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Kevin McNulty to step down as ISLA CEO, industry thanks him for service

Kevin McNulty, CEO of the International Securities Lending Association (ISLA), will step down after the ISLA 25th annual conference in June.

McNulty has served as CEO of ISLA for seven years, following a 12-and-a-half year career with Barclays.

"It is with very mixed feelings that I have made this decision which is driven mainly by some personal challenges and my desire to spend more time with my family," McNulty said of his departure. "I realise that this is a critical time for our market given the number of impending regulatory developments."

"The work programme at ISLA has never been greater and so between now and the conference, I will be focusing my time on succession planning with Andy Dyson and the board and making sure that the team is resourced appropriately to support you all over the next few years."

Dyson, COO at ISLA, commented: "It's disappointing to see Kevin McNulty depart, although it's for very valid reasons, but he has presided over the association during a crucial time in the industry's regulatory development in the post-crisis period."

"He was central to all of the work ISLA has done around the Securities Financing Transaction Regulation and the Central Securities Depositories Regulation, as well as the development of ISLA itself into a well-established and robust trade association."

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Nomura retreats from EMEA and Americas to consolidate in Asia

Nomura is closing certain businesses in Europe, the Middle East, Africa and the Americas in order to consolidate its position in Asia.

The Japanese bank cited "extreme volatility and a significant decline in liquidity, triggered by heightened uncertainty in the global economy" as the driver behind the closures. Nomura's Asia Pacific platform will remain unchanged.

"We are taking decisive action to refine the services we offer to our clients, while continuing to leverage our dominance and unique strengths in Asia, providing tailored solutions to our clients globally and continuing our 90-year legacy of putting clients at the heart of everything we do," said Tetsu Ozaki, COO of Nomura Group.

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Securities lending revenue boosts BNY Mellon's Q1 results

BNY Mellon's securities lending revenue reached $50 million in Q1, up from $46 million in the previous quarter.

This year's Q1 results also beat the bank's results from the same time last year, which peaked at $43 million.

Overall, asset servicing fees, which includes securities lending, grew by a modest 1 percent in Q1 2016 from Q4 2015, but remained flat compared to the same time last year.

In its quarterly report, BNY Mellon boasted asset servicing fees of $1 billion so far this year, reflecting net new business and higher securities lending revenue, offset by lower market values.

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NEXT GENERATION TRADING

McNulty to step down as ISLA CEO, industry thanks him for service

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Andy Krangel, chair of ISLA, speaking on behalf of the ISLA board, said: "Kevin's contribution to ISLA and the industry over the last seven years has been invaluable, he will be greatly missed and we offer Kevin our sincere gratitude for his delivery and leadership."

"Kevin will work with the board and Andy Dyson over the next few months to ensure ISLA is appropriately resourced and our members continue to be fully supported. We would like to wish Kevin all the very best and are sure he will return to the Securities Lending industry in the future."

Fran Garritt, director, securities lending and market risk at the Risk Management Association, commented: "The industry will miss Kevin's guiding hand, as it has benefitted greatly from his work as ISLA's chief executive. We wish him nothing but the best."

Nomura retreats from EMEA and Americas to consolidate in Asia

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"This exercise will deliver significant efficiencies and cost savings for Nomura, refocusing the firm's activities and reallocating resources towards its areas of expertise and most profitable business lines."

The full scope of the cuts will be announced on 27 April, along with Nomura's Q4 and full year operating results.

Securities lending revenue boosts BNY Mellon's Q1 results

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The report also pointed to the unfavourable impact of a stronger US dollar as another reason for the flat yearly figures.

Clearing services fees contributed $348 million in the first quarter, compared with $342 million the same time last year and $337 million in Q4 2015.

Again, the bank attributed both increases to higher money market fees, partially offset by the impact of lost business.

The quarter-to-quarter increase also reflects higher volumes.

New EU liquidity risk study promotes market tools

European jurisdictions must make the full gamut of market-based liquidity tools available to tackle the rise of liquidity fragmentation, claims a new market study.

The report, jointly produced by two industry associations, argued that the European Securities Markets Authority and the European Systemic Risk Board must also fully utilise existing liquidity data being reported in Europe.

The reports highlighted "the reduced role of banks as market makers and liquidity providers or the prolonged accommodative monetary policy of the world's most prominent central banks" as key drivers behind the trend.

The International Capital Market Association (ICMA) and the European Fund and Asset Management Association (EFAMA) commissioned the report in response to public concerns that "liquidity has become more fragmented".

On the requirements of EU legislation, specifically Undertakings for Collective Investments in Transferable Securities (UCITS) and the Alternative Investment Fund Managers Directive (AIFMD), the report concluded that "the combination of regulatory requirements and market-based tools prove comprehensive and appropriate

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for liquidity management in both normal and exceptional circumstances”.

Peter de Proft, director general at EFAMA, said: “Our industry acknowledges the virtues of the EU regulatory regimes for funds.”

“Indeed, existing regulatory requirements in EU legislation such as the UCITS and AIFMD regimes form a very far-reaching, strict and sound regime.”

“The legal requirements have proven their merits and ensure appropriate liquidity management for investment funds.”

Martin Scheck, CEO of ICMA, added: “It shows that there is a comprehensive framework already in place available to managers to manage liquidity in difficult market conditions, through a combination of regulatory requirements and market-based tools.”

Industry associations publish SFTR breakdown letter

Five industry bodies have joined forces to publish a joint statement to help market participants comply with Securities Financing Transactions Regulation (SFTR) requirements.

