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ESG: Major UK beneficial owner publishes sector-exclusion list

The Universities Superannuation Scheme (USS), one of the largest UK private pension schemes for higher education institutions, has for the first time committed to excluding investment and divesting in sectors it deems “financially unsuitable”, including tobacco andcluster munition manufacturing and thermal coal mining.

Others to be blacklisted include companies that may have ties to white phosphorus (a chemical which self-ignites on contact with air) production and landmines.

The list marks the latest move by the scheme aimed at better aligning its investment strategies, including its securities lending programme, with environmental, social and governance (ESG) standards.

USS Investment Management, which has oversight for around 75 percent of USS’ £67 billion of assets under management, says it will fully divest from companies in the listed sectors within two years “if not earlier”. This, it explains, is to allow new processes to be introduced to change the way that its money is invested.

The scheme confirmed that most of these sectors, particularly those where USS does not have any existing interest, will be formally excluded much earlier.

The exclusions will apply to both the defined benefit section and within the default funds of the defined contribution section of USS.

The scheme explains that the decision to publish its first sector exclusion list comes after a detailed review of the long-term financial factors associated with investing in certain areas and is the latest move by USS’ head Simon Pilcher to align investment strategies with ESG principles.

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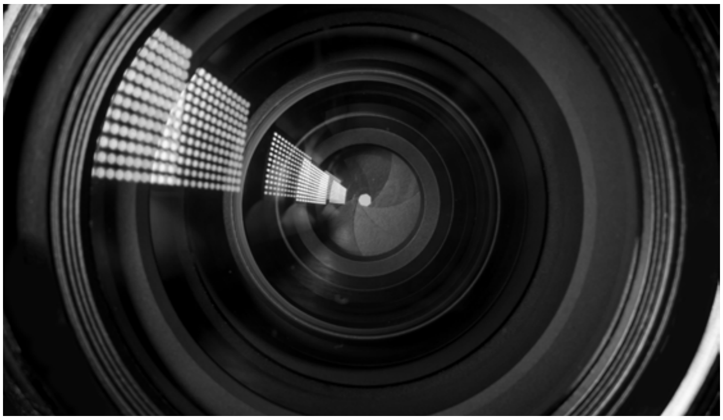

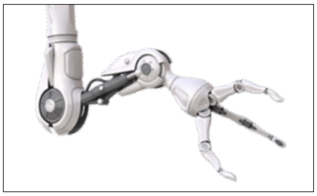

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ESG: Major UK beneficial owner publishes sector-exclusion list

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The review concluded that the "traditional financial models" used by the market as a whole to predict the future performance in these sectors had not taken specific risks into account.

These included changing political and regulatory attitudes and increased regulation that USS Investment Management considers will damage the prospects of businesses involved in these sectors in the years to come.

Of the new investment blacklist, Pilcher says: "This is a major development for us and one that will balance both keeping the financial promises made to hundreds of thousands of members in the higher education sector, with investing in a responsible way over the long-term.

"As the majority of USS's assets are invested directly by USS Investment Management, we will have a great deal more control over this process than other pension schemes, and where we work with external managers, we will work diligently with them to implement our conclusions via their products."

Pilcher took over from Roger Gray in October 2019 and has since taken several radical steps to promote ESG in all aspects for USS' investment strategies, including closing its entire equities stock-picking team in February in favour of more "responsible investment" units.

In March, USS joined other major global pension schemes, including Japan's Government Pension Investment Fund, which publicly suspended part of its securities lending programme in December, and the California State Teachers' Retirement Scheme in signing a statement emphasising the importance of sustainable growth.

The statement argued that companies that seek to maximise profits and ignore its impact on other stakeholders such as the environment, workers and their communities "put their long-term growth at risk and are not attractive investment targets for us".

Elsewhere, USS has also become a participating investor and supporter of an initiative called Climate Action 100+, which ensures the world's largest greenhouse gas emitters take necessary action on climate change. As one of the investors, they engage companies to curb emissions, improve governance and strengthen climate-related financial disclosures.

USS has run a securities lending programme via its custodian J.P. Morgan since at least 2013 and the exclusions are the latest example of ESG actively moulding a beneficial owner's requirements for offering out its assets.

USS has operated a securities lending programme via custodian J.P. Morgan since at least 2013. Its equities lent in 2019 were valued by USS at £1,614 million, down from £2,899 million in 2018. Meanwhile, bonds lent via its programme were valued at £3,063 million last year up from £1,086 million in 2018.

The Singapore Exchange to launch new single stock futures

The Singapore Exchange (SGX) is set to launch 10 Singapore Single Stock Futures (SSFs) on 15 June, in response to growing client demand for a broader suite of Singapore-linked equities products.

The list of underlying securities for the SSFs are Comfortdelgro, DBS, Genting, Keppel, OCBC, Singtel, Thai Beverage, UOB, Wilmar and Yangzijiang Shipbuilding.

Most of these securities are also SGX MSCI Singapore Free Index (SiMSCI) stocks.

In recent months, index trading activities between SGX cash equities market and SiMSCI futures reached a record high of almost S$650 million in a single day.

SGX observed greater synchronisation and correlation between the price of futures and the underlying stocks across various intraday timeframes, indicating growing institutional participation across both markets.

The exchange now says that SSFs represent a “next natural step in the growth of the ecosystem” and offer market participants a new shelf of risk management instruments.

Elsewhere, SGX has signed a licence agreement for four products on MSCI Singapore indices, including SiMSCI futures and options and net total return contracts, which will continue to be listed on SGX after February 2021.

Michael Syn, head of equities at SGX says: “We integrated our cash equities and equity derivatives businesses a year ago, to form a single expanded platform capable of scaling product and service innovation for our clients.

“Our Singapore franchise is at the heart of SGX’s pan-Asian access offering and with these latest developments, we are well on track to broaden the continuum of our equities shelf.”

EU rejects calls for 12-month SRD II delay

The European Commission’s department of justice has surprised no one by rejecting proposals for a 12-month delay to the Shareholders Rights Directive II Act (SRD II) framed in a letter to the commission by 11 trade associations in April.

SRD II will require asset managers to disclose their policy on securities lending to institutional investors and how it is applied to fulfil its engagement activities, particularly at the time of the general meeting of the investee company.

Among SRD II’s primary aims is to crack down on the misuse of voting rights, which have in the past been abused in several ways including via the borrowing of shares ahead of key corporate action dates to influence a company’s voting results.

In their April letter, the trade bodies, including the International Securities Lending Association and the Association for Financial Markets in Europe, outlined that prior concerns around their members’ ability to meet the September deadline have been compounded by the widespread disruption caused by the COVID-19 pandemic.

Consequently, they argued it will be “difficult, or nearly impossible, to meet the implementation deadline of 3 September”.

