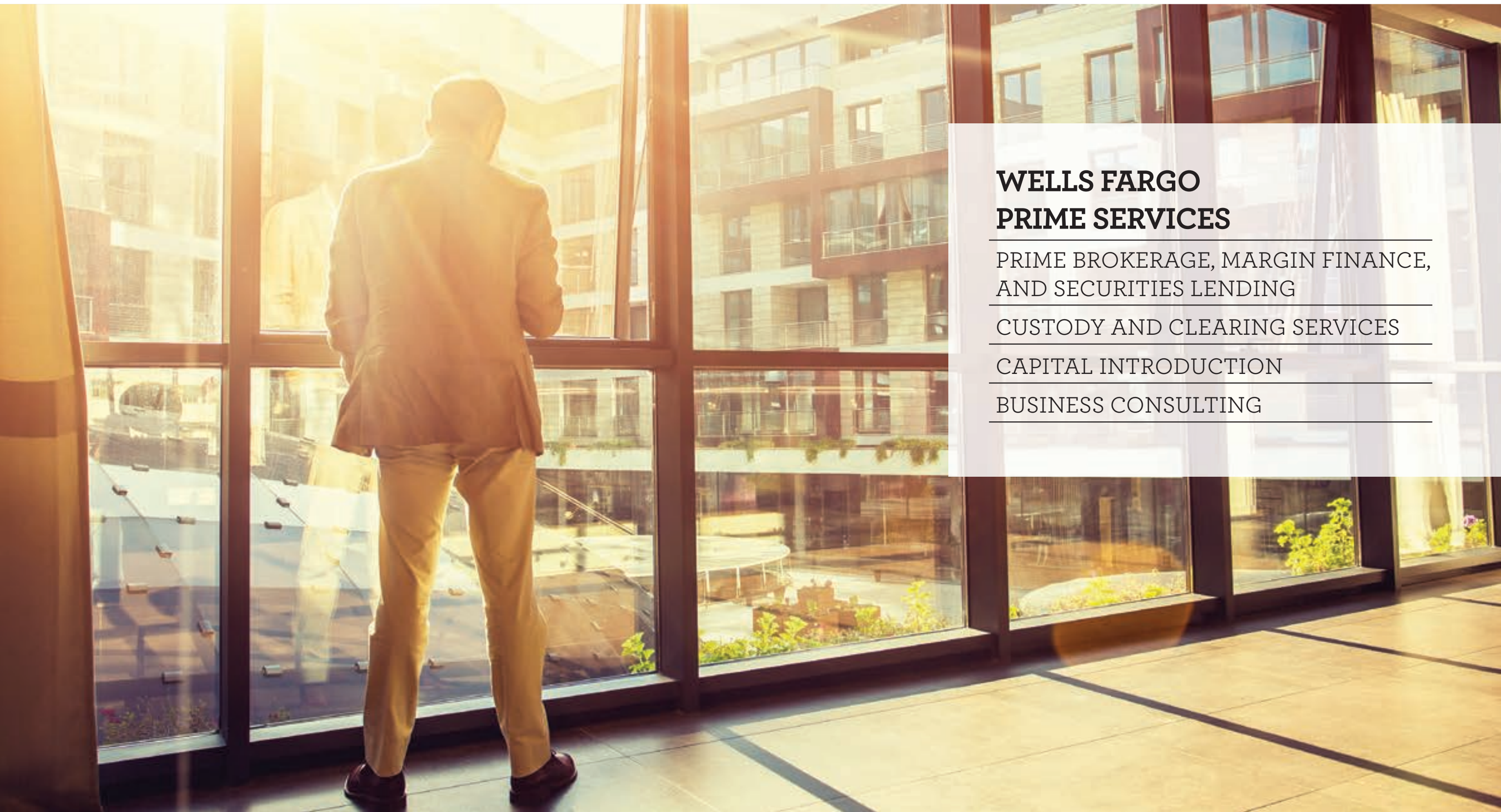

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Embracing the next generation of securities lending

Kyle Kolasingh of RBC Investor & Treasury Services breaks down how beneficial owners can benefit from a more active lending programme that leverages data, automation and effective risk management

The potential to generate additional returns through securities lending is becoming increasingly attractive to beneficial owners as they grapple with economic uncertainty and low interest rates, compounded by competitive pressures and regulatory change. This is resulting in growing demand for innovative, agile approaches as the next generation of securities lending takes hold.

Common goal, different approaches

While the alpha-generating potential of securities lending is a common goal among beneficial owners, they have several options for implementing a lending programme within their organisations. With a passive approach, lenders delegate much of the programme execution and day-to-day activities to their agent, retaining responsibility for oversight. On the other hand, beneficial owners, often the larger players, may prefer to integrate securities lending within their daily investment strategy. This more active approach requires a suite of solutions that go beyond traditional securities lending to include leverage, funding and other more advanced optimisation strategies. Regardless of where a beneficial owner sits on the passive–active spectrum, agents must be able to tailor their services based on the lender's specific requirements.

Enabling through automation

Automation is key to meeting beneficial owners' increasingly diverse and demanding securities lending needs. At RBC Investor & Treasury Services (RBC I&TS), we have implemented a high degree of automation within our lending programme by developing tools that facilitate more effective pricing of warm and hot specials, and enhance the structuring of duration-type equity and fixed income trades. The combination of vast amounts of data with new analytical tools is helping to ensure that trends are identified in advance of major market shifts to feed smarter pricing models. This is in addition to our ongoing use of EquiLend's Next Generation Trading (NGT) platform. NGT has improved overall connectivity, enabling our trading desks to focus on high-value opportunities such as capturing spreads on corporate action events. Resultant gains in efficiency have contributed to improved trading performance and the potential for increased on-loan balances.

Automation and stricter regulation increase the efficiency of the settlement and recall processes—vital to a successful securities lending programme. In today's environment, agents and borrowers are navigating increasingly compressed market settlement structures. Automation has significantly improved notification timeliness and RBC I&TS' ability to track on-loan asset metrics across our counterparty network. This goes hand-in-hand with new regulations, including the EU's Central Securities Depositories Regulation, which will introduce more stringent settlement requirements and the imposition of economic penalties on counterparties with failed trades.

Data is the new gold

New regulatory requirements for enhanced transparency, along with improved access to data and technology capabilities, have increased lender expectations around data availability and heightened the importance of extracting actionable insights from this data. Traditional requirements for basic transactional reporting on a relatively infrequent basis have evolved to include demands from beneficial owners for an array of timely, sophisticated reporting capabilities. In response, RBC I&TS continues to roll out a suite of analytical tools across our regional trading desks, aggregating internal and market data to identify trends and price them appropriately. Data is increasingly perceived as the new gold.

Risk management at the forefront

Regardless of the approach taken by beneficial owners to implement a securities lending programme, the safety and security of assets continues to be paramount. As market infrastructure and regulation evolve, lenders need to be confident that a robust risk management framework is in place that reflects their particular risk profile. Beneficial owners must also have confidence that their agent possesses the necessary strength and stability to deliver value from securities lending.

Emerging trends

In today's competitive environment it is not surprising to see various lenders taking a more proactive role in their lending programme. For example, beneficial owners could view securities lending as a mechanism for internal funding and leveraging long positions for internal short facilitation, leading to reduced costs and enhanced returns. This works particularly well in situations where beneficial owners have incorporated hedging into their investment strategies.

Similarly, directed lending has emerged, primarily among sophisticated beneficial owners, who are looking to achieve efficiencies. Lenders adopting this approach continue to leverage an agent's infrastructure and custody network, while forgoing indemnification and assuming responsibility for collateral management and the associated risks.

Agile solutions in dynamic times

While the fundamentals of securities lending remain unchanged, the potential to generate even greater returns is spurring demands from beneficial owners for innovative lending solutions during these uncertain and competitive times. In response, agent lenders are automating services to improve efficiency, accommodate new regulation and provide tailored programmes to clients. As their needs continue to evolve, beneficial owners will require an agile, innovative agent, who partners with them to embrace the next generation of securities lending.

Women in Securities Finance panel

L-R

Harpreet Bains, global product head of agency securities lending, J.P. Morgan

Gilly Meth, managing director, global head of lender relationship management and portfolio pricing, Morgan Stanley

Elaine Kim Benfield, senior counsel, Vanguard

T-B
Katherine McCombs
Head of business administration and marketing
State Street

Brooke Gillman
MD of client relationship management and marketing
eSecLending

Camille McKelvey
Head of business development (Trax STP)
MarketAxess

Forging links

Securities Lending Times speaks with women advocates driving forward the message of gender diversity and inclusion and looks at the progress made, challenges faced, and what is left to be achieved

Women in Securities Finance is an independent industry women's group that was formed in 2018 to foster connections in the securities finance industry regardless of roles. Their mission is to foster connections within the industry to create a community. The group's guiding principles are to encourage and empower women in securities finance to connect professionally, collaborate and share insights. Originating in the US, the group are now in the process of launching a European chapter.

Has the increase in women-focused panel sessions at conferences over the past few years helped drive forward the inclusivity message? What other benefits have you experienced as a result of these sessions?

Elaine Kim Benfield: Yes! Due to the amazing support from securities lending industry conference organisers to promote sessions focused on women and diversity, we have experienced an increase in awareness about the challenges facing women and diverse candidates in the industry.

These conferences were the catalyst for the creation of Women in Securities Finance, an independent industry women's group formed at the beginning of 2018 to foster professional connections in the securities finance industry. The group was formed in response to a suggestion made by a small group of women who were seeking to network at the annual Risk Management Association conference, and has quickly grown into an industry networking group that currently comprises more than 300 women representing all facets of the industry.

We are making progress to address challenges, which include a lack of representation at all levels (senior levels in particular), lack of community and a lack of sponsorship critical for advancement. On a personal point, I've had opportunities to further my development by speaking on panels, organising events on behalf of Women in Securities Finance and expanding my personal and professional networks.

Harpreet Bains: It's encouraging and pleasing to see that a space is being created to enable heightened awareness (through panels, dedicated networking sessions, etc.) for the need to build a more balanced and inclusive industry. What we need now is for this awareness to manifest itself through changing behaviours as part of larger industry goals, and for leaders to be prepared to speak out and disrupt problematic practices, hold people accountable for results, make a concerted effort to identify and recognise female talent and shine the spotlight on successful women leaders. We need to create a diverse stage that enables equal opportunities for all.

Brooke Gillman: I believe these panels have assisted in driving forward the message of inclusivity and have also expanded the exposure of women in the securities lending industry. These sessions have encouraged networking among women in our industry, which has led to greater camaraderie within these circles. Business opportunities and career growth are created when women support other women.

