ISLA Daily

Day 1

28th Annual Securities Finance and Collateral Management Conference

Tuesday, 18th June

Nick Short of HQLA^X discusses why DLT is important for their platform

Interview with the conference co-chairs | DTCC discusses its SFTR Solution | ESMA chair talks regulatory disruption | Insight into Comyno's C-ONE platform | Speaker's Corner

Talk of the town

This year's conference co-chairs Gilly Meth and James Templeman discuss what they expect to be the big talking points of this year's event and what they expect to see over the next 12 months

What can delegates expect from this year's International Securities Lending Association (ISLA) Conference?

Gilly Meth: While this year's ISLA conference has the traditional hallmark in terms of format, it will also deliver on a number of different levels which we hope delegates will remark upon. Firstly, in terms of the content and sessions; there is a real mix of topics, ranging from the more familiar legal, tax and regulatory updates, to the exploration of new markets and discussions around emerging concepts within securities finance such as environmental, social and governance (ESG) and the adoption of Common Domain Models. There will also be a host of new firms and speakers participating this year, which means delegates will gain broad insights and perspectives from the stage. It is also great to see more direct representation from our fellow industry associations such as the International Capital Market Association, the International Swaps and Derivatives Association and the European Fund and Asset Management Association. Finally, delegates should expect a greater emphasis on diversity across the panels, session topics and the overall agenda; having a female co-chair is a positive start.

This year's conference has some great speakers on the agenda. What are you looking forward to most?

James Templeman: ISLA does an excellent job with its selection of speakers, combining a variety of new and familiar voices within each discussion and debate.

We are looking forward to the individual presentations, notably one on diversity, a key focus for us that will be delivered by Jon Terry from PwC. We are also excited to hear from the panel on new markets and routes to market in order to unlock securities lending liquidity. While individual firms face different binding constraints and cost pressures, there are always opportunities to develop and expand the business. The provision of liquidity is key to the success of the global market.

What will be the big talking points at the event?

Meth: We think the main topics discussed during the conference will be how technology changes will continue to shape the industry, how lenders and borrowers are working together to try and provide more flexibility through the lending and borrowing process and, as always, there are a number of regulatory changes on the horizon that need careful preparation.

With regards to regulation, the specific focus will be around Securities Financing Transaction Regulation (SFTR), Central Securities Depositories Regulation (CSDR), Qualified Financial Contract Stay review (QFC) and the benchmark rate reform that is coming into play.

From a technology point of view, the conference will, as always, be focused around ways of driving efficiency both for trading and operations as well as automating funding and sourcing requirements.

Finally, we will discuss the increase in demand for either more flexible lending arrangements, or a requirement to access specific types of lenders as borrowers manage a number of different financial metrics. We anticipate a further evolution from the straightforward, overnight model to more complex structures which take into account loan duration, clearing arrangements, balance sheet and capital impact.

In terms of more general talking points, the conference will be tackling broader subjects such as the future European landscape post-Brexit and the new EU Parliament.

What have been the biggest challenges for the securities lending industry so far this year?

Templeman: This year the market has been focused on the three R's: regulation, revenue and resources.

As far as revenues are concerned, market participants have reported reduced earnings in Q1 2019 vs Q1 2018, resulting from lower fees and loan balances. Revenue for Q1 has been reported at $2.4 billion, which is a 10 percent drop on the same period last year. The compression of equity spreads—caused by a general lack of specials, plus an over-reliance on one-off corporate action trades—are a big challenge for the industry. Downstream costs such as custody fees and fail costs also have a material impact on profitability, which reinforces the drive for greater efficiency in the lending and borrowing process. The overall supply and demand dynamic in the industry has also changed over the past year or so. Supply has increased, partly due to the popularity of passively managed index funds which have increased the amount of stable inventory in lending programmes.

Coupled with this, demand to borrow by hedge funds has contracted due to deleveraging and a lack of fundamental long-short activity. It remains to be seen if these changes are temporary or permanent and what the long term impact will be to revenues.

The traditional agent lender model also faces some challenges due to the need to become more flexible in responding to borrowing demand (low risk-weighted assets (RWA) providers, collateral optimisation, push for pledge model etc).

We have also begun to see firms in the US announce they are moving away from the agent lender model to bring the business in-house. It will be interesting to see if others follow suit increasing pressure on beneficial owners or if this is just a one-off event?

Another challenge for the industry is trying to secure technology resources to pursue a growth/efficiency agenda, while also committing the necessary level of resource to regulatory challenges, specifically Brexit, SFTR and CSDR.

What trends do you expect to see in the industry over the next 12 months?

Meth: We expect the focus over the next 12 months to be quite similar to the past year.

Resources will be deployed to deal with regulatory obligations; the positive aspect of this will be the creation of timely and accurate securities finance data for SFTR, and there will be a big step forward towards the Common Domain Model and digitalisation/automation, which might mean we can take the first step to move away from Agent Lending Disclosure.

We also anticipate further tax changes which could reduce liquidity. Changes to French Withholding Tax rules will come into place from 1 July 2019 and further changes have already been proposed in Belgium and Finland.

In addition, discussions on an EU-wide financial transaction tax are expected to continue.

We also expect to see new challenges to emerge. Equities could become acceptable as collateral in the US and, even if the timing remains uncertain, this could put further pressure on revenues for agent lenders.

We also think that ESG investing will become increasingly important for beneficial owners and it will be important for securities lenders to stay ahead of this and develop solutions for clients, for example, ESG collateral options.

We should see an increase in opportunities arising from the MSCI expanding the weighting of China-listed shares, new and frontier markets as well as technology being developed to address the regulatory and political headwinds.

Finally, we expect to see increased engagement in securities lending, both from agent lenders and increasingly, directly from asset owners, with more emphasis and scrutiny on securities lending performance.

wematch.live and Pirum launch integrated solution

wematch.live and Pirum have implemented connectivity between the platforms and now offer an integrated solution to their mutual clients.

According to Pirum, the 53 financial institutions currently using the Wematch. SecuritiesFinancing platform can now benefit from automated post-trade services if they are also a consumer of Pirum's services.

