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# BCBS advises G20 to delay CCP reg implemetation deadline

The deadlines for implementing Basel III's capital requirements for central counterparty (CCP) exposures and margin requirements for non-centrally cleared derivatives should be pushed back, according to the Basel Committee on Banking Supervision (BCBS).

In a report presented at the G20 meeting in China in September, the BCBS outlined a number of regulatory deadlines that it now considered to be unrealistic given the limited progress made by some jurisdictions.

The BCBS stated: "The [jurisdictions'] reported challenges relate in part to domestic legislative or rulemaking processes. In addition, some jurisdictions report that banks face difficulties in adjusting their information systems to meet and report on the new requirements."

As a result, the BCBS has recommended that the current deadline of January 2017 for compliance with the new capital requirements for CCP exposure, along with the September 2016 deadline for Basel's margin requirements for non-centrally cleared derivatives, should be revised.

The BCBS did not recommend any alternative implementation deadlines.

The BCBS acknowledged that "delayed implementation may have implications for the level playing field, and puts unnecessary pressure on jurisdictions that have implemented the standards based on the agreed timelines."

However, it suggested this is trumped by the need to ensure consistent implementation of Basel's standards.

This is primarily due to the fact that many jurisdictions serve as hosts to internationally active banks.

## Vanguard Asset Management to open ETFs to securities lending

Vanguard Asset Management is preparing to allow select exchange-traded funds (ETF) to engage in securities lending transactions as an additional revenue source.

A spokesperson for Vanguard confirmed that 12 Vanguard ETFs from a variety of markets will be included in the move, although there is no set timeframe for when the new strategies will begin.

As part of its attempt to improve investor returns, Vanguard will give all securities lending revenues back to its clients, minus the costs of running the additional service.

In a letter to investors, Vanguard explained that the decision to engage in securities lending through its ETFs was borne of the fact that it now considered itself to be "of a sufficient size and maturity whereby it can facilitate the lending of securities in a scalable, efficient and profitable manner".

The spokesperson added that the ETFs' collateral parameters would be inline with its fixed income counterparts, namely high-quality liquid assets in the form of sovereign bonds from France, Germany, the Netherlands, the UK and the US.

## WFE: blockchain regulation should align globally

The World Federation of Exchanges (WFE) has warned global regulators of the need for consistency in any future regulations on distributed ledger technology (DLT).

The caution came in the WFE's response letter to the European Securities and Markets Authority's (ESMA) June discussion paper on DLT, where it emphasised the need for rules based on "international guidelines and principles".

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# COLLINE

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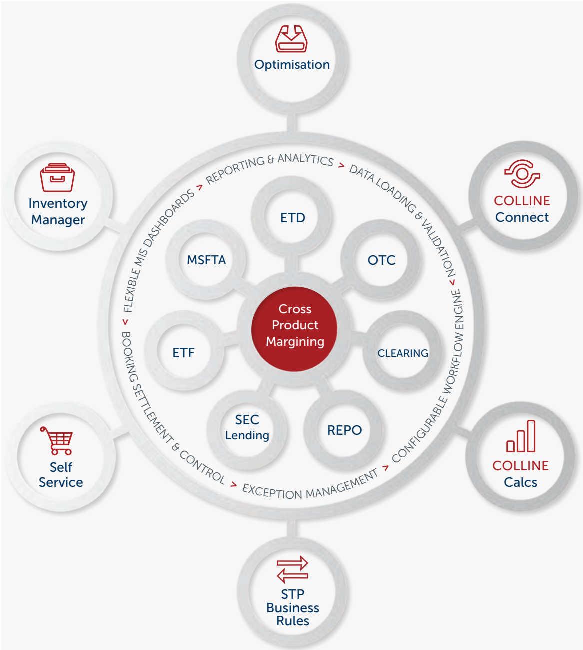


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## WFE: blockchain regulations should align globally

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WFE stated that innovation in DLT should be "primarily industry driven and not be unnecessarily impeded by regulatory intervention" and that regulators should be conscious of potentially stifling regulations in auxiliary areas of fintech such as cyber security and data protection.

The industry body, which represents more than 200 market infrastructure providers including exchanges and central counterparties (CCPs), encouraged regulators such as ESMA to continue to involve itself and other industry representatives in any policy formations to ensure regulation does not become overly burdensome and prohibitive.

WFE claimed it was essential that regulators continue to educate themselves on the evolving uses of DLT in financial markets in order to stay abreast of best practice.

DLT should also be included in 'regulatory sandboxes', which allow for the risk-free testing of innovative fintech solutions and business models, to "ensure that appropriate collaboration and exchange of information occurs between industry and regulators".

Nandini Sukumar, CEO of WFE, said: "As an industry, financial market infrastructures are studying DLT and its potential benefits to the capital markets."

"As the global industry association for exchanges, CCPs and central securities depositories, the WFE will seek to devote significant time and attention to forging consensus amongst its members on DLT-related issues, specifically formulating guidelines, codes of conducts and industry best practice as use cases and issues emerge. There is still much to come in this space."

Gavin Hill, head of regulatory affairs at WFE, added: "Markets are dynamic and continue to innovate. Developments in this space should continue to be market-led and not unnecessarily hampered."

"However, it is important that stakeholders continue to engage, and as such, the WFE will endeavour to facilitate an open dialogue between regulators and its membership regarding the evolution of the technology, and the sharing of information and best practice."

## FSB: members must improve OTC margin compliance

Around half of Financial Stability Board (FSB) member jurisdictions need to "urgently take steps" to get back on track with their implementation of over-the-counter (OTC) margin requirements, according to the FSB.

In its eleventh progress report on the implementation of OTC derivatives market reforms, the FSB noted that only Canada, Japan and the US are expecting to successfully meet the first September 2016 deadline.

At the same time, Australia, the EU, Hong Kong, Singapore and Switzerland have all admitted they will be unable to meet the September deadline, while around half of all members are currently expected to miss the final March 2017 deadline, given their current progress.

The report highlighted that progress in meeting margin requirements for network control centre data (NCCDs) lagged behind capital requirements for exposures to NCCDs, which the FSB noted were "largely in force".

Twenty jurisdictions now have requirements in force that apply to over 90 percent of OTC derivatives transactions.

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## Brazilian exchange joins R3

Brazil's BM&FBovespa has become the first exchange to join the R3 network to pursue market uses of distributed ledger technology.

R3, a blockchain technology provider, leads the network of over 60 global financial institutions to explore blockchain's commercial uses.

David Rutter, CEO of R3, said: "Distributed and shared ledger technology can transform the way in which financial market infrastructures such as BM&FBovespa issue, record and transfer assets, enabling transactions and reference data to be visible to all relevant parties on the ledger."

"This can cut effort and costs dramatically. We are pleased to welcome BM&FBovespa to our growing network of consortium members in Brazil."

Fabio Dutra, client and business development managing director at BM&FBovespa, added: "We believe that strong collaboration with our customers, regulators and vendors is crucial to futureproof financial and capital markets."

"Innovation with appropriate regulatory oversight is paramount to making the Brazilian markets even more efficient and reliable. Shared ledger technology may play an important role here."

## High borrow costs stifle North American short interest

North America's most expensive stocks to borrow have underperformed for a fourth consecutive month, according to IHS Markit.

The Markit North American Total Cap universe revealed that over August the highest priced stocks to borrow trailed the rest of the market by 0.77 percent. The year-to-date performance for this group is also down 3.4 percent.

According a recent IHS Markit research note on North American short sellers, this underperformance largely came in the past three months as short sellers "hit a rough patch between February and April which saw their high conviction positions rebound strongly from their lows".

IHS Markit also highlighted in the research note that this negative performance is only relative as the surging equity market has carried the shares seeing the most bearish short sentiment up 0.7 percent during August and 8.1 percent for the year so far.

The stagnant precious metals market was pinpointed by IHS Markit as a key driver behind the underperformance of high cost to borrow shares as 13 of the sector's constituents which feature in study group have fallen by 11.6 percent on average over August.

In its research note, IHS Markit revealed: "The lack of appetite to let successful short positions ride has been a recurring theme among August's high conviction short positions as these shares have seen their average short interest decline by 4.5 percent over August, which is twice the average covering seen across the entire Markit North American Total Cap universe."

## UK pension funds consolidate asset pooling strategy

The Brunel Pension Partnership, an investment pooling project for 10 local government pension funds across South West England, has pushed ahead with plans for closers ties with the appointment of bfinance as the group's investment advisor.

The partnership boasts roughly £23 billion in combined assets and aims to boost this total through an estimated net savings worth £16 million annually, and a potential to increase

savings to £70 million a year by sharing investment costs, according to bfinance.

Bfinance will provide independent advice on the 22 proposed portfolios that will be made available to the funds, as well as review the specifications for the portfolios, including structure, fee levels, and projected savings.

According to bfinance, it has previously worked with more than 40 of the UK's local government pension funds. It has also advised over 70 public pension funds internationally.

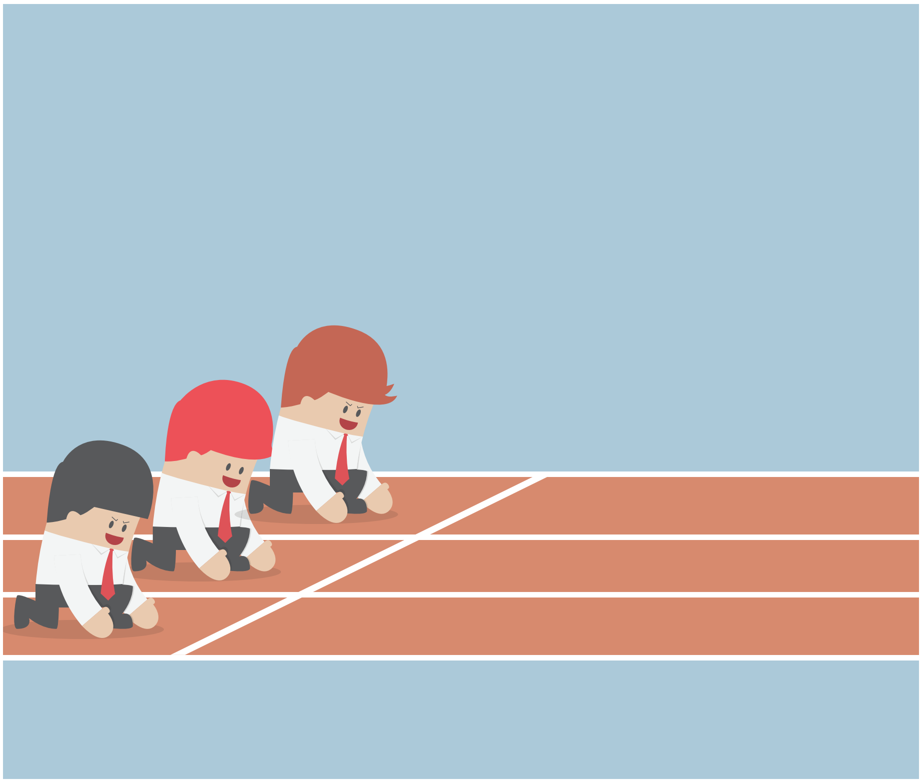
Brunel Pension Partnership's long-term asset management plan involves the formation of the Brunel Company, a Financial Conduct Authority-authorised business that will be responsible for managing the pooled assets.

