ISLA Daily

Day 2

27th Annual Securities Finance and Collateral Management Conference

Wednesday, 20th June

SFTR: Engagement has been excellent

News from day one • Interview with Iain Mackay of EquiLend • An SFTR insight • Photos from the first day • Brexit implications

ISLA conference to inform and challenge delegates, says CEO

The International Securities Lending Association (ISLA) aims to both inform and challenge delegates, according to ISLA CEO Andrew Dyson.

In his welcome remarks at the ISLA 27th Annual Securities Finance and Collateral Management Conference in Lisbon, Dyson said the association wanted to show delegates what it had been doing over the past year, but also wanted to promote thoughtful discussion.

Dyson said that events like ISLA's annual conference work best when you hear more from the delegates than the speakers. He said that delegates must "engage, agree and disagree".

Financial markets must 'reassure' and 'rebuild trust'

Financial markets must "reassure" people of their reliability and "rebuild trust" in the coming years, according to Gabriela Figueiredo Dias, chairperson of Portugal's Securities Market Commission.

In her keynote speech at the International Securities Lending Association's (ISLA) Annual Securities Finance and Collateral Management Conference in Lisbon, Figueiredo Dias said that this was one of the "key trends" the financial services industry would see over the next few years.

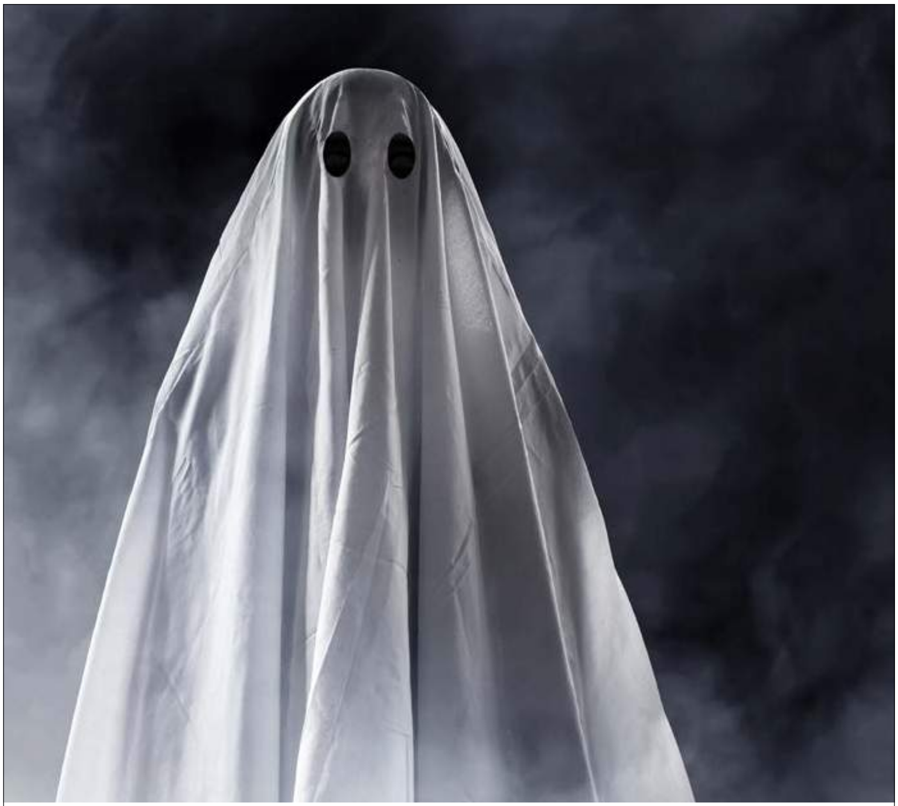
She said: "In general, we as the financial sector are perceived to have failed the global economy at the beginning of the century. We must now show that lessons have been learned and that we can build an efficient financial system. This is our most valuable contribution to unlocking the potential growth of our economies."

She added: "We need to reassure people of the reliability of the financial markets," noting that this was particularly important for Europe.

In Europe, Figueiredo Dias said there were already some positives, with the continent moving towards a market focused economy.

"In the securities lending market, despite some quarterly episodes, the end of 2017 was much less tumultuous than the year before. This was welcome considering the changing regulatory environment that we are facing. In Europe, the worst of the crisis is now behind us."

However, Figueiredo Dias noted that despite these positive trends, the level of uncertainty remains particularly high, with growth momentum stabilising, while private and public debt continue to cast a shadow.



Ghosts of 2011 sovereign debt crisis remain fresh for the EU, says ISLA panellist

The "ghosts" of the 2011 sovereign debt crisis are "back in the heads of the people in Brussels", according to Bertrand Huet, senior vice president, partner, and co-head of Financial Services at FleishmanHillard.

In a session at the International Securities Lending Association (ISLA) 27th Annual Securities Finance and Collateral Management Conference, Huet said that this fear was a result of the market reaction to recent elections in Italy earlier this year and contagion concerns.

The elections were held on 4 March 2018 after Italy's parliament was dissolved by ex-president Sergio Mattarella in December 2017 and resulted in the League, a centre-right coalition led by Matteo Salvini, coming into power.

Under Salvini, the party has, to some extent, embraced Italian nationalism and emphasised Euroscepticism and opposition to immigration.

The party has historically advocated the transformation of Italy into a federal state, fiscal federalism and greater regional autonomy, especially for Northern regions.

Huet said that the Italian elections are a "reminder" that populism in Europe didn't end with French president Emmanuel Macron's defeat of Marine Le Pen last year.

Huet noted that Europe "still has another nine elections in the next year and a half".

"Forget Brexit, what's most concerning for the EU leadership is that the Italian government is showing an intention, perhaps not to leave the euro, but certainly to divide Europe, as can be seen from the migration."

Industry stakeholders partner on blockchain solution

ABN AMRO Clearing, EuroCCP, Euroclear and Nasdaq have partnered to make the use of securities more efficient when used to cover margin calls, using blockchain or utilising distributed ledger technology (DLT).

According to the firms, this solution addresses business challenges and inefficiencies related to the current provision of collateral to central counterparties (CCPs) and has demonstrated that a shared, resilient network can be built between collateral givers, collateral takers and intermediaries. Nasdaq developed the proof of concept for the DLT nodes while ABN AMRO Clearing, EuroCCP and Nasdaq Clearing developed a specific front-end and managed integration into their own environments.

The initiative comes after inefficiencies of collateral processing have been heightened as a result of recent market changes such as extended trading hours by stock exchanges and the requirement to centrally clear derivatives traded bilaterally (OTC) under the European Market Infrastructure Regulation (EMIR).

Currently, a CCP margin call typically needs to be covered by euro collateral within a short time frame, but after the regular hours of central banks and central securities depositories, options are limited.

As an increasing number of buy-side market participants centrally clear their derivatives trades, the need to provide an efficient securities collateral solution has become essential, according to the firms.

Coen van Walbeek, global head of treasury and securities, borrowing and lending at ABN AMRO Clearing, said: “With a faster and more globalised market, it is essential to make the processing of collateral more efficient.”

“Expanding the possibilities to use securities as collateral will make clearing through CCPs more attractive and cheaper for buy-side market participants. This is a breakthrough for the CCP model.”

Diana Chan, CEO at EuroCCP, commented: “We are excited to be partnering on a proof of concept that is extremely useful for transactions that are not already well-served by market infrastructures.”

She added: “With a solution like this in place, we will be able to efficiently provide counterparty risk protection of equity trades after hours while reducing operational complexities. Today we are limited by European banking hours or arrangements in other time zones.”

Walter Verbeke, global head of business model and innovation at Euroclear, said: “As a major collateral house, we are pleased to participate in this initiative. It demonstrates that a smart combination of new technology and the resilience of the Central Securities Depository can work effectively and in full compliance with regulatory requirements.”

Julia Haglind, CEO of Nasdaq Clearing, said: “As both a leading market technology provider and a CCP operator, Nasdaq is uniquely positioned to bring efficiencies to collateral management. We believe that blockchain technology brings with it a huge potential to transform markets everywhere, and this project is an excellent showcase of this.”

Comyno joins forces with IHS Markit

Comyno, a fintech software and business consultancy, has partnered with IHS Markit to market the Securities Financing Transaction Regulation (SFTR) reporting solution from IHS Markit and Pirum Systems.