Market participants can now seamlessly agree trades on wematch.live and employ Pirum to manage the full post-trade lifecycle.

Phil Morgan, COO of Pirum, commented: "The partnership with wematch.live is an important milestone for Pirum's evolving market connectivity hub."

"Our clients are increasingly requesting that we work collaboratively with other market venues and service providers, to create straight-through processing and interoperable solutions and this is another concrete example of progress on this front."

David Raccat, co-founder and head of Europe, the Middle East and Africa, commented: "It is a very important milestone for our securities lending product offering and this collaboration with Pirum clearly improves the efficiency and automation of our product."

He added: "Pirum has developed a very powerful and recognised solution, we are very happy to have completed this integration and we invite all our clients to benefit from it."

DTCC to support Catena, CSS and Finastra with SFTR

DTCC has made three new partnerships in order to support mutual clients who will leverage the DTCC Global Trade Repository (GTR) service in support for the upcoming Securities Financing Transactions Regulation (SFTR).

DTCC's new partnerships are with Catena Technologies, Compliance Solutions Strategies (CSS) and Finastra.

Marisol Collazo, managing director, business development and head of strategic partnerships at DTCC, commented: "DTCC works to advance industry-leading solutions that help secure and shape the future growth and development of the global financial marketplace."

"Our Partner Program supports this mission by actively promoting collaboration with global and regional financial technology providers to help mutual clients to mitigate risk, achieve market efficiencies and reduce costs—and SFTR is, rightly so, front of mind for many right now."

Val Wotton, managing director, product development and strategy of repository and derivatives services at DTCC, said: "DTCC strives to transform the post-trade ecosystem through strategic partnerships that drive client value while accelerating the adoption of new initiatives and best-practices across the financial services industry."

"We are delighted to be working with Catena, CSS and Finastra, to further enhance clients' access to our multi-award-winning GTR service and look forward to fully supporting our mutual SFTR clients."

Banks 'overconfident' on SFTR compliance

Tier one, tier two and tier three investment banks are 'overconfident' about the Securities Financing Transactions Regulation (SFTR) implementation, according to a new Regulatory Outlook Report from Luxoft.

The Luxoft report indicated almost all (99 percent) of senior compliance professionals responsible for implementing the regulation are confident they will meet the requirements, yet Luxoft's Regulatory Outlook Report shows that this confidence may be misplaced.

The report highlighted some 98 percent of tier one, tier two and tier three investment banks will be relying on systems and process infrastructure used for past regulations such as the European Market Infrastructure Regulation (EMIR) to comply.

But Geoff Hutton, Europe, the Middle East and Africa, regulatory specialist at Luxoft, warned: “Some of the groundwork from these [past] regulations will help firms to comply, however, SFTR presents a completely different set of challenges.”

He added: “Capturing the data required and putting in place the processes and technology to report efficiently will be a huge and costly challenge which firms are not prepared for.”

However, almost three quarters (72 percent) of those asked agreed that SFTR implementation will be more costly than EMIR or the second Markets in Financial Instruments Directive (MIFID II), with 30 percent stating the cost of hiring new talent will be the most expensive aspect.

However, fewer than half (48 percent) of respondents said they have conducted a cost benefit analysis of the regulations or set up a planning committee (46 percent), centralised their SFT reporting (39 percent) or hired a trade repository (TR) (26 percent).

Some 74 percent of those asked said they acknowledged SFTR compliance will require a much more complex IT infrastructure than EMIR or MIFID II, while only 40 percent of senior compliance professionals reported ‘regulatory fatigue’ at their firm.

Elsewhere, 78 percent of firms stated they recognised that investment in compliance for regulatory initiatives such as SFTR makes their market position stronger and more resistant to new entrants.

Hutton said: “SFTR is the most demanding piece of transaction reporting regulation the sector has seen, and firms seem overconfident on delivering on the requirements when there is a vast amount of work to be done, with very little time to spare.”

He concluded: “With the 2020 deadline fast approaching, banks should start establishing SFT activities, understand trigger events and report types and decide how they will build or outsource their software solutions. By effectively implementing SFTR, not only do firms mitigate future risks but they could also realise the business benefits that this new regulation brings.”

ISLA to keep ESG in focus

The International Securities Lending Association (ISLA) will continue to keep environmental, social and corporate (ESG) governance in focus, according to its CEO, Andy Dyson.

The ESG debate and how securities lending co-exists alongside principles of responsible investing and good corporate governance is something that ISLA has been looking at for some time, Dyson noted in his blog, ‘Reflections of the CEO’.

Dyson explained that he recently attended the regular Bank of England Securities Lending Committee (SLC) meeting where it was acknowledged how important it will be to get this dynamic right.

He added it will be important if we want proper secondary market liquidity behind these funds, as well as allowing investors to see incremental returns to their investments through securities lending.

This theme will be explored at future meetings and will be a key component of the sustainability sessions at the ISLA conference in Madrid later this month.

Two further agenda items from the meeting are relative performance measurement for securities lending, and the drive towards diversity across our markets and institutions.

Nick Short
COO
HQLA^{X}

Two practitioners, one platform

Nick Short discusses the story behind HQLA^X, the importance of its partnerships and why DLT is important to the firm's platform

What's the story behind HQLA^x?

HQLA^x is the story of two market practitioners looking to solve a business problem they had both identified and experienced in the securities lending market in their previous roles at leading investment banks. They observed that the lack of an ability to instantaneously change ownership of baskets of securities at specific moments in time across multiple custodians leads to greater intraday credit and/or intra-day liquidity costs for banks and other financial institutions. The goal of HQLA^x is to help treasury departments better manage liquidity and optimise collateral portfolios by improving collateral mobility across a fragmented securities settlement eco-system. One of the first things HQLA^X did was approach technology company R3 to see whether blockchain could help solve that business problem, by avoiding the need to physically move securities at the point at which collateral changes ownership. We then carried out a proof-of-concept project with R3 and five banks which confirmed that blockchain could indeed help solve this business problem.