Katherine McCombs: Yes, it forces firms to have a more direct conversation about the delegates and speakers they choose to send to these events and sheds light on the fact that many of the industry's decision makers are men. With many firms focused on gender diversity across all ranks, the increased demand for women speakers and panelists at conferences further strengthens and validates the need for these internal initiatives.

In securities finance, specifically, the Women in Securities Finance panels that Jill Rathgeber, Elaine Benfield and Arianne Collette have been organising force a much-needed and focused conversation on the topic. Ultimately, the more we can talk openly about these issues, the greater chance we have at solving them and creating positive outcomes for our organisations.

Gilly Meth: I do think that we are a little behind the curve here in Europe, if you consider I was the first female co-chair of the

International Securities Lending Association (ISLA) conference in 2019 that doesn't sound great. However, I do think that having panels where women are prevalent is important because it is good to increase access to senior, inspiring role models in the industry and hear first-hand their personal and frank experiences about navigating the workplace and advancing in their careers. It is critical to bring men into the equation too and gain their partnership as allies in our quest for gender parity in senior roles.

Camille McKelvey: Although it's positive to see more women on panels, I do feel that conference organisers use these focused sessions as a get-out-of-jail card. It means they don't spend time making the rest of the content and panels properly diverse, and thus it becomes a simple box-ticking exercise. In making so many of them 'women only', they are serving to continue the dislocation instead of fixing the problem. The argument often comes back that "the senior roles are still held by men and we want the panels to reflect senior opinions", or something similar. This is simply not a valid argument, and even if it were true, it should spur events to build 'rising star' and 'on-the-ground' panels that actually talk to more junior roles coming through the ranks.

What steps has your organisation made to promote inclusivity and advancement for women?

McCombs: A number of corporate initiatives are in place at State Street to support this effort, in addition to the amazing efforts of more than 24 employee-established networks across the organisation that celebrate and support our differences.

Externally, State Street partners with a number of organisations to support inclusion and diversity efforts. One such example is the Boston Women's Workforce Council's '100 percent talent compact': a pledge companies can take to commit to closing the gender gap. State Street is also one of the original signatories to the 'CEO action for diversity and inclusion pledge' that aims to rally the business community to advance diversity and inclusion within the workplace by working collectively across organisations and sectors.

One of the most influential changes I have seen in the past few years, ironically, has been the rollout of parental leave for men. While initially many men were reluctant to take any leave, we are now seeing more of them take advantage of this employee benefit. This is starting to change the stigma that childcare is exclusively a woman's responsibility and the perceived negative impact associated with a woman taking her full maternity leave. Ultimately, I hope this introduces a more balanced view on childcare expectations for employees and managers as now both men and women are empowered to take this time off.

Meth: I honestly believe that here at Morgan Stanley we are progressive in driving this initiative. We were the first core investment bank to sign the UK Government's Women in Finance charter and are therefore not just accountable internally but also we have to report to the UK government on our progress regarding our initiatives, and target increasing female representation in senior management. Intense focus has been put into strengthening the pipeline of promotion candidates with proactive succession planning, gender-balanced shortlists and robust leadership development initiatives.

We have a female CEO, chief finance officer and chief investment officer here in Europe, which sets the tone well both internally and to our clients. Globally, companies that have taken a holistic approach towards equal representation have outperformed their less diverse peers by 3.1 percent per annum over the past eight years. This is illustrated in a new report published by Morgan Stanley research looking at a proprietary framework: the holistic equal representation score (HERS) to help investors identify the most gender diverse companies. I represent my division on our diversity action council for Europe, the Middle East and Africa (EMEA), which provides thought leadership and acts as a catalyst to drive forward the strategy and agenda across all diversity strands.

McKelvey: There is a broader industry challenge for female advancement. We acknowledge this at MarketAxess and have management support to promote women into leadership roles. We recently hosted an event for all MarketAxess women in Europe, and on International Women's Day this year we also celebrated our head of legal counsel in Europe and Asia being awarded the 'legal and compliance woman of the year by Waters Technology. Promoting inclusivity and advancement for all is fundamental to MarketAxess as an organisation.

Benfield: Diversity and inclusion are top priorities for Vanguard. Vanguard recently rolled out a programme to ensure all crew members know and understand their role in inclusion. In addition, Vanguard has shown its commitment to these priorities by hiring females to serve in important roles of general counsel, chief diversity officer and head of securities lending, advocating for greater female representation in corporate boards through its investment stewardship group, and by developing a vibrant women in leadership group within the company (one of many affinity groups supported by Vanguard).

Bains: Investing in the advancement of women is a key strategic focus for J.P. Morgan and over the years the firm has made available a range of tools and resources to support and develop women at all levels. Two points that specifically carry weight for me: firstly, that the firm remains deeply committed to meaningfully increasing the number of women in senior positions and words are backed up by actions, for example, in 2018 it signed up to the UK government's Women in Finance Charter.

Secondly, J.P. Morgan recognises that men play a vital part on the journey of gender parity and the importance of finding ways to enable their contributions. As the majority in power, they can influence both cultural and organisation change. However, you need to begin by helping men understand the benefits of diversity, involving them in the conversation and encouraging their engagement as allies (and not alienating them).

"There is a broader industry challenge for female advancement. We acknowledge this at MarketAxess and have management support to promote women into leadership roles

Camille McKelvey

The role of a sponsor is to advocate and advance; the role of a mentor is to support and encourage. Both are important

Gilly Meth

Gillman: eSecLending has always championed the women in our company and we are highly focused on inclusivity across our organisation. Our CEO and executive team are in tune with the dynamics of our industry and remain focused on ensuring our company demonstrates positive support for women in securities lending, as well as showcasing the successes of women within our company and across our industry. We have a strong women's group within our company, and we have been proud to actively participate in and support the Women in Securities Finance organisation.

How can mentoring and sponsorship help within organisations? What has been your experiences with mentorship either as a recipient or donor?

McKelvey: It is important to make the distinction between a mentor versus a sponsor, and both have their roles to play in career development. A sponsor will assist you in navigating typically your own organisation and will act as an advocate for you, whereas a mentor could be inside or outside of your organisation and will help you in dealing with different work situations and be a general sounding board. Having senior sponsors in your organisation is key, but establishing this kind of a relationship is tricky at the junior levels outside of a formal programme. These kinds of relationships often grow organically over a period of time, and, therefore, having something more structured in place is helpful as are structured mentorships. I have taken part in a couple of mentor programmes and I think that they are a good way to discuss issues with someone at a more senior level who is not directly in your reporting line. The opportunity to have this kind of open dialogue takes the pressure off a conversation that you might otherwise have with your direct manager.

Gillman: Mentorship helps employees grow in their knowledge, confidence and skills. Sponsorship helps individuals advance in their careers. I have had both mentors and sponsors over my career; they are equally valuable but finding sponsors that took me on as a protégé, supported my work and fought for my place at the table helped me to achieve the career I have today. I now believe it is my responsibility to do the same for others and I think all senior leaders should devote time to mentor or sponsor individuals in their organisations that are the future leaders, even if they don't yet see it in themselves.

Bains: I'm a big believer of both. Throughout my career I've had several successful relationships of both kinds which have helped me at different times for different things. Mentoring, specifically, has been invaluable in helping me overcome my own self-limiting beliefs and building trust in myself, which in turn gives you the confidence to move out of comfort zone and remove the restrictions that you may unknowingly be imposing upon yourself. At other times, it's provided me with support and guidance needed to help combat everyday unconscious biases which I may have encountered. However, you shouldn't feel like you should only seek out female mentors; having a male mentor can offer some great counter points and insights while at the same time help women build the diverse networks they need throughout their careers. Sponsorship is also a critical success factor. Having an advocate that is actively working to advance your career, touting your accomplishments and potential, connecting you to others in their network, recommending you to other leaders can be very powerful. If I look back at my career, my entry into securities financing was the result of a senior male sponsor who encouraged me to take on a different role, followed by actively opening doors for me with other leaders.

Additionally, I was also fortunate to have had a great opportunity in my earlier years to be a mentor to a senior director. Not only did I find the experience rewarding but the relationship also naturally transitioned into a sponsorship. Reverse mentoring can be an effective means of addressing the issue of diversity as it enables leaders to be educated about how the world looks through other eyes, helping them to become familiar with topics that they wouldn't normally have access to. It helps bring together generations, and importantly is giving the less experienced employee an opportunity to be a mentor and gain confidence from this experience. I would encourage others to try it.

Meth: The role of a sponsor is to advocate and advance; the role of a mentor is to support and encourage. Both are important for organisations. Indeed, sponsorship is a powerful tool for the retention of high-performing individuals.

> **One of the reasons that senior level women may not strive to become top executives is the fear of not being able to balance family and work**
>
> **Harpreet Bains**

I would advocate everyone, both male and female, to have both.

I have a large group of females that I mentor both internally and externally within this business and others. It is extremely rewarding when you see people progress and find their feet in this industry.

Benfield: Studies clearly indicate that mentoring and, more importantly, key sponsorships, are critical for anyone's advancement. I believe that any company seeking meaningful change in this area should focus on how to level the playing field with programmes focusing on development and sponsorships.

Flexibility within the working environment is also being discussed. This is obviously not just directed at women, but what does your firm do to embrace flexibility?

Gillman: Flexibility within the workplace is not a gender specific topic. Men and women both have lives outside of the workplace and needs for flexibility, whether that be to address medical appointments, aging parents, young children or other personal needs. The health and well-being of employees is what makes a strong business. When men work for companies that offer flexibility it can often also help women in their own careers, especially in a situation where both parents work for example.

At eSecLending, we invested in technology early on to ensure our workforce could work anywhere. This means we are always responsive to our clients, but it also means we can be responsive to our employees. We have found that offering our employees the opportunity to work remotely when needed increases productivity and employee job satisfaction, which adds to the success of our business.

Bains: I am a strong advocate for everyday flexibility and the ability to adjust how, when and where you work to meet the needs of the business while supporting work life integration. I'm fortunate to be part of a team at J.P. Morgan which supports the same view and recognises that different situations require different solutions. My organisation trusts me to make the right choices with my working patterns and empowers me to think differently about the way that employees work. Ultimately, it's about establishing a culture where performance is based on results, not hours spent in the office, and creating a workplace of employees who feel more trusted, respected and valued.

There is a common perception that the financial services industry is less conducive to a good work-life balance, and one of the reasons that senior level women may not strive to become top executives is the fear of not being able to balance family and work. Further, that participation in flexibility programmes will be viewed negatively or hinder their development. Therefore it's extremely important that your firm, like at J.P. Morgan, emphasises that flexibility is for everyone and not just for women or parents and takes steps to promote greater acceptance and usage, thereby removing the stigma that women may otherwise feel by participating in flexible arrangements.