The EU’s SFTR rules come into force from 13 July 2016 and affect all existing and future title transfer and collateral arrangements.

The SFTR Information Statement is the collaborative effort of the International Securities Lending Association, the Association for Financial Markets in Europe, the International Capital Market Association, FIA, and the International Swaps and Derivatives Association to highlight risks involved in security collateral arrangements and concluding title transfer collateral arrangements.

Under the SFTR, all parties accepting collateral must inform their counterparties of the risks involved in entering a title transfer arrangement or granting a right to reuse collateral under a security arrangement.

Failure to effectively comply with the new disclosure requirements will incur a fine and repeat offenders could face more severe repercussions depending on the member state within which the entity is based.

Taiwan boasts TWD 430 billion balance

The total Taiwan Stock Exchange (TWSE) and TPEx-listed securities borrowing and lending balance stands at TWD 430.2 billion.

This is made up of the TWSE’s competitive bid transactions worth TWD 11.8 billion and negotiated transactions worth TWD 373.2 billion.

Brokers’ contributions make up the remaining TWD 45.2 billion.

The disclosure of Taiwan’s securities lending market figures comes as part of the exchange’s transparency initiative. As a result of this initiative the exchange has claimed to be the most transparent market in the world.

As evidence, the exchange pointed to that fact that, during trading hours, the fixed-rate transaction and competitive bid transaction order books, as well as the daily securities borrowing and lending quota consumption, are all publicly disclosed.

Additionally, after transactions hours, each securities lending rate, the balance of the short sale securities, and the balance of borrowed securities, are all disclosed, as reference for investors when making investment decisions.

Euroclear to end gilt DBV service

Euroclear will decommission its legacy gilt overnight delivery by value (DBV) product within its CREST platform on 3 October.

This decision follows discussions within the Money Market Liaison Committee’s Term DBV sub-committee, a joint initiative between the Bank of England, the London Money Market Association and Euroclear.

The sub-committee works to facilitate the migration of remaining bilateral DBV business among market participants to the Term DBV product.

As a consequence of the cleared market moving to the Term DBV mechanism last year, the majority of the bilateral gilt repo market has also migrated to Term DBV, stated Euroclear in a brief on the matter.

The sub-committee has confirmed that it will monitor industry progress and will continue to review whether 3 October is the most appropriate date for Euroclear to decommission the legacy gilt overnight DBV product, based on industry readiness in the run up to this date.

Euroclear in turn has reassured the market it can support a change to the decommissioning date if necessary.

Securities lending boosts income for Martin Currie Trust

The Martin Currie Global Portfolio Trust has earned gross profits of £53,000 since its stock lending programme began.

The new stock lending programme is managed by the trust’s custodian, State Street. It “adds modestly to income”, according to the trust’s 2016 annual report, which covers the 12 months to 31 January 2016.

The report states that all loans are fully collateralised with cash (GBP, USD or EUR).

The trust currently holds £37.7 million of collateral for its £36.6 million worth of investments available for stock lending.


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Martin Currie has also paid £13,000 in fees for its stock loan programme.

The portfolio is managed by Tom Walker, who has overseen it since 2000.

Neil Gaskell, chairman of Martin Currie, said in his foreword for the trust's 2016 annual report: "Any stock loans are fully collateralised and do not affect the management of the portfolio by Tom Walker."

Emerging technology key to market strategy, survey finds

Custodians are prioritising investment in emerging technologies, such as blockchain, in order to remain competitive, according to an SS&C Technologies survey.

The survey, which studied preparedness for moving to a T+2 settlement regime, found that nearly half of custodians surveyed are looking to enhance automation in the post-trade cycle.

SS&C gathered responses from 50 executives the from buy and sell sides, as well as custodian firms, in March.

Investing in third-party products to boost automation in the post-trade cycle is the top priority for 48 percent of buy-side respondents and 34 percent of all surveyed.

Interestingly, though, the survey showed that buy-side firms are the least likely to increase their technology budget to support upgrades for T+2, with 60 percent of respondents expecting to maintain the same budget while exploring outsourcing options.

Sell-side respondents were more focused on investing in their front office to help automate the post-trade cycle.

The survey showed that a majority of firms are already investing in the necessary technology to comply with T+2 settlement and on track to meet the 2017 deadline.

Looking forward, 78 percent of respondents predicted it is likely or possible that the US will move to T+1 within the next decade.

"Firms are operating in a dynamic environment that requires agility, efficiency, and reliability," said Bob Moitoso, senior vice president and general manager for financial markets at SS&C Technologies.

"The survey findings show a widespread awareness in the industry regarding the need for adequate preparation time and a commitment to maintaining a robust technology infrastructure."

"We counsel customers to be proactive in their approach despite the long lead time to prepare, and the survey feedback really resonates with that guidance. If you haven't started, you're already behind."

According to the survey, those who have not started these assessments largely indicated they would begin in the first half of 2016.

A small number of buy-side respondents stated they would wait until 2017 to assess their operational preparedness.

The US T+2 Industry Steering Committee committed to a 5 September 2017 deadline for the move from a T+3 to a T+2 settlement cycle.

This is subject to support from regulators and the successful completion of industry-wide testing in Q2 and Q3 2017.

Eurex and South Korea reinforce partnership with synthetics

Eurex and Korea Exchange have agreed to extend their cooperation by creating a night-time market for both futures and options based on the KOSPI 200 index.