Matthew Trebilcock of Brunel Pension Partnership said: "We welcome our partnership with bfinance and are confident that their specialist expertise and experience in the competitive landscape of pooling funds will provide us with a thorough and tailored cost benefit analysis of the proposed investment portfolios that the Brunel Pension Partnership have designed for the ten funds that are part of the project to ensure that it is the most appropriate approach for the Partnership."

The Brunel Pension Partnership was set up last year following advice from the UK government that all 89 of the UK's local government pension scheme funds should pool their assets as a cost saving strategy.

## SEC amends swaps reporting rules

The US Securities and Exchange Commission (SEC) has formally adopted amendments to its reporting requirements for security-based swaps data repositories.



The amendments, which were based on a proposal from September 2015, add a greater level of data confidentiality by requiring the a memorandum of understanding or similar legal arrangement to exist between the commission and the recipient of the data.

The reforms also stipulate the need to identify the five "prudential regulators" named in the statute, as well as the Federal Reserve banks and the Office of Financial Research, as being eligible to access the data.

The SEC also highlighted whether to permit other entities to access data, and under what circumstances that would be possible.

## Third wave of T2S must be a success, says BNY Mellon

The third wave of Target2-Securities (T2S) implementation will be the tipping point that decides whether the project justifies the investment that has been made in the platform, according to BNY Mellon's Tom Casteleyn.

The third stage of the T2S project, which involves the critical mass of settlement volume in Europe, begins on 12 September and will offer many stakeholders a first glimpse of the platform.

Casteleyn, head of product management for custody, cash and FX at BNY Mellon, said:

"Extensive work and investment has gone into ensuring that the T2S project is successful and delivers the benefits first promised by the European Central Bank."

He added: "Initial delays to the migration of Italy's Monte Titoli and more recent challenges faced by Euroclear's central securities depository (CSD) have led some market participants to question whether the resource invested in T2S will be justified."

According to Casteleyn, a successful migration of CSDs in France, Belgium and the Netherlands, and VP CSDs in Denmark and Luxembourg will give the market confidence to push ahead with T2S initiatives.

Moving forward, the fourth wave involves migrating Clearstream's CSD in the significantly larger German market.

## LCH gains approval in Hong Kong

LCH has been authorised by the Hong Kong Securities and Futures Commission (SFC) to provide automated trading services in Hong Kong via its SwapClear and ForexClear services.

The clearinghouse's SwapClear offering will also operate as a central counterparty (CCP) for transactions that require mandatory central clearing from 1 September.

Hong Kong's new regulations will require certain market participants to centrally clear certain over-the-counter interest rate derivatives denominated in the G4 and HKD currencies through a designated CCP from 1 July 2017.

LCH confirmed that it already has a number of Hong Kong-domiciled firms as members and clients clearing through its SwapClear and ForexClear services.

Martin Pluves, Ltd CEO at LCH, said: "We are delighted to have been authorised as an automated trading services provider and as a designated CCP by the SFC."

"Hong Kong is one of the most active derivatives markets in the world, and there is continued demand for our open access clearing service in the region."

## Eurex Repo average volumes take summer dip for August

Eurex Repo's average outstanding volume in August was €32 billion below what was recorded in the same month in 2015, parent company Deutsche Börse has reported.

August's data revealed that Eurex Repo, which operates the GC Pooling and Euro Repo markets, recorded an average outstanding volume of €117.4 billion last month, compared to the €149.3 billion achieved at the same time in 2015.

The secured money market GC Pooling recorded an average outstanding volume of €86.2 billion for August, down from €123 billion last year.

However, the Euro Repo market bucked the trend, hitting an average outstanding volume of €31.2 billion for the month, up from €26.3 billion in August 2015.

Eurex Repo has endured a drop-off every month throughout 2015, compared to 2016.

The Deutsche Börse subsidiary blamed the slowdown on the quantitative easing policy of the European Central Bank.

## FSB on track to meet 2018 shadow banking deadline

The Financial Stability Board (FSB) is committed to meeting its December 2018 deadline for implementing its reporting framework on 'shadow banking', according to its progress report on tackling data gaps in financial markets.

The FSB, in conjunction with G20 members, aims to collect and aggregate data on securities financing transactions (SFTs) on the global level from a macroeconomic perspective and study the breakdown of changes in assets.

In a separate statement released prior to the report, the FSB acknowledged that its member jurisdictions are still in the "early stages" of implementation but the board is still set on achieving completion by the end of 2018.

The board also highlighted that it will be updating its reporting template for SFTs by the end of the year.

The report relates to the second phase of the G20's 'data gaps initiative', which was set up after the 2008 financial crash to plug the holes in regulators' understanding some areas of the financial markets.

## Tech companies lead in hot stocks

Technology firms took centre stage in all three regions covered by the FIS Astec Analytics hot stocks list for the week starting 29 October.

In the Americas, Tesla Motors once again refused to yield its leading position, as the ongoing concern around its merger with SolarCity weighed heavily on its share price performance.

Astec Analytics noted that Tesla's shares sunk below $200 again to end the week at $197.78, down from $219.99 the week before—although it remains some way off its 12-month low of $143.67 from February 2015.

Europe saw the return of Logitech International to the top of the ranking for the region after its stock price was downgraded by analysts to 'hold' or 'neutral' from 'buy', following a 61 percent growth over the past 12 months.

In reaction to the share price growth, which was promoted by strong quarterly results, short sellers have reduced their net exposure by 45 percent since July, however the tide might be about to turn again.

In the Asia Pacific, Cyberdene put in another appearance as its share price continued to slide down from a 12-month high of CNY 2,600 ($390.26) at the end of May to a recent low of just over CNY 1,600 ($240.16) at 26 August.

According to Astec Analytics, Cyberdene's top position this week is owed to a sudden 12 percent recovery from CNY 1,618 ($242.9) to close last week at CNY 1,805 ($270.9).

Short sellers are going nowhere however, as utilisation of available shares remains around 90 percent.

## OCC enjoys sec lending boom

The Options Clearing Corporation's (OCC) securities lending activity was up 35 percent in new loans in August, compared to 2015, with 160,798 transactions recorded.

Year-to-date stock loan activity was up 41 percent on the same time last year, with 1.3 million new loan transactions in 2016.

The average daily loan value cleared by OCC was $149.6 billion for the month.

The Chicago-based clearinghouse also saw its futures volume climb 9 percent in August, compared to the year before, reaching 8.7 million contracts. Year-to-date average daily cleared futures volume was up 52 percent with 388,085 contracts.

OCC's options business was the only blemish on its August transaction data, as it saw a 24 percent drop-off in its exchange-listed options volume, compared to last year, with only 322.7 million contracts recorded.

Year-to-date average daily options volume suffered a small drop of three percent compared to 2015, with 16 million contracts.

Equity options volume achieved 289.1 million contracts, a 23 percent decrease from August 2015. This includes cleared exchange-traded funds options volume of 121.4 million contracts last month, representing a 30 percent decrease from last year.

Index options volume in August was down 36 percent with 33.6 million contracts.

## BME Clearing sees August slump in derivative volumes

Spanish stock exchange BME Clearing's derivative market saw an 11 percent drop-off in volumes for August, compared to the same time in 2015.

The exchange recorded 27.4 million contracts last month, with contracts trading volumes in IBEX 35 Futures and IBEX Mini Futures reaching 4.7 million and 1.9 million respectively, representing a fall of 6 percent and 15 percent from August 2015.

Options trading volume also fell slightly by 3 percent to hit 12.4 million contracts, along with open interest which dropped by 1.5 percent from the previous year.

Futures trading bucked the trend, however, with stock dividends and futures on IBEX Impact Dividends increasing in the first eight months of the year by 42 percent and a 102 percent respectively.

## SmartStream solution SWIFT certified

SmartStream's Transaction Lifecycle Management (TLM) Corporate Actions solution has been awarded SWIFT certified application status.

SWIFT accreditations are awarded annually following a programme to ensure that technology providers are fully compliant with SWIFT messaging standards.

TLM Corporate Actions has been accredited against the ISO 15022 messages and is ISO 20022 ready in preparation for organisations adopting the standard.

ISO 15022 and ISO 20022 are the standards for corporate actions processing adopted by financial institutions worldwide.

Alan Jones, senior product manager at SmartStream, commented: "Corporate actions processing presents a challenge for many organisations and SmartStream continues to see a high level of interest in automation as a way to ease this burden."

"We believe that established industry standards such as ISO 150022 and ISO 20022 are key to improving data quality and consequently increasing levels of STP."

## Saxo Bank digitises bond tradings

Denmark's Saxo Bank has launched its new digital bond trading solution for corporate and government bonds.

According to Saxo Bank, the new digital solution utilises its existing relationships with prominent liquidity providers in bond markets, while also using newly developed technology products.

It will offer access to over 5,000 investment-grade and high-yield corporate and government bonds from around the world, and in 20 currencies.

Bond orders will be directed to an ‘optimised dealer’ auction with up to 40 liquidity provider participants, with most trades completing within a matter of seconds.

The competitive multi-dealer platform means clients could see savings of up to 30 basis points for corporate bonds, and between 5 and 10 basis points on government bonds.

It also means both retail and institutional investors will gain more direct access to fixed-income trading opportunities, more transparently and efficiently.

The platform will be initially rolled out on SaxoTradeGO, the bank’s multi-asset trading platform.

Kim Fournais, CEO and co-founder of Saxo Bank, said: “It is hard to imagine a market which is more ripe for disruption than the bond market.”

“Watching a bond trader trade over the phone, at a time when the internet has touched almost every area of financial markets, not to mention our lives, is a clear call for disruption.”

“Investors need to ask themselves if they want to continue to trade based on an indicative price from a single bank or if they want to get the best price available from more than 40 global bonds providers, including some of the largest global banks.”

Simon Fasdal, head of fixed income trading at Saxo Bank, said: “I am proud that the next step in Saxo Bank’s history of democratising trading and investment is to truly digitise bond trading.”

He added: “Client demand and regulatory pressure makes transparency absolutely key and with our new offering we will charge a commission, offering full transparency to clients, in contrast to the industry standard of a spread based system, which is not always a transparent way of pricing clients.”

## EU regulators dismiss OTC amendments

Three European regulators have joined forces to voice their disagreement with the European Commission’s proposed amendments to the final draft regulatory technical standards (RTS) for over-the-counter derivatives.

The European Banking Authority (EBA) along with the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority have rejected the commission’s proposal to remove concentration limits on initial margins for pension schemes, claiming that these are crucial for risk mitigating.

The European supervisory authorities (ESAs) also recommended that further clarity was needed regarding non-centrally cleared derivatives concluded by central counterparties that are not covered by this regulation.

In a statement on the joint opinion, the EBA noted that ambiguity in this area has been a “source of concern for stakeholders”.

