ISLA Daily

Day 1

26th Annual Securities Finance and Collateral Conference

Tuesday, 20th June

Interview with ISLA co-chairs • MiFID II preview • Pirum Systems on SFTR
Germany country profile • What Brexit might mean • ISLA 2016 photos

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Facing the headwinds

ISLA co-chairs John Arnesen and Brian Staunton break down this year's agenda and discuss the hot topics of 2017. Drew Nicol reports

What are the main issues of the moment that will be discussed at this year's event?

Brian Staunton: Last year's agenda was a look at the past and what the future holds. This year we have a theme of the 'convergence of liquidity' to reflect the importance of liquidity management. The securities lending and collateral panel will be very interesting as the collateral industry is having to adapt to help the buy and sell side manage collateral better and the securities lending panel will look at the securities lending model and discuss whether the model still works or is it time for change. There are some real headwinds facing the industry and we have put together an agenda that reflects the hot topics this year and next.

John Arnesen: This year's agenda will be dominated by some topics which we have no choice but to meet head on, namely the second Markets in Financial Instruments Directive (MiFID II), which comes into force on 3 January 2018—and that date is etched in stone. There are several aspects of MiFID II that affect the securities lending market and as a lot of delegates for the International Securities Lending Association's (ISLA) conference are from trading desks, they must know how it will affect them directly. That's why we've focused on those issues in a breakout session today.

The second important topic, which doesn't have a set implementation date yet, is the Securities Financing Transactions Regulation (SFTR). We are working on the assumption that it will appear in roughly October 2018, but it could be pushed back. We are yet to come to a consensus in our industry about how SFTR will look in its final form and how we are going to operationalise it. All the exchanging of information that SFTR requires must be done on a T+1 basis, which is a very tight timeframe. There are industry members who are hoping to continue operating on models that may well be challenged by SFTR, and that's why we opted for a roundtable discussion that can be educational and allows for debate and an exchange of ideas on how to mitigate those challenges.

Since ISLA had its event last year, we have received SFTR's final technical standards, which only have a small final window for review. I do not expect any significant revisions to come from that and so the time for discussing the pros and cons has now passed. We must get on with making a model work. The roundtable discussion on everything SFTR-related will also be on this afternoon.

ISLA 2016 ended on the day that the UK went to the polls to vote on Brexit. Do you expect this topic to feature significantly in this year's conversations?

Arnesen: Brexit is one of several topics that we did not give a dedicated panel to but we expect to come up throughout the event. This decision was taken because we believe it's still very premature to have any meaningful discussion on what a post-Brexit world may look like. Until the negotiations between the UK and the EU actually start in earnest, we simply cannot say with any certainty what will happen. At last year's event there was a show of hands to predict which way the vote would go and about 70 percent expected the UK to remain. So further speculation is not a worthwhile use of the event schedule.

Staunton: Yes, I remember the vote well as it wasn't until I landed back in the UK that I knew the result. It's been a year of surprises when it comes to elections. The question we have to ask now is what preparations do we all need to make for Brexit. It will certainly come up during the conference, but now it's about how we get organised around Brexit and what are the implications for our business.

The role of CCPs also won't get a dedicated panel this year. What were the drivers behind that decision?

Arnesen: Central counterparties (CCPs) are part of the framework of reduced capital consumption and the question remains as to why there has been such a poor take up when it's so glaringly obvious what some of the advantages are. I'm sure CCPs will be referenced when discussing liquidity and capital management, but after nine years of debating the features of a CCP model, we're now at a stage where they exist and are operational for all to see.

There are more roundtable breakout session this year. What do you expect this to bring to the event?

Staunton: We felt the need to offer participants who come to learn the opportunity to go from no or little knowledge on a particular subject to becoming well informed. It is very hard to get to grips with a subject such as SFTR, for example, on a panel discussion, so we felt that it was important to give delegates the opportunity to learn about a few key topics starting from the beginning. The sessions have generated a lot of advanced interest so I hope delegates find them useful.

Arnesen: At the same time, delegates will hopefully be more willing to debate and share ideas in a roundtable discussion than in the traditional panel setting with a larger audience. We have some excellent speakers to run these sessions and I'm sure delegates will appreciate their expertise in regulatory issues.