The agreement will see the listing of Mini KOSPI 200 index futures during Eurex trading hours.

In addition, Euro STOXX 50 futures will be traded and cleared in Korean won on the Korean Exchange during local trading hours.

Mini KOSPI 200 futures, which are based on the KOSPI 200 index, will complement the Eurex/Korean Exchange link for KOSPI 200 options.

Eurex users will be able to trade the Korea-related futures and options on the same platform.

With Eurex's Euro STOXX 50 futures on Korean won, the exchange will list a derivative product based on a global benchmark index for the first time in its history.

The product specification will be designed to be as close as possible to Euro STOXX 50 futures.

Jeffrey Tessler, member of Deutsche Börse's executive board, said: "This strategic cooperation between Korean Exchange and Eurex is very beneficial for both parties' customers. With the introduction of Mini KOSPI 200 futures, investors will be able to trade and hedge the Korean market with an additional Korean product 24 hours a day."

Kyungsoo Choi, chair and CEO of Korea Exchange, said: "The exchange will list Euro STOXX 50 futures as its first derivative product based on a foreign equity index. By listing the contract, the exchange will establish the foundation to be the Asian derivatives hub."

Digital Asset acquires Swiss firm

Blockchain provider Digital Asset Holdings has upgraded its technology capabilities with the acquisition Zurich-based Elevence Digital Finance.

Elevence was targeted by Digital Asset for its modelling language technology, which is capable of expressing any right or obligation, including cash, securities and derivatives, whereby the code defines the considerations between parties, and determines how these contractual relations can evolve over time.

This provides relevant parties with a unified view of current and future rights and obligations on a need-to-know basis, rather than Smart Contract systems, which can reveal confidential information.

According to Digital Asset, Elevence's products will complement its existing software by providing "a new, verifiable way for parties to a transaction to independently prove updates to a distributed ledger while preserving data confidentiality".

The inclusion of Elevence into Digital Asset will expand the company's European presence with its first Zurich office along with the inclusion of Elevence's eight-strong team of experienced software architects, specialised consultants, and financial professionals.

Elevence CEO Dr Vincent Peikert will join Digital Asset as head of digital asset Switzerland and head of product for Europe, while Dr James Litsios, chief technology officer, will become head of development in Switzerland.

"With this acquisition, we will harness the power of Elevence's technology and its team of talented individuals to enhance our offering for the financial services industry," said Blythe Masters, CEO of Digital Asset.

"The resulting Digital Asset platform is specifically designed to address financial services applications requiring automation, privacy and immutability."

Peikert added: "Digital Asset is recognised as a leading provider of distributed ledger

technology and has a remarkable team developing and deploying cutting-edge software for financial institutions."

"This makes the company an ideal partner for Elevence, and joining forces will enable us to offer the broadest portfolio of solutions to the benefit of our customers."

Northern Trust enjoys strong Q1 securities lending results

Northern Trust secured enough new clients to grow its securities lending business by 5 percent in Q1 2016.

Securities lending achieved $22.6 million in fees, up from $21.6 million in Q1 2015.

The bank attributed the positive results to higher spreads, although gains were partially offset by lower volumes.

The new securities lending business and other ancillary services contributed to a 10 percent increase in Northern Trust's 'other fees' earnings category.

At the same time, custody and fund administration fees, the largest component of corporate and institutional (C&IS) fees, increased 3 percent from Q1 2015 to $286.4 million, up from $277.1 million, also thanks to new business.

But this was partially offset by a shaky equity market and movements in foreign exchange rates. Assets under custody and administration totalled $7.93 trillion as of 31 March 2016.

Frederick Waddell, chairman and CEO, said: "Northern Trust performed well in the first quarter of 2016, despite the volatile market environment and heightened global economic uncertainty."

"Total revenue grew 5 percent, with strong growth in net interest income and steady growth in trust, investment and other servicing fees, partially offset by lower foreign exchange trading income."

"Expenses increased 5 percent, as we continued to invest in people, technology and regulatory initiatives to support our growing business. Our return on equity was 11.4 percent, within our target range of 10 to 15 percent."

NSD signs agreement with Egypt

The central securities depositories (CSDs) of Russia and Egypt have signed a memorandum of understanding in order to offer investors access to the markets of both countries.

The National Settlement Depository (NSD), the Russian CSD, and Egypt's Misr for Central Clearing, Depository and Registry (MCDR) signed the agreement at the Moscow Exchange Forum.

They also agreed to exchange information and share experiences in depository and settlement operations, interaction in correspondent accounts, corporate actions processing, and information services.

NSD is currently testing corporate processing systems for its corporate actions reform, which will come in to effect in July. The two CSDs have also agreed to cooperate within the framework of the World Forum of CSDs.

Landmark Infrastructure expands interest rate swap programme

Landmark Infrastructure Partners has extended the terms of its interest rate swap (IRS) hedging programme.

The revised swaps agreements extend two of the company's agreements with a combined notional value of $95 million by three years to 2021 and beyond.

The average duration of the company's IRSs will increase by approximately two years while maintaining the all-in effective rate at current levels for hedged borrowings, according to Landmark.

"With the decline in interest rates during the first quarter, we have been extending the period covered by our swap agreements to further reduce our floating interest rate exposure," said George Doyle, CFO.

"The execution of these additional IRS agreements serves to further enhance the company's ability to generate stable cash flows for our unitholders."