McCombs: Flexible work arrangements have been available at State Street for more than a decade at this point, initially on an as-needed basis. Now formalised, the Flex work programme is integrated with our business strategy, and has transitioned from a disparate collection of employee-initiated arrangements into a proactive, manager-initiated programme as well, supported by a global flex-work policy, tools, technologies and resources.

Flex is seen as a strategic tool at State Street–for both managers and employees–leveraged to increase workforce efficiency, to maximise workspace utilisation, support business continuity plans and to improve employee engagement and productivity.

Fast forward to 2019, Flex is now widely adopted in our company. In our last employee survey we learned that 78 percent of survey respondents have some type of flexibility in their schedules, formal and/or informal, so there is no surprise that Flex continues to be one of the main drivers of engagement in the company.

Meth: Each division has their own approach to flexibility as there cannot be a 'one-cap-fits-all' approach, due to the variety of roles at the firm. This could be working from home or a specific initiative. For example, some divisions, including ours, operate a flexi-time initiative where you can take three hours every two weeks for yourselves; the key here is buy-in among your colleagues to make this work. In a World Economic Forum survey from 2018, 79 percent of millennials say that flexible working is a career priority. There are key benefits to a flexible working arrangement, for example, reduced attrition, reduced stress, being able to get things done without the office distractions and, of course, an enhanced work-life balance.

McKelvey: We've definitely evolved around this as a firm in the past couple of years, although the nature of what we do will always mean we're not going to be as flexible as some. As a business, we fall between fintech cool and financial services corporate. We've traditionally been pretty heavily office-based, following client trading hours and being clearly aligned to their working practices, but this is now changing as our clients do. I think we have a good, common-sense approach, led by management, to being flexible and allowing individuals to manage their workloads in ways that best work for them.

How has the landscape changed for women with careers in the securities finance industry over the past few years?

McKelvey: It is no secret that in many areas of financial services there is an imbalance in the female-to-male ratio, and unfortunately within securities finance we also see this trend. That being said, I do think that we are starting to see a shift as our industry puts more emphasis on gender parity within financial services. At the ISLA conference this year, there was an event dedicated to women in securities finance and this is something that I have started to see across conferences in the past few years, which means that we recognise that there is an issue that needs to be addressed, and this is the first step to driving change.

We also need to think about the pipeline of new talent, and ensure that women are taking science, technology, engineering, and mathematics subjects so that they are giving themselves the best opportunity to build careers in historically 'male' sectors.

Bains: Focusing on the positives, the banking industry's image has improved markedly and for certain there is a general acknowledgement among participants of the importance of building a diverse and inclusive workplace. The formation of the Women in Securities Finance group in the US, which is also now looking to expand with an EMEA chapter, is a great example of the different ways in which the industry is bringing awareness and dialogue to the forefront. With all that said, we now need to convert awareness into meaningful change that will help address the challenges that women face. This involves organisations taking a fresh look at behaviours, cultures, processes and policies. Success will be when we see a rise in the levels of women applicants and the number of women in senior positions. It's worth highlighting that as the industry landscape continues to evolve, the type of roles and skill sets demanded is also changing. A career in securities financing is no longer about only wanting to be a trader but the industry is shouting out loudly for diverse experience including regulatory and risk expertise, technology backgrounds and project management. This not only presents women in this industry with greater mobility but the broader career path options should also help with attracting new talent.

McCombs: When I first started in the industry, securities lending was very 'old school'. I would argue that it still is in some ways and is plagued by many of the macro factors impacting the financial industry overall. That said, the securities finance management team at State Street has dedicated a significant amount of time and effort to improve the opportunities for all employees in the division. One example is our revamped interviewing process which must include a panel of at least three qualified, diverse candidates. This forces managers to consider candidates they may not have initially considered due to potential unconscious biases. Unconscious bias has become an openly discussed topic in the context of mentorship and professional opportunities as well, and the impact all of these have on our business and team. These initiatives highlight some of the positive changes that are already underway for women pursuing careers in the division.

Meth: Businesses have set priorities and targets around the recruitment and retention of female employees. It is key to have a strong pipeline of females coming through the ranks, encouraging girls to start looking at banking while they are still at school and demystifying the industry is key in this process. At Morgan Stanley we have programmes specifically targeting sixth-form girls to give them an insight into the business and the huge diversity of roles available. In my opinion, the opportunities for females in this business have never been greater than they are today.

What is your vision of the future and how do we get there?

Benfield: I hope to see more diverse representation in our industry, at all levels, to reflect the demographics of this country and to help our financial services industry continues to grow and thrive. I also hope to see the continued growth of our networking group, Women in Securities Finance, both domestically and globally.

Meth: This is not a quick fix by any stretch of the imagination. We need to ask ourselves why there are so few senior women in our industry and be accountable for retention. It is one thing ticking the box by having a diverse desk, but it is quite another understanding what you need to do to keep that population engaged in order to progress through the industry. I would like to think that in seven to 10 years we will start to see a larger population of senior women, and yes, I do think it will take that long!

McCombs: I hope to see more women in leading roles, not because we are forcing diversity and simply focusing on numbers but because the unconscious biases that currently exist are no longer prevalent. As the numbers of strong female leaders and role models grow so too will the paths to success.

> **Do not give up or react when faced with difficulties. Instead, seek advice from those you trust and respect**
>
> **Elaine Kim Benfield**

McKelvey: I have an optimistic view of the future, and I do see changes afoot with diversity and inclusion. There is evidence to back-up the fact that more diverse organisations are more successful, and I believe that companies are taking note of this and starting to put formal processes in place to address workplace diversity. Yes, we do still have some way to go to change the stereotypical view of an 'investment banker' and we must encourage women to pursue careers in financial services. The last decade has seen the emergence of more and more fintech solutions, driving how future financial markets will operate. Women need to be guided when making their academic choices and that technology is a path that they should feel comfortable choosing. This next generation will be building technology solutions for our market, and these technologists should be from a diverse pool; otherwise we will continue to build solutions from a male-only viewpoint.

What advice would you give to women who are starting out in the securities lending industry?

Bains: It's a demanding industry and this may feel scary but be brave and don't be put off. My personal experience from when I first started out was that I was repeatedly asked by my parents whether I was certain that I wanted to work in banking. They were convinced that for an Indian woman with long-term history of Crohn's disease, a career in accounting felt safer and would be less stressful! I almost reconsidered but in the end I decided to trial it. Fast forward 20 years and I'm still here and determined to keep going. Also, don't be afraid to take risks early in your career, try out different roles, locations, business units to build a broad foundation of core skills. I did not begin in securities lending, but used the first half of my career to gain invaluable, rounded experience with roles in asset management, finance and auditing, which helped me develop a number of transferable skills. Lastly, make sure you know and communicate your value to those who matter, if you have a seat at the table then focus on what you bring that stands you apart and ensure your voice is heard.

Benfield: Work hard, be kind, actively listen, embrace feedback and be resilient. Do not give up or react when faced with difficulties. Instead, seek advice from those you trust and respect. This includes everyone who crosses your path, from your colleagues, administrative assistants to the head of a business, as well as friends and family. Equally important is to trust your instincts and stay true to your values.

Meth: Build yourself a network both internally and externally. Do not make the mistake of keeping your head down and believing management will know what a good job you do and your aspirations for your future; be vocal.

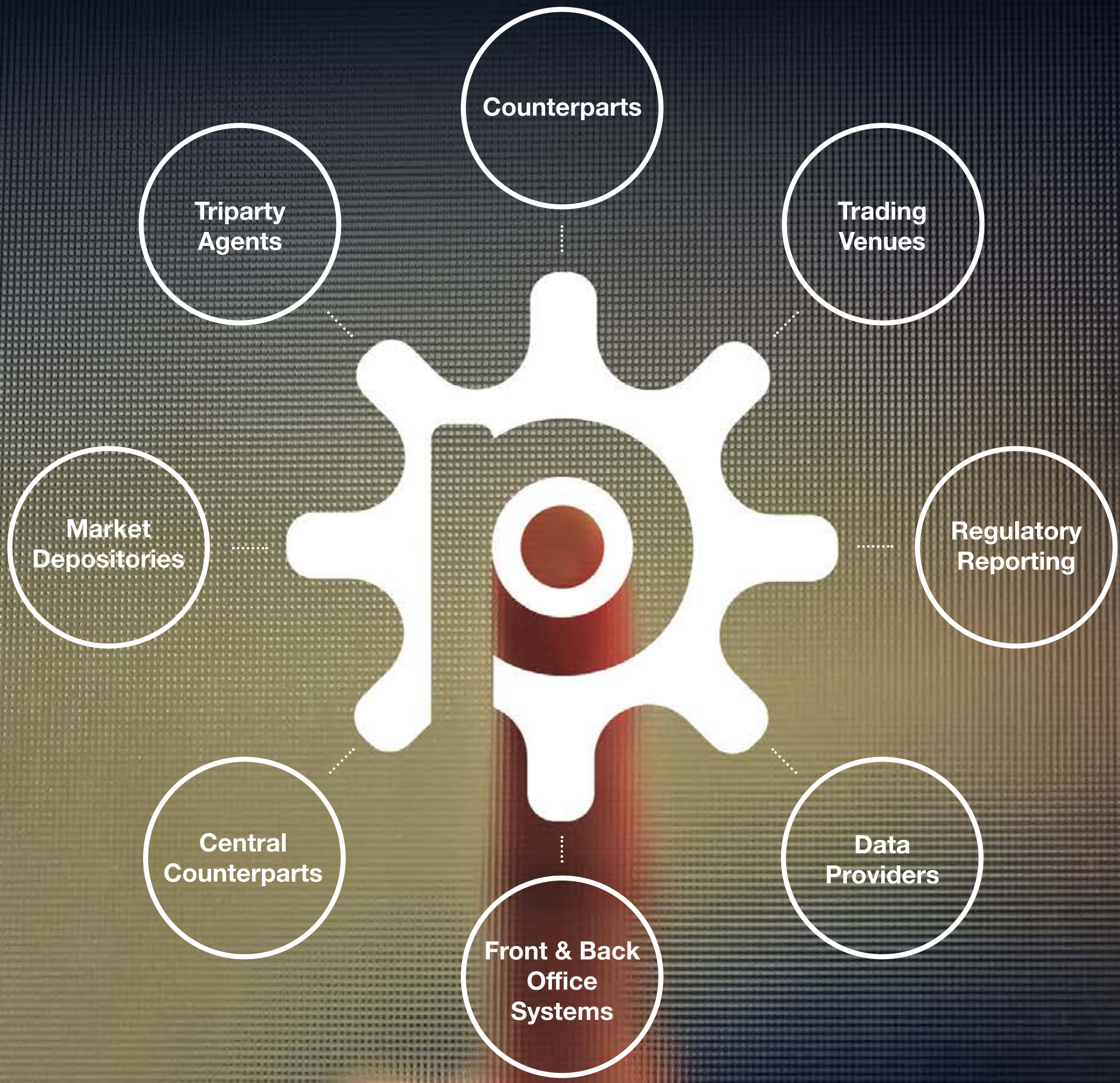
Look for the role that you have a passion for and build your skill set around this.