John Arnesen
Global head of agency lending
BNP Paribas Securities Services

Brian Staunton
Managing director
BNY Mellon Markets

MiFID II: What you need to know

ISLA consultant Sarah Nicholson will provide a briefing on the current status of MiFID II at 15.50 today. Here, she offers a preview

Recognising that the second Markets in Financial Instruments Directive (MiFID II) is due to be enforced in January 2018, it is fair to say the market is focusing on how to apply the requirements to securities finance transactions that don't fit the stereotypical transaction contemplated by the directive.

Under the first MiFID, there was ambiguity in the market around whether the rules applied at all to securities finance transactions, but the presence of exemptions for certain parts of MiFID II can leave no one in any doubt that the new rules will apply.

Some aspects of MiFID II are firm-wide and generic and may need some consideration from a securities finance perspective. But they are likely to be addressed in a broader forum within firms. Others directly affect the securities finance market and are likely to require behavioural and/or process change within businesses.

The round-up will provide a high-level view of some of the key areas that have been raised as concerns so far including transaction reporting, best execution and title transfer collateral arrangements restrictions for retail clients.

The International Securities Lending Association (ISLA) has been working on MiFID II for some time and has developed a paper on best execution principles to assist agent lenders in developing their own policies, which has been circulated to the UK Financial Conduct Authority (and is available on the ISLA website).

This recognises securities finance transactions as 'non-price forming transactions' and gives examples of the types of considerations needed to establish a best execution policy. It also recognises that the client order is based on the instruction to lend, rather than any individual loan transaction.

ISLA also continues to work on reaching market consensus in a number of areas within MiFID and is currently seeking expert opinion on the application of the broader directive. This review should be available for members in late August.

ISLA is developing half-day workshops where market participants can hear, in detail, the current status of opinions and discuss any specific issues or concerns they have with other member firms. These will be scheduled for September and October.

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SFTR: Opportunity where others see complexity

Philip Morgan, head of business development at Pirum Systems, tells Drew Nicol how the US market is handling the Securities Financing Transactions Regulation

You were recently in North America to discuss SFTR. What was the market view?

We've recently started hiring in the US and it's a market that will continue to be at the centre of our focus. With regards to the Securities Financing Transactions Regulation (SFTR), the reality is starting to dawn. The market is beginning to appreciate that firms need to identify in scope entities among their counterparties. There will be a need to provide additional information to enable their counterparty to report. US lenders, lending on behalf of a US fund, still need to provide legal entity identifier (LEI) information and the allocation breakdown to an EU borrower in order to satisfy T+1 obligations. This inevitably means process and technology changes even for entities that are entirely out of scope. Given potential process changes and a more timely data set the current agency lending disclosure (ALD) model could in fact be overhauled.

Further, the Financial Stability Board (FSB) wants unique trade identifiers (UTIs) to be the global standard for all transactions. The assumption then follows that the US and Canada (as members of the FSB) will follow suit and issue similar rules at a later date. Obviously, we live in an ever-convergent world and there is clearly an impact on the US here—this is something the firms we spoke to appreciate. This is also why we consider it so important that our SFTR solution be future proof. The data architecture utilised by our solution has the flexibility to suit any transparency/risk reporting needs that may be required by the securities finance or repo industry in the future.

SFTR is just the latest regulation to come to us down the conveyor belt, but when you add up the sum of all parts some institutions involved with the lending of securities might be inclined to reconsider their involvement with the market rather than face compliance with this ever-mounting stack of regulation. SFTR could be the catalyst for certain beneficial owners to exit the securities lending market, in particular those who don't view the activity as a core revenue stream rather a form of enhanced custody. What we saw in the US is the industry is increasingly turning to vendors such as Pirum, with its pedigree in post-trade automation and ever growing role as a connectivity hub to help ease this continuing burden.