What analogy best describes the value add that HQLA^x will bring to its customers?

One of the things we talk about a lot at HQLA^X is the fact that financial institutions hold additional high-quality liquidity assets (HQLA) securities to mitigate against the risk of not being able to move securities quickly and efficiently to meet their liquidity coverage ratio (LCR) targets. These liquidity buffers of additional securities usually result in additional capital costs. This is analogous to the cost of being asked to arrive at an airport two hours before your flight departs. While this is, of course, sensible advice, most travellers would prefer it if they didn't need to arrive so early given much of this time is spent standing around in queues (check-in, security, shops, passport control, boarding gate, getting onto the plane). In other words, the airport two-hour 'buffer' could be reduced if there was improved 'people mobility' across the airport. Similarly, by improving collateral mobility across different custody locations, HQLA^X will help institutions more precisely fine-tune the HQLA they hold which in turn will result in them needing to hold fewer HQLA securities as a buffer. You can probably tell we travel a fair bit to see our customers and partners at HQLA^X—hence the airport analogy.

How important are partnerships to HQLA^x?

The short answer is they're incredibly important. While we are a fintech company, we realise that it's still a people business, and building relationships and trust through face-to-face interaction remains as important as ever. We're incredibly grateful to all our partners, some of whom are also customers who helped shape the design of the platform. We're also inspired by the innovative leadership shown by Deutsche Börse who early on understood the potential of the HQLA^X platform and wanted to be part of the journey.

You used to work for a bank, so how is working for HQLA^x different?

For me, it's 50 percent different, and 50 percent the same. My previous role was very much focused on bringing different parts of the bank together to achieve common collateral management objectives across the organisation. Sometimes this involved delivering solutions to ensure that the right collateral was at the right place at the right time using the most efficient execution mechanism. This is similar to what we're doing today with HQLA^X, except that we're also bringing multiple market participants and custodians together to achieve this objective for the broader securities lending market. On day one, the HQLA^X platform will allow financial institutions to optimise their usage of the securities lending collateral upgrade market by enabling the ability to exchange non-cash collateral rather than exchanging cash for collateral.

Why are you using DLT for the HQLA^x platform?

In the short-term, distributed ledger technology (DLT) provides the ability to record the ownership of baskets of securities on a secured shared ledger. It also enables the ownership of those baskets of securities to be exchanged between market participants at precise moments in time. The HQLA^X operating model allows this to happen without the need for physical movement of the underlying assets. The DLT we're using is R3's Enterprise Corda, which is sometimes described as a private blockchain because only the participants involved in a transaction get to see that transaction on the ledger. We've also worked at length with Clifford Chance to build the legal framework to support this operating model such that the DLT record represents ownership of baskets of securities.

Our goal has always been to make platform onboarding as easy and simple as it could be for both market participants and custodians. This is something that customers and custodians have steered us towards doing. In fact, initially, users of the platform don't actually need to be aware that HQLA^X is using DLT 'under the covers' unless they choose to actively run their own Corda nodes. We're leveraging existing trade execution capability via Eurex Repo, and we're plugging into the existing custodian and triparty infrastructure. With that in mind, Deutsche Börse has facilitated the build such that custodians can continue to send their regular Swift-based position reports, and HQLA^X customers can continue to run their normal collateral management processes, while still getting the benefits that DLT can bring. In effect, we're adding DLT between trade execution and custodians/triparty providers in order to achieve greater collateral mobility for the securities lending market.

In the longer term, we see DLT providing customers with a more real-time view of transactions and inventory ownership without the inherent cost of reconciliation that exists today throughout the trade life cycle. This is because via DLT everyone will have access to a consistent set of shared facts and data for the transactions they've been involved in. Regulatory reporting will also benefit from DLT by providing the ability for regulators to have visibility of a consistent set of data on transactions in a real-time manner, and for market participants to achieve their reporting obligations more efficiently. Using DLT will also help HQLA^X users benefit from other future digital market innovations, for example, repos using digital cash on ledger, securities issued directly onto ledger, and sharing the same valuation logic via the ledger.

The art of client service

Industry experts at DTCC discuss the expansion of its GTR functionality to accommodate the reporting of SFT as required by Europe's SFTR and how it will support clients who are gearing up to comply with the regulation

Market participants doing business in the EU face an additional regulatory regime starting in 2020, one that will challenge their operational capacity to report large volumes of securities financing transactions (SFT) to trade repositories (TRs). While many of these firms are experienced in reporting over-the-counter (OTC) derivatives trades to trade repositories (TRs) under the European Market Infrastructure Regulation (EMIR) regime, the EU's Securities Financing Transactions Regulation (SFTR) will place additional pressure on standard operating procedures and impose new compliance burdens in a business area previously untouched by such mandates.

DTCC's Global Trade Repository service (GTR) is the premier transaction reporting and disclosure solution for clients and regulators worldwide. Launched in 2012 in response to the G20 recommendations for risk mitigation in the OTC derivatives market following the 2008 global financial crisis, GTR is the largest trade repository for OTC derivatives, processing some 40 million open positions a week and more than 11 billion messages for 5,250 clients in multiple jurisdictions around the world.

In response to SFTR, GTR is offering an end-to-end client service programme that includes all the features of its standard global client support system along with new enhancements and specific testing tools designed for SFT reporting.

GTR's partnership model

Over the years GTR, in partnership with its user community has amassed unparalleled expertise working with a wide array of market participants. This experience allowed GTR to build out its functionality to accommodate SFT, making GTR a one-stop shop for clients' transaction reporting needs. GTR's multi-channel client service operation provides comprehensive support throughout clients' trade reporting lifecycle, from onboarding and connectivity through to testing, go-live and post-reporting data analysis. Enabled by its global footprint, GTR provides follow-the-sun support servicing clients in Europe, Asia, North America and Canada. Its email and call centres connect to a case management system to create a feedback loop with clients, relationship managers and client service staff.