In its responding letter, seen by SLT, the commission stressed that one of the main objectives of the directive is to improve the communication flow between companies and shareholders and that in this lockdown-period it is becoming even more important for shareholders to be able to efficiently communicate electronically and participate in voting remotely at general meetings.

Moreover, the commission outlined that industry stakeholders have had several years to prepare for this deadline and therefore, the disruption seen early in the year should not have been a major factor in being ready for September.

With these factors in mind, the commission used its reply letter to acknowledge the “challenging times” facing market participants but expressed faith that they would be able to achieve compliance in time for the original 3 Septemeber deadline “synchronously throughout the EU and the European Economic Area”.

Line Vesth, a senior regulatory specialist at Nykredit, a Danish financial services provider, tells SLT that among industry participants, the European Commission was not expected to allow the 12-month delay.

“We are struggling to meet our deadlines as it is, with the regulatory tsunami hitting us all this year, and with the added workload and fine-tuning of systems, it will be a tight squeeze to get ready for 3 September. But as ever, we will just have to find a way,” she says.

SRD II poses different legal challenges to other rules frameworks due to impact the securities finance market this year by virtue of being a directive amendment and not a regulation.

Primarily, this means it must be transposed into national law for each EU member, preferably in a way that creates harmonised shareholders’ rights across the EU, which is practically impossible, seeing as different member states have different interpretations of the directive.

Currently, the financial industry does not have guidelines from the EU authorities and are being left to their own devices to come up with harmonised and standardised practices such as general meetings and corporate actions messages, shareholder identification, as well as interpreting the many legal definitions of ‘end beneficiaries’ and ‘legal entitlements’, among others.


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Most national regulators have already incorporated the SRD II into national law, but many industry stakeholders still have a mountain to climb to get the legal and technical work done in time for September's deadline.

Elsewhere, the commission has been reluctant to cede ground on its regulatory implementation timetable and has only done so when faced with the rampant business disruption seen in Q1 when the novel coronavirus was first spreading across the continent. Even then, as with the Securities Financing Transactions Regulation, it only offered the shortest grace period possible.

OCC welcomes new exchange, publishes May SBL data

The Options Clearing Corporation (OCC) recorded a 9.68 percent drop-off in new securities loans via its central counterparty (CCP) last month, compared to May 2019.

The Chicago-based OCC facilitated 108,016 new securities lending transactions in May. Meanwhile, the securities lending CCP's average daily loan value was $74.42 billion last month, up 0.72 percent compared to the same period in 2019.

Compared to May 2019, the OCC's total cleared contract volume for May was 545,272,318 contracts, up 17.3 percent, while its year-to-date average daily total cleared contract volume was 27.7 million contracts, up 41.5 percent.

The latest volume figures come as the OCC welcomes the recently-launched Small Exchange to the OCC marketplace.

Also, based in Chicago the new exchange facilitates trading for all types of market participants, offering cash-settled futures contracts based on proprietary indices in equities, metals, and foreign exchange.

With the addition of the Small Exchange, OCC now provides clearing and settlement services to

21 exchanges and trading platforms for options, security futures, financial and commodity futures, and securities lending transactions.

"As the US exchange-traded derivatives industry continues to expand, we are pleased to welcome the Small Exchange as a participant exchange," says OCC CEO John Davidson.

"In that role, the Small Exchange will be afforded the full range of clearing and risk management services available to all of our other participating exchanges."

COO Scot Warren adds: "As a systemically important financial market utility, we look forward to working with the Small Exchange and promoting operational excellence and innovation to support the continued growth of exchange-traded options and futures in the US".

The US Commodity Futures Trading Commission approves UMR delay

The US Commodity Futures Trading Commission (CFTC) has granted an extension of the compliance schedule for initial margin requirements for uncleared swaps in response to operational challenges caused by the COVID-19 pandemic.

The reprieve was accepted after a vote on the interim final rule (IFR) produced a unanimous ruling in favour of delaying the 1 September implementation date by 12 months.

In the government agency's meeting, held last week, the commission also unanimously approved a proposed rule which provides an exemption from registration as a commodity pool operator (CPO) for certain foreign persons.

The decision brings the commission in line with the Basel Committee on Banking Supervision and the International Organization of Securities Commissions' (BCBS/IOSCO), which revised its advised implementation timeline in early April.

BCBS/IOSCO acquiesced to industry bodies' lobbying efforts in late March that came in response to the worldwide market disruption brought on by the novel coronavirus pandemic.

The International Swaps and Derivatives Association (ISDA) wrote to BCBS/IOSCO on behalf of its members and those of 21 other associations to request the implementation timeline of the Uncleared Margin Rules (UMR) be reviewed.

Speaking when the BCBS/IOSCO granted reprieve in April, ISDA's CEO Scott O'Malia said: "We greatly appreciate the decision by the BCBS/IOSCO to defer implementation of phases five and six of the initial margin requirements.

"This will enable the hundreds of buy- and sell-side firms that would have come into scope to focus their resources on ensuring business continuity, managing risk and supporting their customers."

ECB bolsters and extends pandemic QE programme

The European Central Bank (ECB) has this week almost doubled its emergency pandemic bond purchase programme and extended its time horizon to maintain market liquidity amid pandemic-related downward revisions to inflation.

As part of yesterday's ECB General Council meeting, it was agreed to bolster the central bank's COVID-related bond purchase programme by an additional €600 billion to €1,350 billion and extended its operation until at least June 2021.

The scale of the EU's pandemic emergency purchase programme (PEPP) was enlarged in response to the "pandemic-related downward revision to

inflation over the projection horizon," the council says.

The PEPP's expansion "will further ease the general monetary policy stance, supporting funding conditions in the real economy, especially for businesses and households," it adds.

The programme was launched in March with a war chest worth €750 billion to assists EU markets left reeling by the COVID-19 pandemic and was pegged to run at least until the end of the year.

It will now run until at least June 2021 or until the ECB "judges that the coronavirus crisis phase is over".

In the statement, the council notes that the purchases will continue to be conducted in a "flexible manner over time", across asset classes and among jurisdictions.

This will allow the council to effectively stave off risks to the smooth transmission of monetary policy, it explains.

Additionally, the council says it has further decided to reinvest the maturing principal payments from securities purchased under the PEPP until at least the end of 2022.

Commenting on the ECB's enlarged quantitative easing bond purchase programme, Rupert Thompson, chief investment officer at Kingswood, a UK integrated wealth management group, says: "The increase was somewhat larger than expected and follows recent moves by Germany and the EU more generally to step up their fiscal stimulus.

"The ECB move came despite the German Constitutional Court's move a few weeks ago to stymie the ECB's bond buying."

Thompson notes that the move brings the EU more in line with the US in terms of its policy stimulus, adding the UK's Monetary Policy Committee is now also likely to step up its own programme at its next meeting on 18 June.

