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Federal Reserve wants to invite more clearers to the US triparty

J.P. Morgan may have to delay its departure from the US government securities clearing market if the Federal Reserve deems BNY Mellon's subsequent monopoly to be a risk to market stability.

In a speech at the Evolving Structure of the US Treasury Market: Second Annual Conference, Federal Reserve governor Jerome Powell explained that J.P. Morgan had itself foreseen this possibilty. "J.P. Morgan Chase has said that it recognises the need for, and its own interest in, ensuring that its exit does not disrupt the market," he said.

"Indeed, J.P. Morgan Chase will itself need to rely on these services going forward. The timeline set for a gradual transition over the next two years should be sufficient to avoid significant dislocations; however, if unexpected complications arise, that timeline may need to be adjusted."

J.P. Morgan confirmed in the summer that it is winding down its government securities settlement services with a view to exiting the business by the end of 2017.

Powell also used his speech to reassure all market participants that the Fed acknowledged the importance of maintaining the functionality of these markets and that BNY Mellon, as the soon-to-be exclusive triparty clearinghouse, would be under increased scrutiny as a result.

"We have long recognised that any disruptions to these critical market services could have serious consequences for financial stability, and have calibrated our supervisory expectations accordingly," Powell explained.

"To ensure financial stability, we expect the provision of US government securities settlement services to be robust in nearly all contingencies," he said.

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Ex-securities lending director runs for US Congress

An ex-Citi director of securities lending sales is challenging for a seat in Congress in New York's 13th District.

Republican nominee Tony Evans joined Citibank in 1990 and moved up the ranks to become director of sales for the bank's securities lending division in 2005.

Since 2008, Evans served as a founding partner for the Law Offices of Robert Anthony Evans, Jr and then Evans & Al-Shabazz, before launching his political campaign for the House of Representatives.

Evans will take on the Democratic nominee, state senator Adriano Espaillat, to become the Republican representative for the district, which has been held by Democrat senator Charles Rangel since 1971.

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Stein calls for SEC data strategy

The US Securities and Exchange Commission's (SEC) Kara Stein has renewed calls for the creation of an Office of Data Strategy to overhaul the SEC's "ad hoc" data collection and analysis strategies.

Speaking at the the Big Data in Finance Conference in Michigan, commissioner Stein explained: "For some time, I have asked that the SEC develop an executive team responsible for creating and overseeing such an office. Data and technology present tremendous opportunities and benefits—but they have also opened the door to new and exceedingly complicated risks."

"Data is distributed across a range of electronic platforms, complicating the task of monitoring and examining market participants," she explained.

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Federal Reserve wants to invite more clearers to the US triparty

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Powell continued: "As BNY Mellon becomes the sole provider, we will raise our expectations even higher. The bank has anticipated and welcomed this higher bar."

He concluded his speech by hinting that BNY Mellon's status as the only provider of clearing services in this market may not be a long-term feature.

"The industry as a whole should play an important role in shaping the evolution of the settlement infrastructure. Other firms may seek to enter this market."

"There have also been discussions over time of a settlement utility, and the Depository Trust & Clearing Corporation is currently considering a new variant of such a model. Our focus is on the quality of the services offered—their safety, resilience, and support of the market—and not on the particular mechanism for offering them."

Ex-securities lending director runs for US Congress

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"I hope [that] people will understand that the [securities] lending industry serves an important function," explained Evans in an interview. "Helping governmental agencies and large holders make their portfolios more efficient is vitally important. There was a time when politicians were blaming securities lending for short selling pressures in the market—it was unfair and untrue."

He added: "When I think about the many requests for proposals and meetings we would have with people in state governments and how so many of those meetings seemed 'pre-determined' by political agendas I get very concerned."

"We need to allow the financial professionals in government to make market choices with a long view for the best interest of us all—for pensioners, seniors and the needy—and not just the politically expedient choices for an election cycle."

Commissioner Stein calls for US SEC to adopt new data strategy

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The new office would coordinate the SEC's data strategy, including how the commission collects, manages and utilises the increasingly large quantities of reported transaction data. Stein has also previously said that a chief data officer would be needed to run the department.

"This is a critical next step in turning our ad hoc growth as data users into a deliberate plan. The office could lend its expertise to, and would coordinate with, our policy, exam, and enforcement offices," Stein continued.

"Having a data strategy, and a team dedicated to it, is especially important in light of our limited resources."

The SEC's data collection requirements were expanded earlier in October with the adoption of changes to modernise and enhance reporting and information disclosure among registered investment companies, as well as to enhance liquidity risk management in mutual funds and exchange-traded funds.

In particular, these changes aim add new disclosures in fund registration statements relating to securities lending activities.

Affected funds may have to divulge income and fees from securities lending, and the fees paid to securities lending agents in the prior fiscal year.

Speaking at the same conference, Office of Financial Research director Richard Berner confirmed a commitment to continue its data collection for global repo transactions.

Berner reassured market participants that "any new data collection minimises the burden on firms providing the data, while maximising benefits".

He explained that the need for greater reporting on the repo market was due to the continued risk of runs and asset fires sales that were seen during the financial crisis.

The US bilateral repo market is worth $1.8 trillion of the overall $4.4 trillion value of the securities financing markets.

According to Berner, the OFR will pursue a "cooperative approach" to its data collection initiative, which would involve market participants and other regulators.

"We also consider what other datasets exist on the servers of our sister agencies that are necessary for better stability monitoring."

"We work closely with fellow regulators to figure out who has what."

At the same time, however, Berner highlighted the OFR's power to impose subpoenas on uncooperative entities.

"A subpoena is a great tool to have in the toolkit. It enhances our power to persuade. Someone recently said to me that you can learn a lot more from a subpoena than you can from a regression analysis," he added.