The other concerns we heard were around the failure of US lenders to supply all the required information to EU counterparts in a timely fashion and this leading to US lenders being deprioritised by EU counterparts. Importantly, there are also interpretation issues with regards to the margin lending activities of prime brokers. There's really two issues here: firstly, increased reporting requirements for financing supplied to hedge fund clients; and secondarily, there remains some ambiguity around whether the movement of securities to the hedge fund for short coverage is a reportable transaction in its own right. This is a point that US prime brokers are seeking clarification on.

What about S+1 collateral reporting requirements? Would the initial trade be reported T+1 (without the collateral data), and then the collateral information would be provided S+1 (which presumably is a later date in non-US trading markets)?

The European settlement model differs somewhat from the US. The EU model is generally one of T+2 settlement.

Where non-cash collateral is being used the actual securities delivered would not be allocated until settlement date. Hence the need for reporting of transaction on T+1 and allocated collateral on S+1.

It is worth noting that for certain transactions such as repos, the European Securities and Markets Authority (ESMA) would expect both the transaction and the collateral on T+1 regardless of the settlement date.

Does knowledge of EMIR implementation help with SFTR?

The European Market Infrastructure Regulation (EMIR) preceding SFTR has been hugely beneficial for the market as a whole. The industry learnt a number of lessons from what went wrong. We would highlight:

- Rushed implementation before the reporting deadline
- Lack of agreed industry protocols (UTIs as an example) that underpin the reporting requirements
- Very low pairing and matching rates

Pirum have addressed these issues in our service offering. We've been engaging with our customers for some time now, to avoid

the last-minute rush. It's important to also note that with regards to learning, it's not just the firm's experience but ESMA's that has shaped the final regulatory technical standards. The regulator has been more transparent and more communicative this time around. There has been a noticeable effort to learn from mistakes, which have been rectified in SFTR.

Are there any outstanding interpretation issues under SFTR, such as questions relating to the scope of the regulation, trade reporting fields and timing issues?

Yes. Timestamping is a good example of this, as it is something that does not exist in the current market standard process.

The UTI generation point—the point at which UTI is applied to transaction—is open, however, the Pirum/Markit solution anticipates and deals with this. Our solution does not aim to stamp each trade with a UTI but ensures all trades that require one have a UTI stamped. Our solution anticipates and accommodates UTIs being stamped upstream to Pirum, for example, by an electronic execution venue or as part of a novation to a central counterparty.

When will a corporate action result in a UTI creation?

Effectively, if a corporate action creates a new position (such as a rights issue), then that position becomes a new transaction to report, so it will need a UTI.

What fields will an out of scope entity be required to provide?

We don't have a definitive list, however, the minimum requirement would be enough information for the in-scope entity to identify its version of the trade (so at least standard entry class code, quantity, trade and value date, rate, and so on), plus its LEI or the LEI of the beneficial owner in the case the out of scope entity is an agent lender. It is also worth pointing out that for the agent lender example, it will have to repeat the exercise when the collateral is received and give the borrower a breakdown of the collateral by beneficial owner.

Do you anticipate any issues with all the trade reporting information to be available by T+1? What are the ALD issues currently being raised by the industry?

The European settlement model differs somewhat from the US. The EU model is generally one of T+2 settlement.

In the agent lender model, information for principal allocation is currently only made available to the borrower via the ALD process post-settlement date. In the new post-SFTR model, this information will be required on a T+1 basis.

The current ALD model, which is heavily used within the US, could be overhauled or replaced, given that it doesn't provide the necessary information in sufficient time for the SFTR reporting requirements

A primary example of a change would be LEIs replacing the use of tax codes in the ALD model.

Are SFTR work streams tying into wider MiFID II/MiFIR work streams? If not, should they?

Yes and no. The second Markets in Financial Instruments Directive (MiFID II) of course reaches further than SFTR—transaction reporting is just one of the aspects of MiFID II. However, for SFTR, this is more complex than the requirements under MiFID II, so it makes sense to digest both requirements in tandem to see where there is overlap.

What is clear is that MiFID II obligations still consume a lot of resource at our customers.

There's more focus on MiFID II than SFTR right now. SFTR demands attention, however, and we are starting to see increased focus on the project by customers.

Customers looking at MiFID II can also leverage the understanding they have gained of things such as where various data points are held and this knowledge can be re-deployed for SFTR. A holistic regulatory viewpoint is essential.