> **Over the years GTR, in partnership with its user community, has amassed unparalleled expertise working with a wide array of market participants**

SFTR's unique challenges

Compliance with SFTR, as with any new mandate, is generating anxiety among firms that will be required to comply with it. Not only does SFTR cover a broader swath of market participants than EMIR's derivatives rules, but the securities finance industry also has a heavier lift in preparing for SFTR compliance, particularly in the areas of data availability and daily workflows. For instance, SFTR requires up to 153 fields for data reporting, compared to 129 fields under EMIR.

Maria Dwyer, managing director of solutions client services and business operations at DTCC, said: "Firms under the SFTR mandate are asking questions such as, 'do we have the right systems in place for organising our trade data and transmitting it to a TR efficiently? How do we know if our trade data is robust enough to meet the standards of the new rules?'"

Dwyer explained: "GTR has responded to these concerns by developing an end-to-end support service that starts by helping these firms understand the regulation and their obligations, then gets them connected to our platform and provides value-add with analytical resources that can enhance the quality of their data."

She added: "GTR's success is driven by our collaborative relationships with clients, regulators and industry partners. We're committed to minimising the client build-out effort and facilitating SFTR implementation to the greatest extent possible."

New support tools and practices

As the demands of GTR's user base continue growing in response to the ongoing release of new and revised technical standards by regulators, GTR keeps improving its client support model.

Luca Cappelletti, global head of client service for DTCC's repository and derivatives services group, explained that the "increasing volume of messages we process and number of clients we support has generated a large number of user inquiries over time, which funnel into GTR's client support teams."

Cappelletti said: "Since 2012 we have evolved from a reactive helpdesk to deliver a more proactive user experience. Having our client community represented on our board and steering committees drives the voice of the client right to the heart of our business both in terms of product delivery and continuous improvements to our support services."

GTR has also invested heavily in new client service tools over the last three years, "putting a variety of knowledge, testing and training modules at clients' fingertips," Cappelletti said.

These new tools will be easily accessible thanks to a redesigned user portal GTR began rolling out in 2017 to improve the client experience. Users now have direct electronic access to the data stored in the repository maximising user control over the content, number, and frequency of reports generated.

Dwyer explained: "The portal redesign grew out of lessons we learned from the go-live of EMIR derivatives reporting in Europe several years ago. With EMIR we could see patterns of repeated inquiries, so we built into our new platform hands-on learning resources that guide users to the answers of common questions."

Besides its self-service capabilities, the new portal offers a simplified, more-intuitive interface along with features that can smoothly integrate other DTCC solutions into clients' trade life cycle-management workflow.

Features include an advanced dashboard that provides a snapshot of submission, trade and reconciliation data; analytical tools that enable performance benchmarking by country; and a feature-rich search interface that expedites data queries and customisation options to filter and sort query results. The portal's enhanced landing page shows a summary of user data from the previous reporting day.

Dwyer said: "Clients coming on board for SFTR reporting will realise all these benefits. I'd also encourage existing GTR clients who haven't yet switched to move to the new portal."

"Our UAT environment will be live from August 2019, which along with this structured approach to testing will help avoid a last-minute free-for-all"

From onboarding to testing

Onboarding to a new service is often cumbersome for clients, Cappelletti noted, but GTR's SFTR offering delivers a "slick, web-based, digital onboarding process. New self-service features will streamline onboarding and eliminate a lot of the headaches that typically characterise this process".

Once onboarded, firms will need to test their internal builds and identify where their data quality requires improvement, to ensure operational conformance with SFTR. To give clients a long lead time to prepare for the new mandate, which will be phased in by type of entity starting in April 2020, GTR worked with users and vendors to develop an innovative pre-user acceptance testing (UAT) simulator.

Available now and at no additional cost, the simulator allows clients to submit test messages and determine whether they will be "acknowledged" or "negative acknowledged" by GTR's trade message validation process. For negative acknowledged messages, the simulator flags why the message has not been acknowledged so firms can adjust their messaging specifications accordingly—and proceed to UAT later this year with confidence.

For SFTR, GTR has structured its UAT phases in order to support both vendor and client testing. It will be making downloadable testing scripts available to clients.

Cappelletti explained: "Furthermore, our UAT environment will be live from August 2019, which along with this structured approach to testing will help avoid a last-minute free-for-all that can occur with new regulations as go-live approaches."

Continuous improvement

"Besides our platform, testing tools and training modules, something else sets GTR apart from the competition: we continuously adapt our client support to respond to the needs users bring to our door," Dwyer said.

She added: "We assimilate best practices by participating in the Consortium for Service Innovation and the incremental investments we've been making across support are reaching an apex to coincide with our SFTR launch."

Among the improvements is the move to knowledge-centred support, with solutions to commonly asked client questions organised by topic to help GTR respond quickly and resolve issues consistently.

What's more, GTR is integrating the Agile methodology into its client support system.

Cappelletti said: "Our software developers in the Asia-Pacific region employed Agile in building out our new portal there. Now we're extending Agile's squad-based collaborative practices beyond IT applications to the delivery of client service. It's a groundbreaking use of Agile that will laser-focus us on streamlining our responsiveness at every step of our client interactions."

Clients are taking note of GTR's client support performance. In DTCC's latest Brand Equity Survey, conducted in December and January, the company's brand attribute ratings registered the largest increase in Europe, thanks to

positive feedback from GTR users. Furthermore, GTR clients overall reported significantly increased engagement with the business and showed greatly improved perceptions over the past five years in areas like proactivity, reliability, expertise and client focus.

Dwyer commented: "We're extremely proud of the level of support we offer our clients. This enhanced client support model, along with DTCC's ongoing commitment to mitigate risk, automate processing, enhance transparency and drive down costs in transaction reporting enable us to deliver a compelling SFT offering to clients in Europe and beyond over the coming years."

Preparing for the unknown

ESMA chair Steven Maijoor discusses how the authority is helping the industry prepare for upcoming regulatory disruption


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With so much uncertainty still around Brexit, how is ESMA helping the securities lending industry prepare for the unknown?

European Securities and Markets Authority (ESMA) has assisted financial market participants, and continues to do so, in their Brexit preparations. This is a major undertaking looking at the importance and interconnectedness of London to the EU27. Carving out the UK capital market requires preparations for all circumstances, by all participants concerned, including for the real possibility that the UK leaves the EU without a deal.