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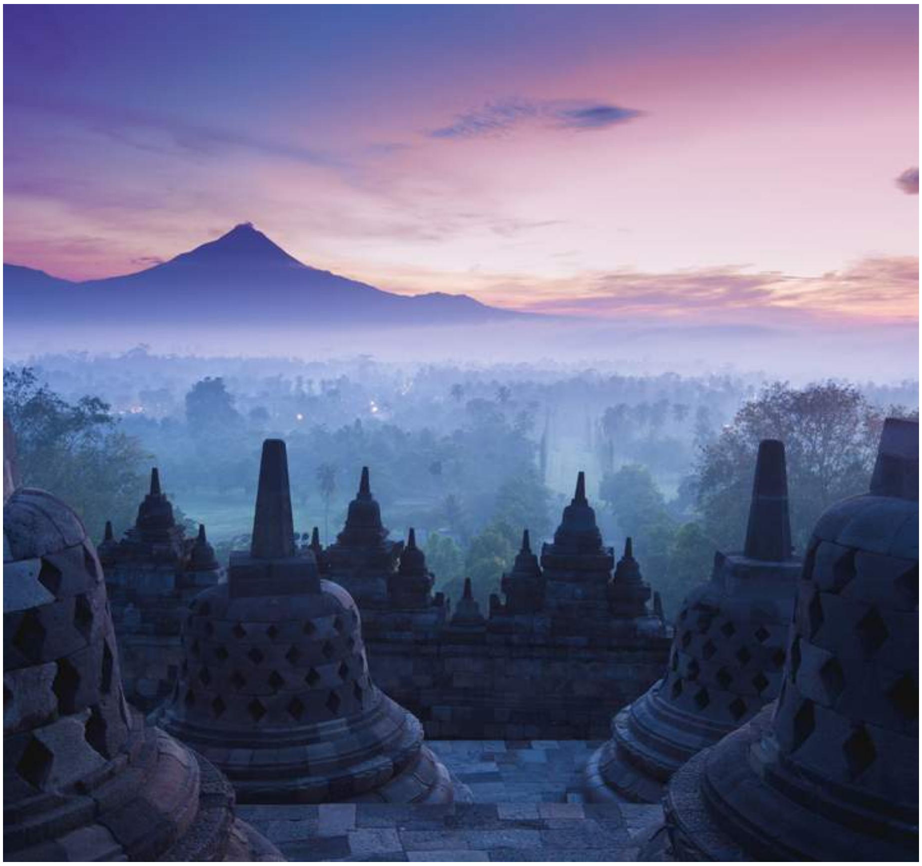
Berner added: "Of course, this tool must be used judiciously. A subpoena carries costs—to the reputation of the organisation and through the sometimes time-consuming process of judicial enforcement."

The OFR's repo data collection comes as part of a series of initiatives to better map all securities financing markets, and will run in tandem to similar project for the securities lending industry, which saw its first pilot data survey completed in August.

Seven agent lenders reported approximately $1 trillion in outstanding daily loans over separate three days, to provide a snapshot of their securities lending activity.

Indonesia wants to boost securities finance in 2017



The Indonesia Stock Exchange (BEI) has pledged to grow the country's securities financing market as one of its key initiatives for 2017.

The exchange is also expected to loosen collateral rules before the end of the year.

In a statement on the initiative, BEI stated: "Relaxation of margin is expected to increase the value of the transaction and market liquidity."

A boost to the country's securities finance market is aimed at improving overall liquidity, which has been in decline since 2013. Another aspect of this initiative is to make the Indonesian market more attractive to foreign investors in the Asia Pacific and beyond.

The move comes as part of the exchange's ambition to achieve an average daily transaction value of IDR 8 trillion (USD 614 million) in 2017, up from an estimated IDR 6.6 trillion (USD 506.7 million) this year. The exchange also confirmed that Bank Indonesia's seven-day repo rate for 2017 is expected to be 5 percent.

Indonesia's securities lending market was formed in 2001 as part the Indonesian Clearing and Guarantee Corporation.

Deutsche Börse beats poor market conditions in Q3 2016

Deutsche Börse, the parent company of Clearstream and Eurex Clearing, reported a modest 1 percent growth to its consolidated net revenue in Q3 2016.

Revenue hit €558.5 million in Q3 2016, up from €555 million in 2015. In its revenue report, Deutsche Börse highlighted that this growth was achieved "despite the weaker market environment". The growth was attributed to operational cost cutting, which accounted for a 5 percent reduction worth €14.9 million, leading to an overall net profit rise of 6 percent to €190.7 million—up from €179.2 million in 2015.

Net revenue for the first nine months of 2016 also increased by 6 percent to €1.77 billion.

According to Deutsche Börse, the positive result was also due to the strong performance of index derivatives and Eurex's commodities business, the international business of Clearstream, and in the index business of the market data and services segment.

Saudi Arabia improves bonds issuance

Saudi Arabian government bonds are beginning to see a yield curve that will create a pricing benchmark and support the broader growth of capital markets in the region, according to Fitch Ratings.

Increased revenue from government bonds and the overall healthier market forecast offered by Fitch is expected to create a boost for the country's burgeoning securities lending and covered short selling markets, which are set to launch in the first half of 2017.

According to Fitch, Saudi Arabia has improved market liquidity with international bond issues worth US $17.5 billion.

"The lack of a sovereign yield curve has been one of several factors holding back corporate bond issuance in the region," commented Fitch Ratings in a note to clients.

"But these dynamics are starting to change, and corporate issuance should gradually start to take off in 2017."

"Given the shift in oil prices and our expectation that they will only recover to around US $65 a barrel in the long-term, we believe sovereign issuance from Gulf Cooperation Council members will become a more regular feature of these markets."

"This is critical because the yield on sovereign debt creates a pricing benchmark from which all other debt instruments in the same market can be priced."

The improved outlook comes in the middle Saudi Arabia's ongoing radical reforms to its capital market that also included amending the transactions settlement cycle of listed shares from T+0 to T+2 in order to align it with other international markets."

The shift will also take effect in H1 2017.

There has also been movements to reform the corporate debt market to enable easier regulatory approval of debt products.

Kenya opens to securities lending

Kenya has become the latest African market to open itself up to international securities lending and short selling transactions.

The country's Capital Markets Authority (CMA), in conjunction with the World Bank, is in the final stages of developing its capital markets regulation to enable securities lending and short selling and is soliciting feedback from market players. The latest version of the regulation outlines internationally recognised standards for appropriate lending behaviour such as the need for collateral provided to value at least 100 percent of the securities lent.