What are the biggest worries on SFTR reporting?

Our view and what we are hearing from our customers is:

- Obtaining and capturing all the necessary data points: There are approximately 150 data fields (75 required to match) under SFTR. The extensive dataset covers all securities finance transactions and data stored in disparate systems must be reported on a T+1 basis
- Principal level reporting and the issues that ALD poses: Obligation falls on the principals to the transactions, ie, beneficial owners rather than their agents
- Reporting matched data with paired UTIs: SFTR introduces the concept of a UTI and both sides of the transactions need to reference the same UTI
- Amending existing booking practices: Execution timestamp is another new concept for securities finance transactions. Consideration is needed for transactions that are not traded on a platform or centrally cleared and for trade lifecycle events, for example, corporate action outturns
- The long-term potential for fines and being ready on time

Are firms approaching different securities finance transaction types differently from a SFTR compliance perspective?

Firms are typically tackling SFTR from a legal entity perspective. If they trade a number of asset types, these are not being siloed. All firms are seeking a single low-cost solution across all securities finance transaction product lines.

Our clients will be able to use the extensive connectivity of IHS Markit and Pirum to other market infrastructures in compiling their reporting:

- Connections to all four triparty agents will allow collateral managed by the agents to be received directly on behalf of reporting clients
- Connections to clearinghouses, and various trading venues will mean we can capture any UTIs generated at point of trade and/or novation
- Connections to the major trade repositories will allow clients to report directly to the repository of their choice

The Pirum solution covers all securities finance transaction types so firms know they will have a one-stop solution and do not have to worry. We do, however, understand that different securities finance transaction types are handled by different areas, and often different systems.

Capital considerations

With the ISLA Securities Finance and Collateral Management Conference taking place in Berlin, Christian Schütze of Societe Generale talks to Drew Nicol about how the German securities lending market is faring at the moment

How has the German securities finance market evolved in the past two years and how do the main trends in Germany compare to the rest of Europe and beyond?

There has been an overall change in the market, not just in Germany but globally. The market is much more focused on regulatory and balance sheet topics. Limits are focused on balance sheet or the consumption of the liquidity coverage ratio (LCR), rather than maximum holding in specific shares. So today, discussions are focused much more on collateral sets, collateral optimisation and terms, than a few years ago.

From the 'outside', the German market can appear contrarian, but in fact it is extremely simple and straightforward. The nature of clients and their approach to investments is much more conservative. There is no mature hedge fund industry, and historically not much appetite for synthetic prime brokerage. In addition, with Eurex based in Frankfurt, clients are much more familiar with trading listed derivatives instead of swaps. One of the key differences between business here and business in other European countries is the market for synthetic financing. Germany is underdeveloped and behind other markets in this area.

The rise of evergreen trades is something that's been seen in several securities lending markets around the world. Is this also the case in Germany?

Yes, this is also the case for Germany and this is driven by LCR needs for banks and yield pressure in a low yield environment for beneficial owners.

German investors can be conservative. How does this affect the wider market? Are they missing out on revenue opportunities?

Yes and no. Germany is probably the most competitive market in Europe, so it is difficult to say that investors 'miss' revenue opportunities, at least not within the transactions they are actively doing. However, synthetic financing is an important instrument for many banks, and it implies a good pickup compared to classic finance trades. This is something which is recognised and understood by most German investors. Unfortunately, the desk setups are not really there yet.

How do German investors' aversion to synthetic trades affect the country's scrip market? How active is it?

Scrips and corporate actions are a heterogeneous topic. Some investors are very active and professional in terms of setup. Synthetic trades play a less important role for Germany as the market is rather long in assets. As a result, a synthetic trade is not necessarily favourable in terms of the pricing.

There are several regulatory frameworks being implemented in the EU at the moment. What impact are they having on the German market and the behaviour of the buy and sell sides?

That's a key question. It brings a lot of uncertainty. A good example is the new tax law on German dividends. The rationale behind those changes is clear, but the market is still not clear on what the 45-day rule means, whether it is really only 45 days, or 45 days before and/or 45 days after the dividend date. The effect has been somewhat

dramatic. Some beneficial owners have stopped all securities lending in German underlying.