McCombs: When you are given opportunities–whether a new task, project, or role–strive to be as prepared as you can and always follow through on what is asked of you. If you become known as someone who is good to work with, the more opportunities will open up for you. I also strongly believe in having a broad network of people who know your strengths and can advocate for you–particularly as you are starting your career.

McKelvey: This industry is very much driven on relationships, and so building out a strong network is key. I would encourage anyone starting out to attend as many events as they can to maximise the opportunity to meet with peers and exchange ideas. My network both inside and outside my organisation has been so important to me throughout my career, and I often leverage it whether it is to share ideas or exchange views on industry best practice.

Aside from the networking element, it is extremely important to not be afraid to ask questions, as no question is a stupid question and it will be much better if you truly grasp something rather than trying to second guess. As an example, we use a lot of jargon that to those not on the inside is like another language, so if you don't know what something is then ask at the appropriate time, or go away and find out the answer.

Gillman: My advice is the same for women or men. Learn the details, all of them, and ask questions, all the time. Offer to do more and do it with a positive attitude. Support all your colleagues and be the individual that people go to for support. Focus on your relationships and seek out mentors and sponsors. It is your career and no one else is going to do it for you, so own it. **SLT**



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Initial margin for non-cleared derivatives: getting ready for the next phase

David Beatrix, of BNP Paribas Securities Services, outlines what the break-up of the final phase of the Uncleared Margin Rules means for the industry

Changing rules for non-centrally cleared derivatives

Exchanging initial margin (IM) on non-cleared derivative trades is now an established practice, at least for the firms that have fallen under the scope of the rules in their early phases (one to four).

However, IM rules have many specificities, due to the nature of the calculation of the IM amounts, the principle of bilateral exchange of margin, where each party posts and receives at the same time, and custodial segregation aspects. The compliance process is complex and can take from 12 to 18 months on average, according to the International Swaps and Derivatives Association (ISDA).

What is the timeline?

The timeline under which firms are impacted depends on if their aggregate average notional amount (AANA) of non-centrally cleared derivatives at a consolidated group level fall above a pre-determined regulatory threshold. All instruments, including physically settled forex forward and forex swap transactions, count for the purpose of calculating the AANA, even if they eventually benefit from an exemption of IM exchange.

Until recently, September 2020 was supposed to be the fifth and last phase, affecting the greatest number of entities, with an AANA threshold set at €8 billion. Given the steep increase in the number of institutions in-scope of the September 2020 deadline, in July 2019 The Basel Committee on Banking Supervision and the International Organization of Securities Commissions (BCBS/IOSCO) published a revised policy framework stating that the threshold applicable in 2020 would be raised from €8 billion to €50 billion and that the €8 billion threshold would be postponed to September 2021. This statement will be transposed in every jurisdiction in the near future.

Which counterparties are concerned?

Most financial counterparties trading non-cleared derivatives will be in-scope and the exemptions are very limited. As of today the rules have been transposed in many jurisdictions, including the EU, the US, Japan, Australia, Hong Kong, Singapore, and since September 2019, counterparties with an AANA of non-cleared derivatives above €750 billion (equivalent) are impacted. In many jurisdictions where the rules have been implemented, the treatment of third-country entities implies that most cross-border transactions entered into with entities incorporated in third-country jurisdictions are in-scope.

A study by ISDA and the Securities Industry and Financial Markets Association (SIFMA) in July 2018 estimated that over 1,000 firms fall under the scope of the final phase (AANA threshold set at €8 billion).

Which instruments are concerned?

The scope of non-cleared derivative instruments that are subject to the collection of IM is generally consistent across the main jurisdictions in Europe, Asia Pacific and the US. Physically settled forex forwards and swaps are excluded across all jurisdictions. However, some jurisdictions may have specific exemptions, either on a permanent basis (for example, equity options and forwards are out of scope in the US) or on a temporary basis, such as equity options, which are exempted in the EU only until 4 January 2020.

Moving to the implementation phase

The implementation of IM rules ramps-up gradually at each new phase. However, phases five and six will impact a large number of institutions, which will have to comply within the next two years. According to the study from ISDA and SIFMA in July 2018, over 9,000 new collateral relationships would have to be in place. And, unlike variation margin, which is a concept well-established for most firms, IM is quite new, especially for institutional investors. It involves not only the trading parties, but also custodians because of the collateral segregation aspects.

Calculating IM

IM is a risk-based calculation, and as such is very different from variation margin (based on the market values of trades).

As per the rules globally, the calculation of IM should rely either on a table-based method, or on an internal model, with a one-tailed 99 percent confidence interval over a 'margin period of risk' (horizon) of at least 10 days.

UMR timeline:

Since 1 September 2016, initial margin rules for non–cleared derivative transactions have been progressively entering into force.

As the rules are phased-in (1 September 2019 was the fourth phase), increasing numbers of market participants are subject to the requirements every year.

Phases five (September 2020) and six (September 2021) are still ahead and will impact a significant number of firms, including institutional investors.

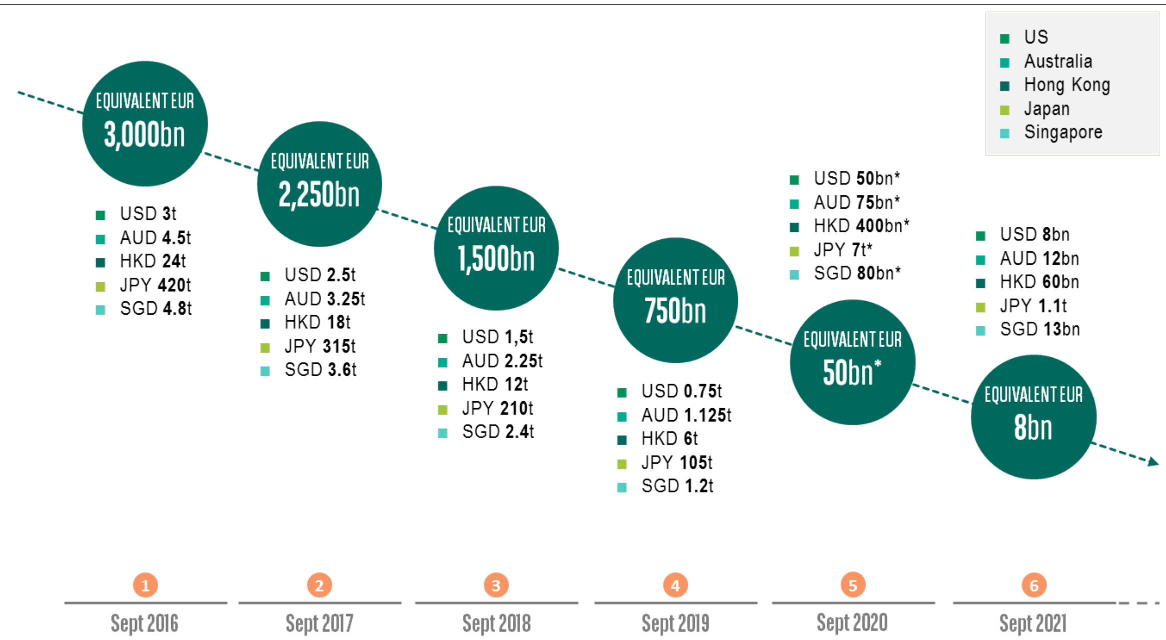
Regarding the internal model, ISDA has developed a standard IM model (SIMM), with a view, among others, to facilitate the implementation of the calculation process by market participants and avoid inextricable disputes on the IM numbers. This model has been adopted by a majority of firms that are in-scope because it takes into account the offsetting risks in a derivatives portfolio, and as such is deemed more efficient than the table-based method.

For firms choosing the internal model approach (which the SIMM is considered to be part of), the rules also mandate the implemention of a 'prudential-style' governance with a continuous back-testing process (note that this requirement applies only to swap dealers and major swap participants in the US).

Achieving collateral segregation

The regulations require an insolvency-remote framework with no-reuse for the collateral. As such, the IMs are transferred in favour of the secured party under a security interest regime, and a specific custody framework has to be implemented to protect the assets in case one of the trading parties goes into default. This framework is based on a dedicated 'trilateral' account control agreement (ACA) signed between the parties and a custodian.

The instruction mechanism for pledge and release of collateral can be complex. The vast majority of firms in scope of the early phases



* 50bn EUR threshold has been set by BCBS/IOSCO in their July 2019 review of the « Margin requirements for non-centrally cleared derivatives » – thresholds in other currencies than EUR still to be definitely confirmed once review is transposed into national jurisdictions

have chosen to use triparty agents because of their natural ability to operate those pledge/release movements same-day and simply upon reception of exposure messages (MT527/required value message).

Anticipating the changes

Despite the recent change of timeline, giving one more year to phase six firms (with an AANA between €8 billion and €50 billion) to comply, planning the implementation should remain high on the agenda for firms who anticipate falling under the scope of IM rules.

Firms may have different options to comply, such as implementing the rules by their own means, or appointing a service provider who can offer an end-to-end solution from IM calculations, exposure management, triparty agent services and custody segregation. In addition, combining the management of initial and variation margins within the same team brings operational efficiencies such as:

- Consistent trade records for the calculation of IM and variation margin exposure amounts
- Consistent models for the valuation and sensitivities calculations
- Simplified communication channels for margin calls and resolution of disputes with counterparties

Whatever the option retained, firms will face a learning curve and will need to put in place a robust governance and project management structure. When it comes to the timeline and planning, it is key to factor-in the dependencies across internal departments (front-office, risk, legal, operations and IT) and external providers (service providers and custodians) to avoid a last minute rush to the compliance date.