The need to bolster the programme comes after the ECB's bi-monthly breakdown of its PEPP holdings, published last month, revealed it had already spent almost a third of its budget in the first two months and would have reached its €750 billion cap by September, well before it planned to wind down the programme.

The data shows that the ECB purchased a total of €234.7 billion (book value) of bonds by the end of May.

The purchases are mainly concentrated in public bonds (79 percent), with 15 percent in commercial paper, 5 percent in corporate bonds, and 1 percent in covered bonds. Notably, there have so far there been no purchases of asset-backed securities.

Canada scales back COVID repo operations

The Bank of Canada has begun winding down its enhanced liquidity provisions after concluding that the pandemic-fuelled disruption "appears to have peaked".

"After significant strains in March, short-term funding conditions have improved," the bank has declared, and as such it will now reduce the frequency of its term repo operations to once per week, and its programme to purchase bankers' acceptances to bi-weekly operations.

The bank adds that it stands ready to "adjust" these programmes if market conditions warrant.

Its other enhanced programmes to purchase federal, provincial and corporate debt are continuing at their present frequency and scope.

Ausmaq becomes Clearstream Australia

Clearstream has re-branded Ausmaq, a specialist custodian and funds processor, as Clearstream Australia.

The Deutsche Boerse subsidiary acquired Sydney-based Ausmaq from National Australia Bank in July 2019 as part of its move into the Australian domestic market.

Now, the newly re-branded Clearstream Australia has been fully integrated into Vestima, Clearstream's one-stop shop platform for cross-border investment fund services, and will provide access to its international and domestic services for custodian banks in the Australian market.

At present, over 1,500 managed funds worth around €37 billion in assets under custody and term deposits are available on the domestic Australia platform, according to Clearstream.

Clearstream says the move into the Australian market, which currently ranks with fund assets under management of around €1.75 trillion will allow it to facilitate access to the local market for international investors which would boost local Australian domestic flows.

Ravi Subramaniam, chief executive of Clearstream Australia, says: "Connecting the Australian market with other international markets, Clearstream Australia will support our clients with local expertise and knowledge of the domestic market, embedded in an international network for investment fund services."

Clearstream is headquartered in Luxembourg and has operational centres in Cork, Prague and Singapore.

It also maintains other representative offices in London, Hong Kong, Tokyo, Dubai, New York and Zurich.

Seb Malik
Head of financial law
Market FinReg

The EU turns on the taps

The European Commission is proposing a €750 billion 'Next Generation EU' fund instrument for 2021-2024 comprising €440 billion of grants via its Recovery and Resilience Facility, €60 billion guarantees and an additional €250 billion loans. "Next Generation EU will raise money by temporarily lifting the own resources ceiling to 2 percent of EU gross national income, allowing the commission to use its strong credit rating to borrow €750 billion on the financial markets." This in addition to proceeds from new taxes.

The commission proposes alterations to the Own Resources Decision, raising it "temporarily" from its current limit of 1.4 percent of gross national income (GNI) to 2 percent. The Own Resources Decision is a cap on the maximum amount of resources in any given year that can be called from member states to finance EU expenditure.

This is a politically symbolic moment as it would be the first time the EU would create a new financial instrument part-funded by EU taxes (specifically: Extension of the Emissions Trading System-based own resources to the maritime and aviation sectors to generate €10 billion per year; carbon border adjustment mechanism to raise €5 billion to €14 billion per year; digital tax on large companies (>€750 million annual turnover) to raise €1.3 billion).

This is in addition to the multiannual financial framework (budget) that has been bolstered to €1.1 trillion.

The commission intends to place infrastructure and green technologies at the heart of the recovery spending.

Given the Franco-German engine is driving this package, it is likely to be adopted. It should prove sufficient to maintain the integrity of EU financial markets. But make no mistake, the EU has been shaken by COVID-19 in ways more profound than others.

This package of measures comes at a time when, on 2 June, the EU parliament's research wing released a 12-page briefing outlining the demographic time bomb that is ticking in the EU. "The EU faces a number of demographic challenges such as ageing, a declining birth rate and depopulation in some of its regions," reads the opening statement. The EU's proportion of the world's population stands at 6.9 percent and is projected to fall to just 4.1 percent by the end of the century (it stood at 13.5 percent in 1960). Coupled with advances in medicine, "the proportion of people aged 80 or over in the EU-28 population is expected to more than double by 2050, reaching 11.4 percent".

While the two news items are not intrinsically linked, the implications of an EU that is powering out of the crisis on the back of tax-backed debt while its population is in decline, and the demographics slanting towards more pensioners is too obvious to miss.

This general sense of malaise is reflected in the news that a founding member of the EU – Italy – is currently polling nearly neck-and-neck for Leave and Remain.

There are real structural problems with the lack of fiscal harmonisation, despite a centralised monetary policy. This remains unresolved and will periodically resurface to haunt the EU. When the underlying demographic time bomb is coupled with a rising balance sheet funded by EU taxes, the EU project itself may eventually unravel.

Seb Malik
Head of financial law
Market FinReg

CSDR timebomb ticks on

Drew Nicol reports

Despite the reprieve, firms still lack clarity on the finer details of the legal and technical requirements for achieving compliance with CSDR by February. And, the buy-in bomb still looms large

Great news. The proposed delay to the Central Securities Depositories Regulation's (CSDR) settlement discipline regime has been accepted by the European Commission thereby removing all but one minor legal hurdle between industry stakeholders and an additional five months to prepare their solutions. The small matter of the mandatory buy-in regime still threatens to pull the rug out from under the feet of market participants and several areas of ambiguity around the terms of what is actually required by the regulators linger, but progress is progress. Rome wasn't built in a day.

The chair of the European Securities and Markets Authority (ESMA) , Steven Maijoor, appears adamant not to re-open the CSDR rulebook prior to go-live, but that additional, much-needed guidance on the areas of confusion highlighted repeatedly by the International Captial Market Association (ICMA) and others could be addressed now. So, when would that guidance need to be made avaliable by to give firms a reasonable chance of meeting next February's deadline?

April, says ICMA's senior director for market practice and regulatory policy, Andrew Hill, wryly.

As we drift into mid-June, with no sign of such clarifications being forthcoming, Hill says the industry now has no choice but to prepare for the worst. This means a "bare-bones implementation" with all the "bad bits" and then looking to do a second wave of enhancements after go-live.

These later amendments would particularly relate to the contractual updates to mitigate the "many risks that this regulation creates," he adds.

This missed opportunity was highlighted as one of ICMA's many concerns around CSDR in its latest letter to the European Commission and ESMA, where it once again outlined its members', particularly the buy-side ones, "increasing concerns" about the fast-approaching regulation.

The trade body is hoping to follow in the footsteps of Eric Clapton, Paul McCartney and Harry Styles in successfully (re)launching its solo career by building on the success of its collaborative efforts with a K-pop rivalling mega-group of 14 associations that joined forces earlier in the year to secure the CSDR delay.