"With these new swap agreements, we have fixed the floating interest rate component (one month LIBOR) on approximately 70 percent of our existing borrowings for an average of six years."

Pirum and Euroclear link up triparty with collateral management

Euroclear has enhanced its triparty securities lending service with the addition of a connection to Pirum's collateral management tool.

The new link allows mutual clients to pair Pirum's solution for calculating, agreeing and submitting daily triparty required values with Euroclear's triparty agent service, the Collateral Highway.

The partnership will improve straight-through processing, increase integration, enhance reporting and streamline reconciliations, according to Pirum and Euroclear.

Pirum already has links in place with triparty agents J.P. Morgan and BNY Mellon.

Rajen Sheth, CEO of Pirum, commented: "We are excited to be the first post-trade vendor in the securities financing space to be able to offer a fully real-time solution to our clients for three of the key triparty vendors, as well as for their bilateral business."

“The addition of Euroclear to our existing collateral management platform shows our continued commitment to building innovative solutions that provide tangible benefits and return on investment for our clients.”

Olivier Grimonpont, global head of collateral management and securities lending at Euroclear, added: “This new partnership is a valuable addition to Euroclear’s Collateral Highway, our open platform aimed at allowing clients to seamlessly manage their collateral exposures.”

“Our link with Pirum will enable our clients to efficiently manage their securities lending exposures on the Collateral Highway while fully leveraging their existing post-trade solution.”

DTCC’s Omgeo Alert signs up BBH and J.P. Morgan

The Depository Trust & Clearing Corporation’s (DTCC) Omgeo Alert has signed up the first two custodians to its GC Direct system.

Brown Brothers Harriman and J.P. Morgan are now live on GC Direct, which allows global custodians and prime brokers to be able to take on a more collaborative role in standing settlement instructions (SSI) maintenance.

Six prime brokers have also implemented DTCC’s Omgeo Alert for prime brokers supplying SSIs to hedge funds. Omgeo Alert offers a global database for the maintenance and communication of account information and SSIs.

Currently, the Omgeo Alert contains more than six million settlement instructions, up 16 percent from 2014.

Bill Meenaghan, executive director of DTCC’s Omgeo Alert, said: “Over the course of 2016, Omgeo Alert will aim to extend coverage of client SSIs in its database, moving towards the SSI Utility’s goal of 100 percent coverage, which will allow brokers to retire their internal SSI databases.”

Meenaghan added: “As the year progresses, more SSIs will be managed by the global custodian instead of manually by the investment manager—further ensuring accurate SSIs in DTCC’s Omgeo Alert. This move will help to address the issue of trade

failures, 30 percent of which are caused by inaccurate settlement instructions."

ICAP acquires ENSO Financial

ICAP has finalised its acquisition of ENSO Financial Analytics, a data analytics platform for hedge funds and prime brokers.

ENSO will become a subsidiary of ICAP's post-trade risk and information division (PTRI).

Matthew Bernard, Michael Gentile, and Dwaine Alleyne, ENSO's founders, will remain in leadership positions and report to Jenny Knott, CEO of PTRI.

ENSO's team of prime brokerage, asset management, technology and data specialists deliver identifiable and measurable operational insight on counterparty credit risk, collateral management, and portfolio financing and treasury functions

With more than $1 trillion in total assets under advisory, ENSO provides operational insights and key analytics to many of the world's most successful fund managers.

The move was headed by Euclid Opportunities, ICAP's fintech investment incubator, founded by Steve Gibson in 2011. Euclid made its first investment in ENSO in June 2013, followed by a subsequent investment in October 2014 to enable further growth of the business.

ENSO will join an extensive roster of acquisitions by Euclid, including AcadiaSoft, an industry collaboration to automate collateral management, Digital Asset Holdings, a developer of blockchain tech, Abide Financial, a global regulatory reporting specialist, Duco, a global provider of data control services, and OpenGamma, a risk analytics platform.

ICAP's Knott commented: "Our clients are seeking solutions to the structural trends of regulation, electronification and standardisation that are driving change throughout the industry."

"We feel ENSO perfectly complements our existing post-trade client offerings and we are very excited about the synergies and many opportunities we see to expand our products and analytics services to the hedge fund and the buy side community."

ENSO's Bernard added: "In today's rapidly changing financial and regulatory environment, the treasury and portfolio financing functions within a hedge fund become paramount roles."

"ICAP's initial investments helped us expand in the US and UK, while continuing to invest in new product generation."

"Being part of the ICAP platform will propel our expansion and innovation strategy even further."

TriOptima completes Swedish krona swaps cycle with Nasdaq

TriOptima has partnered with Nasdaq to complete its first triReduce compression cycle for Swedish krona swaps.

Nasdaq members completed the first successful compression cycle for interest rate swaps in the currency, which, according to TriOptima, eliminated over 40 percent of the cleared outstanding swap inventory.

Johan Rudén, senior vice president and head of Nordic fixed income at Nasdaq, said: "With the new capital requirements under Basel III, banks and clearing brokers need to look for additional ways to reduce exposures as well as notional outstanding on their balance sheets."

Peter Weibel, CEO of triReduce, said: "TriOptima's collaboration with Nasdaq enables their clearing members to streamline their portfolios and increase their capital efficiencies while contributing to an overall reduction in systemic risk."

CME Group clears first interest rate swaptions

CME Group saw its first interest rate swaptions clear recently, with Barclays, BNP Paribas, Citi and RBS among the first approved to clear the trades.