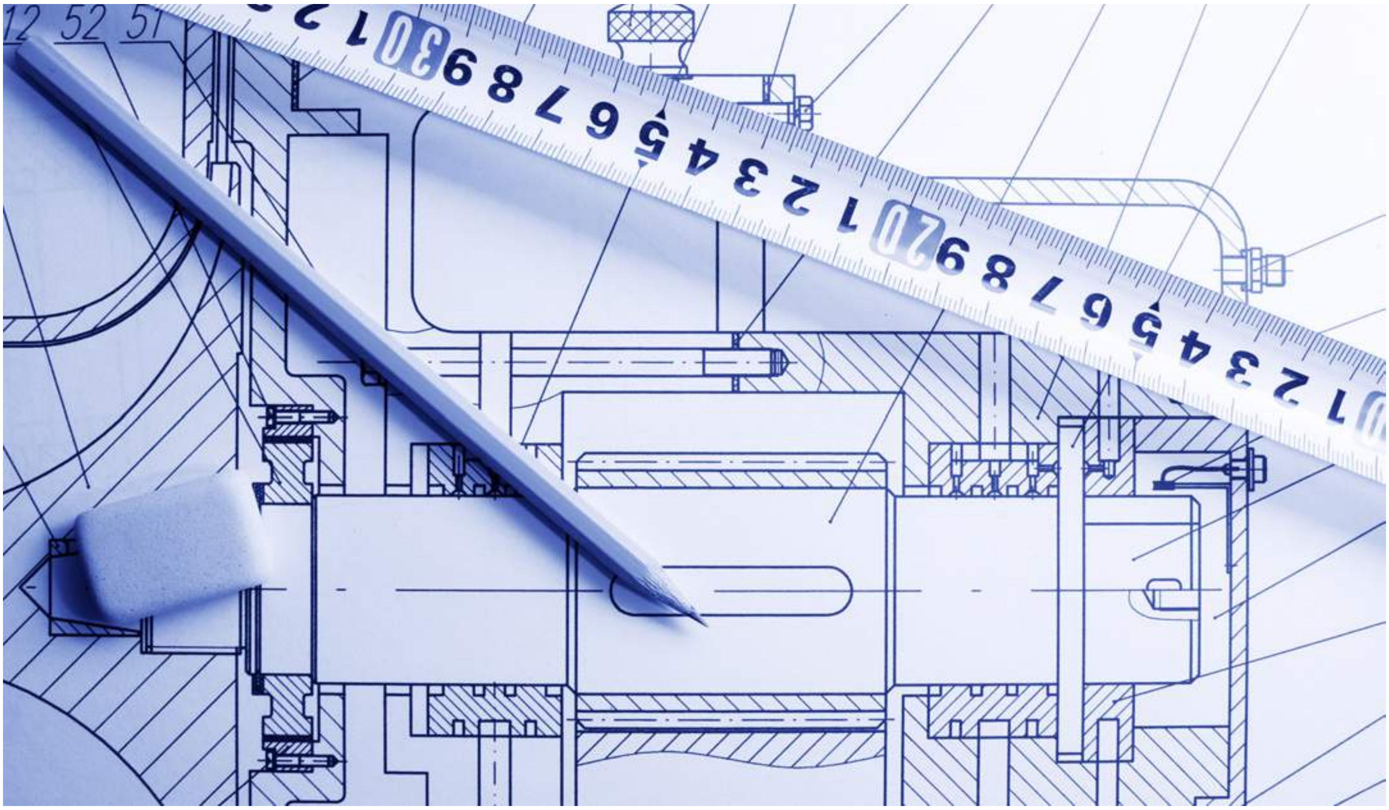
This collateral is specified as being either cash or benchmark government bonds, along with a more ambiguous provision for "other category of security as may be specified by the authority [the CMA]".

This could mean that equities or other assets will be allowed as collateral by the time the new rules are rolled out later this year.

For both securities lending and short selling transactions, the rules put the onus for reporting on any intermediaries involved in the transaction.

Kenya's CMA is following in the footsteps of other African nations, including Nigeria and South Africa, which have been frontrunners in bringing securities lending to the continent.

South Africa, which has hosted a securities lending association since 1999 and offers the most developed market in the region, saw the Johannesburg Stock Exchange initiate its long-anticipated settlement reform by



shortening its standard cycle to T+3 from T+5, in July 2016.

The move is expected to benefit the securities lending market by boosting market liquidity from encouraging foreign investment.

Nigeria's Central Securities Clearing System also launched a securities lending initiative in September 2015.

BNP Paribas is planning to expand repo clearing to more countries

BNP Paribas Securities Services is working with central counterparties to extend its European third-party clearing services for the repo clearing of bonds to more countries.

The bank already provides this service for French, Spanish and Italian bonds.

In a statement on its ongoing and upcoming market initiatives, BNP Paribas didn't specify which countries it is looking to include next.

BNP Paribas also clarified that its Collateral Gateways solution for banks and brokers has been upgraded in line with the newest Target2-Securities (T2S) requirements.

According to BNP Paribas, the improved functionality will allow its clients to benefit from the T2S auto-collateralisation services, along with the bank's own Collateral Gateways, independently.

BNP Paribas Securities Services gives clients the option to settle their trades using their dedicated cash account in T2S.

The bank has also become a direct securities participant to the US Federal Reserve through FedLine, the central bank's online financial services information and payment service.

This facilitates its clients' set-up and growth in the local fixed income securities market and allows for improved settlement turnaround and reporting, as well as first-hand pre-qualified information on income events.

Direct connectivity also facilitates and protects clients' securities margin and collateral movements.

Alain Pochet, global head of clearing, custody and settlement at BNP Paribas Securities Services, explained: "Financial institutions need fast and efficient access to local fixed income markets to satisfy their need for high quality collateral."

"In addition, regulations are pushing investors to hold sovereign debt and corporate bonds."

"All this comes at a time when the markets are concerned with a possible shortage of government and corporate bonds," Pochet went on to explain.

"As a global custodian and asset servicer, we see it as our role to help our clients secure the collateral they need and enable them to fulfil their investment strategies."

Pochet concluded: "That is why we are participating in a number of initiatives to give our clients direct access to local fixed income markets around the world."

DTCC launches new LCR data service

The Depository Trust & Clearing Corporation (DTCC) has secured Barclays as its first client to use its new liquidity coverage ratio (LCR) data service.

The LCR data service comes under the umbrella of DTCC's Data Products offering, which aims assist firms manage their buffer requirements for liquidity facilities.

The service can support commercial paper (CP) obligations in order to meet more stringent regulatory capital requirements set down in Basel III and other regulatory requirements, while simultaneously seeking cost-efficient ways to enhance visibility.

The post-trade provider first launched its Data Product suite in 2015 and has since developed the offering to the point where it plans to include data solutions that cover all major asset classes, along with its benchmark, referential and liquidity data categories.

"DTCC's new LCR Data Service has significantly enhanced our ability to understand buffer requirements. DTCC's completeness of data coverage in this market has made its solution very comprehensive," Navneet Kaur, business line treasurer at Barclays, said.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Ron Jordan, managing director of data services at DTCC, added: "When banks issue facilities to corporates to provide liquidity against outstanding CP they don't always have a precise view of when the underlying corporates' CP obligations are due."

"The LCR Data Service allows banks to receive overnight delivery of aggregated maturities based on outstanding CP market positions, and refine buffer requirements relevant to market exposure, thus allowing banks to manage their business more efficiently while complying with liquidity coverage mandates."

LCH to plans to bolster derivatives offering in 2017

Global clearinghouse LCH is launching a new service for the non-cleared derivatives market in H1 2017.