This is tragic enough for market liquidity in German equities, but it also affects pricing in all kinds of market structures. If you have a net zero position in a share and you want to hedge a long call that, for example, an insurance company is selling to you in order to reduce an overweight position, how do you delta hedge the call if you do not want to use other derivatives?

Another example is index arbitrage. If the underlying securities lending market is not liquid anymore, it affects liquidity in the indexarb as well.

Unlike most other European markets, Germany's financial hubs are not focused in its capital. How does this affect the way Germans do business, both domestically and internationally?

I would say there is no correlation between the location of the financial hubs within or outside the capital city. So for me, the way business is done is similar to other countries. As stated earlier, Germany is a super competitive market. All of the major banks are active here.

Similar to France, for example, it is of course an advantage to have a local presence and to be a native speaker. It is also down to the culture—hence a conservative approach and a proper organisational setup are probably more important than in other countries.

> Germany is a super competitive financial services market. All of the major banks are active here
>
> Christian Schütze, Head of cross-asset secured financing sales, Germany and Austria
> **Societe Generale**

Brexit negotiations are about to get a whole lot messier—a view from the EU

Michael Huertas of Baker McKenzie reviews the current political calamity engulfing the UK and considers what it might mean for its exit from the EU

This contribution was compiled on 13 June 2017

There is no delicate nor diplomatic way of putting this: the EU is increasingly fed-up with the UK's politics and Prime Minister Theresa May's hubris. Despite her most recent humbling, the sense is that the UK is still very much holding the rest of Europe hostage in the divorce proceedings that it wanted. The EU-27 would instead like to promptly get the process over and done with. This not only affects the pending mood on the Brexit negotiations, which were supposed to begin on 19 June, but should also be something that financial services firms bear in mind when 'Brexit-proofing' their operations and trading activity. In short, Brexit just got messier and the EU-27 may soon be prompted to take unilateral action to protect its priorities, including the plans of further integration that leave the UK very much on the outside ahead of its exit.

Despite the UK's turmoil, the Article 50 timeline that the UK triggered is quite clear as to what needs to happen and when, and the UK is unlikely to receive any special treatment due to its indecisions and domestic issues. Consequently, financial services firms may need to further step up their planning, given the clear change in the EU's tone on pushing ahead integration as well as new prescriptive supervisory announcements applying to those that plan on relocating to the single market, which is the UK's largest market.

As the UK headed back to the polls on 8 June, the European Commission announced its further plans to accelerate and deepen the capital markets union (CMU) project, and do so specifically for the benefit of the EU-27. This renewed sense of purpose and confidence, bolstered by recent defeats of populism in Austria, the Netherlands and France, is evocative of an EU that is pushing integration ahead at full force. This comes on top of other 'business as usual' reforms that have come off the table or out of the starting blocks towards rapid implementation. It also extends beyond financial services and is quite different to the post-financial crisis firefighting that focused primarily on making the traditional banking sector 'safe to fail' or in implementing the 2009 G-20 Pittsburgh Commitments.

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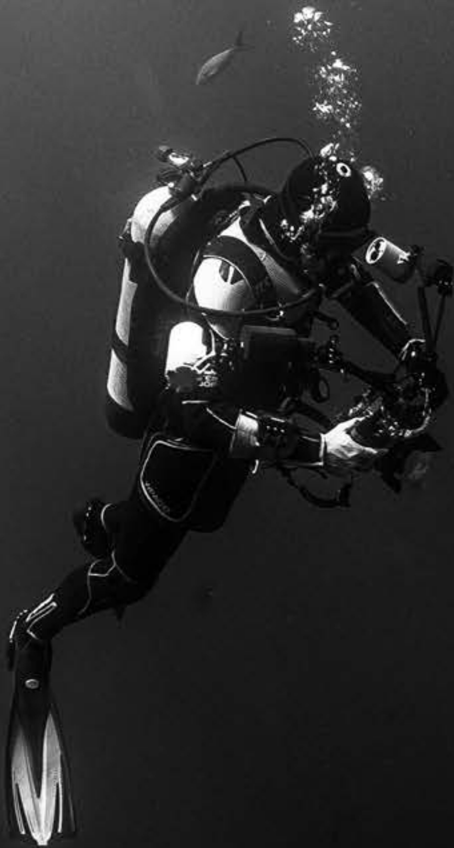