A focus on regulation

Is triparty the answer to your over-the-counter collateral conundrum?

Tough new regulations such as BCBS/IOSCO261 are forcing many firms to review their approach to collateral management.

The pressure to meet the demands of collateral velocity and improve efficiency cannot effectively be achieved by using manual processes, and triparty is now being seen as a plausible answer to many of the challenges created by BCBS261.

The adoption of triparty facilities could prove integral in establishing a holistic optimisation model for managing collateral, enabling enhanced optimisation, settlement and control functions within the process.

The one question that remains unanswered is why triparty is not being embraced more rapidly by the market?

BCBS261 aims to reduce systemic risk and equalise the margin differentiation between cleared and non-cleared over-the-counter (OTC) derivatives.

Market participants expect at least a five-fold increase in margin calls against OTC derivatives.

From September 2016, those firms covered by BCBS261 will be required to post initial margin on a gross basis and manage variation margin against a zero threshold, against minimum transfer amounts capped at €500,000.

If capacity is not improved, this demand on the process will considerably compromise collateral managers and optimisers.

Our view is that triparty facilities offer many benefits: they are an effective mechanism to manage the collateral call and substitution process, they can reduce settlement risk (relative to bilateral settlement), minimise any over or under-collateralisation, and improve the best use of assets.

Conceptually at least, market participants would seem to agree. Puzzlingly, we see a relatively low uptake of triparty for managing OTC collateral.

Following recent client discussions on the topic, it is possible that the low adoption rate of triparty could be due to some or all of the following perceived or real challenges:

- The cost of incorporating the triparty process into a firm's existing infrastructure may be too costly for smaller institutions;
- Triparty is only applicable to non-cash;
- Ceding control of one's inventory may be perceived as an additional risk;
- The complex relationships between triparty providers and multiple clearing corporations/institutions; and
- The cross-border movement of collateral may strain a firm's operational capability.

All of these points can be addressed.

Firms need to reconsider some of these preconceptions.

With the demand for higher quality collateral increasing, the use of triparty can help reduce operational risk, costs and complexity, and assist with the effective management of counterparty exposure.

Regulations affecting liquidity and capital are major concerns for firms and such regulations would appear to be ripe for triparty collateral management.

Although there may not be one single solution that will create the ideal holistic collateral optimisation model, adopting triparty will certainly help overcome many of the collateral challenges that lie ahead.

GFT

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Principal consultant, GFT
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US-dollar denominated swaptions clearing offers a maximum two-year option expiry and a maximum underlying swap tenor of 30 years.

Five clearing members are approved to clear swaptions, including Barclays, BNP Paribas, Citi and RBS. Others are poised to be approved as clearing members soon, according to CME Group.

"This groundbreaking solution is designed to help transform the interest rate swaps landscape for CME Group's customers by offering greater capital efficiencies and helping mitigate counterparty risk," said Sunil Cutinho, president of CME Clearing.

Sabri El Jailani, global head of rates options trading at Barclays, added: "Clearing through CME will allow both Barclays as well as our clients to significantly improve the capital consumption and risk management of our swaptions portfolios."

Wells Fargo becomes New York Fed primary dealer

Wells Fargo Securities is set to become a primary dealer for the Federal Reserve Bank of New York.

As a primary dealer, Wells Fargo Securities will trade directly with the Federal Reserve Bank of New York and provide market intelligence and analysis to its trading desks.

Wells Fargo Securities is the capital markets and investment banking business of Wells Fargo & Company, offering a variety of capital markets products and services, including prime services, structured lending facilities, commodity and equity risk hedging and mergers and acquisitions advice.

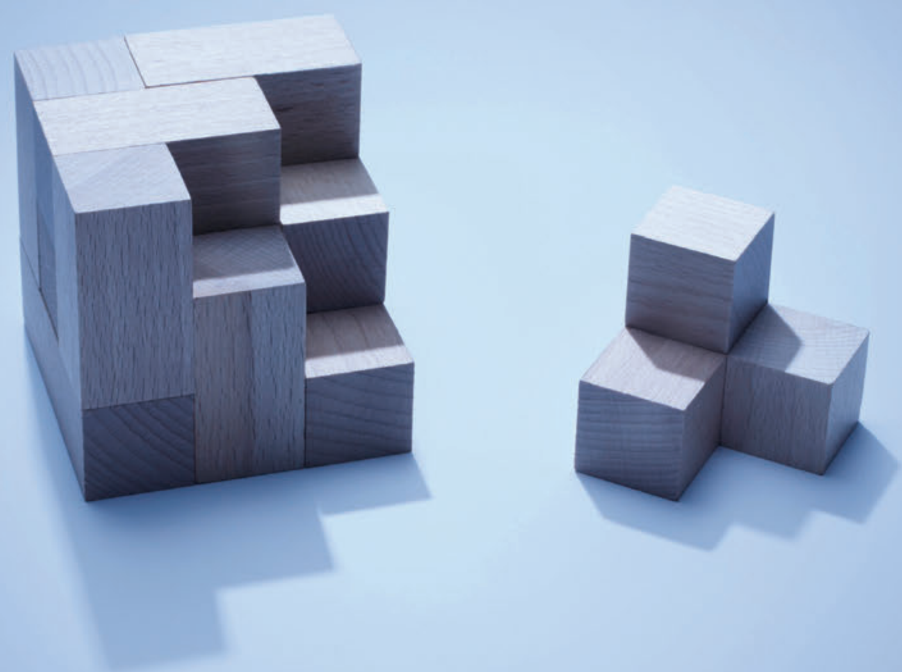
"Primary dealership will allow us to better serve our existing customer franchise and is a logical extension of our client-focused business model," said Walter Dolhare, head of the Wells Fargo Securities markets division.