Comyno is currently utilising its securities finance consulting footprint in central Europe to help organisations comply with all aspects of SFTR.

According to IHS Markit, customer feedback has indicated the IHS Markit SFTR reporting solution is best positioned for a timely and state-of-the-art implementation of their requirements.

Markus Buettner, CEO of Comyno said: “The comprehensive SFTR reporting solution from IHS Markit and Pirum can greatly benefit institutions of all sizes in the securities finance market.”

He added: “From our perspective, this solution is the clear leader for SFTR reporting because it is collaboratively designed with industry participants, which can help significantly reduce the cost and complexity of implementation.”

Pierre Khemdoudi, managing director and global co-head of equities, data and analytics at IHS Markit commented: “We are pleased to work in alliance with Comyno in marketing our SFTR reporting solution.”

He added: “Comyno serves an extensive and diverse network of industry participants, and our scalable solution can help firms save time and resources as they work to address SFTR requirements.”

PGGM goes live with Eurex Clearing’s securities lending CCP

PGGM has gone live with Eurex Clearing’s securities lending central counterparty (CCP).

PGGM is in the process of finalising their admission as a direct participant of Eurex Clearing’s securities lending CCP and is the first buy-side client to start transactions with Morgan Stanley using the lending CCP’s specific lender license.

PGGM and Morgan Stanley are currently in the final stages of simulation testing with a

view to becoming the first to use EquiLend Clearing Services' (ECS) full connectivity offering to access Eurex Clearing's lending CCP. The service will enable them to transmit trades agreed via EquiLend to the lending CCP.

Eurex Clearing's lending CCP covers loans in global fixed-income securities as well as equities and exchange-traded funds in Europe.

Roelof van der Struik, investment manager of treasury trading and commodities at PGGM, said: "At PGGM, we are pleased to see our strategic initiative come to fruition with the help of Morgan Stanley and EquiLend for our trading connectivity to Eurex Clearing."

Susan O'Flynn, managing director for Europe, the Middle East and Africa and head of bank resource management and global head of clearing and collateral optimisation at Morgan Stanley commented: "This initiative with PGGM demonstrates Morgan Stanley's support of central clearing solutions for securities finance transactions, such as Eurex Clearing's CCP model, as these enable us to both build our existing and expand new client relationships and deliver best in class service with risk, resource and operational efficiencies."

Brian Lamb, CEO of EquiLend, said: "The dynamic ECS connection to Eurex Clearing allows Morgan Stanley and PGGM to leverage a completely integrated CCP model for securities lending and benefit from the resulting capital and operational efficiencies."

Marcel Naas, global head of funding and financing at Deutsche Börse Group, commented: "The acceptance and growth of the lending CCP is proven by the committed partnership shown by our clients and leading market infrastructure providers."

Eric Mueller, CEO Eurex Clearing, said: "The focus on CCP solutions continues to increase, driven by the need for cost and operational efficiencies and we anticipate greater utilisation of our services as the securities finance industry looks to realise the added benefits of a CCP model."

Allison Levy, director of asset servicing global product management, commented: "BNY Mellon are pleased to be the first custodian able to service centrally cleared lending, working in partnership with Eurex and Morgan Stanley to support our client PGGM."

Banque de France and BNP Paribas utilise Elixium marketplace

The Banque de France and BNP Paribas have become the first participants to utilise the Elixium marketplace with Euro tri-party Repo trade, settled by Euroclear.

The €750 million trade was confirmed by Francois Villeroy de Gaulhau, governor of the Banque de France, at the bank's conference on Innovations in the Paris Financial Centre, on 25 May.

According to Gabriele Frediani, chief business development officer, head of business development and international at Elixium, more trades have happened since and three more participants have since joined.

Frediani explained that for Elixium, the Paris financial centre is expanding its collateral management offering alongside Euro GC +, a centrally-cleared service for the triparty repo market that has been available since 2015.

He said: "We are happy to confirm that our European marketplace is up and running. Elixium was developed to respond to a changing regulatory environment that has created an inexorable shift towards transparency, best price execution and equilibrium of access to markets."

"As such we are delighted to be at the heart of the Paris ecosystem, helping to unlock liquidity, create efficiencies, and improve returns in the secured financing market for Europe."

Making SFTR a success

Iain Mackay of EquiLend suggests there has been a wide range of preparedness for SFTR, but says that overall engagement has been excellent

Based on what you know from the regulators, what is the optimal solution for SFTR?

It is important that firms follow a set of principles that will underpin the success of Securities Financing Transactions Regulation (SFTR). Key to this success, is how firms interact with governing bodies like the International Securities Lending Association (ISLA) and learn from the experiences of the trade repositories (TR). This is why we have been advocating the voice of the TR as we go through the design phase, and the Q&A session from the regulators will be an essential component also. With some operational investment ahead of implementation, being compliant with SFTR can be seamless for securities finance market participants.

Following the initial setup, the solution should operate by itself, seamlessly—not low touch, but no touch. This has been the underlying principle of the EquiLend/Trax solution: Leverage existing connectivity (Next Generation Trading (NGT), Post-Trade Suite (PTS) or Agency Lender Disclosure); population and matching of dual-sided trades for the most efficient reporting to TR; visibility and transparency in all aspects of the value chain; and flexibility to support different client requests.

If you had to narrow it down, what would you say are the top three most critical components of an SFTR solution?

First, transparency in the trade booking process. A robust unique transaction identifier (UTI) generation and execution timestamp process is essential. With the design of the UTI waterfall, the regulator is encouraging firms to book as many transactions as possible onto a centrally-traded platform. As the leading multilateral trading facility in the securities lending business, EquiLend is ideally placed to support this activity. The fact we can send those matched trades directly into our PTS platform to support all of the post-execution services, and then onward report via Trax to the TR, only adds further credence to our solution. Firms need to adhere to the waterfall as closely as possible; deviation of this that creates chaos to the matching process at the TRs will not be tolerated.

Second, standardisation of data. A clear understanding of the data is required, along with how it will be populated by both sides of the trade. Firms need to ensure that what is reported matches what is in their books and records. The regulator understands that not everything is going to be perfect and would rather see discrepancies than have massaged data providing falsely matched reconciliations. EquiLend and Trax have the ability to populate dual-sided data from point of trade, and with firms having built out at multiple points to receive data back from EquiLend, there is a completely automated feedback loop to ensure data reported from our system matches firms' books and records.

The third most critical component: matched transactions at point of process. Emphasis needs to be placed to the processes that underpin the business, for example trade booking, trade amendments, mark to market, triparty required value and data population. It is essential that during these processes all the reportable components match. The EquiLend and Trax solution is the only offering that provides an automatic solution to all of these processes.

Should firms outside the European Union be concerned about SFTR?

They shouldn't be concerned—there is still time to implement an SFTR solution—but they need to be prepared. While SFTR is a European regulation, due to the cross-border nature of the securities finance industry, most market participants around the globe will need to be SFTR compliant. We have had fruitful discussions with firms not just across the EU but in the US and Canada and even in the Asian and South African markets regarding SFTR compliance. If you have a securities finance business, SFTR should not just be on your radar now; you should be actively working toward compliance.

The securities finance industry is very manual. How do you expect firms to automate the SFTR process?

We have seen a major shift in recent years toward the adoption of automation within the securities finance industry. While manual trading and post-trade activities still happen—including emails and surprisingly, even faxes—there has been a great momentum within the industry to move as much of this activity onto systems such as EquiLend's NGT and PTS. While there remains some manually traded and booked activity, particularly in the specials space, the volume of trades booked on-platform has absolutely skyrocketed in recent years, particularly with the advent of NGT. The average daily notional traded on EquiLend has increased by more than a third just since the launch of NGT in 2015. One of the benefits of NGT is that it can be used just as easily by a few people on a small desk trading on the intuitive screens as by highly technologically advanced firms that have built out full automation—and they can even trade with each other.

We are also witnessing a greater ambition from firms to automate all post-execution lifecycle events through PTS, into which we have invested considerably in the past few years in order to make the platform as easy and useful as possible for industry participants. Firms want a solution that achieves this aim but in the most cost-effective manner. Our pricing structure allows firms to achieve this, and as a result we are seeing a large increase in usage and continue to onboard new firms to PTS.

What impact will SFTR have on operational efficiency?