Further details are also needed for the application of the RTS to transactions concluded with third-country counterparties, particularly non-financial counterparties.

Additionally, the ESAs highlighted a contradiction between the commission’s proposed additional condition for covered bonds and the European Market Infrastructure Regulation (EMIR).

Specifically, the amendment would have the effect of ranking derivatives counterparties

after bond holders, which is contrary to the reasoning established in EMIR to grant preferential treatment to cover bonds.

Finally, according to the ESAs, a number of wording changes proposed by the commission require amendments as they may lead to a different application of the provisions compared to their original text of the RTS.

## Lombard Risk launches new cloud collateral system

Lombard Risk Management is launching AgileCollateral, a cloud-based collateral management system that provides the functionality of its existing Colline solution "in a modular, light touch delivery format", according to Lombard Risk.

The new offering is described by the company as a "collateral-in-a-box solution" that eliminates the need for on-site installation and infrastructure costs.

It will be aimed at servicing asset managers, buy-side brokers, pension funds, corporates and investment firms that must soon meet the stricter uncleared collateral margin requirements expected to be phased in from around March 2017.

In a statement on the launch, Lombard Risk said: "It can be up and running in as little as a day. It is intuitive, reducing the need for training, and modular, adding asset classes as needed, scaling up over time to handle more complexity and volume, and implemented in layers to control costs to match business needs."

The solution provides direct connections to electronic messaging services and its optimisation algorithms. It also provides security through the elimination of spreadsheets, and mitigates risk associated with manual input and calculations, according to Lombard Risk.

It can be delivered through either a license or subscription fee model.

Alastair Brown, CEO of Lombard Risk commented: "Buy-side firms face numerous collateral challenges particularly as they have to meet new regulatory requirements expected to be phased in around March 2017, which will see margin requirements and liquidity ratios increase."

"This means they must look at new ways to meet these challenges while keeping control of headcount, minimising fixed cost increases and reducing the impact on fund performance."

"AgileCollateral gives a greater level of control over operational processes due to its rapid implementation, flexible pricing models and low cost deployment options. This allows firms to reduce the high cost of collateral management and redirect resources to better serve investors."

## Three more years of Donohue

The Options Clearing Corporation's (OCC) Craig Donohue has agreed to stay on as executive chair and CEO for three additional years after his term expires in December.

The extended term will also see an extensive re-shuffle of OCC's senior leadership and the creation of an 'office of the executive chair and CEO'.

Along with Donohue, the new governance structure will include Michael McClain as COO and Scot Warren, formerly executive vice president for business development, in the more senior role of chief administrative officer.

"As chief administrative officer, Scot Warren will be responsible for driving enterprise alignment and enhanced execution of our corporate objectives, which includes creating a high-performance execution environment and improving the enterprise-wide culture of ownership and accountability," said Donohue.

"This is the right leadership structure for OCC's needs today, as it allows us to combine the breadth and depth of experience necessary to optimally support the organisation as we move forward," he added.

OCC is also bringing in fresh faces to a number of other senior roles.

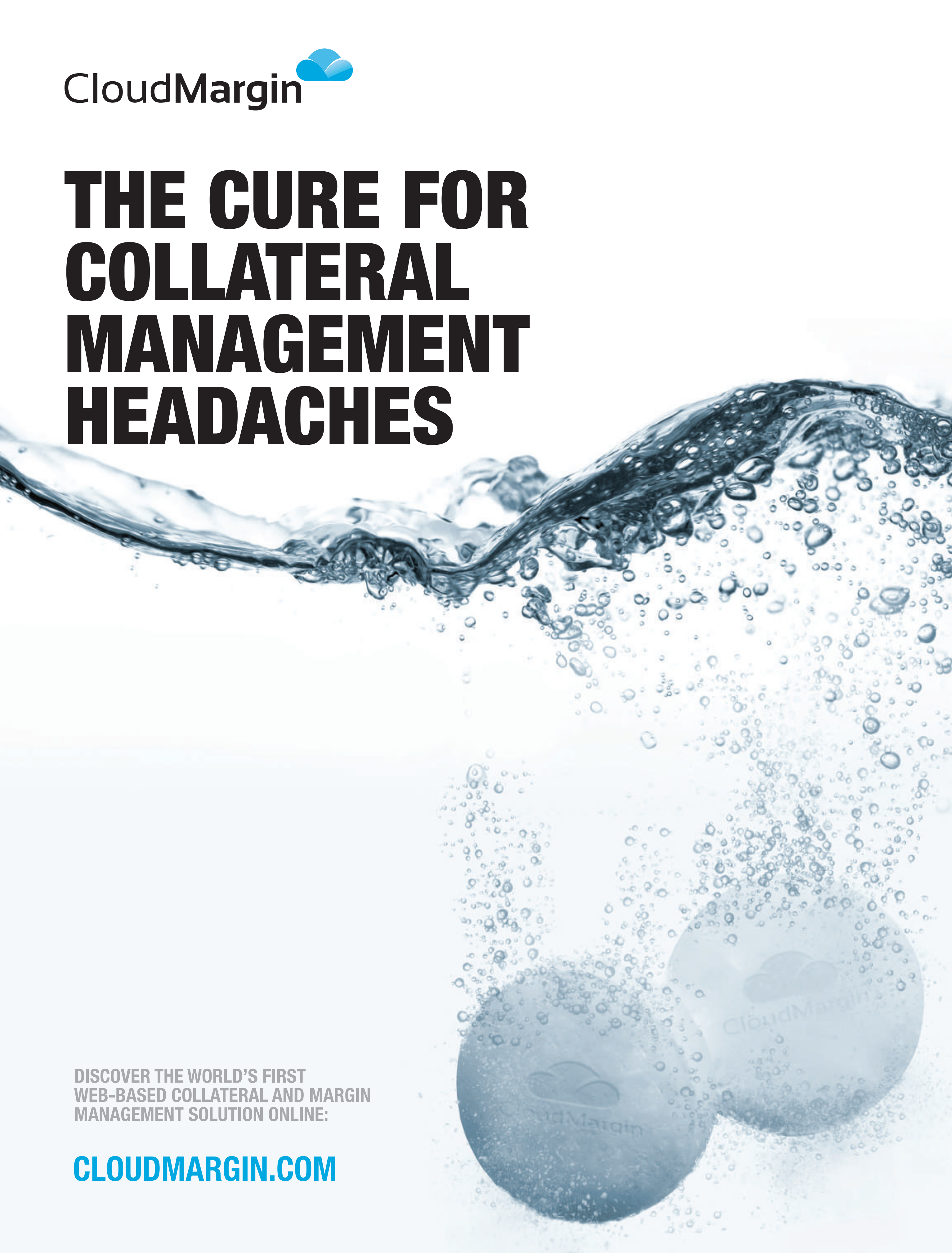
John Fennell, formerly executive vice president of financial risk management, is taking on the role of executive vice president and chief risk officer, following the departure of John Grace.

Fennell will be responsible for implementing OCC's risk management strategy and will oversee OCC's model validation and enterprise risk management departments, along with security services, business continuity and disaster recovery, and vendor risk management areas.

His previous position will be filled by Dale Michaels who joined OCC in January to work on the company's securities lending initiatives.

Additionally, Julie Bauer joined OCC as senior vice president for government relations.

She will be responsible for developing and managing OCC's legislative, regulatory and educational activities with members of Congress, regulators, and other policy makers, as well as with representatives of the exchange and various financial services sectors.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# Shiver me securities lenders

The Office of Financial Research is offering a treasure trove of data to the securities lending market through its industry survey. Drew Nicol reports

Since the 2008 financial crisis the securities lending industry has ascended from being a little-known secondary revenue stream that flew well under the radar of global regulators to now taking centre stage in the minds of some policy makers.

Multiple governing bodies, from the Securities and Exchange Commision (SEC) to the Basel Committee's Financial Stability Board (FSB), have instigated ambitious initiatives to better understand the various features of the bilateral trading market after its perceived role in the crash.

The latest of these projects comes in the form of a pilot industry survey conducted by the Office of Financial Research (OFR). The wheels of this first-of-its-kind survey were set in motion when securities lending was singled out by the Financial Stability Oversight Council in its 2016 annual report as an area of potential risk that required further investigation.

"Without comprehensive information on securities lending activities across the financial system, regulators cannot fully assess the severity of potential risks to financial stability in this area," the report stated.

"Current estimates of the total size of the securities lending market differ widely, and greater transparency is needed."

The report continued: "Therefore, the council encourages enhanced and regular data collection and reporting, as well as interagency data sharing, regarding securities lending activities."

The OFR's subsequent survey, released last month, included a snapshot of transaction data offered by seven agent lenders from three separate trading days: 9 October, 10 November and 31 December. The data included three sets of figures relating to: inventory of securities available for lending; transaction-level detail for outstanding securities loans; and collateral information.

Viktoria Baklanova, a senior financial analyst at the OFR and contributor to the survey, said: "This survey is complementary to our earlier survey on bilateral repo that was published in January. Some securities lending against cash collateral transaction data was captured in this first survey and now we're aiming to capture securities lending with both cash and securities collateral on a regular basis."

"We are working with a number of partners in the international arena such as the FSB and the US SEC and the Federal Reserve, along with others."

"We plan to work on our data collections to meet a deadline of 2018 and work with our counterparts to ensure consistency in data standards and reporting requirements allows for cross-border inter-connectedness."

### Putting data to work

The potential usefulness of comprehensive and impartial market data to all aspects of the industry goes without saying, but the data could provide particularly useful for beneficial owners that are looking to develop a more sophisticated lending programme that doesn't simply rely on information provided by their agent lenders.

Beneficial owners' boards of directors could soon be able to take a more hands-on approach to managing aspects of their programmes. Matthew Chessum, securities lending and equity execution trading at Aberdeen Asset Management, said: "Transparency is key in any area of financial services. Whilst the industry has tried to be open about its own activity for some time now, having a truly independent body provide its own data marks an important step."

"After recent financial scandals, if nothing else, it helps to legitimise the information currently available from the industry's own sources. The fact that the OFR has taken this initial step into providing some additional market analysis should be seen as a positive by all participants."