The service, known as LCH SwapAgent, will provide clients improved standardisation, efficiency and simplicity in their bilateral derivatives transactions.

SwapAgent will act as an independent calculation agent, facilitating the calculation and exchange of bilateral margin and settlement payments, but will not become the central counterparty (CCP) to the trade.

According to LCH, its customer can benefit from CSA standardisation, end-to-end trade lifecycle management, independent valuation and risk calculation, dispute elimination, payment netting, and compression.

Eleven dealers have already signed up to the service, including Barclays, Bank of America Merrill Lynch, Deutsche Bank, Goldman Sachs and HSBC.

Nathan Ondyak, global head of LCH SwapAgent, said: "We believe that an efficient bilateral market is critical to the functioning of the broader over-the-counter market. SwapAgent increases the efficiency of non-cleared derivatives trading by extending the centralised clearing infrastructure–standardised document terms, trade processing, margining and payment processing–without requiring novation to a CCP or a change to the underlying trade terms."

Will Roberts, head of global rates trading at Bank of America Merrill Lynch, added: "Due to the introduction of the bilateral margin rules the market is increasingly looking for ways to reduce the costs of bilateral trading. Using LCH SwapAgent provides an opportunity to simplify our bilateral post-trade processes and meet the emerging obligations in a more efficient manner."

AFEX signs up Derivitec's solution

Risk management solutions provider AFEX has partnered with Derivitec to leverage its Risk Portal platform for collateral management reports.

AFEX's trade and counterparty data will be fed into the Derivitec platform, allowing it to drill down into changes in counterparty collateral and margin requirements.

According to Derivitec, the platform was originally designed to provide analytics on derivative products but it has been extended to cover regulatory reports across a wide range of global assets.

Sheila Krishnan, global credit manager and senior credit manager for Europe, the Middle East and Africa at AFEX, said: “Derivitec has been instrumental in helping us manage counterparty collateral in the wake of the Brexit shock.”

“Its real value was really prior to the event itself, when we were able to stress test portfolios and warn clients of impending collateral requirements as well as potential negative market movements so that clients would be prepared well in advance.”

State Street secures securities finance revenue boost as AuC rises

State Street secured a 20.4 percent boost to its securities finance revenue in Q3 2016.

The bank achieved $136 million in Q3 2016, up from $113 million in 2015.

It put the improved figures down to “increased revenue from [its] enhanced custody and agency lending” services.

State Street’s securities finance revenue for Q3 2016 was down from Q2 2016’s $156 million due to what the bank described as “quarter seasonality”.

This point is reinforced by State Street’s 2015 data, which shows that Q2 figures outperformed all others for the year.

Revenue from State Street’s assets under custody also increased by 7 percent from $27.27 billion in Q3 2015 to $29.18 billion in Q3 2016, as well as 5 percent sequentially.

State Street secured new asset servicing mandates in Q3 2016 worth $212 billion.

The bank now boasts $29 trillion in assets under custody and administration and $2 trillion in assets under management.

Joseph Hooley, chair and CEO of State Street, said: “Our Q3 2016 results reflect continued momentum in fee revenue and our ongoing commitment to expense management.”

“Consistent with the breadth and depth of our client relationships, our new business results remain strong with $1.2 trillion in new asset servicing commitments year-to-date, including $212 billion in Q3.”

Nasdaq and SIX Swiss partnership goes from strength to strength

SIX Swiss Exchange has extended the term of its contract for use of Nasdaq technology.

The exchange uses Nasdaq’s X-stream INET Trading technology for all SIX’s equity, ETF, structured product, fund and fixed-income markets. It also uses Nasdaq’s SMARTS Market Surveillance and pre-trade risk management technology.

The new SIX Swiss Exchange at Midpoint dark pool was launched in October, using Nasdaq trading and surveillance technology.

The new service allows for mid-point execution on Swiss equity instruments directly within the largest source of liquidity.

Nasdaq and SIX Swiss Exchange have been working together for more than 10 years.

Christoph Landis, CEO of SIX Swiss Exchange, said: “Our broadly diversified international client base benefits from the multifunctional and high-performance trading platform as well as from the surveillance and control instruments.”

“The cutting edge X-stream INET Trading technology allows to implement investment decisions in a stable, secure and reliable trading environment and therefore supports us in serving our clients.”

Lars Ottersgård, executive vice president and head of market technology at Nasdaq, said: “SIX is one of the leading exchanges in the world who consistently strives to bolster reliability, latency and capacity performance across their markets. It’s an honour to support them in their ongoing technological and innovative endeavours.”

Lower liquidity is the new normal

Almost half of surveyed institutions believe the current liquidity drought is here to stay, according to State Street.

Thirty percent of the 300 financial institutions, questioned by State Street as part of its ‘Let’s Talk Liquidity: Opportunities in a New Market Environment’ study, claimed the liquidity of their portfolio has decreased over the past three years, while 48 percent predicted the new environment to be permanent.

Furthermore, 90 percent of the survey’s respondents, which involved 150 asset owners and 150 asset managers, included 50 hedge funds, said the liquidity reduction has affected their investment strategy.

State Street’s analysis found this primarily involves upgrading liquidity risk measurement frameworks and reporting standards.

At the same time, State Street noted that as banks step back from their traditional financing roles, other players are coming forward to fill the space.

Of the hedge funds surveyed, 43 percent stated they would considering becoming a market maker in certain securities.

The need for investment to tackle both the market’s liquidity status, along with the new, enhanced reporting requirements featured heavily in the report.

On reporting, 42 percent admitted to facing a 'moderate to significant challenge' in reporting their liquidity position to their respective boards or regulators, while 47 percent are committed to tackle this issue through investment in external capabilities.

Eurex sees repo activity fall

Eurex Repo suffered a 34 percent dropoff in its GC Pooling repo activity in October.

The Deutsche Börse subsidiary's average monthly outstanding volume reached €119.3 billion in October 2015, but fell to €78.8 billion last month.

Eurex's Repo Market recorded a 21 percent rise to value €30.6 billion in October, up from €25.3 billion.

SEC refreshes derivatives analysis

US Securities and Exchange Commission (SEC) has released fresh analysis on the likely effects of its proposed rule on the use of derivatives by registered funds and business development companies.

The new information offers an update to the regulation of derivatives transactions by registered investment companies, including mutual funds, exchange-traded funds and closed-end funds.

The proposed rule would limit funds' use of derivatives and require them to put risk management measures in place, which would result in better investor protections.

In a statement on the analysis, the SEC said: "The analysis will be informative for evaluating comments on the proposed rule that suggests its portfolio limitations should be based on risk-adjusted gross notional exposure, and that its asset segregation requirement should permit certain liquid assets other than cash or cash equivalents to be segregated against a fund's derivatives exposures, subject to appropriate haircuts."