This is the biggest opportunity, but also ironically one of the biggest challenges firms will encounter. It can be difficult for firms to see the true benefits. To understand the maximum benefit they will achieve from SFTR, they need to be able to complete a full cost-per-trade analysis, incorporating not only the potential SFTR costs from all actors involved but also the supporting costs that come from automated post-trade services.

In terms of the functionality available, this is ultimately where firms can leverage the changes they are making in order to be SFTR compliant to their benefit. SFTR will absolutely require firms to be more operationally efficient and, ideally, implement as much straight-through processing (STP) as possible. In the past, some firms may have automated a portion of their processes but then manually inputted updates or modifications to a trade into their proprietary systems. That is not only inefficient but it adds unnecessary risk into the equation. We see a shift in that process happening throughout the industry, where the most efficient firms are leveraging both NGT and our PTS for their trading and post-trade processes. By moving these activities on platform, SFTR compliance becomes much simpler—especially when the firm also leverages the joint EquiLend and Trax SFTR solution. The result is SFTR compliance but also improved operational efficiency, cost savings and reduced risk.

Are firms ready for SFTR?

We see a wide range of preparedness amongst market participants, but on the whole the engagement has been excellent. It is important that we support the work conducted by ISLA and other governing bodies and continue our interaction with the regulator to ensure that we provide the necessary transparency to the project. To achieve this we have more than 20 firms in our SFTR working group, which has been an unprecedented collaborative effort amongst market participants toward the common goal of designing the optimal SFTR solution. We are working collaboratively with other firms in this space to demystify and prioritise the necessary requirements to ensure SFTR is a success with as minimal impact as possible to day-to-day activity.

What is EquiLend doing differently to prepare for SFTR?

In order to be more focused on our clients' needs gearing up to SFTR, we have restructured and reprioritised projects that focus on making the market more efficient for our clients. That includes incorporating clearing services throughout our products, more closely integrating our suite of services and also strengthening our partnerships with other service providers, particularly our SFTR partner Trax. As a result, we expect our clients will experience a more complete service offering—a one-stop shop for trading, post-trade, clearing, market data, performance reporting and compliance.

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Iain Mackay
Global product owner, post-trade services
EquiLend


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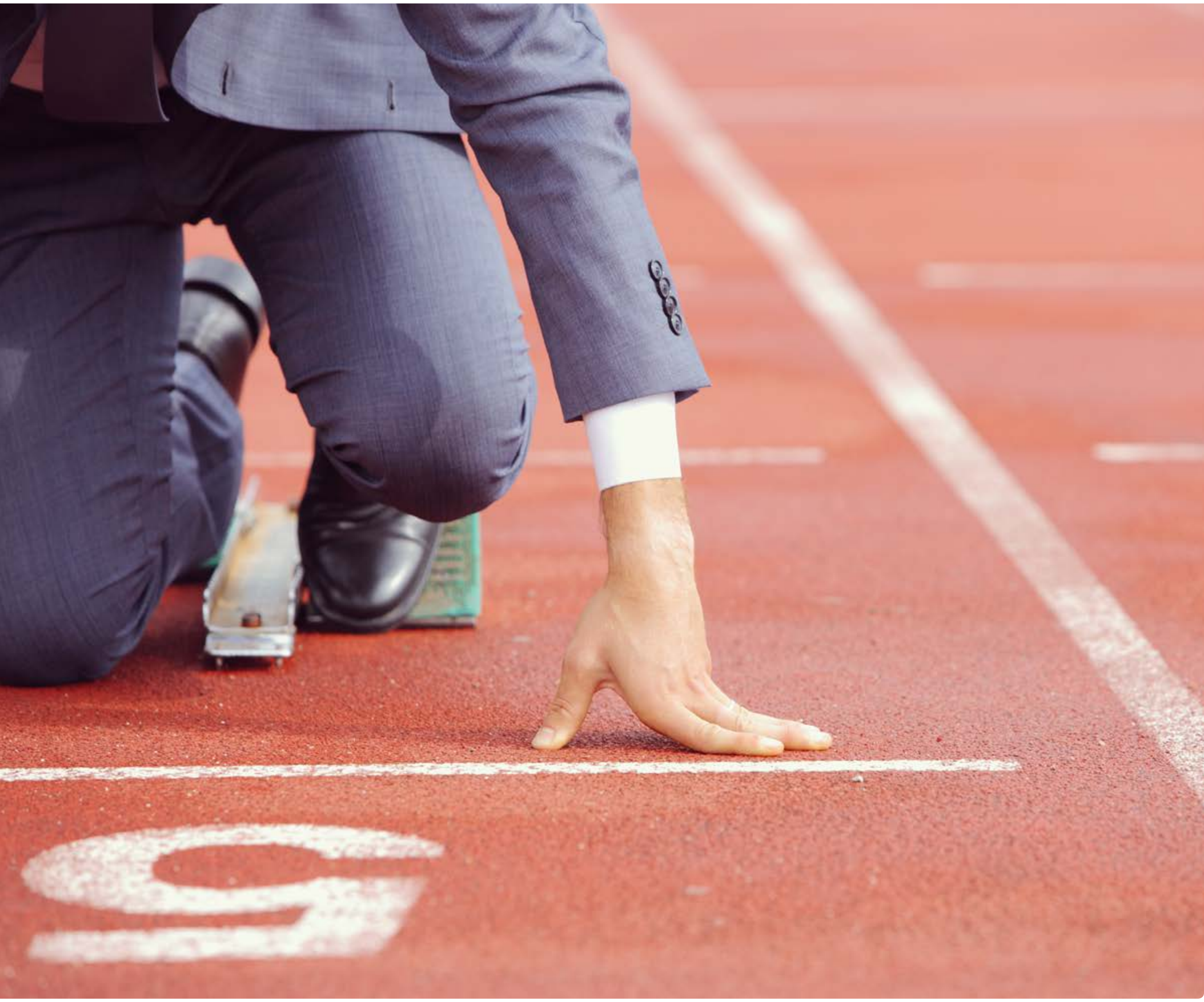


Don't sit on the sidelines

Prepare now for implementation of SFTR

Brian Bollen reports

The securities finance sector is bracing for trade reporting regulation coming next year. Securities Financing Transaction Regulation (SFTR) is expected to begin to phase in for the largest market participants in late 2019. But don't let the implementation date fool you. There is much to prepare between now and then and, the Depository Trust & Clearing Corporation (DTCC) advise "do not underestimate the work required—start preparing now".

Although the financial services industry gained valuable experience from the trials and tribulations of complying with the various regulations born from the financial crisis, the securities finance sector has significant groundwork to lay in order to be ready for SFTR.

SFTR shares many similarities, as well as differences, with the European Market Infrastructure Regulation (EMIR) and the second Markets in Financial Instruments Directive (MiFID II). Being a systemic risk reporting regime, SFTR, which covers securities finance transactions, is more closely aligned with EMIR, which covers over-the-counter (OTC) and exchange-traded derivatives, than with MiFID II, which regulates most derivatives and cash financial instruments and is centered on transparency and market abuse. Both EMIR and SFTR require reporting to a trade repository supervised by the European Securities and Markets Authority (ESMA), whereas MiFIR requires reporting to a National Competent Authority (NCA), either directly, or via an Authorised Reporting Mechanism (ARM).

The securities finance industry arguably has more work to do in comparison to the derivatives industry when it first faced trade reporting regulation, specifically in regards to data availability and the workflows that currently sit at the core of the securities finance industry. Mark Steadman, DTCC executive director, GTR European head of product development, warns: “Firms need to define best practices upfront, otherwise they risk more pain in the long run.”

Steadman also suggests: “Those who are not yet engaged with SFTR, really need to be.”

Conversations with industry participants show that a number of institutions are redeploying teams that have until recently worked on MiFID II onto the SFTR work.

Steadman explains: “We are seeing firms mobilise much more now resources are freeing up from MIFID II, and they’re initially looking to see how they can access and get the data they need in order to meet the reporting obligations. Many clients are really looking at the design and analysis of an end-to-end architectural solution at this stage.”

His advice to clients and other firms on how they should be preparing for SFTR is relatively straight forward and focused on data. He says: “A lot of firms are looking to source data. The most important thing is working through the workflows, understanding the data that needs to be reported as well as where they are going to get it from, as well as identifying the gaps. Clients then need to look at their overall end-to-end infrastructure and how they are going to plug those gaps.”