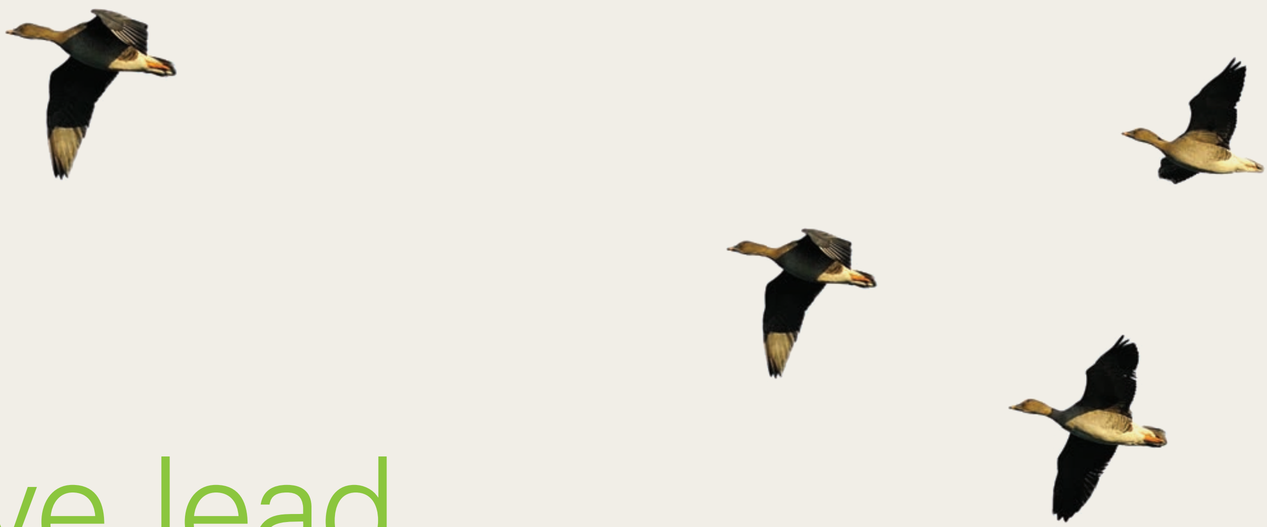
"Beneficial owners can sometimes be over reliant on their agent lenders to provide this type of market analysis so it is good to see additional sources of information appear. Given the range of opinions that can sometimes exist in asset management in particular as to the benefits, risks and overall contribution of securities lending to financial markets as a whole, it is helpful to be able to reference a truly independent source of information to continue to make a positive case for securities lending."

*The potential usefulness of comprehensive and impartial market data to all aspects of the industry goes without saying, but the data could provide particularly useful for beneficial owners that are looking to develop a more sophisticated lending programme that doesn't simply rely on information provided by their agent lenders*

A more informed base of beneficial owners may also lead to a greater reliance on peer-to-peer lending.

Delegates at this year's ISLA 25th Annual Securities Finance and Collateral Management Conference heard that an audience polls had revealed that 47 percent of those in attendance were beneficial owners that are "seriously considering lending to non-banks".

Panellists during the same session explained that greater transparency and communication between counterparties is the future of the



industry, and that this will likely result in the growth of peer-to-peer lending. It was also noted that historically, end users such as beneficial owners have not had the resources to properly manage the various exposures and counterparty vetting processes involved in securities lending without leaning heavily on agent lenders.

With the prospect of readily available up-to-date market data in the near future, one of these significant barriers to entry may soon be removed.

> ***Interestingly, on the other side of the transaction, broker-dealers were by far the biggest borrowers, with a daily average of $869 million in securities being borrowed by these participants. Banks and credit unions were the second largest borrower demographic with a borrowing appetite valued at $142 million***

### Taking the pulse of the market

The volume of transaction data within the OFR's latest survey accounted for $1 trillion in outstanding daily loans over the three days, revealing the contributors stake in global securities lending to be 11 percent of the total $9.4 trillion business.

In its report on the survey, the OFR stated that: "Benchmarked against available market size data, securities lending activity facilitated by agents participating in this pilot represent a significant share of the total activity."

Investment firms were the largest lenders with nearly $3 trillion in securities available to lend. Pension funds and endowments followed with $2.5 trillion in available securities. Sovereign wealth funds, insurers, banks and broker-dealers made up the remainder.

Interestingly, on the other side of the transaction, broker-dealers were by far the biggest borrowers, with a daily average of $869 million in securities being borrowed by these participants. Banks and credit unions were the second largest borrower demographic with a borrowing appetite valued at $142 million. State pension funds and hedge funds were also highlighted as notable borrowers, although not as large as those familiar with the industry might expect.

The omission, which was acknowledged by the OFR, was partly caused by the fact that the survey data came exclusively from agent lenders. The data only represented transactions between agent lenders and their various immediate counterparties, not the end users of the borrowed securities.

Therefore, any transaction where the broker-dealer was acting as a principle for a hedge fund wishing to create a short position would not be accurately accounted for in the survey. This created a distortion in the size of the hedge fund demographic on the borrow side. The survey also failed to capture bilateral transactions.

The OFR confirmed that the omissions would be be addressed in future surveys, in which it will be requesting data from both sides of the transaction, as well as technology providers and associations. The OFR also aims to run the surveys more than once a year going forward.

"This is a fast changing market and we so we need more frequent data," explains Baklanova. "The scope of the survey will need to be broad in order to capture data from the growing activity that comes from outside traditional agents."

Although this new data source is a significant addition to the market dynamic, it will still only provide an overview of the industry and should not be considered a replacement to traditional data providers, as David Lewis, senior vice president at FIS Astec Analytics, explains.

"We welcome the involvement of the OFR and believe that transparency is the way forward for the securities finance and collateral marketplace," says Lewis.

"The involvement of regulators and other public bodies in the area of the market commonly referred to as shadow banking is inevitable. As such, the market should be ready to work with these organisations to ensure that the value and advantages our business brings to the market are made clear."

"Such investigations and reports do not threaten the data provision services delivered by FIS Astec Analytics. It is highly unlikely that the OFR will show interest in individual securities or advanced data analytics at the kind of frequency and depth that market participants need to trade day by day, as currently provided intraday by Astec Analytics to clients all over the world."

The results of a pilot study must always be taken with a pinch of salt, but the importance of a government body taking such a hands-on approach to improving transparency in the market, should not be underestimated. Industry stakeholders from throughout the transaction chain, as well as regulators and policymakers, agree that greater transparency can only benefit the industry by ensuring fair pricing and dismissing lingering negative stereotypes around the trade. The OFR has promised to expand and grow the scope and depth of future iterations of its survey, which means its potential use to the market, especially beneficial owners, is yet to be fully realised. **SLT**

Drew Nicol reports

# Alas, poor repo

## Godfried de Vidts of the International Capital Market Association gives his verdict on the current state of the European repo market

**How would you describe the European repo market at the moment?**

The market is depressed due to the various effects of regulation, specifically, Basel III's liquidity coverage ratio and capital requirement, as well as the net stable funding ratio (NSFR), among others. Repo isn't a profitable business at the moment and banks are looking to reform the way to do business to tackle this. Repo is so capital and balance sheet intensive and therefore it's first in line for cuts when restructuring happens.

However, with that said there are some regulatory reviews happening in Basel on the NSFR to investigate if some of its measure that can be considered too far reaching. At the moment, the proposals are threatening to kill what is an essential market because you can't have a buoyant government bond market or provide facilities as primary dealers that are obliged to provide two-way quotes without repo. Some banks will tell you that everything is fine because they're still able to borrow what they need, but when you look at the whole market it doesn't have the liquidity profile you would like to see—it's already diminished and that's not good.

There are so many things that are intrusive into the repo market to the point where some banks are having to internally rationalise the way they do their financing, which in some cases means bringing their equity desk and fixed income desk together.

Ultimately, all of these issues have largely been ignored until recently and it's only when the market finally dries up that we will understand that repo is the blood in the heart of the market that keeps it working.

## Is anything being done to stop the repo market grinding to a halt?

Yes, awareness is growing all over the world. We have to accept that we're not going to dramatically change regulation but we are able to finetune it where we can—and we have already started to do that. For example, there has been an extension of the delay for repo in the Central Securities Depository Regulation's (CSDR) buy-in rules. Hopefully we will see a change because it's an unworkable framework as it disincentivises agent banks to provide such a service as they would be at risk of being fined.

Not all regulators have grasped the importance of the repo market yet but some crucial people within these organisations are starting to. The right people need to understand that a lot of the regulation coming in now requires the use of central clearing and/or more high-quality collateral. Except at the same time, high-quality collateral is being taken out the market, which creates an environment where you're building castles on sand. Central counterparties (CCPs), some of which are moving closer to being considered 'too big to fail', need a functioning repo market, and if that stalls then CCPs will be left in limbo. I believe the education process is happening, but it's slow progress.

## How important is the role of central banks in monitoring financial markets? Can they do too much?

From a securities lending point of view, it's important to remember that ultimately beneficial owners will want their bonds or their equities back and their inclusion in market liquidity is only temporary. Therefore, the issues that can come from central bank quantitative easing (QE) policies is very real and needs to be closely monitored. It's not going to help liquidity in the long term, which after all is at the core of our financial system.

It's fundamental that investors feel confident in their ability to enter and leave the market when they want to. If they lose that confidence then it will quickly stifle the market. Sufficient liquidity is essential to ensure that participants can enter and leave without moving the market too much, but if you keep chipping away at the market's robustness it will ultimately take its toll. QE is only one of many factors to consider when analysing the problems with the current repo market though.

## How much of an effect has the on-going low and negative interest rates environment had on the wider securities finance market?

The repo market has always built-in conditions for dealing with a negative interest rate environment, and it works. Negative interest rates have a much bigger impact on the securities lending space because why would you accept cash collateral for a security in a negative interest rate environment? Negative rates mean you turn to securities for collateral, which in turn puts more pressure on that pool on top of everything else.

I personally advised many senior policy makers not to go negative a while ago because it causes far too much disruption and should be done for as little time as possible, if at all.

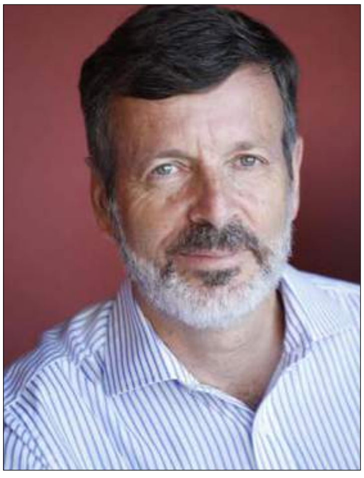
## How is the buy side of the industry fairing?

There has already been some re-pricing going on in the market as transactions get more expensive, which the buy-side obviously doesn't like. The new environment demands that if you want something you have to pay the higher price. It will come to the point where banks will just about break even but they will want to still make profit and so it will be the pension funds and insurance companies that will be real ones that pay. Ultimately it is the real economy that will pay the price.

## How should the market move forward in order to benefit everyone?

We need to accept that some parts of the regulation we have isn't very helpful and be practical about what needs to be done to fix that. More open dialogue is needed. We need to go back to basics and trust each other to do the right thing. Markets will always grow naturally if you let them and I believe we will get through this current situation. **SLT**

> ***Not all regulators have grasped the importance of the repo market yet but some crucial people within these organisations are starting to***



**Godfried de Vidts,** Committee ICMA's European Repo and Collateral Council

# The evolution of securities lending

Robert Lees, co-head of securities lending in Europe at Brown Brothers Harriman, examines the securities lending value chain, and how fees and technology are creating opportunities to change and evolve

### Is the securities lending industry still relevant to beneficial owners?

We believe that securities lending has never been more relevant, especially as asset managers see unprecedented margin compression. The current economic and political climate means this is likely to continue for some time. It might well be permanent.