Commenters did suggest using risk-adjustment and haircut schedules that were originally developed for other regulatory purposes, according to the SEC. The SEC's analysis evaluates the internal consistency of these schedules across asset classes and categories for purposes of risk-adjustment and risk-weighting with respect to the rule.

Short sellers sticking to form

Short seller interest in IBM was reignited after the release of its Q3 earnings report caused the biggest one-day fall since the day of the UK's EU referendum result, according to FIS Astec Analytics.

FIS Astec Analytics revealed that IBM topped its most recent hot stocks list for the Americas after the technology company saw a further 3 percent increase in short interest on top of what had already been accrued since interest began to rise in September.

OCC sees growth in October

OCC saw its securities lending central clearing activity shoot up 33 percent in new loans in October.

The central counterparty recorded 159,004 transactions last month, up by a third from the same time in 2015.

Year-to-date stock loan activity was up 38 percent from 2015, with 1.6 million new loan transactions in 2016. The average daily loan value cleared in October was $151 billion.

OCC's futures business saw even greater growth in October, up 60 percent from 2015.

Year-to-date figures showed that the average daily cleared volume was up 54 percent, with 402,970 contracts.

The clearinghouse's exchange-listed options volume fell by 15 percent in October, compared to the same month in 2015.

NSD report mixed bag for Q3 repo

Russia's National Settlement Depository saw the value of repo transactions with the Russian Federal Treasury through its collateral management system more than double in Q3 2016.

NSD's clearing value for the quarter exceeded RUB 10 trillion (USD 159 billion), up from RUB 4.6 trillion (USD 73.12 billion) in Q3 2015. The depository's recorded transactions grew to 495 from 334 year-to-year.

The value of NSD's repo transactions with the Bank of Russia conducted through the depository's collateral system fell in Q3 2016 from the same period in 2015.

Cleared repo between the central bank and NSD stood at RUB 3 trillion (USD 47.7 billion), down from RUB 8.1 trillion (USD 128 billion).

Canadian pension funds continue win streak, RBC reports

Canadian defined benefit pension plans saw a second consecutive quarter of positive returns in Q3 2016. The RBC Investor & Treasury Services All Plan Universe recorded a 7.9 percent improvement on Q3 2015.

RBC's data, which covers $650 billion worth of Canadian pension fund assets, revealed that the country's pension funds built upon Q2's returns of 2.9 percent with 4.2 percent returns last quarter.

Global and Canadian equities both brought 6.7 percent returns for the quarter, up from 1.8 percent and 15.6 percent year-to-date.

RBC described this as a "notable turnaround from a year ago", when global equities posted a loss of -2.2 per cent in Q3 2015, while Canadian equities suffered losses worth -7.8 percent. The central bank put these losses down to weakness in the materials and energy sectors.
For fixed income instruments, RBC noted that, due to the ongoing low interest rate, long duration bonds were the best performers.

Domestic bonds returned 1.6 percent in Q3 and 6.2 percent year-to-date.

"Canadian pension plans continue to post improved quarter-over-quarter returns this year," commented James Rausch, who is head of client coverage for Canada and global head of transaction banking—banks, brokers and exchanges at RBC Investor & Treasury Services.

"The resources, materials and energy sectors continued to fuel the gains in Canadian equities, while global markets adapted to the post UK referendum landscape and emerging economies realised gains."

"Global volatility remains a reality as several markets, including China, experience anemic growth despite low or negative interest rate policies. Managing risk will remain a priority for the remainder of 2016."

Brazil suffers securities lending fall

Brazil's BM&F Bovespa saw its securities lending volume fall from August to September by BRL 1.99 billion (USD 626.2 million).

September's volume hit BRL 66.37 billion (USD 20.88 billion), down from BRL 68.36 billion (USD 21.51 billion) the month before.

The total number of transactions reached 113,110 for September compared to 127,384 in August. The value of exchange-traded funds reached BRL 4.14 billion (USD 1.3 billion) in September, compared with BRL 4.24 billion (USD 1.33 billion) in August.

Leading from the front

Federico Ortega Gilly of Mexico's Nacional Financiera explains why his country's securities lending market is ripe for foreign investment

How has Mexico's securities lending market developed in the past year and what role does Nafin play?

The Mexican securities lending market first started in the mid-1990s. It has evolved since then and regulation adapted to be better aligned with international standards. Therefore, it has opened up to foreign investors.

Nacional Financiera (Nafin) is a development bank and is wholly-owned by the Mexican government. Nafin's principle goal is to provide access to affordable financing to micro, small- and medium-sized enterprises operating throughout Mexico, a historically under-banked sector of the economy, as well as to contribute to the development of the financial markets.

Key Statistics	
Total Assets	MXN 469,668 million / USD 25,436 million (as of June 2016)
Activity Focus	80 percent national / 20 percent international
Capital Structure	94 percent liabilities / 6 percent capital
Capital Ratio	14.52 percent (as of June 2016)
Legal Framework	SHCP, Banco de Mexico and CNBV
Credit Ratings (S&P and Fitch):	BBB+ and AAA (international and local)

Securities Lending Data: Stocks (As of September 2016)

		Outstanding Amount on Loan	
Stock Name	**Series**	**MXN (millions)**	**USD (millions)**
NAFTRAC	ISHRS	6,936	359
CEMEX	CPO	335	17
GENTERA	*	699	36
AMX	L	147	8
WALMEX	*	483	25
TLEVISA	CPO	949	49
	Total	**9,576**	**494**

Securities Lending Data: Bonds (As of September 2016)

Outstanding Amount on Loan	
MXN (millions)	**USD (millions)**
78,445	4,048

In accordance to this, Nafin has the support of the Mexican government to promote and develop the securities lending market.

Nafin's primary role in securities lending is to provide liquidity and access to this market to broker-dealers and banks through our programme, because many do not have the infrastructure in place to do these types of activities.

Most of the broker-dealers and banks do not have a dedicated securities lending desk and most of the transactions are done by the back office. Most participants don't see it as an actual business, just from an administrative point of view to avoid defaults on settlement dates.

Can you outline Mexico's regulatory framework?

We had a significant breakthrough in 2004 when a lot of our rules were given a major overhaul and made a lot more competitive. Before then the regulation was very strict in terms of collateral requirements. It was very expensive and didn't incentivise the buy side to engage in this market.

You were also unable to trade bilaterally and had to conduct transactions through a system called Valpre, which is part of the local depository trust company (INDEVAL) that mainly tended to focus on equities.