For regulators, the stability and orderly functioning of the EU's financial markets remain paramount. ESMA has provided various detailed opinions, assisting firms in their Brexit preparations, especially in the case of relocations and where cross-border business will continue. We concluded a memorandum of understanding with UK regulators to allow delegation arrangements to continue and found approaches to ensure continued access to clearing and depositories should a no-deal happen.

Turning more specifically to the securities lending industry, ESMA has just published a consultation paper on guidelines on reporting which, among others, specifies the reporting requirements for EU branches of third-country entities. The consultation paper also addresses many of the key topics for the securities lending industry, even though not strictly related to Brexit, such as the reporting of agent lending programmes, variation margining and collateral reuse.

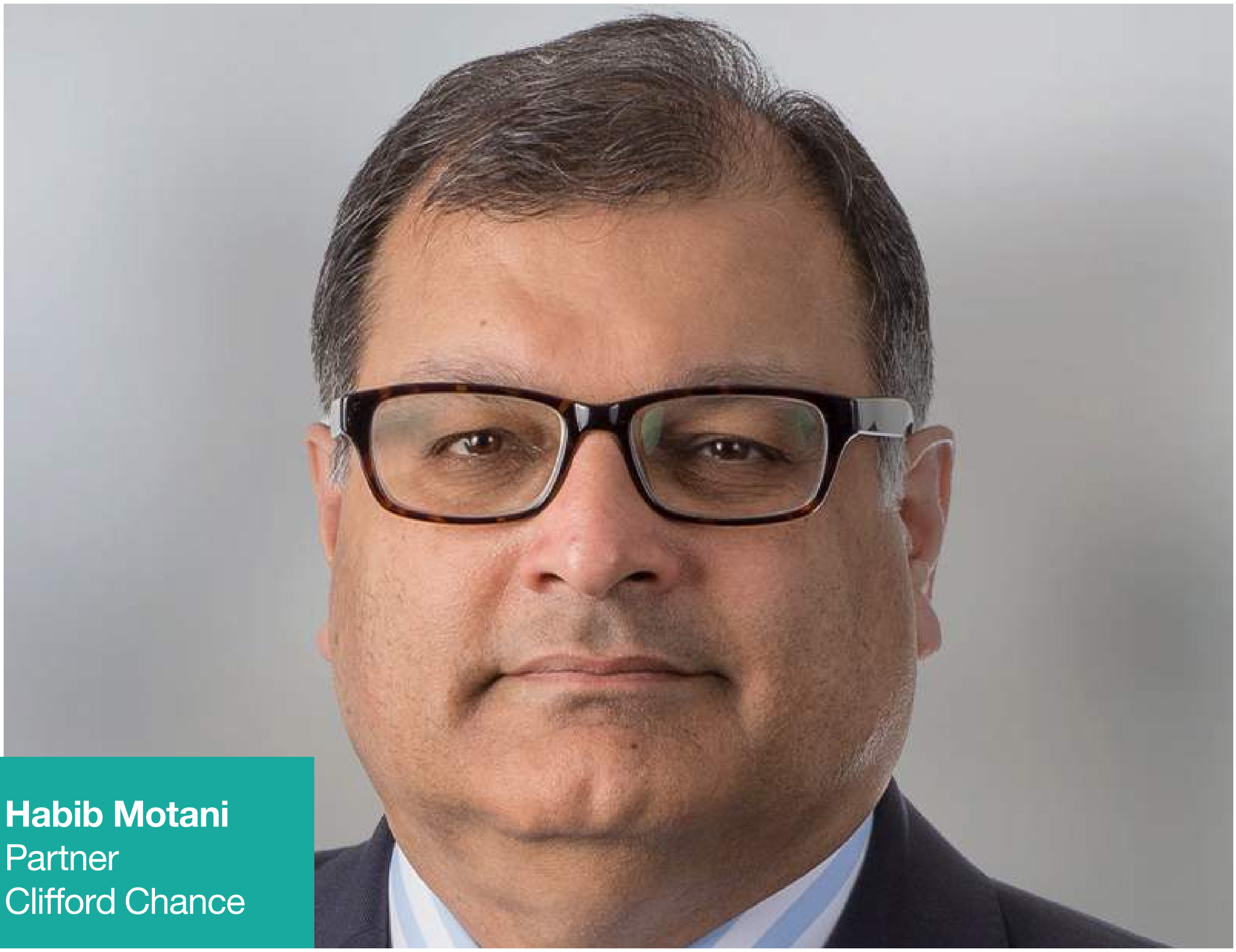
ESMA has been engaging closely with the trade repositories (TRs) that are planning to offer repository services for securities financing transactions (SFT), so that they are ready to support the start of SFT Regulation reporting in April 2020. Therefore, it is crucial that the securities lending industry starts liaising at the earliest opportunity with the TRs to ensure that even in case of a no-deal Brexit they will be able to timely report to a duly registered EU27 entity.

What will ESMA be working on over the next 12 months?

That's a complicated question to answer briefly. But there are a few areas which will indeed be of key importance for ESMA. Brexit remains key even after October. The full impact on markets will take years to be seen even if we can already see the stronger development of different financial centres across the EU27. The Securities Financing Transactions Regulation is the next big transaction reporting regime. Therefore, ESMA is leveraging on its experience in implementing European Market Infrastructure Regulation (EMIR) and the second Markets in Financial Instruments Directive to timely address market concerns and facilitate the reporting start. Other issues for the next 12 months will be increased supervisory convergence among the remaining EU27, as well as investor protection issues such as cost and performance for retail investment products, where further effort is needed to ensure that both asset managers and investment firms act in the best interest of investors. Last but not least, there are some organisational changes ahead for ESMA stemming from the EMIR 2.2 and European Supervisory Agencies review outcomes with new tasks and a further growth of the organisation.