In addition, exchange-traded funds are now the fastest growing sector of the funds industry driven largely by their relative low cost. Recent Morningstar research illustrates in stark terms the compound effect of high fees on performance over time. Funds with the lowest fees consistently outperform (relative to peer group) those with higher fees. Securities lending can generate a valuable revenue stream that offsets higher management fees and trading costs, enhancing overall performance.

### How are fund managers responding to increasing industry pressures?

Managers are placing greater faith in their investment skills by launching more complex products, like multi-asset strategies,

to generate higher investor returns and differentiate their products. Others are embracing the low cost characteristics behind the passive sector's success with the likes of smart beta. For either strategy there are a few common steps active managers can take to reduce costs and improve performance. These are found not in the portfolio management process, but in the post trade and operational areas, such as adopting tailored securities lending practices.

Even marginal revenue gains generated from a securities lending programme could have a considerable impact. This is why we're seeing many managers who previously held strong anti-lending views engage in securities lending after reviewing the benefit to their clients. In the right securities lending programme, meaningful revenue can be accessed safely, helping to alleviate some margin pressure.

## Disappointing hedge fund performance and fees have also been in the spotlight this year. As a core driver of demand of securities lending, should this be concerning?

Top line hedge fund performance reports have been less than stellar, but the headlines don't reflect the resiliency of the industry. Much of the performance shortfall has been attributed to specific strategies which are understandably challenged by the extraordinary equity market volatility, central bank intervention and geo-political events.

The underlying fundamentals, however, look more robust. More hedge funds are responding to market dynamics by adjusting business models and fee structures while most of the recent hedge fund redemptions are being returned back into the industry as investors search for yields.

## How is the demand side reacting to this?

One prominent hedge fund manager recently wrote to investors with a call to "cast the net wider", in other words, to be less reliant on single bets and focus more on broad indices to generate revenue. Although this statement was specific to the fund, it highlights that the demand side is looking to go deeper and wider in strategies and investments than before, which should bode well for the need to borrow securities. We are also seeing significant investment in the quantitative space, which tends to drive the need for stable consistent borrow demand.

## Do you think that talk of evolution in the securities lending industry is over-hyped?

As we think about what the future might hold, it's worth spending some time considering the disintermediation trend impacting so many other industries. Could a new entrant disrupt the securities lending industry as Uber has done to the taxi industry or Airbnb has to the hotel industry?

On the face of it, why not? There is an extended value chain from lender, to agent, to prime broker to hedge fund that absorbs a lot of value along the way. Evolving technologies like blockchain and central counterparties (CCPs) can offer the potential for lenders and hedge funds to interact directly, allowing them to share the revenues that would otherwise go to the agents and brokers.

That said, the securities lending value chain performs a number of important functions the lender and hedge funds would either need to live without or solve themselves. Regulations have made the business more complex than ever and agents and prime brokers have a key role to play in navigating the evolving environment and managing the transfer of risk. Creditworthiness is a key consideration, and while the high credit ratings of some hedge funds might tempt some lenders, most prefer to have exposure to large banks. CCPs may offer a solution, though the model still has a way to go in achieving its initial ambitions. Technology is no doubt important, but agents and prime brokers provide other sources of supply at this crucial moment for the lender.

Technology will continue to evolve, impacting our business in exciting and potentially unanticipated ways. None of these challenges are insurmountable and the industry is constantly looking at new ways to innovate, but none are trivial. What will remain steadfast is the need to structure a securities lending programme for relevancy will to optimise performance and realise incremental gains in an ever-evolving environment. **SLT**



*"We're seeing many managers who previously held strong anti-lending views engage in securities lending after reviewing the benefit to their clients"*

**Robert Lees**
Co-head of securities lending for EMEA and global co-head securities lending trading, Brown Brothers Harriman

# In its prime

## Wells Fargo Securities is reinvigorating its securities finance system with fresh talent, and it's looking for new growth opportunities. Robert Sackett explains

### Wells Fargo is established in the securities lending space but relatively new to the prime brokerage sector. What growth potential do you see in this area?

The prime broker operating model is undergoing significant change brought about by the implementation of Basel III's risk framework. This is causing many providers to reassess their business models to adapt to the new capital, liquidity and leverage rules which have had a fundamental change on the value proposition that prime brokers have brought to the firm's revenue stream.

Many alternative asset managers have prudently begun to look at new liquidity providers that have capacity to provide these financial resources in order to ensure they can deploy their strategies. With the mounting regulatory requirements and the corresponding increased cost for prime brokerage services, Wells Fargo Prime Services, our prime brokerage business, is positioned to offer a value proposition based on our breadth of supply, capital base, strong credit rating and commitment to growing this franchise.

### Wells Fargo has been on a significant hiring spree over the past year. Is this likely to continue?

Already known as a leading introducing broker, we ventured in 2014 to launch our self-clearing prime brokerage business. That naturally meant augmenting our existing staff of experienced professionals with those who could bring additional expertise with institutional clients to help us execute on our strategic vision.

We focused on adding to teams across sales, capital introduction, securities lending, client services, new business management, product development and risk functions. Many of the new hires have had long standing careers in prime brokerage and securities lending and have brought significant product expertise and client relationships to our franchise. We will continue to augment our hiring plans as our platform evolves and our client needs warrants.

### The prime brokerage market already has some big names dominating the space. How is Wells Fargo looking to carve out its own market share?

Wells Fargo is committed to building a premier prime broker business. Our goal is to partner with our customers and work with them to help define our offering, while leveraging the breadth of financial products, solutions and expertise that exists across the Bank.

We partner closely with our sales and trading businesses including equities, fixed income, credit and asset-backed finance to leverage their product strengths and further institutionalise our alternative asset client relationships. In addition, we have market leading wealth management, private bank and retail businesses.

### What are Wells Fargo's primary strengths that it can offer its clients?

Wells Fargo Prime Services is a relationship-oriented business, and we have brought a world-class team together that is very focused on deepening relationships with clients. Clients appreciate the strength of brand and reputation, capital base as well as the commitment to growing our franchise.

### Is Wells Fargo looking to expand into any new markets in the near future?

At Wells Fargo Prime Service, we are continuously evaluating our strategy, evolving to meet the needs of our clients, market environment and business. **SLT**

*Already known as a leading introducing broker, we ventured in 2014 to launch our self-clearing prime brokerage business*

**Robert Sackett,** Managing director and head of securities lending
Wells Fargo Securities

# Teach an old market new tricks

Innovation can be difficult to come by, but there are a number of key opportunities in an environment that is not yet fully harmonised, says Dan Copin of CACEIS

The past few years brought some major new challenges to the financial markets and to the securities lending world specifically. The securities lending market is a well-established part of the financial landscape, especially for the leading players in the asset servicing industry, where a securities lending offer is seen as an extension of the custodian's role.

Despite the market's maturity, there are a host of forces that act to drive change in the practices and practitioners of securities lending.

### Performance pressure rising

With the growing competition on absolute performance in the investment industry, enabled by greater transparency of data and increasingly granular analysis, there has been a shift in attitude toward securities lending, from a handy way of offsetting custody fees to the increasingly common view of it as being a part of the investment strategy. This shift in attitudes has triggered a rising interest in the performance enhancing opportunities of joining a lending program, along with new demands on the lending service providers.

As end investors' performance optimisation focus shines its light on securities lending, many are no longer content with simply knowing they are generating additional revenue. With the investment management strategy mindset, comes a need to better understand how well the lending service is performing. Demands for benchmarking are all the more frequent today as regulators, and end investors in direct contact with managers, attempt to compare a lending desk's performance to the market. This is no easy task considering the market's transactions are over-the-counter, so desks often turn to a third party for the data needed for making the analysis.

To provide end investors with benchmarked performance data, lending desks often engage a data provider that can provide a global view on the market transactions. Experience of providing performance analyses to investors puts custodian-linked lending desks in an ideal position to generate reports on its own performance, and the combination of automated report generation and fully integrated services makes this a relatively simple task.

But despite the best data and analysis techniques, it is clear that no perfect benchmark exists. Demand for reports and other performance monitoring tools will definitely increase in future. However, the technology and data transparency that it requires will be the major obstacles to achieving those goals.

### New market entrants

In the context of market volatility and negative interest rates on the one hand, and increasing performance competition and the growth in awareness of securities lending's optimisation potential on the other, there has been considerable interest from beneficial owners that are eager to capture opportunities in the lending market. However, many entrants are new to this mature business and require guidance and market knowledge to participate efficiently.

The major risk here would be creating inefficiencies by pulling the market down, and on the other side, lending securities against insufficient or higher risk collateral. A custodian-backed lending desk has a responsibility to ensure a fair value for lent assets, verifies that market risk is effectively covered by suitable collateral, and provides guidance to clients so they can operate in an environment they are comfortable with.

### Rising costs and complexity

The impact of numerous regulatory changes has been significant on the securities lending market. One of the major consequences has seen a general push by securities lending providers to move clients from a principal-type programme to agency programme in order to offset risk from the balance sheet and better meet capital adequacy ratios.

In order to protect lenders working under an agency-based programme, securities lending desks are responding to lenders' market risk exposure concerns by offering indemnification clauses, which provide a form of insurance-type protection. Of course, providing such protection against market risk triggers a further source of risk for the custodian-backed lending desk, therefore countering the positive impact of lenders moving from a principal to agency based programme in the first instance.

Therefore, despite providing extra protection for the end investor, which is a key concern for the European regulatory agenda, it also has a clear and measurable impact on the end investor's potential returns and increases the complexity of doing business for financial institutions.

### Continued innovation

In a market as mature and now heavily regulated as the securities lending business, innovation is difficult to come by. Nevertheless, there remain a number of key opportunities in an environment that is not yet fully harmonised, and experienced securities lending desks, like that of CACEIS, have the in-depth market knowledge to guide clients and optimise their lending activities.

Furthermore, by offering a service that is fully tailored to each client's profile, an area where CACEIS has particular expertise, they benefit from a programme that precisely fits their individual risk/return objectives. **SLT**

***There has been a shift in attitude toward securities lending, from a handy way of offsetting custody fees to the increasingly common view of it as being a part of the investment strategy***

**Dan Copin,** Head of the equity finance desk
CACEIS

# Laser sharp lending

**When considering oversight for a lending programme, lenders need to not only stay focused, but focused on the right areas, according to Dan Rudd of J.P. Morgan**

Lenders, particularly those new to securities lending or considering it for the first time, often ask how they should monitor their programmes once an agent lending programme has been established. Unsurprisingly, oversight is an essential function of a lender's participation within a securities lending programme, and there are various areas of focus needed to identify whether a securities lending programme is achieving the beneficial owner's objectives while staying within the expected risk profile.

The monitoring should encompass three areas: lending, collateral and performance. Within each area, various metrics should be reviewed on a periodic basis. Oversight can be conducted through reporting, due diligence reviews and ongoing communication with the lending agent.

## Lending

The first area of oversight focuses on the loan side of the transaction. Specific metrics should be reviewed daily, while others can be done monthly. Lenders should be aware of the counterparties (that is, the borrowers) involved in their programme, review the market value of securities on loan to each, and understand the proportionate share that each borrower has to its overall programme. Lenders may want to limit concentration risk by requiring their lending agent to use a diverse universe of borrowers.