	EUROPE	US	AUSTRALIA	HONG KONG	JAPAN	SINGAPORE
INTEREST RATES DERIVATIVES	✓	✓	✓	✓	✓	✓
CREDIT DERIVATIVES	✓	✓	✓	✓	✓	✓
FOREIGN EXCHANGE (« FX ») DERIVATIVES, EXCEPT:	✓	✓	✓	✓	✓	✓
PHYSICALLY SETTLED FORWARDS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
PHYSICALLY SETTLED SWAPS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
PRINCIPAL PAYMENTS ON CROSS-CURRENCY SWAPS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
EQUITY DERIVATIVES, EXCEPT:	✓	✓	✓	✓	✓	✓
EQUITY SWAPS	✓	✓	✓	✓	✓	Yes from 2020/02/29
EQUITY OPTIONS	Yes from 2020/01/04	Exempt	✓	✓	Yes from 2020/02/29	Yes from 2020/02/29
EQUITY FORWARDS	✓	Exempt	✓	✓	✓	Yes from 2020/02/29
COMMODITY DERIVATIVES, EXCEPT:	✓	✓	✓	Yes under conditions	✓	Yes, only for trades not for commercial purpose
PHYSICALLY SETTLED FORWARDS	Yes under conditions	Exempt	✓	Exempt	Exempt	Yes, only for trades not for commercial purpose
PHYSICALLY SETTLED OPTIONS	Yes under conditions	✓	✓	Exempt	✓	Yes, only for trades not for commercial purpose
OTHERS (e.g weather derivatives)	Yes, if instrument defined as derivatives under Mifid	Yes under CFTC No under SEC	Yes if instrument defined as OTC derivative under local rules			

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The challenges of losing LIBOR

Oliver Bader, of BNY Mellon Markets, offers a comprehensive look at what the replacement of LIBOR will mean for the financial markets

Within three years' time, an interest-rate benchmark that became infamous in the aftermath of the global financial crisis could disappear from the markets for good.

Replacing the London Interbank Offered Rate (Libor) has become a Wall Street priority and global regulators are keen to consign it to the dustbin of history, after a host of banks were accused of manipulating the rate.

But moving over won't be easy, even with what appears to be a lengthy runway. Libor is the basis for pricing hundreds of trillions of dollars of financial instruments, including everything from complex derivatives and commercial loans to home mortgages. As such, it is about as intrinsic to financial markets as train tracks are to railway transportation.

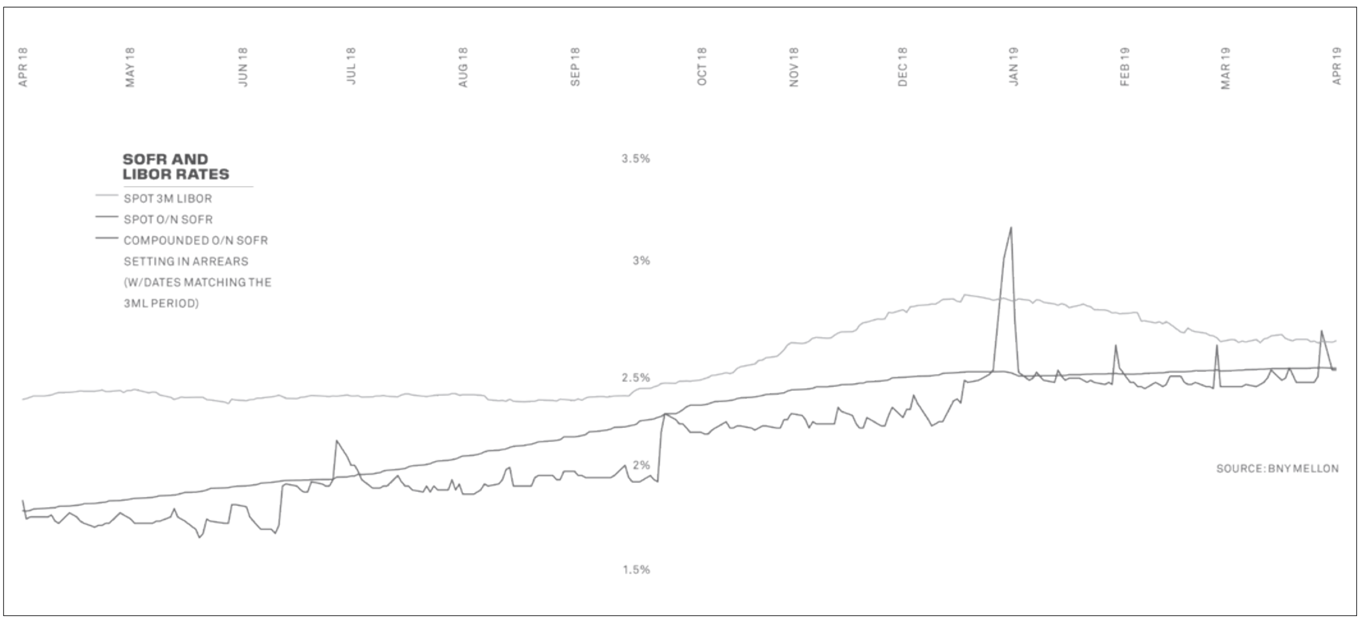
Industry working groups in conjunction with regulators at the Bank of England and the Federal Reserve have been busy determining some alternatives. These vary by structure and region, bringing nuances to the transition. Further complicating the matter is the fact that it appears the switch will happen at different times for different financial instruments in different ways.

The suggested US dollar replacement, called the Secured Overnight Financing Rate (SOFR) was recommended in 2017 by the Fed-sponsored Alternative Reference Rates Committee (ARRC) and introduced in April 2018. Unlike Libor, which has a 'term' component for setting interest rates one, three, six or 12 months out, the new SOFR rate is an overnight rate.

Historically, USD Libor has been based on uncollateralised transactions and taken from a diminishing number of observable transactions. By contrast, SOFR is expected to behave differently because it is based on a larger volume of underlying, secured trades.

Regulators are now pushing the industry to move away from Libor, feeling it lacks robustness because expert judgement is too often required in the absence of underlying transactions. There is a risk it becomes unstable if it lingers on after the alternatives are in place and some believe banks may decide to stop quoting Libor, once they are no longer required to help set the benchmark after 2021 by the UK's Financial Conduct Authority.

Trading and issuance are "already happening and building momentum, and given the regulatory stance, we think those things will come together," says Adam Gilbert, regulatory leader at PwC financial services advisory. "Will there be vestiges of Libor that stick around? That's quite possible but we think it's the exception."



Act now

While SOFR is based on more than $800 billion of underlying short-term loans every day, trading volumes in products like derivatives, loans and securities indexed to the new SOFR rate are still in their relative infancy. Conversely, Libor is the other way around. It's based on only about $500 million of daily trades but there are an estimated $350 trillion in loans and derivatives linked to it—$150 trillion in Europe and Japan and $200 trillion in the US.

Industry experts say that, with the clock ticking and the transition likely to accelerate soon, market participants with exposure to Libor need to get ready. In the US, the Fed-sponsored ARRC group set out a 'paced transition plan' to sequence the adoption of SOFR. This contemplates derivatives—both on and off exchange—and the creation of a forward-looking rate for loans, bonds and mortgages.

The Securities and Exchange Commission said in a July 11 statement that it would monitor which risks and exposures companies might need to disclose in relation to the transition and "whether the adoption of a variety of replacement rates for USD Libor instead of a dominant successor could limit the effectiveness of all replacement benchmarks."

In the near term, a key focus will be analysing areas of exposure to Libor not just across trading, but across risk, finance, operations, legal and technology groups. That review involves not just collecting all the physical documentation supporting financial contracts, but also looking across the different types of clients using them.

Depending on the institution and the resources available, this is where the pinch points will likely occur.

> **"Will there be vestiges of LIBOR that stick around? That's quite possible but we think it's the exception**
>
> Adam Gilbert, PWC

"This is likely to be a series of massive corporate actions," says John Nixon, director of derivatives operations at BNY Mellon. "You have to be able to support it on billions of dollars of varying types of instruments and evidence that transition internally and to clients or counterparties."

Like every other bank, BNY Mellon set up a programme to analyse the potential impact, appointing an enterprise-wide Libor 'czar' overseeing a taskforce to identify every affected legal contract. The bank has already executed SOFR swaps and futures as well as both underwritten and made markets in SOFR floating-rate notes for clients.

"The change will be seismic but the good news is we have already quantified our market exposure and we're ready to trade," says Robert Lynch, head of interest rates trading at BNY Mellon Capital Markets.

The biggest burden will inevitably fall on the smallest accounts and thousands of wealth managers and asset managers that do not have the bandwidth or quants available to help them make the switch to the new overnight rates, say industry experts.

The changes could ripple far and wide, and not only in bond and derivatives contracts. The mortgage market, with millions of commercial borrowers whose interest rates set off Libor, will suddenly find itself operating under a new paradigm.

Fallback language

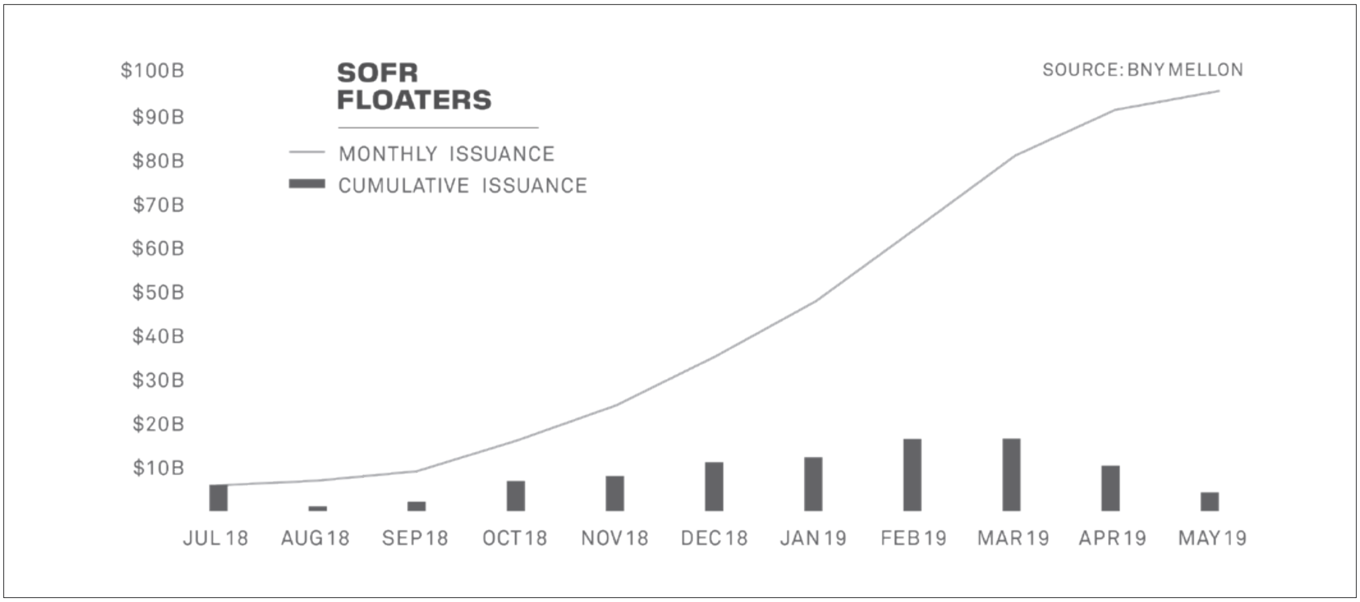
In case LIBOR stops being quoted and falls away, regulators have been helping to coordinate the construction of recommended new legal language, known as 'fallback' provisions," as a sort of insurance policy to be written into future and legacy products.