If preparations and compliance are done correctly, he sees clear benefits to be gleaned from SFTR. He identifies transparency of data as the most important issue and suggests: “The industry itself has tried to get a grip on the volumes of reporting that this is going to create. That in itself speaks to the lack of transparency that we see at the moment in the industry. The work that needs to be done to bring increased data transparency may bring economic benefits such as more accurate pricing.”

When looking back at derivatives reporting, it was a little bit of a slow process, or an easing in to trade reporting because the rules of validation were not as strict and tight as ESMA intends to make them from day one in the securities financing space.

Historically, under changes to the derivative reporting regimes the market has taken time to adjust to new mandatory requirements but reporting firms under SFTR should be aiming to report as accurately as possible. Whilst this increases the challenge of full compliance from day one, it needs to be the end target. That said, it should not be taken lightly, he advises. Firms should be looking to report as efficiently as they can, suggesting “if firms treat it with the seriousness that it deserves, and they don’t have to come back and repeat themselves through remediation of inaccurate reporting, they avoid incurring more costs and more disruption to their business”.

Reporting isn’t just about reporting in to a trade repository, it is also about having the correct controls in place and making sure that the required reporting takes place in an accurate and timely manner. Steadman explains: “Those elements can be overlooked by firms that are not necessarily familiar to an EMIR-like trade reporting regime, but they are critical to the success of implementation.”

He adds: “Firms should ensure that they have robust control frameworks in place including control over the data reported on their behalf, reflected fully in their books and records.”

DTCC has had an action-packed 12 months, according to Steadman. He revealed: “The major project that we are working on is the re-platforming of the Global Trade Repository (GTR) which enables us to extend the services of the GTR for SFTR.”

“This is paying dividends”, he says, “and paves the way to build new value-added services on top of the existing infrastructure and to also extend functionality for services like SFTR with competitive pricing.”

The heavy investment the industry has made in building out a global infrastructure for OTC derivatives trade reporting over the past five has helped DTCC establish an extensive portfolio of trade repositories in Europe, Asia Pacific and North America. He explains: “When the SFTR technical standards come in to place outside of Europe, firms won’t want to build out to another trade repository. We are the only global option.”

He is clear and passionate in his reply when asked why he thinks clients may select DTCC over other firms for SFTR reporting needs. Steadman explains: “From our perspective it’s worth looking back to why we become a trade repository in the first place. We were created by the industry for the industry and to be independent. Our objective is to be trusted guardians of the industry’s data. As the operator of three systemically important financial market utilities, DTCC adheres to the highest standards of security, reliability and transparency of data. We are an industry governed market utility, but commercial in the way we run our business, especially in terms of being able to price competitively.”

He adds: “Another differentiating point about us is that we work collaboratively with the industry on the solutions we develop. Banks value the security of working with us and connecting with their primary peers in the industry. In addition, no other firm invests as heavily as we do in our regulatory relations. When the regulators look to talk to a trade repository, they come to us.”

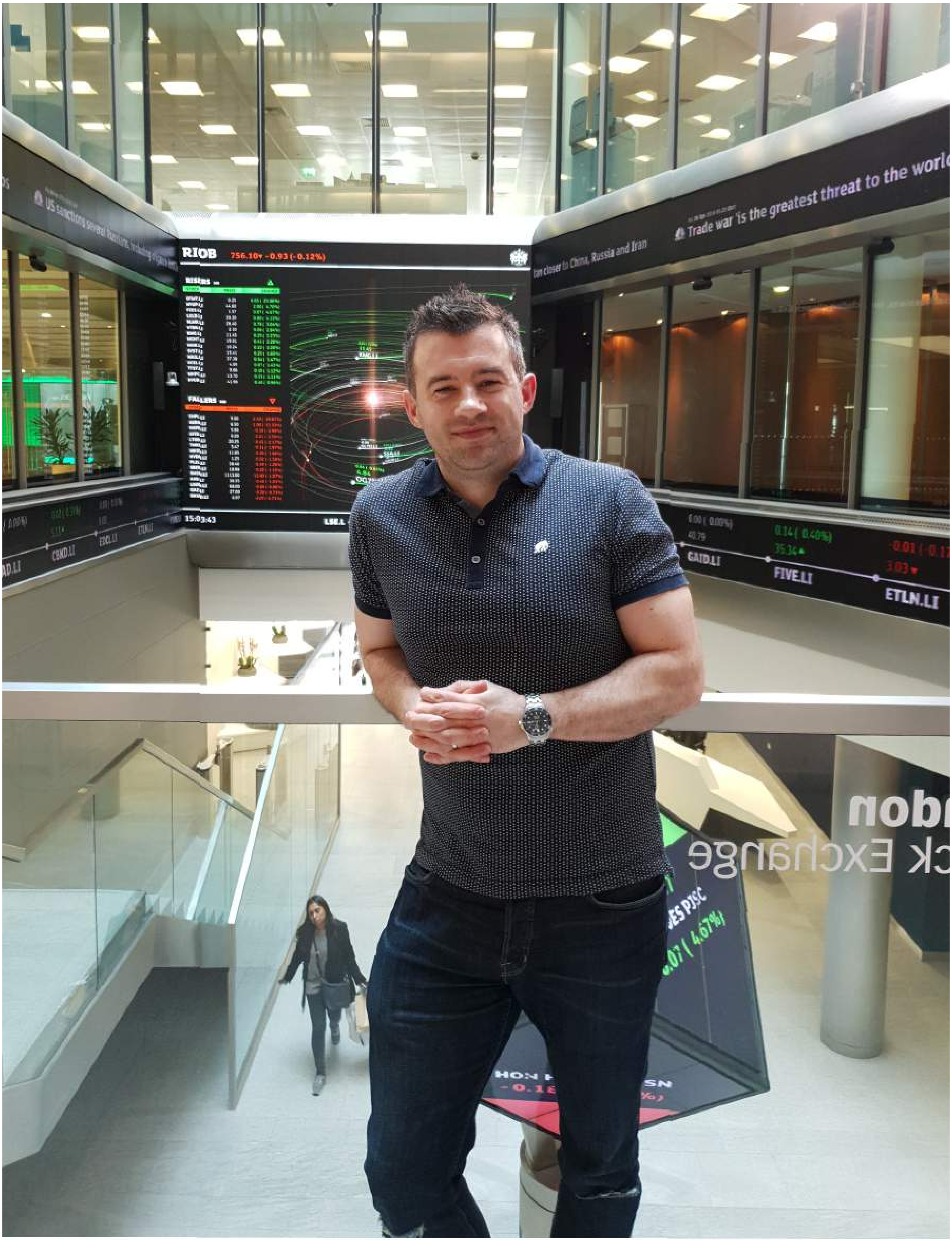
He concludes by going back to the basics, suggesting “if you look at the origins of SFTR, it is born out of a global Financial Stability Board agreement to monitor financing markets and provide transparency into ‘shadow banking’, in a similar way to G20 commitments to monitor systemic risk in derivatives through legislation such as EMIR and the Dodd-Frank Act. Therefore, we do expect it to go global”.

“That puts us in a perfect position. As the only global trade repository, the choice is a simple one.”

DTCC’s Global Trade Repository (GTR) for OTC derivatives reporting is the largest trade repository, serving approximately 80 percent of the global market.

GTR covers all asset classes, processing over 14 billion messages annually, 40 million open trades a week, cover 100,000 entities, serving 6,000 clients and connected to 150 partners worldwide.

For ESMA reporting alone, GTR captures around 60 percent of market volume and has the largest community of users.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Data is key

Steve Holland, product manager of the London Stock Exchange Group, suggests data is essential for SFTR readiness

How are market participants coming together to deliver SFTR?

Although the industry is still at least a year away from reporting for the Securities Financing Transactions Regulation (SFTR), various market participants are coming together to leverage each other's strengths and capabilities. The trade repositories, including UnaVista, are working with intermediary aggregators, financial software providers and reporting firms to ensure that they understand the SFTR reporting requirements and prepare accordingly well ahead of go-live.