Now, with the new regulation, you're still able to use this system but the market has also been opened up to anyone that has a trading platform that facilitates securities lending, and at this stage we only have two local platforms in Mexico.

It was also during this overhaul that international transactions were allowed and the standard agreements such as the master securities lending agreement and the global master securities lending agreement were recognised for bilateral trading.

As part of that initiative, the collateral requirements were also loosened to be more in-line with international standards.

Are the government and regulators fully on-board?

At Nafin, as a government-owned bank, we have the mandate to help develop the Mexican financial market. Therefore, Nafin supports the financial market through re-stimulating securities lending for all the same liquidity and efficiency benefits that you see in existing markets. It's in everyone's interest to see the securities lending market grow in an efficient way that draws in more market participants.

This is to achieve greater liquidity and more transactions not only in the securities lending market but in the equities and fixed income markets as well, resulting in a more efficient and mature Mexican financial market overall.

Some large market participants have tried for several years to encourage securities lending but it hasn't yet fully realised its potential. The Mexican market still has a lot to offer in this regard.

When the new regulation was issued in 2004, there was initially a greater interest in Mexico from international investors.

The Risk Management Association held a conference in 2008 focused on the Latin American region and brokers and banks started to do some trades. However, this activity slowed down after a while.

Are there any initiatives going on in Mexico to boost the market?

Our aim is to get global investors to start to look at Mexico as a viable opportunity for new growth in their securities lending business.

Of course, we have guidelines of what our fund can do, but we are nearly utilising 100 percent of the assets that we're able to make available to lend.

We're trying to be an example and lead from the front by having skin in the game while we promote the market.

In terms of private pension funds and the mandatory pension funds known as 'Afores', some are already active in the fixed income market, but for the equity market there are some regulatory hurdles that are currently being worked through, but we will get it done in the near future.

Once those rules are amended, those pension funds will be able to be more active in the equity side of securities lending and I fully expect more to join in the near future.

Do you see a role for CCPs in the Mexican market?

We are still in a development stage but it's definitely something that may happen in the future.

Nafin, in accordance with its mandate of helping to develop the financial market, is open to the idea of acting as a unique counterpart to foreign counterparts, which may find that more attractive than doing separate due diligence and paperwork for all the local counterparties.

By offering this partnership, we hope it will allow for foreign participants to look at the Mexican market more quickly than they might otherwise.

Our aim is to get global investors to start to look at Mexico

Federico Ortega Gilly
Head of securities lending
Nacional Financiera

We already have some global custodians operating in our market but there is a lot of scope for further growth.

The Mexican market is very different from others, such as Europe, because we have a situation where there is a significant demand to borrow securities that isn't currently being met, but could be by foreign investors. It's worth mentioning the particular case of the M bonds issued by the Mexican government. More than 60 percent of the outstanding amount is held by foreigners, which could provide liquidity to the Mexican market. As a development bank, we are actively looking for global participants that want to take advantage of new opportunities and we are keen to improve the Mexican market's liquidity by adding more securities to the pool. At the same time, locally, we have a big initiative to educate beneficial owners of the market's benefits.

Are state pension funds able to participate?

Pension funds are able to participate. For example, Nafin's own pension fund is an active participant of the securities lending market.

How does Mexico compare to the rest of Latin America?

As it stands Mexico is the second largest market in Latin America, with Brazil being the largest.

The various regulators do talk but in terms of securities lending, we still have a long way to go before we achieve a regional understanding. Each country that is active in securities lending, such as Brazil and Chile, have gone their own way with creating a regulatory framework for securities lending and now they are very different.

There was an effort a few years ago to create an association for securities lending in Brazil, but our efforts as a region should be towards creating a Latin American association for securities lending similar to the Pan Asian Securities Lending Association. If we as a region came together and formed a more unified model, it would help a lot in our efforts to attract outside investors.

A united front to promote our securities lending markets abroad would be a big step forward. **SLT**

UK sunk my battleship

The regulatory board is set and the pieces are moving. Now all the industry has to do is play to win in 2017, as the latest conferences revealed

Over the autumn conference season the spectre of regulation loomed, posing a variety of challenges, from burdensome demands on infrastructure to complicating cross-border transactions.

Even without the impetus of reporting requirements, conference delegates throughout Europe agreed that the back-office's post-trade and collateral management elements are in dire need of a dramatic overhaul if they are going to achieve the levels of efficiency now required to compete effectively in the market. This has, in turn, created an opening for vendors to flaunt their wares to a new demographic of market participants that are no longer able to rely on clunky in-house systems.

At the same time, the topic that never failed to rear its head in conference halls across Europe and the UK was Brexit. Whether Brexit means Brexit, breakfast, or Britain is about to break very fast, no-one is quite sure. What is certain is that it will affect everyone eventually, whether they are UK-domiciled or not.

Build bridges not walls

At the 10th Fleming Collateral Management Forum in Amsterdam, panellists discussed how there are too many differences between regional regulations and not enough will from regulators to align them.

The US, EU and Asian markets maintain a number of regulatory inconsistencies across the main governing frameworks for the global securities lending markets, such as the Securities Financing Transaction Regulation (SFTR) and Basel III.

The lack of conformity in the interpretations of the Basel Committee on Banking Supervision's recommendations has now been compounded into final-form regulations, which makes conducting business internationally more complex.

According to one panellist representing an association, attempts to iron out differences in implementation dates and align legal readings of key terms and phrases in regulation has often been met with significant push-back by regulators that did not wish to miss deadlines.

At the same time, region-specific regulations, such as the European Market Infrastructure Regulation and the US Dodd-Frank Act, which are meant to have equivalency rules in other jurisdictions, are actually riddled with subtle yet significant differences, according to a consultant panellist.

Another regulatory expert offers an an explanation of this phenomenon: "It really goes back to the inception of Dodd-Frank and the 'original sin' of forming regulation for global markets in a fragmented way."

An organised effort to address regulatory fragmentation is widely expected by the industry to be the primary motive behind what will become the Basel IV initiative.

The real impact of the combined weight of the various regulatory burdens was expressed by the International Securities Lending Association (ISLA) in its latest market report published shortly after its post-trade event.

ISLA argued that, as it stands, regulation could "push institutional lenders away from the securities lending market" and cause a drain on liquidity.

In its fifth market report, ISLA cited the SFTR, the Bank Recovery and Resolution Directive and the Central Securities Depository Regulation as the most stringent regulatory frameworks troubling the industry.

It also highlighted the further restrictions on UCITS coming down the pipeline as another strain on market participants.

"This [participant withdrawal] in turn could lead to a loss of market liquidity and make it harder and more expensive for institutional investors to invest in equity markets and for government institutions to issue and manage existing government bond programmes," ISLA explained.