"We look forward to serving as a counterparty to the Federal Reserve Bank of New York in our role as a primary dealer."

ESMA to conduct CCP stress tests

The European Securities and Markets Authority (ESMA) will launch the first of its stress test exercises for EU central counterparties (CCPs) on 29 April.

ESMA, in cooperation with national competent authorities and the European Systemic Risk Board, will test the resilience of European CCPs by exposing them to adverse market scenarios.



Strength in numbers

The SFTR's technical details still need to be thrashed out, but early reports suggest that the securities lending industry has its work cut out

The initial wave of the Securities Financing Transaction Regulation (SFTR) hit the industry on 12 January 2016, but a series of equally disruptive aftershocks still need to be weathered, and senior industry figures fear that, without industry-wide cooperation, participants won't be ready.

The European Securities Markets Authority's (ESMA) SFTR requirements are driven by a desire for greater transparency in the securities financing market, with a particular focus on quantifying and mitigating market risk posed by 'shadow banking'.

The primary way this aim is being enforced is through the SFTR's level two regulatory technical standards (RTS) on reporting and recordkeeping for all securities financing transactions (SFTs). The level two RTS that is expected to clearly outline the exact requirements for this reporting is not due until Q2 2017, but the basic outline, that many expect to closely resemble the final product, is already available.

The requirements, as they currently stand, bring a level of granularity to reporting that the securities finance market has never seen before, with data disclosure down to the transaction level required from both the buy and sell sides on a T+1 basis.

Additionally to the initial reporting, the SFTR requires the creation of a transaction-level record system for all SFTs that must hold each firm's business dealings for at least five years following the transaction's completion.

Considering the scope of the overhaul of SFT reporting and the relatively short timeframe to implement it, some are concerned that industry investment and focus on the reporting standards of the SFTR has been lacking, to the point where some market participants might be caught short come deadline day.

"There is no doubt that the reporting requirements under the SFTR are some of the largest, most comprehensive and detailed reporting requirements industry has ever seen from a regulator," explains International Securities Lending Association (ISLA) COO Andy Dyson.

"For the first time in our industry we are being asked to report all our data to a trade repository. There are a number of things that are brand new to the securities lending market," Dyson adds.

"From ISLA's perspective, despite all the industry education we've done on these issues, it's only now in Q1 2016 that we see the industry paying full attention to SFTR reporting demands."

"However, ISLA has been telling the industry for three years now that if they don't already have legal entity identifiers (LEIs) in their systems you need to invest quickly because they are coming. Now there is a huge amount of focus on this area of the SFTR and the ISLA working group is meeting regularly to thrash out some of the broader technical issues."

"The problem is that until we see the actual draft technical standards, which aren't due until the middle of 2016, people can't start changing their systems. All we know for sure at this point is that changes will be needed and some could be very significant."

The decision to stagger the deadlines for SFTR's various requirements into nine deadlines spread between 2016 and 2019 was meant, in part, to offer industry participants some respite from the significant technological investment costs that such detailed reporting terms inevitably require.

Simply upgrading your infrastructure's storage capabilities may be enough to enable compliance with the five-year transaction filings, but the leap to transaction-level reporting demands something most firm's existing systems simply do not possess.

"The industry will have to start using digital data tags, such as LEIs, which we haven't seen before. Systems will have to be upgraded in order to cope with these new data points," says Dyson.

"Lenders and borrowers will both report transactions, which will be linked by a unique trade identifier (UTI) reference. UTIs will then be used by regulators to remove double counts."

"For the infrastructure technical build there are now new features that must be included."

"In terms of costs, firms don't have a lot of room to manoeuvre because there is a regulatory compliance requirement and if you haven't got that in place by the end of 2017, or Q1 2018, you run the risk of being fined."

Laurence Marshall, head of EquiLend Europe, echoed these concerns, stating: “The level of transparency that is proposed is far greater than present proposals in other jurisdictions. As much as the proposals have looked to limit operational costs to market participants by aligning formats to existing reporting requirements under other EU regulations, this will create a huge challenge and additional cost for the industry.”

“ESMA is proposing a robust legal and technological framework, and the standardisation of reporting formats and communication protocols is most helpful.”

“However, it does require participants to use ISO 20022, which some may not have adopted yet. It is likely that for securities lending transactions the majority will favour the use of a new template as opposed to the option of a template that is consistent with the European Markets Infrastructure Regulation (EMIR).”

Given the formidable scale of the task facing securities financing, industry associations such as ISLA, along with others, are loudly calling for a united approach to creating a workable solution.

“The crucial point that ISLA has argued throughout this process is that it’s important that the whole market looks for opportunities for collaboration that would share the burden and cut down on the time to market for these solutions,” Dyson explains.

“If every single firm tries to work out their own solution it’s going to be problematic and runs the risk these individual solutions won’t communicate with each other.”

“At the very least it’s important that the industry comes up with some common standards and common themes of approach to the various requirements. It may be that some of those functions are built by third-parties, like matching services or trading platforms, for the benefit of the whole industry.”

“We are all commercial organisations but if we continue to do things separately the benefits of synergies will be lost and people will struggle to hit the deadlines.”