After the coordinated calls for changes, as well as a delay, were rebuffed by ESMA's chair in his response letter in April, ICMA is this time targetting its new campaign at Patrick Pearson, head of financial markets infrastructure at the European Commission's DG FISMA, and Fabrizio Planta, ESMA's head of markets and data reporting department, as well as Maijoor.

This, Hill explains, is not aimed at excluding anyone but will ensure the letter lands on the desks of the people that are at the heart of decision-making on EU regulatory matters.

In the letter, written on behalf of its global membership, including banks, intermediaries, asset managers, pension funds and investment funds, among others, ICMA notes the "extensive discussions" it has had with regulators over several years to address the most challenging aspects of the regulation.

"These include overcoming acknowledged anomalies in the regulation, in particular the asymmetric provision for the payment of the price component of the buy-in and cash compensation differential, the absence of a pass-on mechanism (which has fundamental implications for market stability), and an ongoing lack of clarification of the transaction scope of the regulation," ICMA writes.

ICMA further states that the proposed enhancements and additional clarifications to the regulation are required by its members and the broader industry to facilitate their implementation plans.

"In the absence of guidance from the authorities on these basic threshold matters, such as scope, the market's efforts to prepare remain severely compromised," it concludes.

The ball is now firmly back in the court of EU regulators. Hill notes that the back-and-forth may seem frustrating to outsides that have observed similar efforts by ICMA and others that failed to resonate with the powers that be, but he explains that it's not ways the mandatory buy-in regime would have poured oil on the fire raging in several EU markets, had it been in place in recent months. This includes the fact buy-ins are massively resource-draining, demand the purchase of illiquid assets at any price, and would have pushed players out the market at the exact moment they were needed most.

ICMA notes in the final weeks of Q1, European credit secondary markets came under significant pressure as the market repriced risk and as fund managers responded to sizeable outflows. At the same time, operational infrastructure was stress-tested to its limits, as firms adjusted to working remotely against a backdrop of significantly increased volumes needing to be processed.

Two main factors allowed the market to continue to function through this disruption, ICMA explains.

> *In the absence of guidance from the authorities on these basic threshold matters, such as scope, the market's efforts to prepare remain severely compromised*

just about being on the right side of history. ICMA's buy-side members, despite being the ones CSDR is aimed at protecting, are genuinely concerned about how the rules framework will damage market stability. ICMA owes it to them to do its utmost to protect their interests, he states.

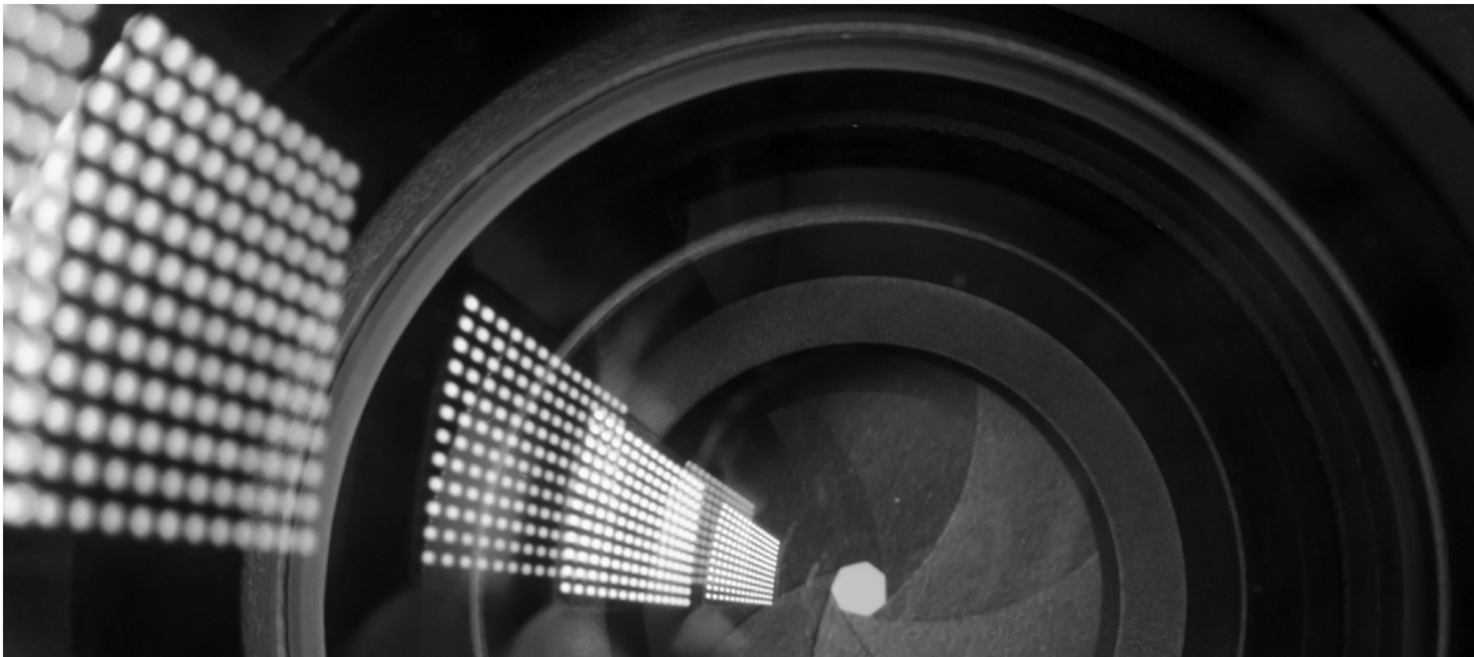
Fanning the flames

Elsewhere in ICMA's latest letter, it highlights the recent market troubles sparked by the COVID-19 pandemic as providing a very unwelcome but effective real-life illustration of the "catastrophe" a mandatory buy-in provision would bring down on the EU markets during periods of turmoil.

ICMA highlights the period of volatility seen in February and March as new evidence to reinforce its claims that CSDR's settlement discipline regime will not only fail to reduce market risk but will, in fact, bring new instability. Hill tells SLT that there are several "Firstly, the ability and willingness of broker-dealers to continue to make markets for their clients, and secondly a market-wide tolerance of settlement fails (which increased significantly in absolute terms)," it states.

ICMA further argues that, given that a mandatory buy-in regime is designed to make settlement fails economically unviable, and will restrict market-making capacity, it is worth considering how this regime would have impacted the market's ability to function during this crisis and the extent to which it would have added to systemic market risks and instability, thereby further amplifying the already extreme dislocations.

In closing, ICMA explains that it and its members "remain fully committed to the implementation and objectives of the CSDR settlement discipline measures, and will continue to support initiatives, both regulatory and market-based, to improve settlement efficiency in the EU securities markets".