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Instead, while Theresa May gambled her snap election to consolidate more power, EU policymakers, following some critical soul searching, are delivering on the pledge to “be big on big things”. This new tone is loud and clear in financial services, in the form of completing the eurozone’s integration, calls for a common finance minister, completing the banking union and the CMU. However, it goes further in the form of the ambitious defence union as well as pushing the European pillar of social rights for the labour market. As German Chancellor Angela Merkel has stated, the time is now for the EU to do more to take its fate into its own hands.

This political priority has not gone unnoticed. With all that is going on, Brexit has, since the initial shock in June 2016, become a bit of a sideshow. The UK’s political statements that “Brexit means Brexit” have left most policymakers in Brussels, Frankfurt and Paris none the wiser as to what that actually means. British calls that it’s “time to get the job done” are met with EU responses of “we’ve been ready to start negotiations whilst you’ve been dragging your feet doing nothing”.

Michel Barnier’s increased Brexit bargaining power

In many ways the UK's views, echoed more strongly by some, to "have the Brexit cake and eat it”, have soured any political capital, let alone sympathy, that Westminster may have had across EU capitals. And all EU member states will have to vote on the Brexit deal (if any). This is also being flanked by consensus that the UK is rather wishful in its thinking that it could, as one fragmented nation, dictate the terms of the exit to a considerably more reinvigorated and united EU-27, comprised of three G7 nations in Germany, France and Italy, which as the motors of EU integration have little tolerance for lengthy dealings with the UK kicking and screaming in a divorce it chose to begin. This explains in part some of the schadenfreude at May’s recent malaise, but also concern about the UK team being flummoxed with some basic principles prior to the general election and now possibly lacking the requisite political stability to get things done.

On top of this, the presidency of the European Council, which represents the EU’s heads of government, will pass on 1 July 2017 from Malta to an EU political direction coordinated from Central and Eastern Europe. The joint-programme of the successive council presidencies of Estonia, Bulgaria and Austria for the next 18 months are quite united on advancing EU integration workstreams and ensuring an orderly Brexit that protects the EU’s resilience and its integrity.

The EU’s agreement on the Brexit negotiating guidelines and principles took under five minutes to agree in a unanimous vote. Even after the UK's election, whether this is difficult, an ‘open’ or ‘closed’ or a ‘hard’ or ‘soft’ Brexit for the UK is irrelevant from an EU negotiation perspective.

Irrespective of all of this instability adding another string to lead EU negotiator for Brexit Michel Barnier's bow, the political divorce will not necessarily cause citizens to want to look back in anger at the UK. After all, geographically, the UK will remain in Europe and both sides will retain ties and want to engage with one another. While the EU’s love for the political class in the UK may be lost, there is still much love for the country, especially following the recent heinous attacks that have quite rightly been condemned and shown a need for continued cooperation, regardless of May’s earlier statements.

As negotiations ensue, where should firms direct their focus for the next 18 months?

As the UK woke up to the political mayhem of 9 June, it became clearer that the UK will likely be between a rock (other than Gibraltar) and a very hard place. This does not in any way stop the actual work over the next 18 months, on both sides of the Channel and the Irish Sea, to make sure that existing firms and those relocating to the EU-27 and/or eurozone are compliant with the existing legal and regulatory regime, plus the breadth of pending changes. These are reshaping the way financial services regulation, supervision and market practice operates in the EU and the banking union. At the heart of this is supervisory convergence so that the single market really does operate on a single rulebook that is uniform across the constituent jurisdictions. This is a defining moment for the EU, the eurozone but also for market participants as efficiencies emerge and the cost of compliance reduces. It is also important as the EU faces some further years of regulatory and supervisory change.