Again, Marshall reinforces the point that cooperation is the key to minimising market disruption, stating: “The challenge for participants will be extracting the required information, which is likely to come from a multitude of sources. While the use of LEIs should be relatively straightforward, it might require some system changes.”

“UTIs, on the other hand, will provide a bigger challenge. Existing infrastructure providers are in a position to provide UTIs to participants and alleviate the need for participants to create a solution and bilaterally agree who is responsible for issuing.”

The good news for the securities financing industry is that when it comes to UTIs and LEIs, it has the advantage of being able to observe and learn from the difficulties that those who have already embraced these changes had to face. Even better, it seems the regulator is doing the same.

“ESMA is going about this consultation in exactly the right way. It received the level one text and reached out to various industry participants, including ISLA, on a bilateral basis to get a sense of how we are all feeling about the regulation. That happened in late 2015 and early 2016 and now ESMA has published a discussion paper,” Dyson says.

“What’s clear from the discussion paper is that the regulator has tried to learn from some of the much discussed issues in EMIR’s reporting regime for over-the-counter and un-cleared derivatives. They have clearly taken note of some of the problems that have arisen there, which is good.” **SLT**

The real and unreal

Short sellers are capitalising on the rapid decline of steelmaking. David Lewis, senior vice president at FIS Astec Analytics, reports

The real economy is a collective term coined by economists to describe all of those industries that are concerned with actually producing goods and services. This is quite distinct in terms of measurement and management of statistics from that part of the economy that is concerned with buying and selling on the financial markets. This is a segment that seems to lack its own equivalent collective term and somehow feels a lesser partner as a result. It is true that the financial markets have suffered badly since the financial crisis began, in reputation if not in real economic significance.

Recent years have seen the real economy boom as demand for raw materials and growth in demand for goods, particularly from the East, has in some cases strained the capacity to produce, but with growth slowing and demand falling, some industries have been left with a mismatch between production and demand.

The oil industry has certainly been caught by the effect of excessive production over global demand, but it could be argued that this is more of a strategy by some producing nations than an accident of supply and demand economics arising from the cycle of boom and bust. The production of steel is certainly an industry caught out by falling demand compared with excess supply. This issue could, at least in part, be placed at the feet of larger industrial nations dumping their excess production on to foreign markets, but certainly not all.

Many industries struggle with timing the matching of supply and demand—given the time it takes to construct a container ship, an office block or a blast furnace, the optimum time to build could be in the depths of a recession, ensuring your capacity was ready for the next bust. However, logic may mean nothing when you need to finance construction projects measured in the hundreds of millions of dollars.

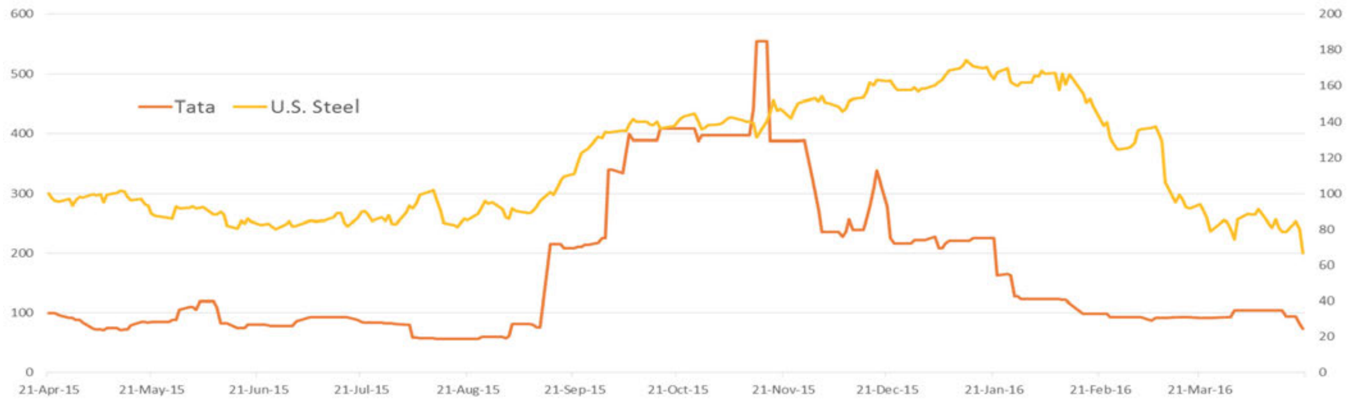
Focusing on the steel industry, which is front and centre of the news here in the UK due to the potential closure of the Tata Port Talbot Steel Works, it is clear that falling demand and a glut of supply has hurt the sector badly, irrespective of the country the business resides in. Port Talbot is the largest of the three remaining major steel works in the UK and its loss would signal the effective end of major steel production in the country, representing a significant blow to this segment of the real economy. As such, it has become a substantial political issue as much as an economic one.

Shares in Tata Steel Limited are traded in the UK as a global depository receipt (GDR), and borrowing volumes, taken here as a proxy for short selling, in Tata GDRs are shown in Figure 1 alongside borrow volumes for United States Steel Corp. Both values are indexed to 100 as of 21 April 2015 as a base line. Short interest volume in both companies was already at substantial levels—more than 70 percent of the available shares in U.S. Steel were already borrowed by August 2015. Volumes expanded rapidly for both companies at the end of Q3 2015 as production began to overrun demand. Demand was outstripping supply and driving up borrowing process. By November U.S. Steel was firmly in the hot stocks zone and well into double figure fee by the Q1 2016.