Short selling bans: The evidence

Travis Whitmore
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State Street's Travis Whitmore examines the effectiveness of short selling bans through an academic lens

Earlier this year, COVID-19's impact on the world economy became apparent as countrywide lockdowns, many of which remain in place today, caused large-scale disruptions to global supply chains and significant unemployment. The resulting market sell-off and increased market volatility left governments, central banks and regulators with little choice but to intervene.

Regulators for their part imposed temporary short selling bans to try and curb asset price declines and reduce volatility. This is a common regulatory response during periods of market turmoil, with recent months being no exception. South Korea banned short selling in three markets, including its benchmark KOSPI Index, for six months. In Europe, Italy, Spain, France, Greece and Belgium temporarily halted short selling on hundreds of stocks.

Recently, as markets have calmed and countries begin to partially reopen, several regulatory bodies across Europe have lifted short selling bans. However, they remain in the toolkit for how regulators may respond if market conditions deteriorate. When referring to short selling restrictions, the European Securities and Markets Authority (ESMA) stated that, "it does not discard the possibility of extending the measure if the situation so requires".

In this report, we review empirical findings from past academic studies to form an objective view on how short selling bans impact markets and if they are effective in stemming asset price declines and reducing volatility. Three key questions that we answer are: why are short-selling bans implemented? Are short selling bans effective in stemming price declines? Should regulators continue to impose short selling bans?

Why are bans on short selling common during market downturns?

The market downturn caused by COVID-19 is not the first time regulators have resorted to bans on short selling during periods of financial distress, as shown in Figure 1. Short selling has historically faced scrutiny, especially during market downturns. At the height of the 2008 financial crisis, the US Securities Exchange Commission (SEC) pointed to short selling as a driver behind the sharp decline in financial stock prices saying bans will, "protect the integrity and quality of the securities market and strengthen investor confidence". When the market is under stress, regulators often say these measures are necessary to reduce market volatility and prevent further declines in asset prices.

The controversial nature of short selling restrictions, the availability of extensive data and the numerous event studies that demonstrate the impact that temporary bans cause have long garnered the interest of academics and resulted in a large body of work. These studies provide empirically based evidence and important insights that help us understand the effectiveness of short-selling bans in stabilising markets.

How do we study the impact of short selling and the restrictions?

Before diving into academic findings, it is helpful to understand the different types of studies that explore the role of short selling in capital markets. Empirical studies tend to fall into three main categories: (1) cross-country variation that leverage differences in regulations and market practices across countries, (2) event studies that analyse various historical events (e.g. short selling bans in 2008) and, (3) time-series and cross-sectional analyses that use daily or intra-day stock-loan data to examine the impact of shorting flow. Each research methodology provides a different perspective on the securities lending market and short selling.

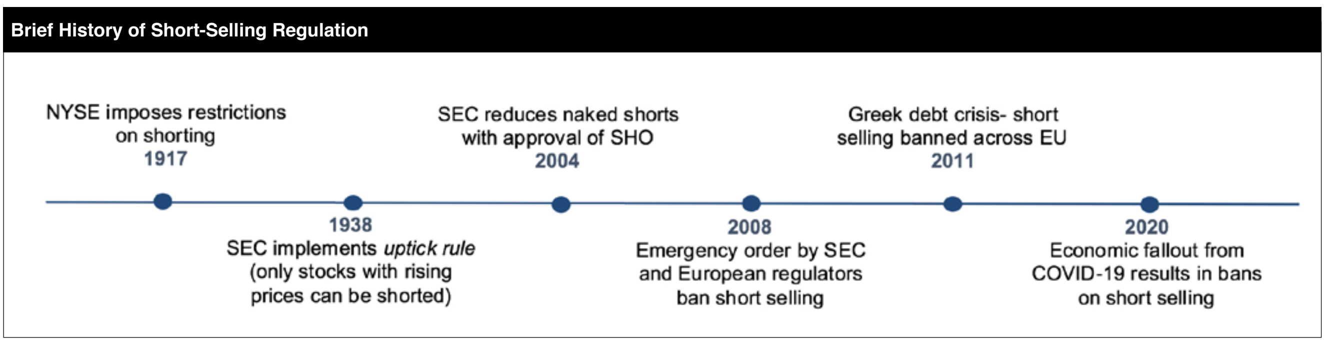
What does empirical evidence suggest about the effectiveness of short selling bans?

There are several event studies that examine short selling bans during the 2008 financial crisis. One of the most extensive studies, Beber and Pagano (2013), analysed 30 countries during the financial crisis. The study, published in the Journal of Finance, found no statistical difference in excess returns of stocks for which short sales were banned and those stocks in which short selling was permitted, except for US stocks (due to the approval of TARP). In their own words, a short-selling ban was "at best neutral in its effects on stock prices".

A paper published by the Federal Reserve Bank of New York found, "banning short selling does not appear to prevent stock prices from falling", but instead "lowered market liquidity and increased trading costs". Additional empirical evidence in a working paper from the European Systematic Risk Board agrees with the findings above while also suggesting that stocks targeted by short selling bans had increased volatility and the probability of default.

In addition, there are several studies that have shown short sellers to be informed market participants – increases in borrowing rates or shorting demand are correlated with abnormal negative returns. The evidence from these studies suggests short sellers are informed participants as they

Figure 1 *Source: IWahba, P. and Chasan, E (2008). FACTBOX: Milestones in short-selling history. Thomson Reuters.*



anticipate in fundamental declines in prices and are vital to achieving efficient prices, which we get into in more detail later.

While there is some empirical evidence that suggests bans are effective, the balance of evidence suggests bans have a limited impact on curbing price declines.

How do short-selling constraints impact capital markets?

In addition to the weight of empirical evidence suggesting that short selling bans have limited impact on stemming price declines, existing studies also suggest that these measures have unintended side effects on overall market quality. To help understand what these are, we review the role that short selling plays in capital markets through two primary market functions: liquidity and price discovery.

Liquidity is the ease with which an asset can be sold or bought and is commonly proxied for by the bid-ask spread. In illiquid markets, bid-ask spreads are wider resulting in costlier trades. Empirical findings from all three types of academic studies mentioned earlier tend to agree that short selling constraints reduce liquidity at the single-stock and broader market level.

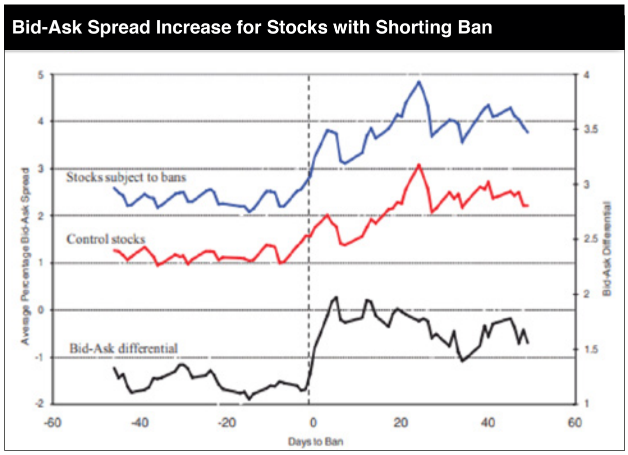
A study of 111 countries found that in countries where short selling is more feasible, turnover – a proxy for liquidity – was 15 percent higher. Several studies of the 2008 financial crisis found that stocks subject to shorting bans resulted in spreads that were 200-300 percent wider when controlling for previous behaviour, as shown in Figure 2.