With the entry into force of the second Markets in Financial Instruments Directive and Regulation package, the review of the Capital Requirements Regulation (CRR) and fourth Capital Requirements Directive framework, revisions to the European Market Infrastructure Regulation (EMIR), and finalising the roll-out of the Securities Financing Transactions Regulation, firms will likely be busy. This is on top of CMU workstreams as well as those that are specific to the eurozone and its banking union, which harmonise the single rulebook’s application further in certain areas.

Success on the political agreement on the draft Securitisation Regulation, the CRR-relevant amendments and the simple, transparent and standardised securitisations criteria is a vital step. Reviews of the European system of financial supervision and the functioning of the European supervisory authorities, including bolstering European Securities and Markets Authority (ESMA) and deciding where the London-based European Banking Authority will soon call its home are also now moving at full speed.

So too is how to complete and improve the banking union, new rules on fitness and propriety assessments within the banking union and

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Michael Huertas, Counsel, banking and finance practice
Baker McKenzie Frankfurt

eurozone, and ESMA "supervisory principles on relocation", which will shape how financial services firms wishing to set up in the EU-27 and/or the eurozone will structure their business and engagement with clients. These effects go beyond Brexit and apply across all financial transaction types and asset classes. This should really incentivise firms to look at their Brexit-proofing in a manner that does not rely on assumptions of any political deal on equivalence or preferential rights.

While many of the positions on financial and professional services have been laid out, more is yet to come. The European Commission has released its plans for euro-denominated clearing and they could mean that clearing and other post-trade infrastructure may also look at expanding their presence within the eurozone. This comes at a potential cost to London, and on top of the relocation of firms and EU agencies currently headquartered in the UK. Continued criticism from London is expected, unsurprisingly, sympathy from EU policymakers is not. After all, irrespective of certain commentators' claims this could disrupt an existing market, EU policymakers increasingly take the view that London would not have gotten that market following its 'big bang' had the UK not been in the EU.

Consequently, post-Brexit, the extraterritorial scope of EMIR and existing supervisory powers support the policy that EUR-denominated clearing and oversight of systemically important activity should be moved to the EU-27/eurozone 19. From an EU policy perspective, any relocation does not necessarily mean that any disruption cannot be appropriately mitigated and managed.

Similarly, while the supervisory principles on relocation may prompt some immediate rethinking of Brexit-proofing plans as to what goes where and when, it should also concurrently prompt firms and their advisers to assess how to ensure their policies and procedures, regardless of relocation, meet the EU and eurozone's supervisory expectations. Equally, this will have to be considered in the context of how such policies and procedures remain interoperable with rules and requirements of third-countries. For the documentation and booking of securities finance transactions, this has some very real immediate implications.

While it is unlikely that English law-governed master agreement documentation will be swapped for, say, a German DRV or the European master agreement, several legacy arrangements will need repapering and certain transactions possibly novated or re-executed within the EU-27. This could also affect collateral arrangements. When the UK, from an EU regulatory perspective, becomes a "third-country", the enforcement of English law judgements within the EU-27 might become more difficult, especially if no deal or institutional solution is found to resolve this issue. Firms may possibly want to consider replacing their dispute resolution mechanics with suitable alternatives other than just arbitration.

In conclusion, while the UK's general election seems to have landed egg on the face of Prime Minister Theresa May, including others in the Conservative Party that did not lose their parliamentary seats, the level of political risk and the contagion that this could have across other channels and workstreams has increased. It has also become possibly opaquer with more known and unknown unknowns.

The only certainty among all this uncertainty is that May's power-sharing means her mandate and ability to confidently steer Brexit negotiations just became considerably more complicated and ultimately costly in what the UK can concede or compromise on.

Highlights from ISLA 2016

ISLA *Daily*

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SECURITIES FINANCING

Discover the new Smart Tech platform which will disrupt the dealing pattern for Securities Financing

1

INNNOVATIVE
A new way to share interests and to facilitate negotiation and dealing.

2

INTUITIVE
Each dealer can easily input interests and navigate from inception to confirmation, through negotiation.

3

DIGITAL
Our real-time database is hosted on a secure and real-time application anticipating expected regulatory requirements around increased transparency, liquidity, matching and reporting.

4

SECURE
Wematch is respecting thoroughly all the industry standards regarding information disclosure, communication between dealers, and confirmation sent by the broker.