Current fallbacks govern what might happen if there were a temporary cessation in existing benchmarks. The goal of the new language is to create contract certainty in case of any permanent cessation in any new or existing benchmarks and to keep any change in contract values to a minimum. The ARRC in April released recommended fallback language for US dollar Libor floating-rate notes and syndicated loans, and more in May for business loans and securitisations.

A good portion of the work to transition derivatives pricing will be done at utilities called clearinghouses that process many of the trades, such as LCH–a large clearinghouse for interest-rate swaps and other instruments that rely on Libor and other benchmarks.

The London Stock Exchange Group, the majority owner of LCH, has already done some of the preparation work. That includes listing SOFR swaps as eligible for clearing; helping the benchmark reform process in the UK with its Sterling Overnight Index Average (SONIA) rate; and assisting in the switch to the Swiss Average Rate Overnight (SARON)." LCH says it will focus on bringing a Euro Short-Term Rate (ESTER), to the clearinghouse later this year, and encourage participants to start speaking with utility providers to help ease the transition process away from Libor.

"Many clients are well advanced with their planning, but we would encourage them to engage with the system providers and infrastructures they rely on so as to ensure they understand what's changing and when, and remain able to manage their business activity through the programme of change that lies ahead," says Phil Whitehurst, head of service development for rates at LCH in London.



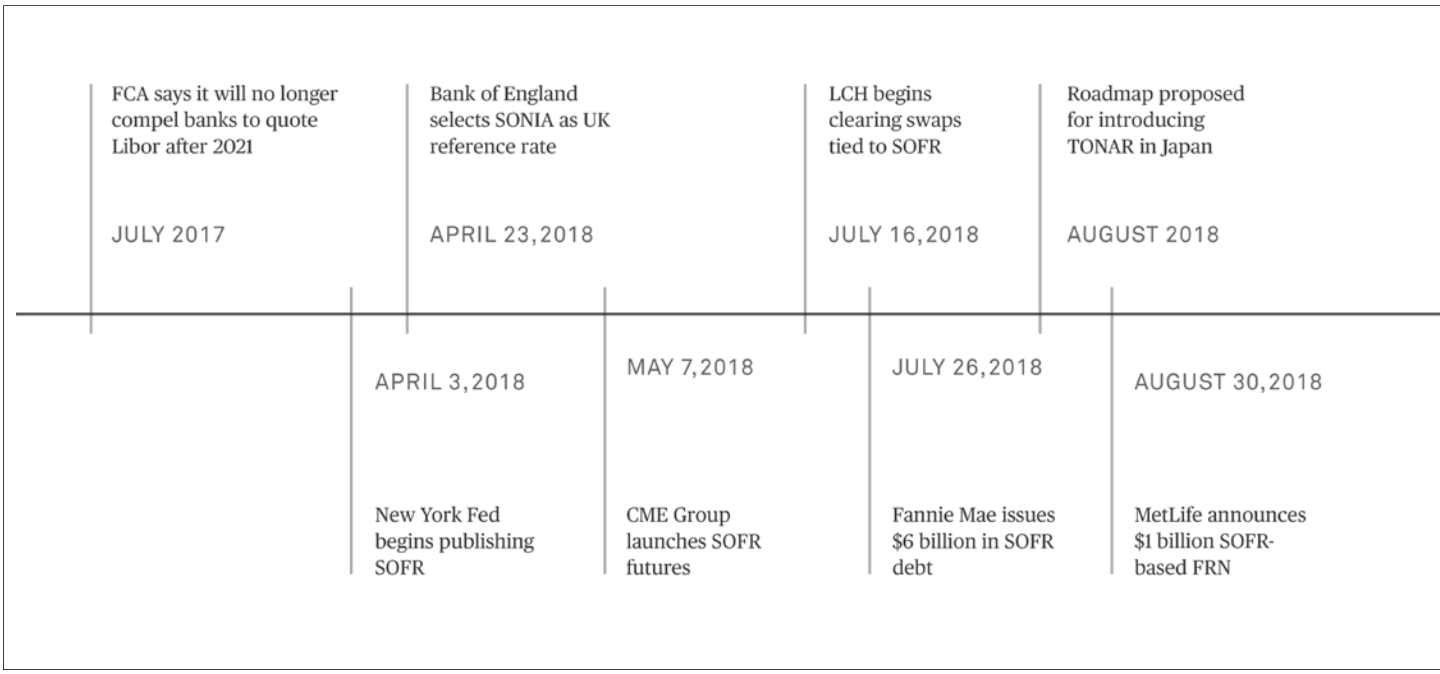
The International Swaps and Derivatives Association (ISDA) is amending standardised swap contracts to fit the new benchmarks and LCH has said it is working on a mechanism to switch any transactions still referencing LIBOR once that work is complete, starting in 2020.

When ISDA canvassed the marketplace about suggested fallback language in July 2018, a majority of derivatives market participants opted for backward-looking term rates in the theory it would reduce the risk of rate rigging.

Meanwhile, market participants want a forward-looking interest-rate term benchmark for non-cleared swaps, loans, bonds and mortgages.

"The change will be seismic but the good news is we have already quantified our market exposure and we're ready to trade

Robert Lynch, BNY Mellon



So far, there is no such thing and any forward-looking rate would have to be assembled out of derivatives tracking the new overnight benchmarks. It isn't clear when sufficient volumes will allow for this to happen.

Treasurers would like the replacements for different instruments to align so that a hedging mismatch is not created between assets and liabilities should a cash product, like a bond, fall back to one rate and the derivative used to hedge it fall back on another. This would create a headache for participants called "basis risk," where trades are no longer paired.

Key transition dates

"The key is how the cash market synchronises with the derivatives market," says Rob Wilson, head of change at BNY Mellon Markets. The risks will not just be across different products but will also be a problem across different currencies.

Minimising mismatches

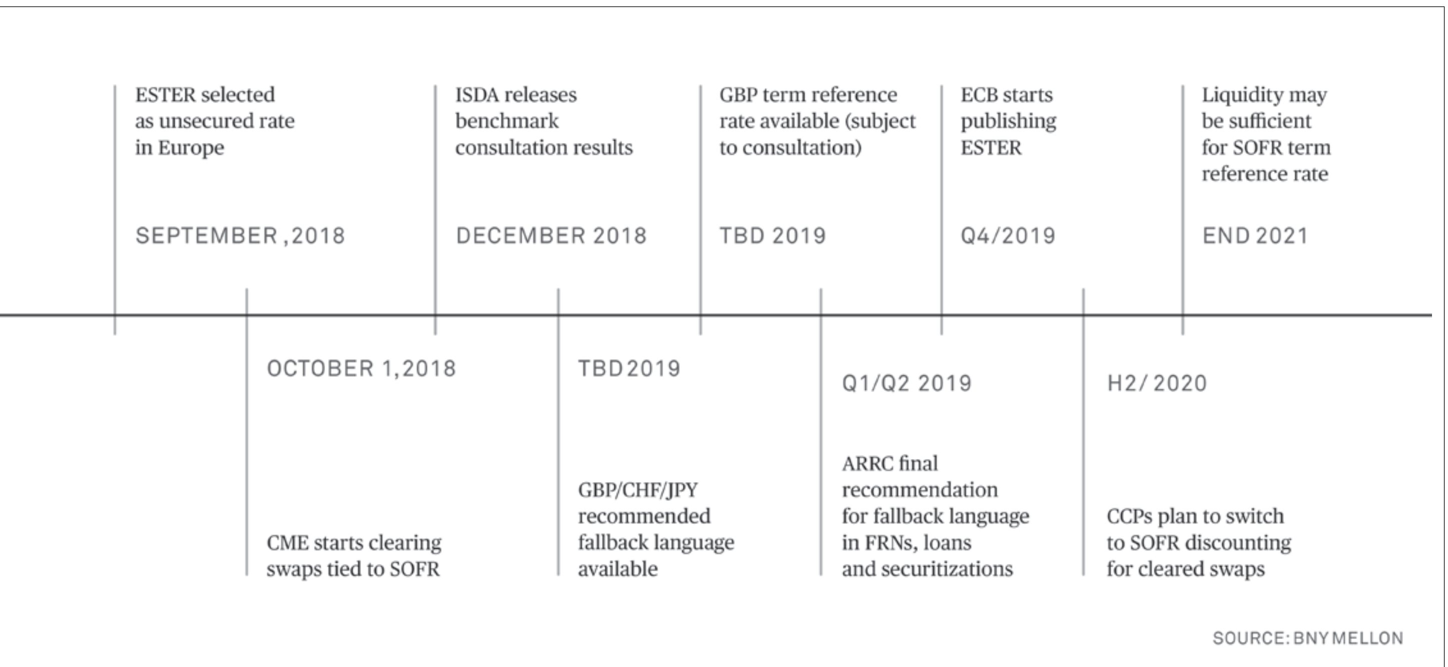
Since SOFR rates started to be quoted in April last year, exchanges have joined the fray. CME Group launched one- and three-month futures based on SOFR the following month. CME says from a slow start, average daily volumes had swelled to 38,533 futures contracts by March 2019.

The more futures are traded, the more liquid the off-exchange derivatives like swaps should become. "It is expected that this market will continue to develop and gain increasing acceptance," says Jeffrey Pearsall, managing director at Philadelphia-based financial consultancy PFM Swap Advisors.

This year through 12 July, $140.1 billion in swaps tied to SOFR have traded and were reported to US data repositories, according to ISDA. Only three issues to date have used the compounded SOFR calculation methodology that is being used for derivatives and is expected to become the market norm: a $1 billion floating-rate note in November from the European Investment Bank, a $1 billion one from Goldman Sachs Group Inc. in May, which reportedly received $2.25 billion in orders, and a $750 million one from Morgan Stanley in June.

> **Many clients are well advanced with their planning, but we would encourage them to engage now with the system providers and infrastructures they rely on**
>
> Phil Whitehurst, LCH

Today, many participants are used to knowing their borrowing costs in advance. To approximate this for the new benchmarks, the market compounds SOFR futures pricing over three months to deduce a term rate. Practically speaking, this means the exact interest rate that firms will receive or pay will not be known until after market events, such as Fed interest rate moves.