Lastly, time analysis suggests that short sellers can be liquidity suppliers when spreads are especially wide, providing a stabilising force in the stock market. Viewed holistically, these results suggest an unintended consequence of short selling restrictions are costlier trades that are more difficult to execute.

Price discovery is a critical process in financial markets in which the proper price of an asset is determined based on the incorporation of all available public information. Empirical evidence from the three categories suggests that short selling constraints restrict traders with negative information from expressing their sentiment, slowing the speed with which news is incorporated into market prices.

An analysis across equity markets in different countries reveals that in countries that permit short selling, stock-level prices incorporate information more quickly (as measured by the lack of synchronous movement in weekly returns). Price discovery was also slower for stocks impacted by the short selling bans during the 2008 financial crisis, especially where negative news was concerned. Lastly, when viewed through time, prices of stocks with short selling constraints (such as low lending supply) are less informative. Evidence also suggests increased "shorting flow reduces post-earnings-announcement drift for negative earnings surprises".

Figure 2 *Beber and Pagano (2013), Journal of Finance*



Bid-ask spreads increase for stocks with short-selling constraints relative to comparable stocks without constraints

During times of financial turmoil, regulators will commonly try to stabilise market prices by implementing short-selling bans and restrictions. We do not yet know how effective the recent short selling bans throughout Europe and Asia have been or their impact on market efficiency. However, the weight of historical academic findings suggests that these measures are not effective in preventing price declines, but instead result in a degradation of market quality at a time when it is most crucial. In an interview with Reuters at the end of 2008, Christopher Cox, then chairman of the SEC, said: "Knowing what we know now, I believe on balance the commission would not do it again."

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A new dimension of automation possibilities

Maddie Saghir reports

It's no secret that corporate actions have remained largely manual in the asset servicing industry, so how fast is the industry accelerating towards implementing technology in this space?

Industry experts have emphasised that corporate actions are extremely important because they represent the governance and capital return relationship between share-issuing companies – issuers – and end investors.

While technology may not necessarily be the solution for the complexity of corporate actions, in and of itself, it can help simplify how they are processed.

Philip Taliaferro, general manager of asset servicing at Broadridge, explains that the industry has traditionally processed corporate actions on existing back-office systems which were separated by region, line of business or asset class.

Exacerbating these challenges, those systems were not integrated with one another and often operated on a batch cycle without any real-time capabilities, according to Taliaferro.

"In many cases, exception handling (resulting from securities lending or sale during the event lifecycle) is handled on spreadsheets and elections are captured manually; resulting in operational risk and significant labour expense," he continues.

However, more modern solutions are available. Already, institutions are deploying technology to help navigate the complexities of corporate actions.

But, is there still some way to go.

Implementing technology

Corporate actions have remained a largely manual, costly and financially risky activity even as other parts of the trade and asset lifecycle have moved to straight-through processing (STP), according to Taliaferro.

One silver lining is that the industry is starting to turn to technology to help navigate the complexities. Taliaferro observes that the industry has finally reached a turning point in which the client demands, regulatory requirements and cost pressures demand action. “Fortunately, the technology is now available to meet these challenges,” he adds.

However, Adam Cottingham, product manager corporate actions at SmartStream, highlights that people often underestimate the complexity associated with corporate actions and suggests that it is hard to automate. Of course, technology is critical to be able to automate and control it.

Cottingham says: “There is a data flow obtaining information across multiple participants in a time-critical way; throwing more people at this cannot help reduce risk against it – you need a system in place. Technology is crucial to be able to enable a better client service relationship as beneficial owners under Shareholder Rights Directive II are being asked to come into the process of making electronic decisions.”

He continues: “There is also the technology chain making corporate actions processing and proper integration fundamental for running an accurate book of record. The adoption of artificial intelligence (AI) to support narrative cleansing and predictive matching is also important.”

Echoing the importance of applying technology, Ankush Zutshi, head of product management, securities processing and corporate actions at IHS Markit, comments: “Technology is a significant contributor to the simplification of corporate actions.”

“In response to all the challenges in corporate actions processing custodians have focused on the need to continuously improve efficiency and reduce risk by investing in rules-based workflow automation technology and digitalisation tools, either building or buying market-leading asset servicing solutions,” Zutshi says.

According to Zutshi, these solutions facilitate increased efficiency and risk reduction by automating the end-to end workflow with the aim to increase STP rates. This creates time and resources to focus upon the identification and resolution of exceptions.

At the Depository Trust & Clearing Corporation (DTCC), an American post-trade financial services company providing clearing and settlement services to the financial markets, the belief is also that technology is critical for increasing automation in the corporate actions space.

> *Corporate actions have remained a largely manual, costly and financially risky activity even as other parts of the trade and asset lifecycle have moved to straight-through processing*

DTCC says that automation such as the use of application programming interfaces (APIs). and real-time messaging can have a positive impact on the entire industry, from a central securities depository to a custodian/broker-dealer, to an asset manager to the beneficial holder, and even to the various agents that aid in facilitating processing.

Additionally, DTCC believes that the use of standardised, modernised, real-time technology can provide the industry with accuracy and efficiencies that will allow firms and individuals to make sound investment decisions and maximise their investment returns.

Elsewhere at Broadridge, there has been substantial investments in a new corporate actions solution that is designed to span all lines of business, operate in real-time, and is built on a modern technology platform, hosted in AWS and integrated via a modern API.

Broadridge's Taliaferro says: "Over time we are building out intelligent automation capabilities that will harmonise events and further reduce operational exceptions."

The types of tech

Fabian Nelissen, head of global asset services at Clearstream, reinforces the point that technology and automation are the cornerstone for successful processing of corporate actions, and if it does not always directly simplify the corporate actions in itself, it simplifies the operational processes through the chain of stakeholders while guaranteeing better quality and time to market.

"The ultimate goal is always to offer the best level of service to our customers while reducing burdens on their side as much as possible," Nelissen highlights.

While it can be agreed that technology can help with corporate actions processes, there is a variety of technology to choose from, and each can be used in different ways.