5

FLEXIBLE
Wematch will constantly be upgraded following feedbacks from the users and market evolutions.

6

AT YOUR SERVICE
Our support team is always available at all time.

In your best interest

Come and meet us **June 21/22 for a demo session** in Salon Ponte Fabricio at the **Ritz-Carlton from 8 am to 6 pm**.

The platform is live **since February 2017** and has already processed **over 1tr $ worth of interests**.

Call David Raccat: **+44 7500 896 826** or connect to **wematch.youcanbook.me** | www.wematch.live

Conference Agenda: Day 1

14:15	Registration
15.10	Welcome by the ISLA CEO, **Andrew Dyson**
15.20	Opening Keynote Speech **– Marc Bayle de Jessé**, Director General—Market Infrastructure and Payments, European Central Bank

15.50

Key Market Developments / Dynamics Explained (Educational Sessions)

For the first time, ISLA will be offering their delegates the opportunity to attend a couple of short educational sessions. These sessions will provide detailed insights into key regulatory issues that our industry is currently dealing with and provide an important backdrop to the rest of the conference.

New UK Money Markets Code of Best Practice

In conjunction with the Bank of England, this session will provide an overview of the new code of best practice that will apply to all UK market participants who are active in securities lending and repo markets. It will cover the key provisions of the code and how they apply to our industry as well as considering the adherence process including how the code fits in within the Senior Managers Regime. As well as insights from some of the practitioners who helped draft the code, the Bank of England will also join the session to provide additional background on the development of the code.

Speakers:
Jon Pyzer, Senior Manager, Sterling Markets Division, Bank of England
Sarah John, Head of Sterling Markets Division, Bank of England
Paul Wilson, Managing Director, Global Head of Agent Lending Product & Portfolio Advisory, J.P. Morgan

MiFID II

As our understanding of how MiFID II evolves, the touchpoints with our industry are increasing, this session is designed to provide delegates with an overview of the key parts of this regime that apply to our markets and how we are developing common standards or best practice to address the requirements of the directive where appropriate. With compliance under MiFID II required in 2018, this will be a key session for all industry participants.

Speaker:
Sarah Nicholson, Consultant, ISLA

BLUE SPIRIT

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Securities Services

Unlocking the potential.

Conference Agenda: Day 1

17.10

Discussion Roundtables

As in previous years, ISLA will be offering our popular interactive roundtables as a prelude to the start of the formal sessions on Wednesday. You will be able to register for a roundtable of your choice ahead of the conference.

Roundtable 1 – 'Capital Efficient Alternatives to TTCA's'– what is optimal?'

This session aims to look at alternative ways of doing business in the context of increasing pressure on RWA's, Capital and Balance Sheet. As the traditional title-transfer model comes under scrutiny, alternatives such as pledge structures, central clearing and derivatives will be debated.

Co-Chairs:

Tina Baker, Consultant, ISLA
Diana Chan, Chief Executive Officer, EuroCCP NV
Habib Motani, Partner, Clifford Chance

Roundtable 2 – 'SFTR – Where are we now?'

This session will consider where we are in the process around the implementation of SFTR, including the impacts on existing business flows such as Agent Lender Disclosure (ALD). With final implementation imminent, is the industry ready?

Co-Chairs:

Josh Galper, Managing Principal, Finadium
Nick Wood, Global Head of Marketing and Relationship Management for Securities Lending and Financing, HSBC Bank plc

Roundtable 3 – 'The Evolution of Settlement Infrastructure'

Changing and emerging technologies are set to revolutionise post trade settlement across securities markets. This session will evaluate immediate opportunities such as T2S, and where emerging technologies such as distributed ledger could potentially change our industry over the longer term.

Co-Chairs:

Adam G Bate, Executive Director & EMEA Head of Financing and Collateral Operations, Morgan Stanley
Michael Huertas, Counsel, Banking & Finance Practice, Baker McKenzie Frankfurt
Cillian Leonowicz, Senior Manager Consulting, Deloitte Ireland

18.00

Welcome Drinks Reception

Hosted by: **ABN AMRO Clearing & BNP Paribas**

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