"The increasingly harsh regulatory environment facing many retail funds, notably UCITS, has led to a permanent shift in borrowers behaviour as they look to borrow securities from entities that better match their own regulatory requirements."

ISLA, which collates its market report data from all three major industry data providers, also noted that despite this troubling forecast, the value of securities on-loan has actually increased by 4 percent over the course of six months up to 31 June to stand at €1.9 trillion.

Unsurprisingly, the report reconfirmed that mutual funds and pension plans continue to dominate the global lending pool. Together, they again account for 66 percent of the reported €14 trillion of securities that institutional investors make available for lending.

One man's regulatory burden

An indirect consequence of this regulatory upheaval is that demand for outsourced back-end products has never been higher. Delegates in Amsterdam heard that, although the new regulatory initiatives are a boon for vendors, there has also been significant growth in the amount of oversight vendors' clients must now maintain.

"Outsourcing is all about control," explained one vendor panellist. "My job is to hold our clients' hands when the scary regulations rear their heads. A lot of people love the idea of giving all the responsibility and duties of compliance to a third party, but there is now a fiduciary duty not to do so too much."

"We must be ready to receive audits in-house from our clients' own auditors if that's what they want—and some definitely do," the vendor representative added.

According to a banking representative who also sat on the panel, previous conversations with a potential client revolved around the cost and competence of the solution, but now there are more questions around how a vendor can satisfy a client's fiduciary responsibility to its investors.

When it comes to which area of the securities lending market is most in need of rejuvenation, the industry spoke with one voice.

Delegates at multiple conferences heard the same claim, that the post-trade area must throw off the shackles of outdated legacy systems and embrace a modern way of doing business.

A panel at the ISLA Post-Trade Conference in London made up of representatives from some of the largest banking entities in the securities lending market agreed that a post-trade revamp could bring a significant improvement to lending desks' bottom lines.

"Some of the biggest revenue opportunities I've seen this year have come from our joint operations with our back-office teams," one European banking panellist explained.

When asked what the largest hurdles to achieving these efficiencies were, another panellist cited outdated legacy systems and improper use of data analysis as the most significant challenges facing institutional banks.

At the same time, buy-side firms must come round to the idea of including their front offices in all aspects of their collateral management programmes, conference delegates heard.

A seasoned panel of industry experts at the Collateral Management Forum explained that, as transaction costs caused by new regulations are being passed along to the buy side, those firms need to cut their own costs and become more efficient to mitigate these factors.

"Buy-side firms need to become more efficient and make this [joint management] happen," an industry consultant said. "Without the front-office calculations along with the post-trade data analysis, you cannot really know what your collateral is costing you."

Another panellist representing one of the largest banks in the market stated that the collateral programme is every bit as much the business of the bank's front office as the back. "Collateral management cannot be limited to the back office and they [the buy side] need the sophisticated attention of the front office," the banking representative said.

When the question of where responsibility for collateral management lies was put to the audience, however, only 30 percent claimed their front office was 'closely involved' in the function, with a further 32 percent admitting it was only 'limited involvement'. Twelve percent said their front offices had no involvement at all.

Reacting to the poll, one panellist claimed that, although these figures showed the industry had a long way to go, it was a vast improvement on when the same question was posed during the conference five years ago. Another consultant panellist stated that collaboration between the buy side, and with utility companies, "will become a big part" of the solution going forward.

The Brexit conundrum

Even with the latest court ruling on Prime Minister Theresa May's mandate to activate Article 50, the details around how Brexit will ultimately affect the UK businesses' ability to trade within the EU remains a mystery.

A European lawyer explained at ISLA's event that a 'hard' Brexit will leave UK-based securities lending businesses in a regulatory no man's land.

Regulatory initiatives such as the SFTR and UCITS have no existing third-party contingencies to speak of, meaning the UK would be entirely detached from their oversight once Brexit is finalised.

The UK government still intends to formally begin exiting the EU in March 2017, meaning the union will lose one of its founding members by the spring of 2019. This creates problems for UK entities looking to engage in the EU lending market, according to speakers.

The exact details of the terms on which the UK will begin the detach itself from the EU are yet to be confirmed but panellists at the conference outlined several reasons why some of the remaining members will seek a deal that clearly puts the UK in a disadvantaged position post-Brexit.

One speaker explained that, due to a number of other member states also acknowledging a high level of public dissatisfaction with the EU, Brexit would have to act as a case study that would go some way to dissuading other states from attempting to leave the single market.

It its subsequent market report, ISLA reassured its members that Brexit, although hugely significant to the wider financial market of both the UK and the EU, does not pose an imminent threat to UK-based market participants.

"It is important to stress that the so-called Brexit decision does not fundamentally change any of the legal constructs that govern our industry so day to day business continues uninterrupted."

Answers to the Brexit question, along with the plethora of other major challenges facing the market should become much clearer in 2017, with the final regulatory details expected throughout the next 12 to 18 months. **SLT**

A whole new world

The market has become more complex, not least because the volume of necessary data for reporting and optimal day-to-day trading has boomed. FIS Astec Analytics's David Lewis explains

My phone pings at me with ruthless regularity. It is insistent that it should tell me just how many steps I walked yesterday, and how that compared with other days and periods of time. It segments my day and offers largely asinine opinions and suggestions based on the data it has gathered and what it considers best for me. The data is interesting, I suppose, but is it actually useful? Is it actionable information, or just data?

The same question could, of course, be asked about many aspects of modern life in the connected world and the 'internet of everything', but in terms of the world of securities finance, the question is particularly valid and applicable to all parts of the transaction chain, including, most topically, regulators.

When the Pandora's box of data transparency was first opened, we had four clients and the results were delivered monthly, by hand, on a compact disc. Today, Astec Analytics consumes millions of trades, gathered as the trades are done, and updates traders and clients screens across the world almost instantly. The rate of change is phenomenal, and shows every sign of getting faster, not slower. The key will be to make it manageable and apply the effort in the right places.

Beneficial owners underpin our marketplace. All lenders should exercise oversight, but the efforts expended must be proportionate to the benefits on offer. With generally lower returns forcing the market to be more efficient, some beneficial owners will have ceased to lend—some voluntarily, others perhaps with some encouragement. Making oversight easier, given that for most asset owners securities finance is not a core activity and rarely attracts full-time attention, is a prime concern for data providers and at Astec Analytics much effort has been put into doing just that. Oversight managers need to know what borrower has what assets, where and how their revenues are made, what their concentrations and dependencies might be and, most importantly, where they may need to take action.