> ***For regulators, the stability and orderly functioning of the EU's financial markets remain paramount***

Steven Maijoor
Chair
ESMA



Habib Motani
Partner
Clifford Chance

What will the GMSLA Hedge Agreement achieve?

The main motivation behind the development of the GMSLA Pledge Master Agreement was to help regulated borrowers reduce their regulatory capital costs when borrowing securities.

The GMSLA currently used in the market uses what is called a title transfer structure. The lender transfers ownership of the borrowed securities to the borrower and the borrower transfers ownership of the collateral securities to the lender. People say that the fact that title to the collateral is transferred means that the lender can readily realise on a borrower default by immediately selling the collateral securities.

That's true, but actually, it's a slight misunderstanding. It sees the collateral as the collateral securities. Really the "collateral" is the lender's obligation to return equivalent collateral securities on a default, the value of that obligation (the value being a function of the value of the collateral securities at that time regardless of whether the lender still has them or not) being set off against the value of the obligation of the borrower to return the equivalent of the borrowed securities.

Because lenders require borrowers to over collateralise, that set off will generally result in an amount payable by the lender, resulting in the borrower having exposure on the lender and being required to hold regulatory capital against that exposure. This can be expensive. The pledge GMSLA is designed to enable collateralisation without creating this exposure.

How does the Pledge GMSLA do this?

Under the Pledge GMSLA, instead of transferring title to the collateral securities, the borrower grants security to the lender over them.

The borrower remains the owner of the collateral securities, but the lender's security interest in them enables it to enforce and realise the collateral in the event of a borrower default. For regulatory capital purposes, this structure does not create the sort of exposure for the borrower that the transfer of title structure involved, and so the borrower's regulatory capital cost is reduced. It is important though to appreciate that the GMSLA Pledge Master Agreement is an alternative, not a replacement. For some borrowers and some lenders continuing to use the existing title transfer, GMSLA will be preferable or more practical and the title transfer GMSLA will remain fully usable.

It will also be important for those using the Pledge GMSLA to review and understand how it works, and particularly how the security interest and the realisation of the security interest will work, so that, to the extent they need to adapt their existing processes and systems for its use, they are fully prepared before any default arises.

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Access to the leading Securities Finance trading platform, EquiLend NGT.

Best-in-class Trax GUI provides complete visibility and audit trail of every step in the reporting lifecycle.

Supports lifecycle event management, loan and collateral allocations and centralized post-trade services.

30+ years of experience in regulatory reporting over multiple regulations.

Access to industry-wide UTI generation and sharing portal.

MarketAxess

EQUILEND

No time like the present

Senior members of the Comyno team discuss why now is the best time to switch to the firm's C-ONE platform

Comyno released its innovative securities finance software solution to the market, now even incorporating a complete SFTR module alongside the most complete front-middle-back office functionality and internal/external connectivity options.

The innovative C-ONE Enterprise suite offers a complete solution for securities finance trading and collateral management, covering the complete value chain of the corresponding transactions.

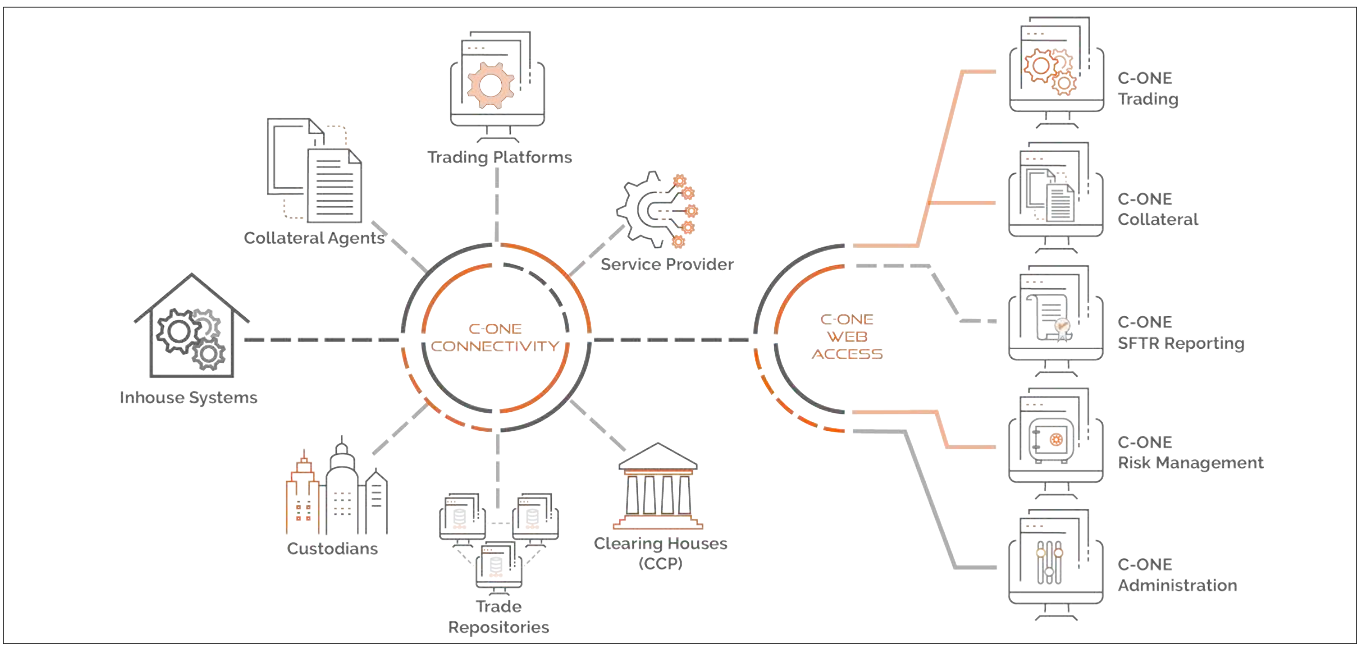
It is built as a 'hybrid platform'—incorporating features for an in-house trading and collateral management system and a multi-entity, multi-product trading platform across asset classes.

This enables our clients not only to manage their whole securities finance business with C-ONE but also grants online access to and for their clients and counterparts including white-labelling potential, simply via the web.