Since lenders are typically indemnified by their lending agent against borrower default, they need to be comfortable that their lending agent has the capital resources available to stand behind the indemnification. Therefore, it's important for lenders to be aware of their lending agent's financial condition. It is worth noting that we are seeing an increasing number of conversations regarding unindemnified programmes, be it full or partial activities, for example, loans to particular counterparties, within a programme. Where the lender agrees to remove the indemnification it will typically receive a more favourable fee split, however, the oversight of such an arrangement will be ever more important with the increased transfer of risk to the lender.

## Collateral

The second area of oversight involves the review of the collateral. Securities lending transactions are collateralised with either cash or securities. In either case, it's incumbent upon lenders to know whether their lending agent indemnifies them in the event of borrower default. Indemnification protects against the risk that the value of the securities or cash collateral delivered to the lending agent is not sufficient to cover the return of the collateral to the borrowers at the end of the loan, or in the unlikely event of a borrower default. In the case of cash collateral, lenders should have documented, well-defined and transparent cash collateral investment guidelines.

The process of overseeing the cash collateral in a securities lending programme should look to encompass a similar process to that of any short duration fixed-income mandate.

As financial market conditions change, lenders should work closely with their lending agent to fully understand the implications for the programme. A transparent, two-way understanding of how these events or actions can affect or influence a programme's profitability and performance is critical in order to assess whether a mandate is positioned appropriately to be in-line with its expected risk and return. Regular or periodic discussions should be had about cash collateral investment strategy, investments held and overall programme philosophy between lenders and their lending agent.

When securities, rather than cash, are used to collateralise a loan transaction, a lender's exposure to its lending agent increases if the lending agent does indemnify against borrower default. Knowing the types of securities utilised to collateralise their loans, and whether indemnification is provided against a short fall in the value of the collateral, will help lenders discern how much (if any) of their lendable portfolio's risk profile has been altered, and therefore how their portfolio may be impacted by market movements. Effectively, if one security type is loaned out to a borrower and collateralised with another security type, a mismatch scenario would ensue, and the risk profile of the lender's portfolio could be altered. Consequently, it's important to be aware of any correlations between security types.

## Programme performance

The last area of oversight involves the assessment of the programme's overall performance with respect to investment return, core drivers and the associated risks taken. It's not enough to focus solely on earnings; a lender should seek a clear understanding of how those earnings were achieved. Earnings can be derived from two places—the demand to borrow securities and the investment of the cash collateral. When assessing the performance of a programme with cash collateral, lenders need to be aware of three types of spreads: gross, demand and investment. The investment spread is the yield the lender earns on the invested cash collateral less a risk free rate (generally, for the US dollar, this is now viewed as the overnight bank funding rate) and the demand spread is the difference between the risk free rate and the rebate paid back to the borrower. The combination of the two spreads equates to the gross spread. Wider investment spreads may indicate a greater assumption of investment risk. Similar to any other investment strategy, that risk is held by the lender. Therefore, investment guidelines should reflect the lender's risk/return profile.

However, looking at trends and discovering the core drivers behind a programme's results are also important oversight tools for lenders. Reviewing results and trends of various metrics such as earnings, utilisation rates, spreads, markets, collateral types and term will allow lenders to ask questions about their programme's performance. Lenders will gain a better understanding of how changes in borrower demand and interest rates along with market activity affect their results and will help set further expectations. The lender should expect its lending agent to provide comprehensive reporting with access to both summary and granular data that enables them to view programme activity and assess performance against objectives.

Depending on a lender's resources and the overall sophistication of their programme, more extensive due diligence reviews should be conducted with their lending agent on a quarterly or semi-annual basis to discuss in greater detail the market environment, performance results and attribution and the agent's overall programme as well. For example, at J.P. Morgan, regional teams meet with lenders regularly to review activity and results and discuss opportunities.

Oversight is about education, monitoring and goals. Having a thorough understanding of securities lending, performing ongoing monitoring of the key metrics behind your programme, and having a defined set of goals with respect to lending motives and risk/return parameters, provides the framework for proper oversight. Increasingly, as regulations and markets become more complex, lenders need ready access to information and transparent data.

As you embark on, or refine, your lending program, your agent lender should be able to provide you with reporting and tools that support your governance objectives and can help simplify oversight, such as:

- A dashboard view of your program that gives you a rapid summary of current status
- The ability to drill through from summary to position level detail
- Online access to information, as well as delivery options and flexible output formats
- Custom report generation on an on-demand basis
- Board quality reporting, to present activity and performance to internal partners or for use in compliance reviews

Securities lending continues to present an attractive opportunity for investors to generate additional alpha or income within a risk controlled environment. Simple, ongoing internal oversight, in combination with strong reporting tools and regular discussions with the lending agent, enables lenders to gain a better understanding and appreciation of the risk/return dynamics in their programme. **SLT**

***"It's not enough to focus solely on earnings; a lender should seek a clear understanding of how those earnings were achieved"***

**Dan Rudd,** Executive director for securities lending
J.P. Morgan

# Clients are front and centre

## Jerry Friedhoff of Broadridge and Alastair Chisholm of 4sight explain Broadridge's June 2016 acquisition of 4sight, and what it means for their clients

### What attracted Broadridge to 4sight?

**Jerry Friedhoff:** Regulation and depressed returns on capital continue to drive industry demand for securities financing and collateral management systems. The complexity and speed of regulatory change is also resulting in a preference for buying vendor solutions rather than relying on in-house technology builds. We identified strong growth potential in the securities finance and collateral management technology space. 4sight was acquired to create a best-in-class fully integrated front-to-back office global securities financing and collateral management capability.

The acquisition follows on from Broadridge's January 2016 purchase of the Anetics securities financing technology business. There are a number of synergies between Anetics, 4sight and Broadridge's existing FinancePro solutions, which we are looking to capitalise on. Integrating these complementary solutions together with our global suite of post-trade processing systems will enable us to offer market leading, end-to-end global solutions. Our goal is to support the full securities financing and collateral management lifecycle, from front-office trading automation to back-office clearing and settlement.

### What about 4sight?

**Alastair Chisholm:** Broadridge's market-leading securities processing capabilities broad global client base and financial strength will allow 4sight to bring greater value to our clients. Broadridge has a deep familiarity with 4sight's technology and there is a strong, amicable relationship between our management team and the Broadridge team.

There is also both a good product and cultural fit and the acquisition opens up opportunities for growth synergies in Europe, the Middle East and Africa, Asia Pacific and the Americas. A further benefit of our two companies is that we can leverage Broadridge's well established hosting infrastructure to offer our clients hosted SaaS solutions.

### How will clients of 4sight benefit?

**Chisholm:** Together with Broadridge, we will further strengthen our securities financing, collateral management and synthetic financing capabilities. This will allow us to continue to deliver best-in-class solutions and many years of industry expertise to our clients.

Broadridge's financial strength and global locations will enable us to enhance our worldwide customer support network and drive significant investment in both the products we offer and the way we deliver them to customers.

### How will the two businesses be integrated?

**Friedhoff:** The 4sight products will be integrated into Broadridge's technology and application portfolio and rebranded as part of Broadridge securities financing and collateral management solution set. This group is part of Broadridge's Global Technology and Operations business segment, which serves banks, broker-dealers and investment management firms globally.

Broadridge will retain the full capabilities of 4sight's solutions and has no plan to close any existing capabilities as a result of the transaction.

Alastair will continue to lead the 4sight business along with taking over responsibility for the entire Broadridge Securities Financing and Collateral Management group. 4sight's presence in Edinburgh, Amsterdam, and Paris will remain in their current locations, while offices in London, New York, Sydney and Toronto will be consolidated with Broadridge's respective offices in those locations.

### How are 4sight and Broadridge aiming to expand their offerings?

**Chisholm:** Broadridge's financial backing, brand recognition, and global sales and marketing distribution will allow us to accelerate expansion and penetration into new and existing markets globally.

We are deeply committed to the securities finance business. We will therefore continue to invest heavily in offering innovative products that help customers to comply with regulatory deadlines, reduce operational workload, optimise financing decisions and maintain profitability.

**Friedhoff:** Financial institutions face a wide range of complex regulations around the world, as well as increased competition, rising costs, and pressure to transform their operations and business models. Broadridge offers a forward thinking, innovative and entrepreneurial approach to helping clients address these disruptive trends and we are backing this up with strategic investments in emerging technologies such as blockchain.

Our aim is to provide customers with future-proofed securities financing and collateral management solutions that enable our client base to evolve and adapt to meet the challenges of the new market paradigm well into the 21st century. **SLT**

# Spotlight on Saudi Arabia

## Sunil Daswani speaks to members of Northern Trust's global securities lending team to discuss the emerging Saudi Arabian market and the opportunities, and uncertainties, it could bring

Saudi Arabia's Capital Markets Authority (CMA) approved the introduction of securities lending and covered short selling in May and has also amended the settlement cycle of listed shares from T+0 to T+2, bringing the Saudi Arabian settlement system in line with those of international markets. Both are significant developments for the region's securities marketplace, according to Northern Trust.

"These enhancements are key milestones by the Saudi Arabian stock market in further developing the largest and most established regional financial market in the Middle East," explains Michael Slater, CEO of Northern Trust Saudi Arabia.

### Long-term ambitions

Slater describes these moves by the Saudi stock market, known as the Tadawul, as part of a broader push by the government as it seeks to encourage greater foreign investment into the country.

"These reforms form part of the government's wider ambitions to help diversify the economy away from hydrocarbons," he adds. "The implementation of securities lending and covered short-selling programmes are expected to be important steps in attracting inward investment to Saudi Arabia."

Northern Trust has served clients across the Middle East since 1987. In 2013, it took the step of expanding its global footprint by opening an office in Riyadh, Saudi Arabia's capital city, to service an expanding client base.

Since then, the global custodian and asset servicer has since doubled its number of staff there to support Saudi clients, for whom it provides a mixture of custodial and other services, including the delivery of investment accounting and performance from Sunday to Friday for both domestic and global assets.

"The measures announced will allow us to expand our support for our clients on opportunities in the region," according to Justin Miller, head of Middle East relationship management and capital markets. "We are looking forward with interest to the Tadawul's introduction of these programmes from the first half of 2017."

### Expectations and timelines

While specific details of the securities lending and covered short selling programmes are yet to be disclosed, initial indications suggest there is reason to be optimistic. According to Northern Trust's head of equity lending trading for Europe, the Middle East and Africa, Jon Lacey, these are encouraging announcements for the industry.

"Feedback from both the prime brokerage community following the CMA's announcement has been positive. Prime brokers have reported significant client interest in the Saudi market, and are very encouraged by the regulator's action," he says.

"Short selling plays an important role in capital markets by helping provide more efficient price discovery and increasing market liquidity. It also facilitates hedging and other risk management activities – all are important considerations commonly assessed by asset owners, hedge funds and asset managers before deploying capital."