> **"Managing that basis risk between the two sides of the balance sheet is a challenge**
>
> Alan Ganucheau, Hancock Whitney Bank

Many became concerned when SOFR spiked at year end, as overnight rates tend to do.

Some say those uncertainties and the month-end swings in SOFR rates aren't much more challenging than the Libor rate that was open to manipulation in the first place. In April, the ARRC weighed in on the appropriateness of overnight SOFR and laid out options which can be used to alleviate concerns for a variety of market participants.

"It's not clear to me that the status quo volatility with SOFR is any worse than what we had with Libor," says Gilbert at PwC. "People can understand SOFR and relate it to the underlying market a lot easier than the estimates that came with Libor."

BNY Mellon's Lynch says developing a term rate for SOFR rate involves "some major challenges" and market participants cannot afford to wait for it to be available before pricing contracts. Instead, traders should adapt to backward-looking rates in the near term since liquidity may not support a term rate for some time.

Operationally, having contracts with two different benchmarks may also be difficult to manage. Alan Ganucheau, treasurer at Hancock Whitney Bank, a bank in Mississippi, says matching up assets and liabilities that may be benchmarked against different rates is tricky. If some rates suddenly switch away from Libor and some don't, that creates an unwanted 'basis' mismatch.

Another concern is that during another financial crisis, the overnight SOFR rate will likely decline as institutions rush into the safety of US treasuries.

At the same time the cost of unsecured borrowing could rise sharply. "Suddenly I will be borrowing at a higher rate but receiving a lower rate for my assets, so managing that basis risk between the two sides of the balance sheet is a challenge," says Ganucheau.

Still, while the series of unknowns could tempt firms to hold back on beginning their preparation and analysis, there are enough certainties to act on now. SOFR is trading, so new products can be approved; compounding methodologies have been established for new debt issues so system changes can be made; and new fallback language has been issued for contracts.

"If you hold out hope of a term rate, you risk falling behind on execution and planning," says Lynch.

ALTERNATIVE INTEREST RATE BENCHMARKS

SOFR The secured overnight financing rate

SONIA The sterling overnight index average

EONIA The European overnight index average

SARON The Swiss average rate overnight

TONAR The Tokyo overnight average rate

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Tailored fit modernisation

Chris Valentino sits down with SLT to discuss how Trading Apps not only talks the talk but walks the walk when it comes to being an efficient and nimble technology partner

What would you say it is that sets Trading Apps apart from other technology providers in this crowded space?

As you know we do have a whole host of standard applications. But if there is anything that I have learned in this business it is that no two clients are exactly the same. They may be operating the same business models with the similar data sources and identical underlying architectures but if there is one consistency amongst all participants in this market it is that they need bespoke solutions that fit their particular business within their very own ecosystem. And, while it is certainly true that with standardisation comes scale we think it is more important to build solutions that meet the demands and criteria of our individual clients as opposed to the market as a whole.

I also think that because of our flexibility and the fact that we are a modular front-end system we have gotten very proficient at connectivity as it pertains to underlying and systems. Let's face it, in many instances the underlying architecture is just too entrenched and expansive to disrupt. Implementing some of our applications is a great and very strategic way to modernise your systems without engaging in an expensive and potentially risky systematic overhaul.

Could you walk through what this means for your clients specifically?

Sure, I would be happy to. We have been working closely with a broker-dealer client for the past several years on a number of initiatives such as connectivity to various liquidity pools and sophisticated process automation.

Most recently the client asked if we could build a screen that would not only allow them to track their profit and loss (P&L) in real time but also to have transparency into what was fueling or exerting pressure on their intraday profitability.

Building the screen was the easy part but getting all of the necessary data from the underlying systems was the challenge. We are fortunate enough to have an extremely talented team that is as technologically advanced as they are rich in securities finance domain expertise.

The client now has a real-time window into profitability with the ability to see how that P&L is impacted by market activities such as rate changes, returns, marks, etc, with drill through capabilities down to the individual trade level.

It is amazing how something as basic as this has escaped this market for so long. And probably one of the most rewarding parts of this piece of work is that it really isn't something that we planned for at the beginning of the year.

As our partnership has grown with this client and our understanding of their business has expanded it just became a very logical next course of action. It really speaks to our ability to pivot as an organisation and develop sophisticated tools at a very rapid pace that our clients are asking for.

I don't think there are many technology vendors in this market that could live up to this kind of agility. By the time the year is up the client will have received four major releases with countless interim releases and enhancements along the way.

Besides this, what else has Trading Apps been up to?

Well I think every technology player in this market is working on ways to automate and provide greater centralisation and transparency of information. One of our clients just recently went live with our Cross Book Optimisation suite of tools.

What does that do?

For one, it automates a ton of the mundane activities that the desk had been engaged in during the day and provides a greater opportunity for them to focus on higher margin activities.

It essentially covers the desks shorts automatically and in the most efficient manner possible. Liquidity is sourced internally first and once that avenue has been exhausted it will look to the street to cover the remaining positions. The feedback from the client has been very positive and the efficiency gains are material. The same can also be done on the return side of the equation for any excess borrows.

These are all very basic solutions but for many of our clients they have operated for years without them. Perhaps the technology is out there and exists but in order for it to be fit-for-purpose it needs to be molded into a solution that works for each and every market participant. I believe that is the value and one of the key differentiating factors that we bring to this market.

So what is next for Trading Apps?

As you know, BNY Mellon recently purchased our agency lending securities finance software and associated intellectual property. I truly believe that speaks to the quality and sophistication of our tools. With that event clearly behind us we have been able to focus a tremendous amount of time and energy on our existing and soon-to-be new clients.

The end of this year and next year should be very busy for the organisation. We have a very strong pipeline of clients and products such as a private cloud offering for any of our applications. This is something that is becoming more and more prevalent in the market and just makes a ton of good business sense.

Advantages of integration

FIS speaks with Rich Hochreutiner, global head of collateral at Swiss Re, to understand his vision for integrating repo, securities lending and collateral

Why is securities finance important for insurers and what are the goals of the programme?

Our securities finance programme serves three main purposes for Swiss Re. First, it is a means of reducing bank risk. As part of our cash management activities, we include reverse repo rather than letting cash sit unsecured with a bank. Second, the repo market provides us with funding resilience. The chances of being able to borrow cash are infinitely higher on a secured basis than on an unsecured basis, particularly in times of market or name-specific stress. The third goal is to yield enhancement. Using securities lending to generate welcome extra revenue in these times of low yield is increasingly important for asset managers, insurers and pension funds. Every basis point counts, especially for long-term investors.

How have you organised your treasury, securities finance and collateral management businesses at Swiss Re?

We believe that aligning these lines of business is a crucial success factor—not only for the insurers but also for most other participants in these markets. It is no longer feasible to have separate silos for treasury, fixed income and equities with derivatives collateral management on the side. The traditional model simply isn't smart enough anymore. We started combining onto one central platform back in 2009, which allows us to benefit from the intrinsic synergies and avoid paying a spread to the market.

As an example, you could use repo to raise cash for variation margin, thereby removing the need to sell long-term investments. Or you could use the securities lending market to transform the securities you have to obtain securities you need. Having all investments available to transform into the collateral you need minimises the probability of needing to go into the market and paying a fee to do so—you'd rather share the savings within the group.

What drives the choice between insourcing your securities lending programme versus using an agent lender?

Of course, critical mass is a deciding factor whether to do something in-house or to outsource to an agent lender. I believe that solution provider companies like FIS can significantly impact the decision of whether to outsource or not by offering innovative, cost-effective solutions that lower entry barriers for new market participants. If you can cover multiple facets of the market with one system, that is a welcome simplification. Personally, I believe that focusing on your own positions will generally lead to better returns rather than being one of many in a large programme.

Insurers must have effective funding and liquidity management. If you are doing cash management using repo, then adding in securities lending is a small step. It's not a complicated business. If you already manage interest rate risk of decades, then you can probably manage short-term interest rate risk.

Why not use the collateral management system you need for derivatives collateral to also manage securities lending? If you are doing asset management, then you already have people moving securities and cash. The process to start lending and borrowing is not much different. Having the expertise is one component but you need the organisational alignment and modern infrastructure to do it effectively. A platform should cover securities lending, repo and derivatives collateral, be regulatory-compliant and provide seamless connectivity to the market infrastructure. A modern system that solves these problems is a great way to get started and will find support along the process chain and within the control functions.

How will UMR for OTC derivatives impact firms like Swiss Re? What will be the impact on securities finance?

UMR will add some complexity because of the amount of documentation adaptation, but operationally, Swiss Re is well prepared because we have consolidated securities lending, repo and collateral management on a single system in Apex that can already accommodate the changes. I could imagine that, the requirement to exchange non-cash initial margin for over-the-counter (OTC) derivatives may push additional people into the securities finance market. If you're doing collateral management for initial margin (IM) with multiple counterparties, you may as well do securities lending. The structure of the market would benefit from new participants.

Repo and securities borrowing and lending markets are the way to create a universe of securities needed for IM. Firms will increasingly be using systems that provide a central platform for securities finance and collateral. The decision to centralise these disciplines is both an organisational and an infrastructure question. We are all concerned about how regulations stop people getting on and doing their business. However, this regulation could paradoxically have a positive effect on securities finance.

What other factors will influence your business over the coming years?

The Securities Financing Transaction Regulation (SFTR) will continue to be a topic over the coming years for insurance companies and other non-bank firms. The buy-side community has six months longer than the banks to be compliant, by October 2020.

As Apex users, we are relying on FIS to provide an effective solution. We are also currently evaluating FIS' reporting solution that plugs directly into trade repositories, bypassing any need for another layer of data aggregation which could create friction. We believe such a direct approach could be the most efficient for reporting the business of our EU-based companies. There are many complexities to SFTR reporting and FIS has designed a simple but effective solution.

How important is the choice of a vendor partner to support your business goals?

In my experience, the main selling point of FIS is that it has a great team of people. Being able to have a discussion with someone who understands what you need as a buy-side firm and can challenge you is a huge advantage. Apex has really rich functionality with all the components we need for securities lending, repo and cross-product collateral management. This is what people need more than ever.

Specials drive US Q3 revenue upswing

Sam Pierson, director of securities finance at IHS Markit, lifts the lid on how revenue from 'deep specials' contributed to equity lending revenue in 2019

The third quarter of 2019 has seen a surge in the value of shares on loan with annualised fees greater than 50 percent, which we'll refer to in this note as 'deep specials'. While a significant portion of the year-over-year (YoY) growth in deep special balances is the result of Beyond Meat (BYND), there is a broader trend toward increased hard to borrow US equities, which has been in place for years prior to the recent spate of initial public offering (IPO).