As we did for Markets in Financial Instruments Regulation (MiFIR), UnaVista continues to offer opportunities for reporting firms to learn more from our regulatory experts as well as peers. Industry groups like International Securities Lending Association (ISLA) and International Capital Market Association (ICMA) run similar initiatives for participants to thoroughly analyse what many envisage to be potential challenges. All of these communities enable participants to build their understanding and share experiences about their route to compliance. UnaVista is actively engaged in these conversations and partners with over 50 firms that participants can choose to help provide seamless regulatory reporting.

Is data a key consideration for participants?

Data is essential for SFTR readiness. UnaVista has extensive experience in helping firms bring together their regulatory data and providing project tools to analyse that data. We are also working closely with the data aggregators who already store a lot of the necessary information. The aggregators are looking for any gaps to fully understand what's deliverable for SFTR.

There will also be the assisted and delegated reporting routes, which some firms may need to take due to the complexity of the reporting and the mandated ISO 20022 format in which firms need to submit their data. UnaVista is well positioned to support multiple models to meet the various client scenarios.

What should firms do to start preparing?

Early preparation is our key recommendation. As an approved reporting mechanism (ARM) for MiFIR and trade repository for European Market Infrastructure Regulation (EMIR), we've seen that the earlier clients start their project, the more successful the project outcome. For example, it enables firms to identify what systems and processes they need to change and ensure they have ample time to do so.

As a first step, reporting firms should be looking at their processes and where their data comes from.

There are also other elements to consider such as the introduction of branch level legal entity identifiers (LEIs) for SFTR, which may be a challenge for those firms with clients or counterparties not currently operating under EMIR or MiFIR.

Firms need to start looking at making key strategic decisions, including whether to purchase or build a solution to prepare and deliver data to the trade repository. Whichever route a firm chooses, the decision needs to be taken well in advance to allow sufficient time for all the necessary testing ahead of the reporting go-live.

What should firms consider when picking a vendor for their SFTR project?

Embarking on a regulatory reporting project can be very time and resource-consuming for firms. Experience and trust are two key things we would urge firms to consider when selecting a vendor.

Firms should select a vendor that best suits the way they work. They may also want to consider how the right vendor can help future-proof their reporting arrangements when new regulations are introduced, or significant changes made to existing ones.

What does UnaVista bring to the SFTR equation?

UnaVista is one of the largest EMIR trade repositories and we bring a vast amount of experience in regulatory reporting. Our regulatory hub helps firms fulfil their reporting obligations for multiple global regulations, including EMIR which has been widely likened to SFTR in structure.

We also have several products that can help clients prepare their data. We offer a Rules Engine product, which helps clients put their data into the right format and enriches any data that is missing. As we move to a mandated ISO 20022 format for SFTR, which is one of the major differences from EMIR, the need for a data preparation tool will become even more pertinent.

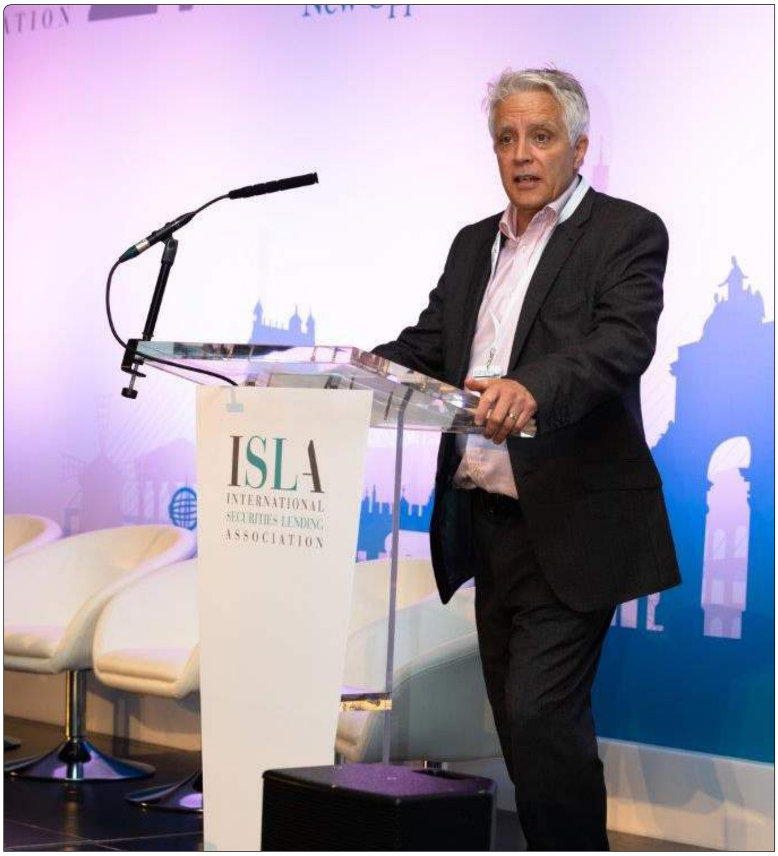
UnaVista also offers the SFTR Accelerator Programme, which includes a pre-testing project environment for clients. The SFTR Accelerator tool allows firms to carry out a gap analysis to see what data they still need to collect allowing them to contact vendors and counterparties well in advance of go-live. Firms are also able to turn validations on and off and focus testing on specific areas, allowing them to approach the testing in smaller bite size chunks.

Why is it important for firms to test their data?

The testing of data will be especially important for SFTR due to the breadth and complexity of the requirements and workflows needed to meet the regulation and data validations at the trade repository.

This is why we have designed and built our Accelerator product for SFTR clients, to enable them to get on with data testing, so that when our UAT environment becomes available they can concentrate on the technical aspects of connecting to the trade repository.

ISLA Photos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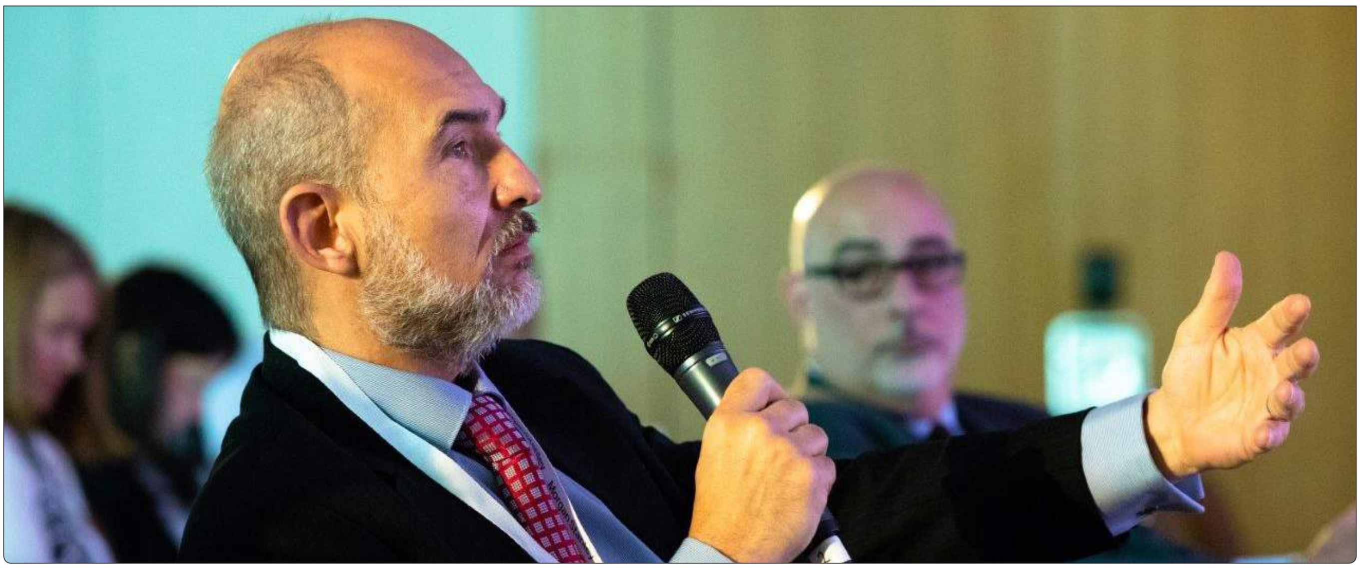


A common ground

Simon Heath of State Street Global Markets says SFTR will drive a level of transparency across the industry that, longer term, benefits all participants

How is the current regulatory and political agenda shaping market behaviour? What trends are you seeing?