Despite the optimism the news has created, some reservations exist around the cited timeline. The Northern Trust team is also monitoring this with interest.

"General consensus is that the first half of 2017 is quite an aggressive timeline to pursue, given that there are a number of uncertainties around exactly how the market will introduce securities lending and how it will function on a day-to-day basis," says Lacey. "We feel that the market will remain in a 'discovery phase' well into next year as the uncertainties are resolved."

> ***The Saudi Arabian market potentially represents an exciting opportunity for beneficial owners active in securities lending***
>
> **Sunil Daswani,** Head of international securities lending EMEA and APAC
> Northern Trust

### Discovering opportunities

According to Northern Trust, the Saudi Arabian market potentially represents an exciting opportunity for beneficial owners active in securities lending, including sovereign wealth funds, central banks, asset management companies and corporate clients with long-term holdings.

"Beneficial owners have often enjoyed strong earnings when entering new lending markets at an early stage," says Miller. "As ever, we will be closely following the introduction of these programmes over forthcoming months to ascertain where the best opportunities exist for our clients and borrowers." **SLT**

# Post-Brexit fears allayed

## Europe hasn't suffered the post-Brexit headache that many predicted, according to Chris Benedict of DataLend

Brexit has dominated headlines in Europe and around the globe since UK voters opted for the country to leave the EU on 23 June. In the securities lending market, despite speculation that the financial sector in particular may see an increase in fees and on-loan value after the Brexit vote, an analysis of our data shows that this doesn't seem to have been the case.

On the whole, Europe is the second-largest region in the securities lending market globally with an average on-loan balance of $489.53 billion and $3.53 trillion in lendable assets.

Europe's on-loan balance typically changes during the busy spring season, and 2016 was no exception. On-loan balances started the year at $441 billion and reached a peak of just over $611 billion by late May. Balances then shrank back down to approximately $465 billion as of 31 July. We see a similar pattern occur with utilisation during that timeframe, giving Europe an average utilisation of 14 percent.

The top revenue-earning countries in Europe have shifted since last year. At present, France and Sweden appear to be the two most profitable markets in 2016 with revenues of approximately $387 million and $285 million, respectively, year to date. The UK is third with $231 million, and Germany comes in at number four with $225 million.

In 2015, we saw Germany beat France and the UK with total revenues of $632 million, but it appears unlikely that Germany will generate equivalent revenues by the end of this year.

The total revenue for European securities lending activity so far in 2016 is $1.81 billion. We estimate that Europe grossed approximately $2.83 billion in revenue last year, so it appears as if the region may fall a little short of that figure by the end of 2016.

Information technology is the hottest sector in Europe this year with volume-weighted average fees of 286 basis points (bps) and an average on-loan balance of $13.37 billion across more than 300 securities. This was driven by the technology hardware and equipment industry, which yielded fees of 546 bps on average year to date.

Financial is the second hottest industry in Europe with average fees of 191 bps and an average on-loan balance of $31.28 billion across almost 700 securities. **SLT**

***Europe grossed approximately $2.83 billion in revenue last year. It appears as if the region may fall a little short of that figure by the end of 2016***

**Chris Benedict,** Director
DataLend

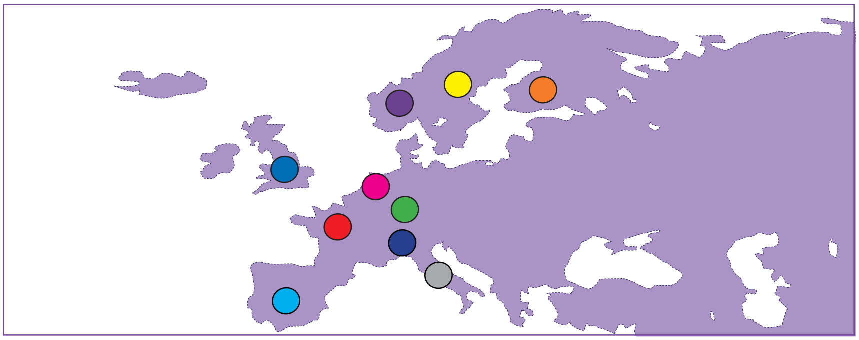
# DATALEND EUROPE

ALL FIGURES ARE AVERAGES FROM JANUARY 1 TO JULY 31, 2016

| LENDABLE | ON LOAN | YTD REVENUE |
|---|---|---|
| $3.53 TRILLION | $489.53 BILLION | $1.81 BILLION |

## TOP 10 EUROPEAN COUNTRIES BY GROSS REVENUE (MILLIONS)

| | |
|---|---|
| France | $387 |
| Sweden | $285 |
| UK | $231 |
| Germany | $225 |
| Finland | $103 |
| Norway | $98 |
| Italy | $94 |
| Netherlands | $90 |
| Switzerland | $72 |
| Spain | $62 |

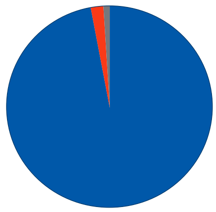


## EQUITIES

### TOP MARKETS BY REVENUE

| COUNTRY | FRANCE | SWEDEN | UK | GERMANY | FINLAND |
|---|---|---|---|---|---|
| TOTAL REVENUE | $325m | $281m | $151m | $146m | $101m |
| ON LOAN | $31bn | $14bn | $40bn | $23bn | $7bn |
| LENDABLE | $273bn | $99bn | $611bn | $290bn | $34bn |

### ON LOAN - ALL EUROPE



COMMON SHARES 97%

DEPOSITORY RECEIPTS 2%

ETF/ETN 0%

OTHER 1%

TOTAL: $192.94 BILLION

### TOP 5 HOTTEST SECTORS BY FEE

| | | | HOTTEST INDUSTRY |
|---|---|---|---|
| 1 | IT | 286bps | TECH HARDWARE & EQUIPMENT |
| 2 | FINANCIALS | 191bps | BANKS |
| 3 | ENERGY | 175bps | OIL & GAS DRILLING |
| 4 | UTILITIES | 159bps | GAS UTILITIES |
| 5 | TELECOMMS | 141bps | ALTERNATIVE CARRIERS |

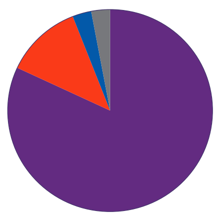
## FIXED INCOME

### TOP MARKETS BY REVENUE

| COUNTRY | UK | GERMANY | FRANCE | NETHERLANDS | LUXEMBOURG |
|---|---|---|---|---|---|
| TOTAL REVENUE | $80m | $79m | $62m | $27m | $14m |
| ON LOAN | $72bn | $87bn | $56bn | $24bn | $4bn |
| LENDABLE | $237bn | $216bn | $172bn | $84bn | $17bn |

*Fixed income classified by issuer country of risk.*

### ON LOAN - ALL EUROPE



SOVEREIGN DEBT 81%

CORPORATE DEBT 13%

AGENCY DEBT 3%

OTHER 3%

TOTAL: $296.59 BILLION

# Death and taxes

## The EU is committed to rooting out tax inequality throughout the market, and securities lending might be next. David Lewis of FIS Astec Analytics explains

It is said that there are only two things in life that are certain—death and taxes. In general, neither is in the control of the individual, but given recent headlines about certain corporations, some believe it is possible to avoid, or at least drastically reduce, one of these so-called certainties.

Apple, the famous global brand and maker of the iPhone, Mac, iPad and so on, has been one of the major international conglomerates caught up in the maelstrom surrounding complex cross-border structures seeking to minimise taxation. It is important, of course, to make the distinction that tax avoidance is perfectly legal, while tax evasion is not. Wealthy individuals have undertaken such measures as becoming residents of tax havens, such as Monaco or the Cayman Islands, while corporations have moved registered companies to low taxation jurisdictions, such as Ireland and Luxembourg, enabling them to record profits and pay lower corporation taxes in those locations, almost irrespective of where those profits were actually earned.

This has, unsurprisingly, vexed many a nation state, including the UK, with Google and Starbucks being notable targets for political investigation. Starbucks has been reported as paying tax of some £8.1 million in 2015 on profits of £34.2 million from sales of over £400 million, indicating a gross margin of just 8.5 percent. In the previous 14 years of operating in the UK, Starbucks paid a total of £8.6 million in tax despite making sales in excess of £3 billion over that period. This seemingly unbalanced situation arises from shifting profits to group companies registered abroad in countries with lower corporation tax levies.

The case against Apple is somewhat different, of course. Domiciled in Ireland, this part of Apple has enjoyed one of the lowest taxation rates in Europe. Ireland levies a headline rate of some 12.5 percent, which is lower than that charged by many of its European counterparts, but the mathematics suggests that they have actually paid much less than even that. Some observers are suggesting that it may be as low as between 1 percent and 4 percent in real terms, a level that suggests a unique and preferential deal, amounting to state aid, has been struck with the Irish treasury. The European Commission has stated that Apple owes the Irish tax purse some €13 billion, which it makes clear is not a fine or a penalty, but unpaid taxes. To put this into perspective, this represents some 6 percent of Ireland's 2013 GDP. The Irish government has since appealed against the decision.

The European Commission has taken the view that there should be a level playing field and that disparities on the taxing of profits and income is not beneficial to the economic health of Europe as a whole, where revenues and taxes are gained effectively at the expense of another European member state. Does this ring any bells?

It was not that many years ago that dividend arbitrage provided, on some estimates, around two-thirds of the annual revenues generated by the securities lending industry. Now termed 'yield enhancement' to soften the sound of such a perfectly legal activity, it is on the wane to say the least. Much of the downward pressure comes from the reputational concerns around the business. The same pressures that precipitated the change of name have pushed some beneficial owners to close or reduce their activities in this area of business, lest they be implicated in the activity of reducing the tax they pay on the incomes they receive. Figure 1 shows the falling value of securities lending in European equities between April and June for 2014, 2015 and 2016.

There is, of course, a lively debate to be had regarding the clash between the fiduciary responsibility to make the most returns for your investors and the responsibility to shoulder your fair level of taxation for the benefit of your home domicile.

Taxation is not only a revenue generator for a government, it is increasingly being used as a lever to limit or change behaviour deemed unpalatable. The most obvious one is the Financial Transaction Tax (FTT or 'Tobin Tax'), which seems to have stalled in the starting blocks as those countries interested in setting such a levy appear to be unable to agree on how to implement it, which is a fatal flaw given the intention is to create a level playing field across those jurisdictions. While the revenue this tax was expected to generate would have been useful to some countries, the objective was, in the main, to control the activity itself.

The potential delay of the FTT does not mean securities finance is saved, however. The European Central Bank has just released proposals for a 'shadow banking tax'. Details are sketchy as yet, but the objective is lofty. The tax will be designed to operate at such a level that discourages new entrants to the business, while allowing it to remain large enough to be systemically important, but not so large it blunts the ability of central banks to manage market liquidity through quantitative easing.