Falling demand combined with an increase in cheaper imported steel from China and Russia, the share prices of both companies began to slide as their domestic markets continued to be hit. U.S. Steel was trading at more than \$26.75 a year ago and Tata GDR were over £5.90 a share. By the end of January 2016, U.S. Steel had hit its 12-month low of \$6.67 and Tata hit £3.25 in the first days of February. With borrowing volumes in the tens of millions of shares, the real economy was producing significant returns for the unreal segment and short sellers in particular were marking up their gains as the steel shares rusted away.

In recent weeks, political moves including protectionist policies have improved the situation for steel producers somewhat. Whether these changes, plus the almost unprecedented move by the UK Conservative government to take up to 25 percent ownership of the Port Talbot steel works in support of a management buy-out plan, there may indeed be light on the horizon for the steelmaking industry. Shares in both companies have moved off their lows, but there is a long way to go before either U.S. Steel or the Port Talbot works make the kind of returns the unreal economy has made from steel in the past year. **SLT**

Figure 1: Borrow volume indexed to 21 April 2015



Source: FIS Astec Analytics. Note that U.S. Steel plot is against the right axis

Industry Events

5th Annual Collateral Management Forum

Date: 02-03 June
Location: Amsterdam
www.glceurope.com

The ongoing flow of regulatory changes created many challenges for financial institutions to ensure that their effectiveness, workflows and optimised operations in the field of collateral management.

The ever changing environment has set many obstacles also in optimising the collateral that is fundamental in order to find a solution to the gap between collateral supply and demand.

Topics that will be covered at the conference include regulatory mandates, digitisation in collateral management and more.

ISLA's Annual Securities Finance and Collateral Management Conference

Date: 21-23 June 2016
Location: Vienna
www.isla.co.uk

Join ISLA in Vienna for the 25th Annual Securities Finance and Collateral Management Conference 2016 to:

- Understand from industry leaders how they are redefining our markets and how supply can more effectively link with demand
- Consider how new products and alternative ways of doing business will define the next five years
- Better appreciate how regulation is changing trading patterns and behaviours and how the industry will deal with future shocks
- Debate with your peers the changing role of collateral and how we do more with less
- Hear how the buy side view the role of securities financing and their service providers evolving to reflect these new norms

For more events visit securitieslendingtimes.com/events/events.php

Industry Recruitment

Senior Sales

Recruiter: CloudMargin
Location: Europe

CloudMargin is looking for a sales person based in the UK. Due to high levels of demand the CloudMargin sales force is expanding rapidly all around the globe

Senior Product Manager Alternative Investments

Recruiter: BNY Mellon
Location: London

Part of the Global Product Management Team, the position is responsible for working as assigned by the manager for the global product set in creating, managing and implementing product strategy for complex assigned product(s) within the Alternative Investment Services space such as single manager, fund of funds, trade execution, private equity, etc

Corporate Actions Associate

Recruiter: Core-Asset Consulting
Location: Glasgow

Core-Asset Consulting's client, a leading global financial services firm, has an exciting opportunity for a Corporate Actions Associate located in Glasgow.

Compliance Advisory Officer

Recruiter: Bruin
Location: London

A leading custodian is looking for a Compliance Advisor to support the Head of Compliance and the rest of the Advisory team to assist in the risk-based compliance programmes across the business.

New arrivals at Schwab and more

Lauren Gaspar has joined Charles Schwab as managing director of securities lending.

According to Charles Schwab, Gaspar will allow the US broker to offer additional market insights, enhanced relationships with counterparties and improved short sale and fully paid products for its clients.

The firm's securities lending team is based in San Francisco but Gaspar will remain in New York to provide a "feet on the street presence" for the company.

Gaspar spent the last 11 years at SunGard Securities Finance, now FIS, focused on data analytics and reporting products. Most recently, she led the North American relationship management group for FIS.

Gaspar will report to Howie Kennedy, vice president and head of securities lending at Charles Schwab.

Stephen Sheehan, director of securities finance sales and relationship management for Europe, the Middle East and Africa at Citi, has left the bank after 10 years.

Sheehan first joined Citi in 1995 as part of the global securities services division before moving to ABN AMRO for six years between 1999 and 2005.

He is currently based in Dublin. It is not clear what Sheehan's next move will be, but he is expected to take up a new position soon.

The Depository Trust & Clearing Corporation (DTCC) has elected three new members to its board of directors.

Lester Owens, managing director and global head of wholesale banking operations at J.P.Morgan, **Paul Simpson**, managing director and global head of equity asset management services at Bank of America Merrill Lynch, and **Joseph Weinhoffer**, treasurer and chief investment officer of ED&F Man Capital Markets, will join DTCC's 16 existing board members.

All three are senior executives of clearing agency participants and bring significant and diverse skills and experience to the board, according to DTCC.

Of the 19-person board, 12 are representatives of clearing agency participants, three are non-participant directors, and two are designated by DTCC's preferred shareholders. The remaining two are DTCC's board chairman, Robert Druskin, and its president and CEO, Michael Bodson. **SLT**

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ISLA
INTERNATIONAL SECURITIES LENDING ASSOCIATION

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ISLA is delighted to announce its keynote speakers for this year's **25th Annual Securities Finance and Collateral Management Conference**.

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FULL AGENDA LIVE

Moderators and speakers have now been announced! For all the latest agenda developments join our linkedin group.