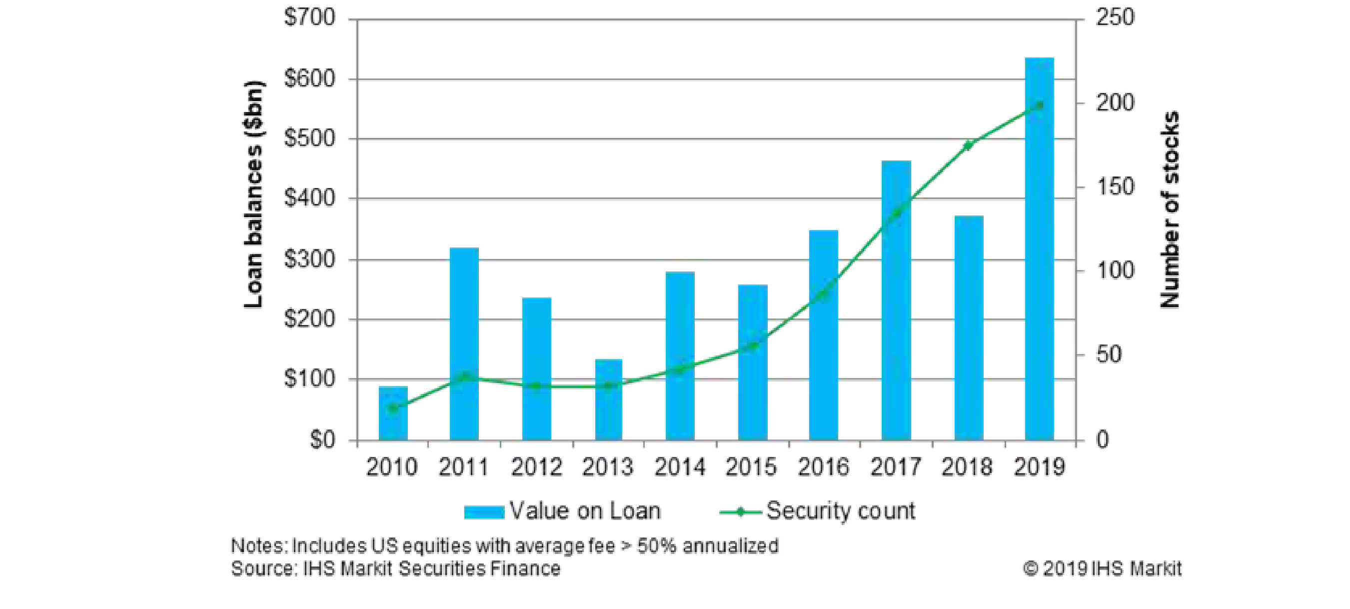
The total number of US equities with an average fee for open loans greater than 50 percent has increased 10-fold in the past decade. The average annual balances are often dominated by a few firms but the increased breadth reflected in the count of such securities is also worth noting.

While the balances and number of securities have grown, so too have the average fees. The value weighted fee for deep specials averaged 66 percent from 2010 to 2018, with annual averages between 63 percent and 70 percent. In 2018, the average jumped to 82 percent, with 2019 year-to-date (YTD) averaging 84 percent. With growth in balances and fees comes growth in revenue. If 2019 ended with August, it would already be the best on record for deep special revenues, totaling $349 million YTD. That's 19 percent of the $1.8 billion in total US equity lending revenue YTD through August, which is also the highest ratio since 2011 when deep specials contributed 30 percent.

Beyond Meat is the standout this year, with YTD revenues just over

Name	Avg balance when fee > 50%	# days fee > 50%	Avg fee when fee > 50%
Beyond Meat Inc	$725,014,429	73	90%
Overstock.Com Inc	$349,617,158	18	54%
Tilray Inc	$207,815,052	13	146%
Pareteum Corp	$101,712,670	13	54%
Evolus Inc	$95,651,482	16	53%
New Age Beverages Corp	$93,397,042	36	82%
Turtle Beach Corp	$70,219,187	10	65%
Energous Corp	$61,369,802	38	71%

US equity deep special value on loan & count



$180 million through August. That's 53 percent of the total YTD deep special revenue. The other significant contributor over the last year has been Tilray (TLRY), a Canadian pharmaceutical and cannabis company, which has delivered 17 percent of US deep special lending revenue since the firm's IPO in July 2018. Excluding BYND and TLRY, balances would be relatively flat in $320 million area between 2016, 2018 and 2019. SNAP, AAOI and GPRO contributed to the standout balances in 2017.

This table shows the YTD highlights from US equity deep specials, only looking at stocks where the average fee was greater than 50 percent for at least 10 days. LYFT, which only had a fee greater than 50 percent on the first settlement date following the IPO, nonetheless deserves a mention in this conversation. While LYFT was not in the 'deep special' category for very long, it has contributed just over $50 million to YTD revenues, as the result of 10.5 percent average fee on an average balance of $1.2 billion. The good times for lenders of LYFT shares appear to be over with the early release of shareholder lockups taking the pressure off the borrow. Other names which had shorter durations around events include LLY, ELAN and COTY.

Beyond Meat has certainly been the outstanding contributor of 2019, however the long-running trend of increasing balances and fees for deep specials would be intact without it. As mentioned at the opening, deep specials contributed 19 percent of YTD revenues. The previous instances where deep specials were a significant portion of overall revenues were in 2009, which was entirely the result of the Citi recapitalisation trade, and in 2011, where MNKD, GNK, EDMC and TZOO led a broad group of deep specials.

Looking at another measure of revenue concentration, the top-10 US equities by overall revenue, so including LYFT and LLY, have delivered 39 percent of US equity revenues YTD.

The peak for US equity lending revenue over the past decade was 2016 with $3.1 billion, aided by special fees for Tesla and the surge in demand during the energy credit related sell-off in Q1. Global securities lending revenues reached a new all-time high in 2018, however, US equity lending revenues were down 16 percent from the 2016 peak.

The growth in revenues from lending specials has been impressive in recent months, but overall US equity revenues are down 5 percent YoY through August, though Q3 is on pace to be the first quarter of the year to better its 2018 comparable. That means deep specials have helped to offset an overall revenue shortfall in nominal terms. Taking the decline in overall revenue together with a 3 percent increase in US equity lendable YoY reveals a portrait of frustration for lenders of US equities. Despite the growth in US specials, there is an overall decline in revenue, which combines with an increase in lendable to put pressure on returns to lendable assets as well. While those factors present challenges for lenders of US equities, the increase in demand for specials in Q3 is cause for optimism heading into Q4.

Sam Pierson
Director of securities finance
IHS Markit

Comings and goings at Stonewain, Pirum Systems and more

Crypto exchange Lendingblock has appointed former-Goldman Sachs and J.P. Morgan senior executive John Macpherson as a strategic advisor.

Lendingblock, which went live on 3 September, is the first blockchain-powered securities lending exchange for digital assets.

Macpherson will be responsible for advising on key strategic decisions as Lendingblock continues to build its global institutional relationships and partnerships across both the crypto and the conventional capital markets landscape, the exchange said in a statement.

Most recently, he was CEO of fintech company BMLL Technologies, where he worked since 2016.

Macpherson also brings more than 20 years of experience across tier-one investment banks including roles at J.P. Morgan between 2001 to 2004, and Goldman Sachs from 2004 to 2013.

At Goldman Sachs, Macpherson was head of listed derivatives for Europe, the Middle East and Africa.

After that, Macpherson joined Nomura in 2013 as global head of futures and options where he rolled out a new global trading platform, streamlined the business and significantly increased revenues.

Steve Swain, CEO and founder at Lendingblock, said: "John Macpherson has a wealth of expertise in conventional financial markets industry, and we are thrilled to welcome him to Lendingblock."

"His experience working with clients around the globe over the past two decades and his ability to drive growth will be an asset to Lendingblock as we look to deliver what we believe to be core institutional infrastructure to the crypto lending markets."

State Street has promoted Matthew Neville to head of agency lending trading for Europe, the Middle East, and Africa (EMEA).

Most recently, Neville was a managing director, head of trading, securities finance principal and enhanced custody for EMEA at State Street.

Neville joined the bank in 2009 as vice president, securities finance sales trading and enhanced custody; a role he served in until his promotion to head of trading in 2015.

Prior to State Street, Neville was an equity finance trader for structured products at Morgan Stanley from 2008 to 2009.

He first joined Morgan Stanley in 2004, where he was a manager of collateral distribution and positioning and from 2007 and 2008 he served in a securities lending sales trading, market and distribution capacity.

In a career that spans almost 20 years, Neville also spent just over four years at JPMorgan Chase between 2000 and 2004. His roles included senior collateral manager, triparty, manager, international settlements and analyst, international settlements.

James Bell has left his position as a product analyst at Pirum Systems in London to join InfoTrack Australia in Sydney.

InfoTrack offers a range of technology solutions for the financial sector, including cyber-security and due diligence measures services.

Bell joined Pirum Systems in 2017 and described his responsibilities as being centred on design, strategy, development and testing of an exposure management product alongside a range of developers using the Agile framework.

Prior to Pirum, Bell was with HSBC Global Banking and Markets in a fixed income derivatives middle-office associate role from 2016 to 2017, where he provided support for the derivatives over-the-counter business.

Bell also worked as a trade capture analyst at Barclays Investment Bank, based in New York from 2015 to 2016.

Stonewain Systems' Raj Dutt has left after six years as a business development director.

Prior to Stonewain Systems, Dutt worked at Clearlend Securities, a division of Wells Fargo, as managing director focused on technology between 2001 to 2013.

Before that he was a consultant at Context Integration from 1997 to 2001.

Dutt has now moved to Jobility, an online job matching service, as director of business development, based in Los Angeles.

Global asset manager AXA Investment Managers has bolstered its securities finance team with the appointment of Nicolas Michel.

In his new role, Michel will serve as a securities finance trader based in Paris.

Michel joins from UniCredit where he most recently worked as a Delta One and collateral trader and director, from April to September.

Before that, he was a Delta One and collateral trader, vice president from January 2013 to April this year.

From 2008 to 2012, Michel was with Barclays Investment Bank and served in similar roles including Delta One trader and associate, and Delta One trader and analyst.

Prior to Barclays, Michel worked at Société Générale Corporate and Investment Banking for just under two years.

He first joined as an equity derivatives trading support analyst before moving on to become an equity derivatives index arbitrage trader assistant analyst.

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