With the European Commission ruling regarding Apple and the doubling of short interest in Apple shares in the two weeks leading up to the announcement, it would appear that tax is indeed inevitable, and like death, will seek you out eventually, however big, rich or powerful you may be. Perhaps the securities finance industry has something to learn from the Apple issue. **SLT**

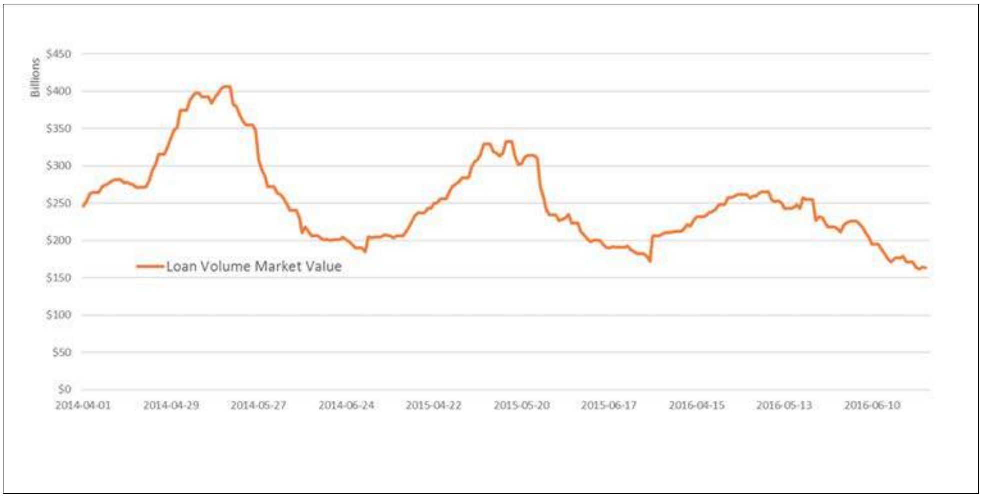



**Figure 1: Loan market value, European Equities, dividend seasons only, 2014 to 2016**

# Industry **Events**

## 10th Annual Collateral Management Forum

**Date:** **20-21 October 2016**
**Location:** Amsterdam

The tenth edition of the annual Collateral Management Forum in Amsterdam is looking to offer an overview of the most crucial topics in the field today. In a shifting regulatory enivornment, with the margin requirements soon to come into play, the call for advanced tools of collateral management is as loud as ever.

## 33rd Annual RMA Conference on Securities Lending

**Date:** **10-13 October 2016**
**Location:** Boca Raton, Florida

The original industry-wide conference sponsored and developed by securities lending and borrowing professionals for securities lending and borrowing professionals. This conference brings together all the players involved in the business of securities lending. It is designed by securities lending and borrowing professionals for individuals from banks, brokerage houses, pension funds, endowments, and regulatory agencies in both the US and Europe. Topics include collateral management, international market updates, performance measurement, and legal and regulatory updates.

For more events visit securitieslendingtimes.com/events/events.php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# Industry Recruitment

## Software Development Manager Banking, Securities

**Recruiter:** Alexander Ash
**Location:** London

A prestigious global bank based in the City has a requirement for a Software Development Manager with experience of Securities Lending to lead a significant transformation effort to replace a legacy based trading platform.

## SF Trading assistant/middle office representative

**Recruiter:** State Street
**Location:** Boston MA

Trading assistant required to support a North American team lending equities and fixed-income instruments in 32 markets from the Boston office.

## Business Policy and Control Intern

**Recruiter:** State Street
**Location:** Boston

State Street's securities finance division encompasses three products: agency lending, enhanced custody, and alternative financing solutions.

## Business Analyst

**Recruiter:** Alexander Ash
**Location:** Midlands, UK

Defining business requirements in partnership and collaboration with the business and obtaining sign-off.

# Comings and going at Lombard Risk, OCC, Hazeltree and more

**Hazeltree, a buy-side treasury management solutions provider, has appointed Sol Zlotchenko as its chief technology officer (CTO).**

Zlotchenko, who brings more than 20 years of software experience, will take the helm of Hazeltree's technology product development and technical support for its treasury solutions.

Prior to joining Hazeltree, Zlotchenko was CTO and co-founder of Paladyne Systems (now owned by Broadridge Financial Solutions).

"As regulations continue to reshape the financial industry, we continue advancing our products to help our clients manage this disruption, identify unrealised alpha opportunities as well improve operational efficiencies around managing cash and collateral," Zlotchenko said.

He added: "Our mission is to help our clients efficiently manage their counterparties with a comprehensive and transparent view of the market."

Sameer Shalaby, CEO of Hazeltree, added: "Due to increased regulatory constraints around managing cash and collateral, the need for robust treasury solutions is more critical than ever before."

"Sol Zlotchenko's expertise in building innovative fintech products and scaling development organisations will be essential in taking our products to the next level and supporting our clients' complex needs around managing treasury. As we evaluate the impact of cutting edge technologies such as blockchain and big data, Sol's leadership will be critical to our continued products innovation."

**Pirum Systems has brought on Morgan Stanley's Harold Bergson as a technical lead to develop its enhanced product set.**

He will be based in London, reporting to Matthew Lyons, Pirum's head of IT. According to Pirum, Bergson has a background in building innovative securities finance technology solutions for banks and broker-dealers.

Prior to serving at Morgan Stanley, Bergson led the Europe, Middle East and Africa front-office securities lending technology team at Citi and also held roles at Barclays and Credit Suisse.

"I am delighted to welcome Harold Bergson into the Pirum tech team. We pride ourselves on being very strong technologists with solid business knowledge and adding someone of Harold's calibre demonstrates this and means we can increase delivery capacity while maintaining our high quality," said Lyons.

"Harold has a deep understanding of securities lending and repo trading from a sell-side perspective and is able to combine this with his technical design and development skills to deliver solutions which provide significant benefit to our clients."

Ben Challice, COO at Pirum, added: "Harold joining Pirum supports the trend of talented individuals defecting from banks in order to join growth opportunities in financial services but outside of the constrained environments of their previous firms."

**Lombard Risk has hired Thomas Chevalier and Jonathan Trace for new business development roles.**

Chevalier will cover France, Belgium, Luxembourg, Spain, Portugal and Greece, while Trace will lead the charge in the Nordics and Netherlands.

They will be responsible for building on the client base for Lombard Risk's Colline collateral management software and the AgileReporter regulatory compliance systems in their respective patches.

Trace will also manage business development for Colline products in the UK and Ireland.

Chevalier joins Lombard Risk from S&P Capital IQ where he was sales manager for Europe, the Middle East and Africa, and where he is credited with playing a key role in launching the company's portfolio risk business in Europe.

Previously, he has also worked at Algorithmics and Murex.

Prior to joining Lombard Risk, Trace served as a sales account manager at SunGard (now FIS) for four years.

Commenting on Chevalier's appointment, Alastair Brown, CEO of Lombard Risk, said: "Highly complex regulatory requirements which mean financial services firms must demonstrate clear compliance trails, as well as the numerous challenges associated with collateral management across multiple jurisdictions, are driving strong growth across our European business."

"As such, we are delighted that Thomas Chevalier has joined us at this time of rapid development for the business. He has an excellent track record in business development and has worked extensively in the financial technology sector."

Chevalier added: "Lombard Risk is driving innovation within the financial reporting market and we are already seeing strong interest from banks, asset managers and other financial services providers in Southern Europe, France and Belgium and Luxembourg."

"The complexity and scale of financial regulation shows no sign of abating and as businesses increase their international footprint, managing and monitoring risk across all areas is a vital but huge task."

Trace said of his own appointment: "The Nordics and Netherlands are home to some of the world's leading banks, asset managers and financial services businesses and we are already seeing interest in the solutions that Lombard Risk offers."

"Effectively managing regulatory requirements and collateral management needs intelligent technology to deliver the detail and process required to meet the demands of multiple regulatory authorities."

"As the level of financial regulation grows more and more complex and businesses broaden operations in international markets, managing and monitoring risk across all areas is vital."

"Lombard Risk has market leading solutions to these challenges and I am looking forward to working with the team to further grow the business."

Brown added: "We are dedicated to innovating our product suite to ensure we provide the most agile and current solutions to our clients. Jonathan Trace will play an important role in shaping how we develop our solutions, carefully assessing our client's needs and how we can meet them."

The new appointments follow the recruitment of David Howard into the newly created role of senior regulatory consultant in


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the Americas, and Tracy Adams as regional head for the Colline solution in the Asia Pacific. Both of those appointments were announced in August.

**The Options Clearing Corporation (OCC) has appointed Thomas Wittman as an executive director to replace Gary Katz on its board of directors, effective immediately.**

Wittman will continue in his current roles as executive vice president of Nasdaq and global head of equities, a division of the company's global trading and market services business, alongside his new position with OCC.

Wittman serves as CEO and president of the Nasdaq Stock Market, Nasdaq PHLX LLC, Nasdaq BX, Ensoleillement and is CEO of the International Securities Exchange, ISE Gemini, LLC and ISE Mercury.

Craig Donohue, executive chair of OCC, said: "Tom Wittman's global experience and insights, along with those of his fellow board members, will support OCC's mission to provide exceptional risk management and innovative solutions to reduce systemic risk and increase capital efficiencies for market participants."

Donohue added: "I also want to thank Gary Katz for his invaluable contributions and thought leadership throughout his tenure as a member of our board of directors.

Gary has had a profound impact on the listed options industry and market participants, which has resulted in tremendous growth and innovation. On behalf of our fellow board members, I thank Gary for his commitment of excellence and service to OCC."

**HSBC has appointed Tony McDonnell as head of sales and business development for its securities services unit in Europe.**

McDonnell, who will report to Rafael Moral Santiago, head of securities services for Europe, will be responsible for driving the growth of HSBC's securities services across all client sectors and asset servicing products.

In addition to his new role, McDonnell will also continue to serve as managing director of HSBC's securities services in Ireland, a role he was appointed to in September 2014.

**Morgan Stanley managing director Huw van Steenis is set to join Schroders as global head of strategy and a member of the group management committee.**

In the newly created role, van Steenis will be responsible for business strategy and corporate development. He will join Schroders in Q4 2016.

Van Steenis will join from Morgan Stanley, where he has spent 14 years as managing director and global coordinator for banks and diversified financials research. He has also previously held positions at J.P. Morgan and Boston Consulting Group.

In his new role, van Steenis will be based in London, and will report to Peter Harrison, group CEO at Schroders.

Harrison said: "Huw van Steenis joins Schroders at a pivotal time for the industry. As a creative thinker and influential collaborator, his deep knowledge and experience of the investment industry is a valuable asset in these times of rapid change."

Van Steenis commented: "It is a huge honour to join Schroders, a firm which stands for the very best in investment management with world-class investment strategies, outstanding client service and a deep bench of talent which has delivered for clients over many years."

"I look forward to working with Schroders's pre-eminent teams to meet the challenges and opportunities for investors. The company has a bold strategy and a culture of ambitious continuous improvement, both of which will be critical in meeting the competitive challenges ahead." **SLT**

**Have an appointment that we should cover?**
**Let us know via: drewnicol@securitieslendingtimes.com**

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