Not only does this provide seamless possibilities for position sharing, but also locates management as well as affirmation processes. Furthermore, clients and counterparts can see their side of the trading activity as well as their side of the collateral and exposure management. Even the profit and loss features can be used by all entities with access to the platform.

If the word existed, we would call C-ONE a "tribrid platform" because it incorporates total connectivity to every internal and external system or third-party entity which might be imagined. This includes the possibility to connect with various distributed ledger technology (DLT) platforms as well.

Now, the Securities Financing Transactions Regulation (SFTR) is at everyone's door. Since the timeline is set by the regulators, discussions are progressing and first customer projects have been kicked off. We at Comyno intend to follow our unique strategy towards getting the



maximum returns out of the new reporting regulations for our clients and how it correlates with our company goal of supporting the market with best of breed software and services.

What is the key for us when we think SFTR?

As experts for all business and technical matters in securities finance, we have one simple message: Do not implement SFTR with a sole view on the reporting requirements, but have a second thought about the synergies for the business it can create if you do it right.

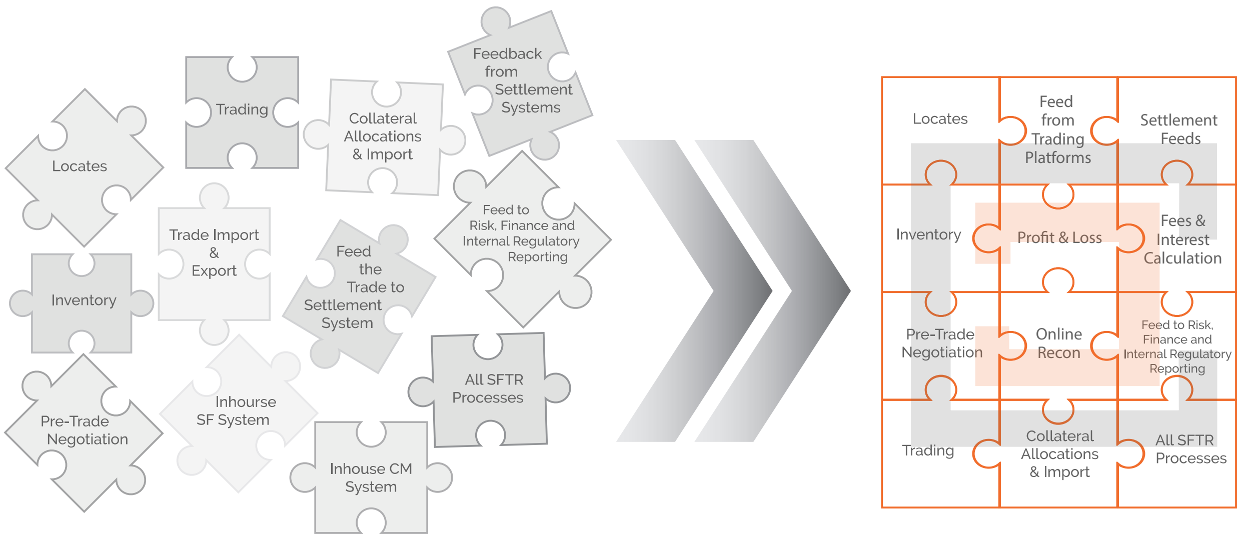
From our point of view, there is huge potential in turning the cost you are forced to bear for SFTR into real benefits for your business. Therefore, it is essential that traders and collateral managers jump on the SFTR train in an early stage of the project, to better understand what it is about, to be able to add business ideas to the project and make use of synergies the reporting has to offer.

Why are we convinced that there are such synergies?

This has a lot to do with the many projects we already did in the securities finance arena in general and specifically in the area of collateral optimisation. Clearly, we see that firms who have put effort on a collateral optimisation strategy will have torn down their internal (product-) silos already. They will have a consolidated view on the firm-wide collateral portfolio and will have implemented the necessary infrastructure to efficiently manage liquidity and risk while increasing their revenues at the same time.

If your firm has invested in such an infrastructure environment already, the implementation of the new reporting will be an easier task because SFTR is requiring exactly that consolidated data of all your securities finance transactions across asset classes and business units and a full view on the firm-wide collateral portfolio.

If your firm has not yet invested in such a consolidated infrastructure—SFTR will force you to do so at some point further down in the value chain.



Scattered infrastructure with multitude of processes, systems, vendors and departments.

C-ONE ENTERPRISE: one platform for all.

This is exactly the point when Comyno comes in to help to define how to bring all of the collected and required data into the right place and format. As a result, your company will be able to report SFT properly and will increase the efficiency of collateral allocation at the same time.

This business-driven approach led towards our decision to implement and offer a full-scale SFTR system solution to the market instead of just providing a tool to collect the required data and fill the fields in the reports.

Our C-ONE Trading/Collateral Management and C-ONE Connectivity/Reporting platform have initially been built embedding the SFTR requirements as their core data structure. Now we are continuing with adding the missing pieces to deliver SFTR reporting fully in line with the regulator's requirements.

To stick to our word of the 'one-stop-shop' slogan, the next logical step was to include SFTR into our product suite since we wanted to keep our other promise, to be able to provide all system features as single modules as well. In other words: the SFTR functionality can also be used as a stand-alone tool for SFTR Reporting from your legacy SFT in-house systems, or out of the box for firms already using our full enterprise suite.