> *The compelling economics of cloud is especially very valuable to custodians who were earlier struggling to replace their legacy technology platforms that were hindering the digital transformation efforts*

Some of these technologies include:

- API: A computing interface which defines interactions between multiple software intermediaries
- Cloud computing: On-demand availability of computer system resources, especially data storage and computing power, without direct active management by the user
- Robotic process automation: A form of business process automation technology based on metaphorical software robots or on AI/digital workers

While DTCC has invested in providing clients with modernised graphical user interface, a form of user interface that allows users to interact with electronic devices through graphical icons and audio indicator, with export and advanced search functionality, as well as real-time ISO 20022 messaging, it will be focusing on building a suite of API services over the next several years.

These services will allow clients to access DTCC data in real time and "on demand", using simplified computer-to-computer communication and modernised programming languages like JSON.

Gerard Bermingham, managing director, sales/business development, financial markets at IHS Markit, observes that custodians are increasingly leveraging cloud to lower total cost of ownership and simplify implementation and maintenance of solutions compared to the traditional model of on-premise deployment and upfront licensing costs.

"The compelling economics of cloud is especially very valuable to custodians who were earlier struggling to replace their legacy technology platforms that were hindering the digital transformation efforts as it is much easier for them to now implementing modern technology solutions in the market," Bermingham says.

Meanwhile, Bermingham notes that the increasing demand from buy-side clients on self-servicing, real-time information access and modern digital tools provide opportunities for custodians to leverage technologies such as APIs and open platforms.

"The API adoption is increasing at a rapid pace and their adoption can improve the efficiency not only around client communication but also interactions with the street including counterparties, market infrastructures and solution providers," he adds.

IHS Markit's Zutshi also weighs in on this saying that given the reliance on manual touchpoints and processes, developments in new technologies such as robotic process automation can help increase operational efficiencies by automating the basic repetitive tasks without impacting the technology infrastructure.

"Using robotics, web scraping and AI techniques to source corporate action data directly from newswires, the web, vendors and other providers and then analyse the unstructured data in disparate formats using AI and machine learning, to normalise can help reduce the manual validation efforts and timeliness issue for corporate actions."

to revisit the way it works. Robotising processes that legacy system changes can handle would also not be recommended."

Finally, the back-office is an important part of the value chain and no technology, even AI, will ever entirely replace the human experience, according to Nelissen.

> *The back-office is an important part of the value chain and no technology, even AI, will ever entirely replace the human experience*

Additionally, intelligent automation can also be used to analyse reconciliation breaks and patterns at different steps in the CA lifecycle around to help operations in faster resolution of such breaks. According to Zutshi, modern tools like NLP-based chatbots can assist in client servicing for basic CA information queries and also assist in the decision-making process with additional information.

Clearstream's Nelissen summarises: "The rise of new technologies brings a new dimension in automation possibilities and even if the treatment of corporate actions is constantly evolving, the fact remains that the opportunities exist in order to reduce the inherent risks and increase efficiency and quality."

These opportunities come in different shapes and in recent years Clearstream has been working towards:

- Reducing manual intervention by automating data input and certain tasks by robotisation
- Optimising exceptions distribution and leveraging the use of workflow management tools with the goal to achieve advanced capacity management
- Eliminating paper processing by digitising the necessary information
- Shifting from hardcoded rules towards the flexibility AI and machine learning offers

Nelissen cautions: "But before designing a lot of solutions it is important

He concludes: "The rat race between innovative corporate bankers who want to maximise the benefit of the issuer and the industry who wants to mould the event in a smooth process is far from over. It is therefore important to correctly reuse the resources that result from the efficiencies created by automation in order to improve the customer experience."

What comes next?

David Lewis
Senior vice president
FIS Astec Analytics

From the individual worker to major corporations, the 'new normal' requires adaption and flexibility to thrive, and some have done better than others, FIS Astec's David Lewis writes

When I was at university, there was a forward-thinking lecturer of mine, Cliff, that prophesied that mine would be the last generation to ever have one job. This prophecy, delivered around 1990, was not meant literally in the sense we would only have one employer, but that we would work in one industry or type of work. Subsequent generations would have "portfolio careers" where people would not just move jobs for promotion or more money; they would move because that industry would cease to exist and/or a new, more exciting one would emerge.

Cliff's statement appears to have held true for me, with 25 plus years in the securities finance industry, across multiple but related roles, and it is certainly also true for those that followed, as industries have significantly contracted or even disappeared since, while many completely new ones have sprung up. Contrast the emergence of the worldwide web and all the associated technical and commercial roles that have developed with it, and the decline of newsprint, publishing and the use of cash in everyday transactions. Jobs that were never expected or imagined before have emerged, as others disappear, often replaced by technology or simply because they were not required anymore.

Banking has been front-and-centre of this change, both being driven by it and, in many ways, driving the change. Witness the rise of internet banking and the demise of the local branch network, for example. Pure internet banks often have no client premises at all. The securities finance and collateral management industry has also been affected, of course, but there is more to do yet in terms of bringing automation and more of an exchange-like approach to the industry, for example. The current global pandemic has only accelerated this effect, forcing a sudden and unavoidable change in working practices, and not only in the location of our work.

As with any industry, remote working is not possible for every role, of course, but the rise of cloud networks, hosted and managed services, etc, means that the location of the user has become much less material. The same technological capabilities that have allowed the growth of offshoring, for example, are now employed to support most users changing physical location with little or no notice. Adding complexity to this change is the tailspin that many stock markets and even economies have been in since the outbreak of COVID-19. The additional volatility, the collapse of many share prices and the potential for the collapse of major industries meant that the transmission of data and the development of actionable information has never been more important as companies and their investors remain on edge.

There have been some notable collapses already, as well as some very significant job losses among some of the world's largest and oldest employers, from J.C. Penney, which filed for bankruptcy only a few weeks ago to Rolls Royce, the UK-based aero-engine maker, announcing 9,000 job losses here in the UK – one-fifth of its workforce. These job losses are just a fraction of the rising count of unemployed professionals across the world. Both indicate a long-term change coming in their respective markets, but from very different starting positions. Few would argue that J.C. Penney, together with many of its bricks-and-mortar peers, has been suffering from the inexorable rise of internet shopping for years. Unable to adapt in a reasonable time frame, the recent bankruptcy announcement will have been a surprise to few.

At the other end of the time scale, Rolls Royce had been flying high on a seemingly unstoppable growth in the flight industry, including cargo, business and leisure. 2019 saw it receive orders for 2,700 engines, producing 600 wide-body plane engines over the year, representing half the world's fleet, up from a market share of 22 percent a decade ago. Now, with over two-thirds of the world's aeroplanes grounded and orders for new planes cancelled, its market has not steadily declined like J.C. Penney's, it has collapsed almost overnight.

While it is hard to imagine the shopping malls with vast department stores returning, it may be easier to expect a recovery in air travel, once the pandemic has subsided. However, few appear to expect that to happen quickly, and even then, it may be significantly smaller than it was before.