In terms of regulation, Securities Financing Transaction Regulation (SFTR) is still in-flight, the industry is at a common understanding as to the interpretation and impact of regulation. What differs is the responses to it are very much bespoke, each borrower has its own variant and dominating binding metric at any point in time it needs to solve for. The best way to encapsulate this is by optimisation and efficiency—how agent lenders and borrowers shape their businesses to manage the binding constraints they face. This in turn drives behaviours and the major trends are the acceleration of the response(s). Thematically, I place these in three broad categories:

Capital

Pledge: Full expectation to see that numerous agents have the pledge structures in place and trading on them in the short-term.

Central counterparties (CCPs): We have seen a number of large borrowers/agents being open with their plans for adopting CCPs. Previously seen as an alternative to pledge and vice versa, we're seeing the pursuit of both to have in the tool-kit, especially in light of SFTR.

Technology: being the enabler to do more in the securities lending ecosystem

Plumbing has increased: Next Generation Trading volumes dramatically increased—for example, a greater use of Pirum Live. There has also been a greater adoption of analytical platforms to drive price transparency/revenue opportunities.

Smart bucketing/broker-defined borrowing criteria: greater use of tools that allows for increased optimisation for types of collateral, risk-weighted assets, liquidity, net stable funding ratio.

Collateral

At an aggregate level, there has been a widening of acceptable collateral within securities finance. We've seen a consistent broadening of collateral parameters from traditional main index equity, through to secondary indices, exchange-traded funds, money market fund units and emerging market equity/debt collateral. Further down the line, more esoteric demands for Shariah-compliant, environmental, social and governance will be more common place.

Beyond regulation, uncertainties as to how Brexit plays out is seemingly driving certain behaviours, especially around new borrowing entities coming on line and scrutiny on domesticity of beneficial owners/trade flows.

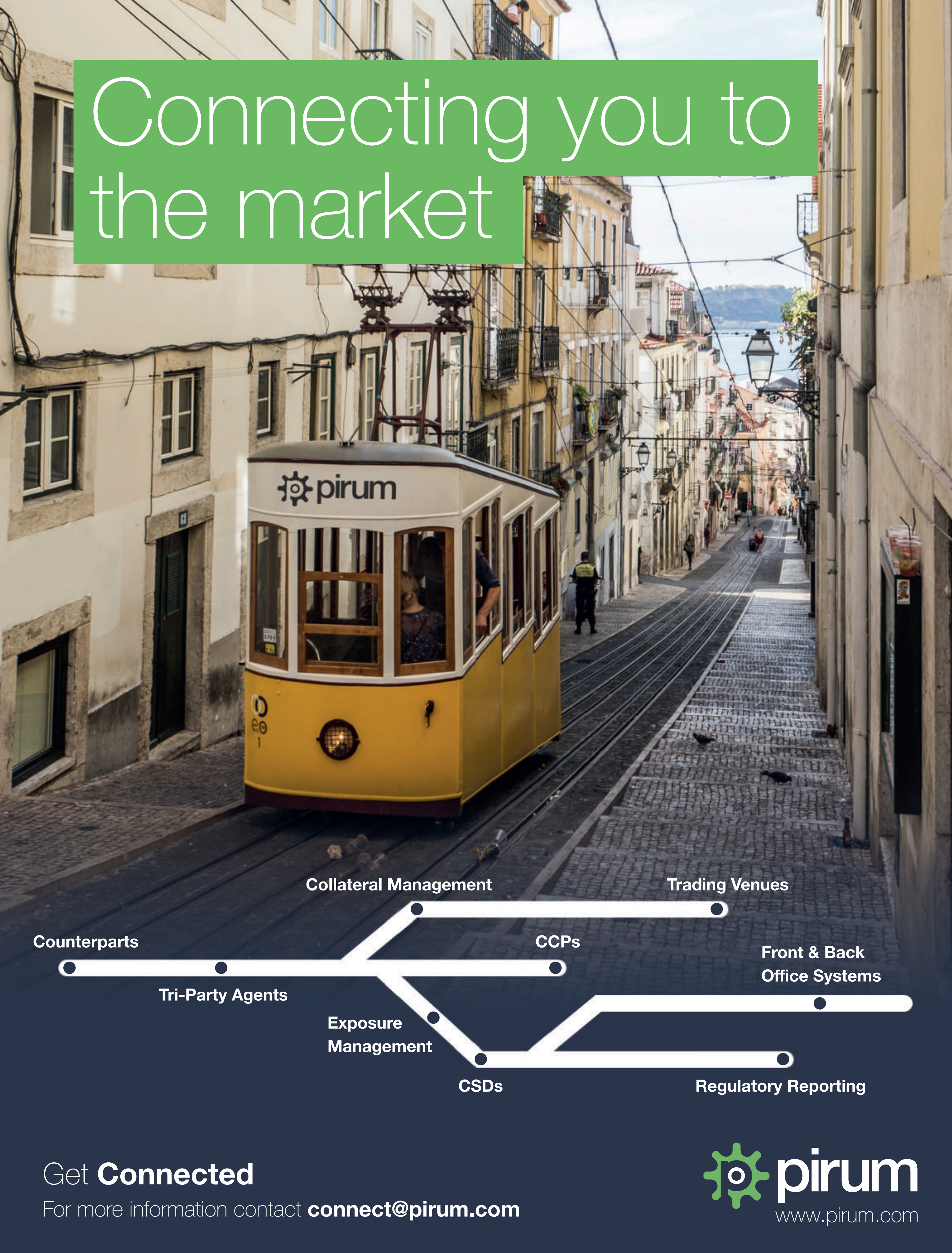
What regulations would you put at the top of your list as most challenging? And why?

I suppose the expected—and validly so—answer to this is the capital requirements born out of running an indemnified lending programme. However, I would argue that as an industry, SFTR has the potential to be very destabilising as it requires all market participants to solution for it in the correct and timely manner.

How can these regulations in the industry benefits firm in the long term?

SFTR will drive a level of transparency across the industry that, longer term, benefits all participants. This can only be a welcomed benefit and will no doubt lead to more innovative products as a result.

Simon Heath
Managing director
State Street Global Markets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The clock is ticking

Michael Huertas of Dentons features on today's first panel to debate the implications of Brexit and the considerable changes the market will face

What can firms do to prepare for Brexit while so much uncertainty remains?

There are a lot of steps that both UK and EU firms should already be doing to prepare for what lies ahead. Political statements and communication remains more driven by positioning rather than resolving issues with realistic solutions. The same applies to backstops and where these might fall. All of this does not stop the clock on the UK's exit date or make a stronger case for a transition period.

That's leading to a concern amongst EU authorities, including the European Central Bank (ECB) in its role as central bank and as supervisor, on preparedness. Specifically a number of entities are not doing enough, not doing it in a timely manner and are not taking note of the EU-wide Supervisory Principles on Relocations (SPoRs) published by EBA, European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA) and the ECB's own supervisory expectations. That's a problem even before one gets to the pressure on administrative resources and timelines at UK and EU authorities in approving arrangements of firms looking to Brexit-proof themselves. We are however seeing that the traffic is now two way. A number of EU firms are also looking to establish or expand UK operations and links to UK-domiciled counterparties and clients through 'anchor entities'. Even if that's a benefit for London, many firms on both sides of the divide may still have to go back to the drawing board on assumptions and approaches to structures, people, processes, policies and regulatory capital provisioning especially as these are being put under scrutiny due to the SPoRs.

In terms of immediate steps, the EU authorities remain clear that firstly, the time to prepare remains very much now and should not be put off. We're already seeing a bit of trailing effect amongst some EU but also UK supervisory workstreams. Add to that operational considerations such as securing talent, staff and rolling out systems and suddenly time to readiness takes much longer. Unlike the Markets in Financial Instruments Directive (MiFID) readiness, there is no (current) appetite to give leeway, provide special treatment and there are no available concepts of waivers. Secondly, there is a concern emerging that affected firm's own Brexit-proofing may not have sufficient consideration and dialogue with clients and counterparties on what the various scenarios and their impacts might mean. This will probably translate in firms, or supervisors requiring firms, to be much more engaged in dialogue with supervisors but also stakeholders. Thirdly, the one thing that is certain amongst all the uncertainty of the divorce proceedings is that the UK's vision of Brexit, its 'red lines' and proposed solutions are still a long way off in terms of what the EU, but also national Member States, are willing to concede to. Even with key changes to leadership set to occur during 2018/2019 at EU institutions, the ECB and the EU Commission, the rotating presidency of the Consilium, which moves to Austria followed by Romania and Finland, will remain pressed to put the EU's integrity at the heart of how it applies the EU's negotiating guidelines. These of course that have existed since the outset of talks (about talks).