All that needs to be delivered in a comprehensive package that can be assimilated by non-securities finance experts. New regulatory requirements, such as the Securities Financing Transactions Regulation (SFTR), place a number of reporting and other obligations on beneficial owners that all need to be addressed and managed. Some of these are likely to fall to the asset owner's agents of course, who find themselves under ever greater regulatory pressures and costs.

The responsibilities of the agent lenders have grown exponentially in the last few years. Many of those who had always considered themselves traders are more likely to refer to themselves now as lawyers. The demands of programme management and oversight demand that more automation is applied to roles previously done manually. Data coming onto the trader's desktops is ever more complex. Not that long ago, non-cash or cash collateral and, if cash, what currency were the only key decisions to make. Now, emphasis has shifted to what trade structure might be most appropriate, before collateral acceptability for that specific client is addressed, let alone the fee or rebate rate to be levied, indemnified/un-indemnified, term or open, and so on.

This demands vastly more complex data to be brought to bear to ensure the correct decisions are made and the best results gained for all participants. The epitome of actionable information versus the flow of pure data. As a data provider, these are the considerations that lie front and center regarding how we deliver value into our clients.

Borrowers and brokers also face extra reporting and transparency obligations, on top of potentially more restrictive balance sheets, forcing them to concentrate their activity on the most valuable and capital efficient trades. Hedge funds, often being the ultimate borrower or recipient of the borrowed assets cannot escape their obligations, such as SFTR, either. In terms of the data they require, they have arguably the biggest appetite for analytics including and far beyond that of securities finance or the derivative short interest data.

Creating actionable information from the sea of data is not all about revenue maximisation. Certain high profile investment managers have suggested that they will no longer participate in dividend arbitrage, for example. This part of the market is, undoubtedly, reducing in its importance, especially, most recently, in Germany, but the decision to cease is likely more one of ethics and corporate citizenship than the simple economics of a tax efficient trading activity. The loss of such revenues adds pressures to make additional returns elsewhere of course, which is where the intelligent application of 'big data' is, once again, key.

Those engaged in the daily business of keeping our industry humming are, on one side, under time and monetary pressure to make the best decisions for multiple parties and the deluge of data that is vital to making the right decision in terms of revenue and under the increasingly demanding scrutiny of the regulators. Regulators, such as the Office of Financial Research and Financial Stability Board, are demanding ever increasing amounts of data.

There is a real risk to the overall industry of these organisations confusing data with real, valuable, actionable information and it is the responsibility of the industry to ensure the best outcome is achieved. But for now, my phone is adamant that I would benefit from going for a run. **SLT**

David Lewis
Senior vice president
FIS Astec Analytics

November 2016
9-11

NeMa Asia

Hong Kong

Hear from over 50 speakers over three days including global and sub-custodians, brokers, exchanges, CSDs, CCPs regulators and technological innovators focusing on Asian issues. Keep abreast of the latest fintech trends and how this could affect the capital markets industry at the pre-conference workshop on 9 November.

November 2016
17

2nd Annual Midwest Credit & Hedge Fund Investor Forum

Chicago

The Midwest Credit & Hedge Fund Investor Forum is a one-day meeting of family offices, pension funds, endowments, foundations, consultants and fund of funds in Illinois, Michigan, Wisconsin, Indiana and Minnesota.

November 2016
17

Securities Finance Regulation 2016 Training

London

SLT and Consolo Ltd are holding a one-day event that is designed as a crash course in all the regulatory initiatives in progress that may have a direct impact on securities finance.

November 2016
22-23

Cash & Liquidity Optimisation EU

London

FinTech Connect is pleased to announce that the 2nd Annual Cash & Liquidity Optimisation Europe Conference will be returning to London.

April 2017
2-3

Finadium Investors in Securities Lending Conference NY 2017

New York

Leading industry participants have joined together to give institutional investors a fresh look on securities finance in a changing regulatory environment.

April 2017
26-27

Finadium Investors in Securities Lending Conference London 2017

London

Leading industry participants have joined together to give institutional investors a fresh look on securities finance in a changing regulatory environment.

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 goings at Euroclear, Hazeltree and Deutsche Bank

Euroclear Group's board of directors has settled on Lieve Mostrey to become the post-trade provider's new CEO, effective 1 January 2017, following the departure of Tim Howell.

Howell has chosen to step down after six years as CEO.

Mostrey joined Euroclear in 2010 as executive director and chief technology and services officer.

She also served as a member of the group's management committee, executive director of the board, and chair of several of the group's central securities depositories.

Previously, Mostrey gained experience as a non-executive director of SWIFT, Euronext and RealDolmen.

Marc Antoine Autheman, chair of Euroclear Group, said: "The board congratulates Lieve Mostrey on her appointment to CEO. Lieve brings to the role vast experience both within Euroclear as well as from earlier roles in financial services and non-executive board directorships."

"The board also thanks Tim Howell for Euroclear's success achieved during his tenure; building its business, forging new business partnerships, growing shareholder returns and strengthening the organisation's resilience as a key financial market infrastructure."

Mostrey said: "As the financial industry's trusted provider of post-trade services, Euroclear is entering an exciting new phase of its development, amid the evolution of global capital markets. I look forward to leading Euroclear's team of dedicated employees, committed to delivering risk-mitigation, automation and efficiency at scale for our global client franchise."

Treasury management solution provider Hazeltree has hired J.P. Morgan's Sal Ventura to its management team as head of client relationship management.

Ventura brings 25 years of experience in the prime brokerage, product development and operations space, most recently as managing director and global head of client services for the J.P. Morgan custody and fund services business.

Before this, he was global head of the Citigroup investment banking and private banking operations, and the middle office.

At Hazeltree, Ventura will focus on managing client relationships, encouraging senior-level sponsorship and improving connectivity between the company and clients.

Sameer Shalaby, president and CEO of Hazeltree, commented: "As regulations continue to impact our industry, we continue to see increased focus on treasury and counterparty management."

He added: "Sal Ventura's industry experience provides him a unique perspective to manage our client relationships as we respond to global market demands."

Ventura said: "From supporting fund managers for many years, I am fully aware of the significant challenges they face daily, ranging from increased regulations, tough performance, fee pressures, and increased investor demands."

He continued: "I joined Hazeltree because it was clear we could make a difference and I am committed to working with our clients to understand their specific needs and harnessing the power of Hazeltree to address them head on."

Deutsche Bank's David Rhydderch has moved up the ladder to become global head of the bank's alternative fund services business.

Rhydderch, who has been with the bank for eight years, previously served as COO for the global prime finance business within the equities divisions in London and New York. As part of the alternative fund services team, Rhydderch comes under the investor services umbrella within the global securities services unit of its global transaction bank. **SLT**

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