The banking industry appears to sit somewhere between these industries. Automation and the rise of technology replacing manual processes have certainly cut the workforce and likely will continue to do so. The retail side has seen the number of physical branches collapse along with the numbers of staff required to run them. The capital markets segment of the banking industry has also had to move with the times, matching long-term trends with increased automation and greater technological efficiency as well as delivering short-term responses to events like the COVID-19 pandemic, shifting workplaces while volatility and throughput soars.

The combination of market stress, falling asset prices and the rising spectre of bad debts, as companies and even whole industries struggle to survive the economic impact of the pandemic, has brought the need to have an enterprise view of your bank's assets and liabilities into sharp focus. The direction of travel towards an automated real-time view of global positions, assets and exposures has been the same for some time but has now been accelerated as market counterparties realise the need to up their game to insulate themselves from as much contagion risk as they can.

Connecting the dots across the previously divided silos of capital markets banking doesn't just mean an improvement in margins and returns while minimising risk anymore. It may mean the difference between survival and collapse as the focus on liquidity builds across the markets. Undertaking the significant shift in working practises has been satisfyingly successful for many organisations, my own included, but the longer-term implications for some are vast. The potential failure of industries and major employers, together with unprecedented government debt that must be paid off at some point, will force significant change to the way many people work. My university lecturer's prediction seems to have come true, slowly over time as expected, but now in a rush, as the world pivots to a new normal, with many employees finding themselves unexpectedly on the job market and looking for their next job, quite possibly in a very different industry altogether.

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Non- cash collateral Fundamentals

Date: 17 June 2020 17:00 BST
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Provider: Consolo

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Corporate Events in Securities Finance

Date: 25 June 2020 15:00 BST
Location: Online
Provider: Consolo

This live on-line training course is designed for anyone who needs to know the background, structure and obligations of Corporate Events in the Securities finance industry

European Regulation Impacting Securities Lending

Date: 30 June 2020 15:00 BST
Location: Online
Provider: Consolo

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Comings and goings at Wematch, ABN AMRO and more

MUFG Securities Europe, Middle East and Africa (EMEA) has appointed Marshall Bailey as chair to its board, effective from September.

Bailey will replace William Fall, who will step down as chair in September after almost six years in the role.

Currently, Bailey is a director with the board of National Commercial Bank, where he represents the shareholding of the KSA's public investment fund.

Bailey has also served on the boards of LCH Group as chair, as a non-executive director at the London Stock Exchange Group, and as chair of the Financial Services Compensation Scheme.

Over his 30-year career, Bailey has held a number of senior positions in the financial services sector including 18 years at RBC Capital Markets, culminating in his position as managing director and head of financial institutions EMEA and Asia.

Bailey moved to State Street in 2011 where he held several roles including CEO of State Street global markets international.

After State Street, Bailey was appointed president and global head of ACI International – Financial Markets Association in 2014.

Commenting on the new appointment, John Winter, CEO of MUFG Securities EMEA, says: "Marshall Bailey's impressive experience in the financial services sector will be a tremendous asset to MUFG from both a commercial and regulatory standpoint, particularly as we look to expand our financial institutions business globally."

Winter continues: "His leadership will ensure that the board continues to provide clear guidance and strong support as we navigate some unchartered territory following on from the recent pandemic."

Bailey adds: "It's a delight to be joining MUFG at this important time. I truly believe that the bank is well-positioned in these markets, and will continue to be integral to our clients' success. I look forward to joining the board, and working with John Winter and his team."

Elsewhere, Bailey will also be taking up a post on the board of governors of the CFA Institute, a standard-setting and educational body with international reach.

Former ABN AMRO securities finance trader Danny Kapiteijn has joined Holland's ministry of finance as a senior associate in treasury and debt management.

The Dutch ministry is responsible for economic policy, monetary policy, fiscal policy, tax policy, incomes policy, regulations, government budget and the financial market.

Before leaving the industry this month, Kapiteijn had served in securities finance roles for the past 10 years. He specialised in securities lending, collateral management and exchange-traded funds and operated out of ABN AMRO's Amsterdam office.

From 2010, Kapiteijn served at ABN AMRO as a securities finance trader before progressing into a senior role in 2014.

Before that, he served as a securities lending trader for Fortis Bank N.V where he focused on US and Canadian markets for three years from 2007.

Wematch has hired its first US-focused sales personnel ahead of the platform's launch in the market in July.

Wematch is a global multi-asset-class, web-based matching and negotiation platform that aims to provide software-as-a-service technology to transform how traders match, negotiate and manage trades.

It is currently live across Europe, the Middle East and Africa (EMEA) and is set to become available in the US imminently.

In preparation of the go-live, Wematch has welcomed Jane Mann from FGC Securities, a US broker-dealer.

Mann has spent the past five years serving in institutional sales on equity derivatives and has developed a community of industry contacts that can be leveraged for Wematch.

She will now focus on onboarding dealers in the US in the lead-up to the launch of Wematch's total return swaps (TRS) matching and lifecycle platform in July.

Mann has recently relocated from the US to the UK and will operate out of Wematch's London office. She reports directly to David Raccat, Wematch co-founder and head of EMEA.

Raccat tells SLT that if the interest he is currently seeing from US clients continues after July he will look to open a New York office towards the end of the year.

"We are very excited to have Jane working with us and to bring her strong expertise of the TRS market in the US," Raccat says. "The current traction in the US is amazing and we are on track to go live with our solution by 1 July.

"This is a major milestone for Wematch to become fully global."

The appointment comes shortly after Wematch added a second component to its trade optimiser covering TRS naturals trades.

In March, Wematch launched a new module in its securities financing platform which introduces a lifecycle management toolkit for TRSs.

This allows users to import TRS trades into the platform to run a series of lifecycle and collateral optimisation actions with a "low-touch approach," Wematch says.

The new feature will further allow users to switch from financing to naturals along with a new set of optimisation rules which apply to this stream of activity.

BNY Mellon appoints Daron Pearce as head of asset servicing strategic growth

BNY Mellon has appointed Daron Pearce to a newly-created global role as head of asset servicing strategic growth.

Pearce will focus on identifying and accelerating both inorganic and new market entry opportunities.

Most recently, Pearce served as head of asset servicing for Europe, the Middle East and Africa where he led a period of sustained growth in the region by improving revenue, profitability and client satisfaction, says BNY Mellon.

He transitioned to the new role on 1 June, reporting to James Slater, global head of business solutions.

Pearce has been with BNY Mellon for almost 20 years and has served in a number of roles including CEO of global financial institutions, and head of asset servicing in the UK Ireland and Sub-Saharan Africa, among other roles.

Roman Regelman, head of asset servicing and digital at BNY Mellon, says: "Daron Pearce is known, trusted and respected by our clients and the industry. That and his deep expertise make him ideally suited for this critical new role.

Regelman added: "He will focus on accelerating revenue growth on some of our key strategic initiatives and will support the development and application of our products and services into new markets globally."