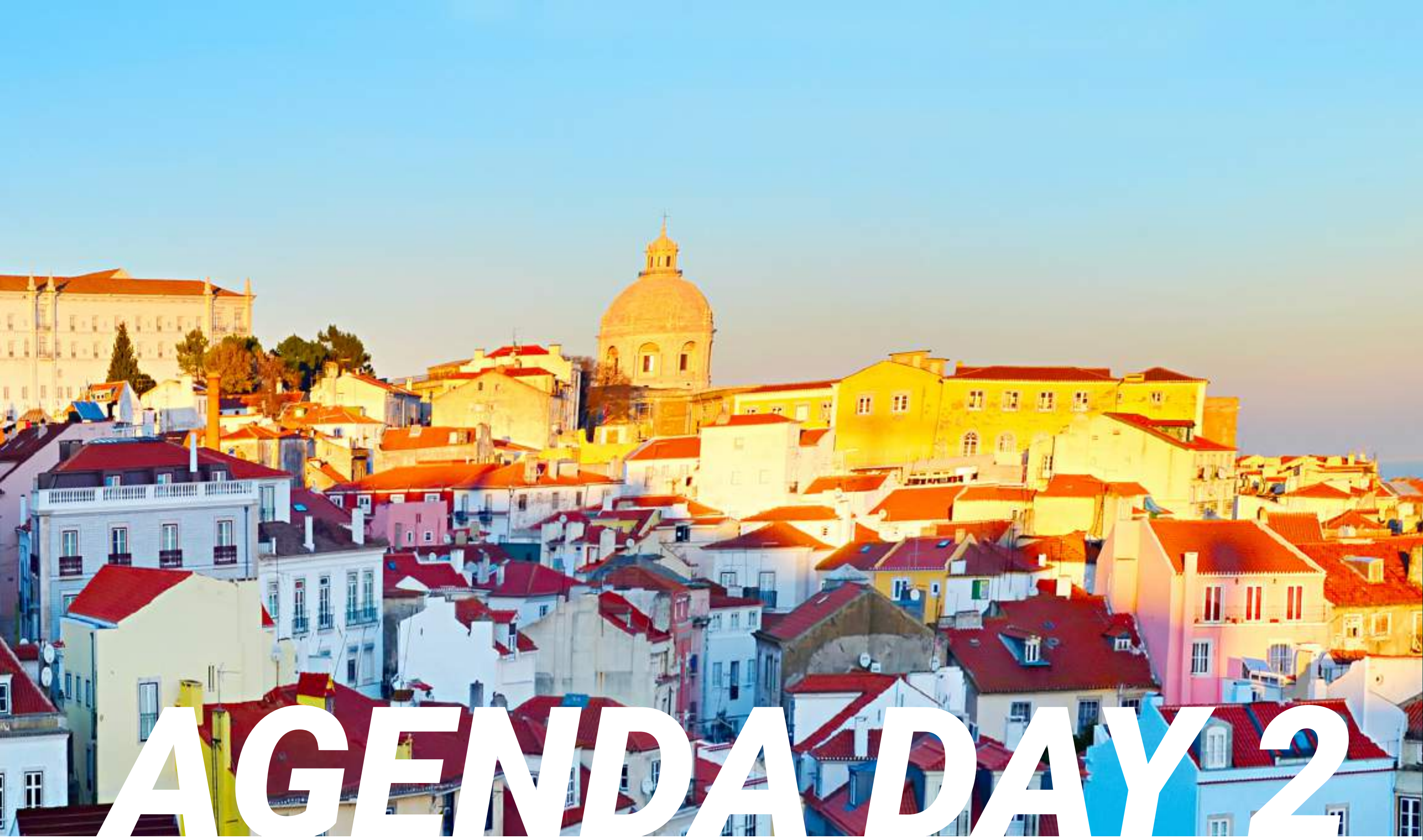
Lastly, politically, the EU's been clear that no transition period can apply, even if the length and type has been agreed, unless all aspects of the overall divorce deal—not just financial services—have been agreed. Assuming that does happen, then there's no certainty on obtaining equivalence for financial services. And assuming equivalence is granted by the EU Commission, then recent proposals from certain Member States are still keen on obliging UK firms to maintain 'sufficient' substance and presence within the EU-27—that goes beyond the current requirements of the SPoRs.

Consequently, firms should, on both sides of the divorce, really look past the political positioning and plan accordingly. Supervisors on both sides have been clear that even in a best case scenario, and that begins with a transition period applying, firms will still need to plan for moving as transition is not membership, prolongs rather than stops the cliff edge and increases uncertainty rather than alleviating it.

What changes do you expect to see post-Brexit in the securities lending industry?

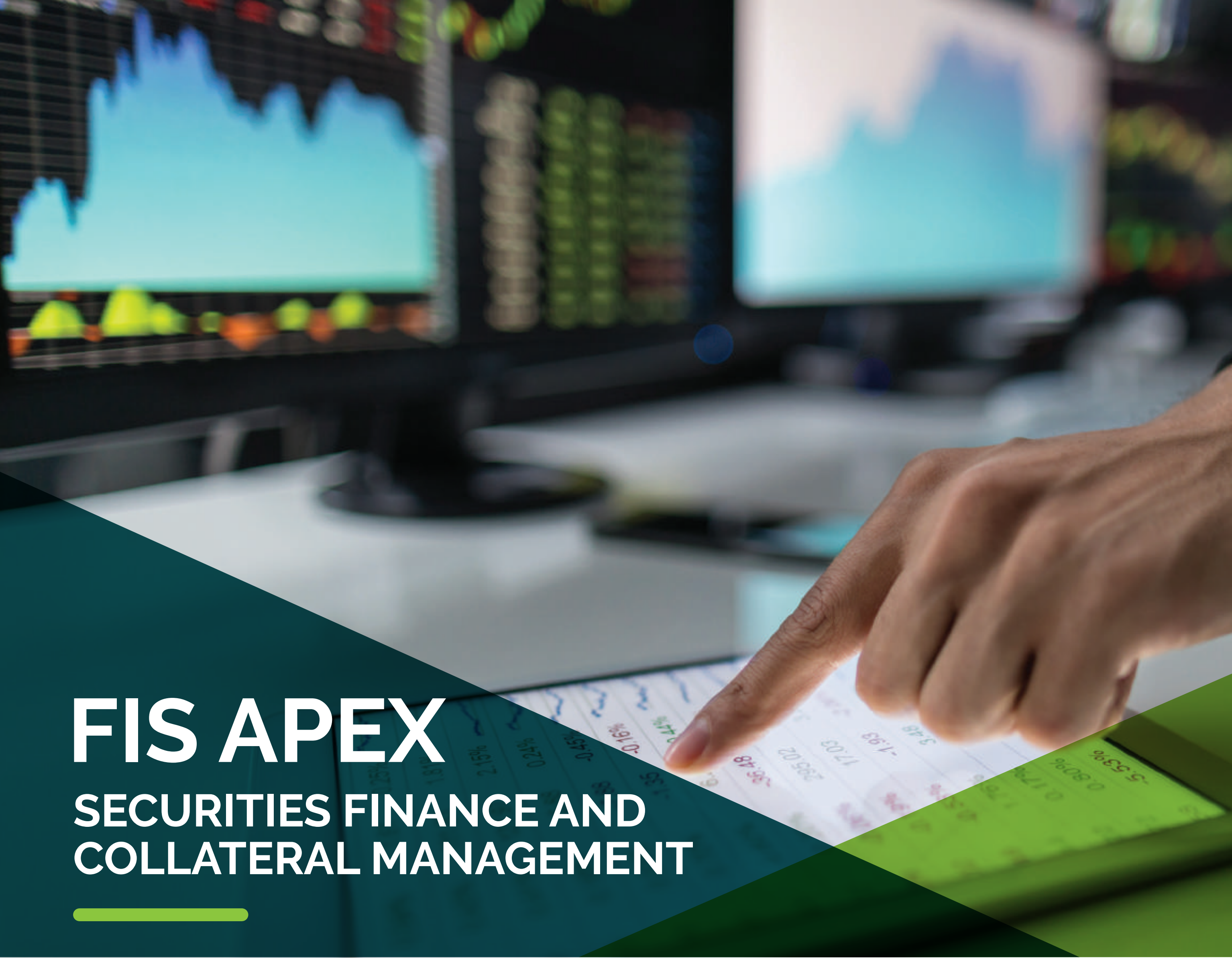
We're already seeing business flows in certain products/ transactions moving to a scenario where EU facing business is booked in the EU-27 and rest of the world business is booked in London, Zurich or, over the longer term, in New York. That's happening in terms of financial transactions but also the underlying custody arrangements. The increase in flows will likely pick up but that's dependent on whether and how the UK looks to create UK-lite versions of EU legislation for domestic transactions. That of course should be contrasted with the UK still being formally bound to implement the 2009 G-20 Pittsburgh Commitments, which underpin most of the principles that shape post-crisis financial regulation.