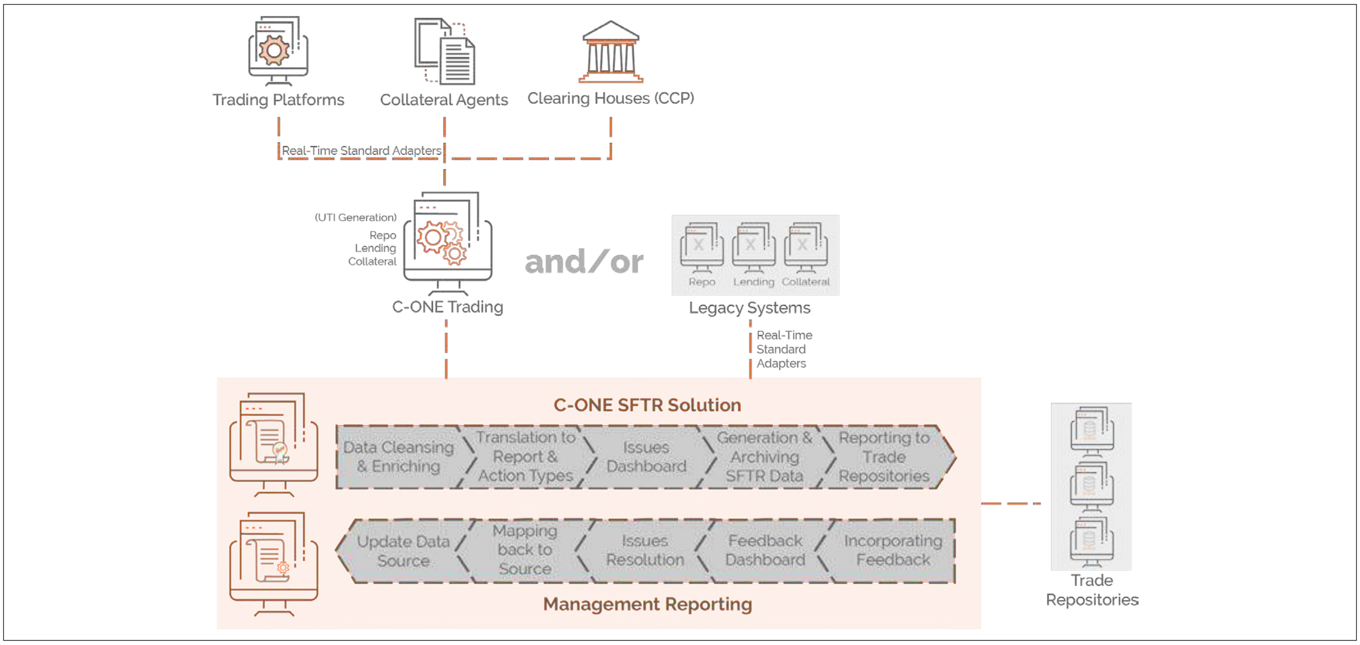
One of the biggest cost drivers for the industry is the multitude of internal and external parties involved in securities finance transactions and the variety of software systems and IT components as well as a big number of manual workarounds and interfaces which are necessary to fill gaps in the underlying systems.

Comyno has done no less than tackling this industry challenge for the benefit of our market with its solution: C-ONE Enterprise with all its different modules is now covering the whole value chain, both from a business and technical perspective.

Just imagine for a second

From generating the trade idea, finding your counterparty, online-negotiation, affirmation and trade booking, UTI generation, collateral

SFTR Platform



allocation or triparty import, reconciliations and feeding the trade to your in-house systems, settlement and SFTR reporting—all this now can be performed fully straight through on one platform which is our C-ONE Enterprise.

Of course, a firm can't jump from a scattered IT landscape to a single platform in one go. But the good news is C-ONE, either as a whole or just some of its modules can be added at any point and expanded and migrated step by step over time. We would evaluate your existing infrastructure carefully to start with and put together a road map with all the necessary steps and processes and prioritise them according to their value add, cost impact and pain points.

The idea of then starting to implement the most crucial steps at first brings us back to the topic of SFTR because its implementation by using the C-ONE solution would subsequently not only solve your reporting obligations. Moreover, it will be the first step and basis towards modernising and fully digitalising your securities finance infrastructure and gaining various business benefits at a lower cost.

Being forced to work on your infrastructure anyway due to SFTR, why not use the opportunity?

Talk to us directly at the conference!

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Highlights from ISLA 2018

ISLA Daily

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AGENDA DAY 1

13:00 – 14:00

Registration

14:00 – 14:15

Welcome Remarks - Andy Dyson, CEO, ISLA

14:15 – 14:45

European Political Update

Whilst the UK has been somewhat fixated with Brexit, the remaining 27 EU Member States will see the formation of a new European Parliament and Commission in 2019. This session will focus on the key issues that will shape the agenda across Europe in the coming five years.

14:45 – 16:00

ISLA's Legal & Tax Initiatives 2018/2019

The first of a series of updates detailing the wide-ranging work that ISLA has undertaken on behalf of its members over the past 12 months. This session will include considerations for new and existing netting jurisdictions, the ongoing adoption of our new GMSLA Pledge Master Agreement, as well as further work on tax changes across Europe.
Habib Motani, Partner, Clifford Chance
Dalia Hamdy, Senior Tax Counsel, Scotiabank
Steve Raddon, Tax Manager, Securities Finance Division, BNY Mellon

16:00 - 16:30

ISLA SFTR & CSDR Working Group Updates

On behalf of the ISLA SFTR and CSDR Working Groups, two concurrent presentations on the extensive work of the various work streams.
Adrian Dale, Director of Regulation & Market Practice, ISLA
James Montgomerie, Executive Director, EMEA Head of Securities Lending Operations & Head Financing & Collateral Operations, Morgan Stanley
Andy Hill, Senior Director, Market Practice and Regulatory Policy International Capital Market Association (ICMA)

16:30 - 17:15

Regulatory Convergence - 2020

Many of the regulatory initiatives that the financial services industry are working on come to some sort of conclusion or implementation in 2020. This final session of the day will look more broadly at how different investment and trading communities are preparing for the combined arrival of these regimes. As 2020 will also see the arrival of new margining rules for uncleared derivatives transactions, the panel will also consider the implications of the increase in demand for collateral, including HQLA that these rules will bring to the markets.

Moderator:
Andy Dyson, CEO, ISLA

Speakers:
Ina Budh-Raja, Director, Product & Strategy, Securities Finance, BNY Mellon
François Baratte, Senior Industry Affairs Adviser, Association of the Luxembourg Fund Industry
Marije Verhelst, Director, Product Management, Securities Lending & Collateral Management, Euroclear SA/NV