Michael Huertas
Partner
Dentons



AGENDA DAY 2

08:00 - 09:00	**Beneficial Owners Breakfast**
08:30 – 09:10	**Breakfast & Registration**
09:10 – 09:20	**Welcome Remarks** Roy Zimmerhansl, Global Head of Securities Lending, HSBC Securities Services
09:20 – 09:50	**Keynote Speech** **James Knightley, Chief International Economist, ING**
09:50 - 10:50	**The Brexit Debate** On the 29th March 2019, the UK will leave the EU. Regardless of the final terms of that exit, there is no doubt our market will face considerable change. This opening panel of the conference will debate the implications of these changes set against a backdrop of the political negotiations. It will consider amongst other things the relocation of businesses, implications on documentation/law and third country issues. **Moderator:** James Knightley, Chief International Economist, ING **Speakers:** Ed Bracken, Executive Director & International COO & Head of Business Strategy, Morgan Stanley Stephen Fisher, Managing Director, BlackRock Matthias Graulich, Chief Strategy Officer, Member of the Eurex Clearing Executive Board, Deutsche Boerse AG Michael Huertas, Partner, Dentons Hubertus Vaeth, Managing Director, Frankfurt Main Finance e.V.
10:50 – 11:20	**Networking Coffee Break**



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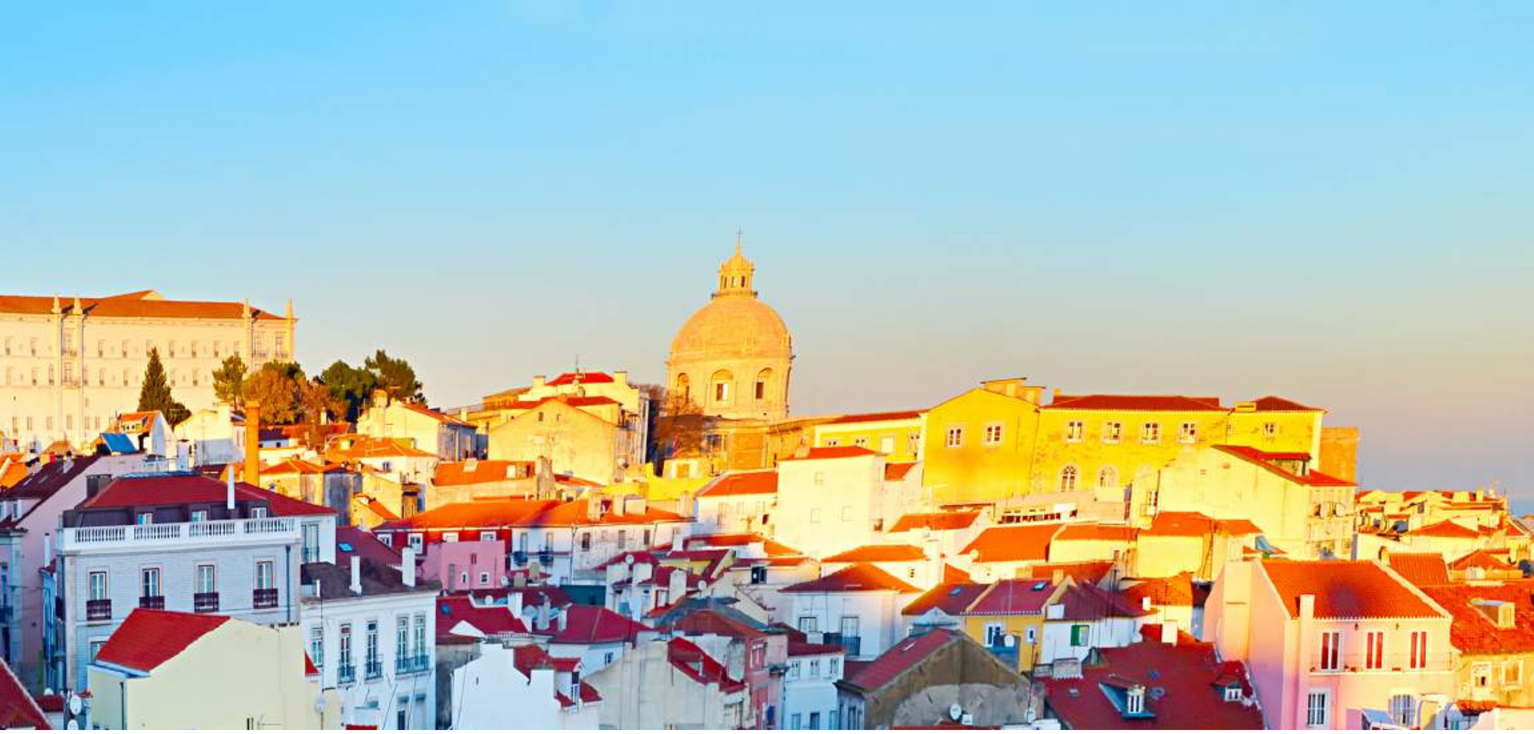

11:20 – 12:20	**Trading through the Lens of Current Political and Regulatory Change** This panel will consider how the current regulatory and political agenda is shaping market behaviour. This will include key topics such as prudential capital and conduct based regimes, MiFID including best execution, and SFTR. **Moderator:** Richard Hochreutiner, Director Group Treasury, Head Global Collateral, Swiss Re **Speakers:** Jennifer Grenside, International Head of Equity Finance Resource Management, Citigroup Simon Heath, Managing Director, State Street Global Markets Simon Sourigon, Executive Director, Global Head of Security Optimisation, Natixis Alan Williams, Managing Director, Short Term Markets, Santander Global Corporate Bank
12:20 - 13:20	**Evolution of the Business Operating Model** At a time when we strive for efficiencies and scalable solutions, the world is getting more complex and bespoke. This final panel of the day will consider how our industry has to evolve to reflect the sentiments expressed in the earlier sessions. Will operating and collateral models have to change ahead of SFTR? In a post Brexit world, will collateral be less mobile across jurisdictions? Is the legacy ALD process sustainable once SFTR is implemented? Are 'smart' buckets a viable solution to meet changing borrower requirements? **Moderator:** Andrew Dyson, CEO, ISLA **Speakers:** Ben Challice, Managing Director, J.P. Morgan Alessandro Cozzani, Managing Director, Head of Equity Funding, Bank of America Merrill Lynch Robert Goobie, Assistant Vice President of Derivatives & Collateral Management, HOOPP (Healthcare of Ontario Pension Plan) Timothy Tomalin-Reeves, Head of EMEA Treasury, Citadel
13:20 - 14:20	**Networking Lunch**
16:30 - 18:00	**Afternoon Drinks Reception**
22:00	**Deutsche Boerse Group - GFF Late Night Bar**

SFTR BY NUMBERS

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4 TABLES OF REPORTABLE DATA

32 REPORT TYPE COMBINATIONS

2 LEADING PROVIDERS OF SECURITIES FINANCE TRADING AND POST-TRADE SERVICES

5 YEARS OF RECORD KEEPING

96 RECONCILABLE FIELDS

3 AVERAGE % BREAK RATE ACROSS THE LIFECYCLE OF A TRADE EXECUTED ON NGT

10 ACTION TYPES

153 TOTAL REPORTABLE FIELDS