ISLA Daily

Day 1

27th Annual Securities Finance and Collateral Management Conference

Tuesday, 19th June

SFTR: Challenging firms in a multitude of ways

Interview with ISLA conference chair • MarketAxess on SFTR challenges • Comyno on the digital future • A review of 2017 in photos

HKEX to roll out MSCI Asia Ex Japan Index futures

The New York Federal Reserve Bank has been further expanding upon the three repo reference rates.

The Federal Reserve works in tandem with the US Office of Financial Research to produce the rates, based on overnight repo transactions secured by Treasury securities.

The aim is to to provide the public with more information regarding the interest rates associated with repo transactions.

The secured overnight financing rate (SOFR) provides a broad measure of the general cost of financing Treasury securities overnight.

It is calculated based on the data used for the broad general collateral rate (BGCR), plus transactions cleared through the Fixed Income Clearing Corporation's delivery-versus-payment (DVP) repo service.

In the DVP repo market, counterparties identify specific securities to serve as collateral for each trade, in contrast to the tri-party repo market, in which cash providers stipulate a population of acceptable collateral, also known as general collateral (GC).

As a result, the DVP repo market can be used to temporarily acquire specific securities.

Repos for specific-issue collateral may be executed at rates below those for GC trades if cash providers are willing to accept a lesser return on their cash in order to obtain a particular security. In this case, the specific securities are said to be trading "special".

In the calculation of the SOFR, DVP repo transactions are filtered to remove some (but not all) transactions considered "specials". The SOFR represents a median of rates across GC and trimmed DVP repo transactions.

In June last year, the Alternative Reference Rates Committee selected the SOFR as its recommended alternative to US dollar LIBOR.

The BGCR is a measure of rates on overnight Treasury GC repo transactions, and is calculated based on the same tri-party repo transactions used for the tri-party general collateral rate (TGCR), defined below, plus general collateral finance (GCF) repo transactions cleared through The Depository Trust & Clearing Corporation's GCF Repo service.

The TGCR is a measure of rates on overnight, specific-counterparty tri-party repo transactions secured by Treasury securities, and is calculated based on data collected from the Bank of New York Mellon, excluding GCF Repo.

Specific-counterparty transactions refer to those in which the counterparties involved know each other's identity at the time of the trade.

BNY Mellon launches Stock Connect tri-party collateralisation

BNY Mellon has become the first tri-party agent to provide collateral services for securities settled through Hong Kong (HK) Stock Connect.

The agreement will support growing cross-border trade volumes into and out of China.

It expands the range of eligible collateral available to investors and coincided with the inclusion for the first time of China A-shares listed on the Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) in relevant MSCI indices, including the MSCI Emerging Markets Index.

MSCI released details of the changes in mid-May, when it said that as part of its May 2018 Semi-Annual Index Review for the MSCI Equity Indexes, it would implement the first step of the partial inclusion of China A shares in its China Index.

The inclusion will extend to other relevant global and regional composite indices, such as the MSCI Emerging Markets Index as well as relevant global and regional composite indices, such as the MSCI Emerging Markets Index.

MSCI said there would be 234 China A shares added at 2.5 percent of their foreign inclusion factor-adjusted market capitalisation.

These represent aggregate weights of 1.26 percent and 0.39 percent, respectively, in its China Index and its Emerging Markets Index.

MSCI added that the second step of the inclusion will coincide with its August 2018 Quarterly Index Review, when the representation of the foreign inclusion factor-adjusted market capitalisation of China A shares will increase to 5 percent.

The three largest additions to the MSCI Emerging Markets Index measured by full company market capitalisation are ICBC A (China), China Construction Bank A (China) and Petrochina Co A (China).

According to BNY Mellon, the addition of Chinese equities to the indices will significantly increase portfolio allocations to China A shares. The bank cited an MSCI prediction that the inclusion of China-A shares will drive an initial flow of around $20 billion to shift and track the China A-shares market.

Natalie Wallder, head of collateral management for Asia Pacific at BNY Mellon, said: “BNY Mellon Markets is always looking for ways to increase liquidity for our clients.”

She added: “ Our Stock Connect solution does just that, by unlocking the ability to utilise these assets as collateral, bank and broker dealer clients now have an additional avenue to finance inventory and reduce funding costs via tri-party collateral management.”

Bitcoin ‘not a security’, says SEC chairman

Bitcoin is “not a security” and the Securities and Exchange Commission (SEC) will not change the definition of a security for the benefit of cryptocurrencies, according to SEC chairman Jay Clayton.

Clayton said in an interview that the SEC was “not going to do any violence to the traditional definition of ‘security’ that has worked for a long time”.

He also said that the SEC would not change its rules for initial coin offerings, underscoring that tokens or digital assets used in that fundraising process are securities.

Nigel Green, founder and CEO of deVere Group said that this was evidence of the cryptocurrency sector becoming “increasingly mainstream”.

He added that the SEC was giving a “steadfast yet proactive approach on bitcoin and other cryptocurrencies”.

“The SEC is right to insist that the digital coins, such as bitcoin, which are replacement for sovereign currencies, such as the dollar, sterling, yen and euro, are not securities”

‘Similarly, I believe the SEC is also right that the tokens—which [Clayton] did not name—that act as digital assets are securities.”

“This clarification by the SEC removes some of the uncertainty that has been swirling around the crypto sector and serves to strengthen the overall proposition of many of the major cryptocurrencies.”

Green concluded: “The SEC’s invaluable and far-sighted work in this area once again highlights how many governments, central banks, and regulators around the world are all now recognising the scale and potential of Bitcoin and other cryptocurrencies.”

The SEC’s clarity will have a positive impact on the cryptocurrency sector. The agency’s stance will rightly target what needs to be targeted and allow the legitimate digital coins to prosper.”

ESMA releases first report on penalties imposed under EMIR

The European Securities and Markets Authority (ESMA) has issued its first annual report regarding supervisory measures and penalties imposed by national competent authorities (NCAs) under the European Market Infrastructure Regulation (EMIR).

ESMA is charged under EMIR with drafting and submitting an annual report on penalties imposed by National Competent Authorities (NCAs), including supervisory measures, fines and periodic penalty payments to the European Parliament, the Council and the Commission.

Specifically, it covers provisions related to the clearing obligation (Article 4 of EMIR); the reporting obligation, non-financial counterparties (Article 10); and the risk mitigation techniques (Article 11).

ESMA has stated the report will help to gradually identifying best practices and potential areas that could benefit from a higher level of harmonisation.

According to ESMA, this report serves as a good basis for NCAs to share information on their practices in their supervisory activities and, more broadly, to raise awareness on the supervisory approaches followed in the different countries, said ESMA in its concluding remarks in the paper.

It helps understand the information checked by NCAs (from trade repositories (TRs) and in combination with information submitted by counterparties) and its use for a range of supervisory measures.

The report also shows that the majority of NCAs share similar competences (or responsibilities in standard non-EU English) in their supervision and enforcement of the articles in question.

ESMA said that from the information analysed it has identified a large range of practices being applied by NCAs across the EU.

It said that, overall, it appears that there has been initially an important focus on raising awareness on EMIR requirements.

This has then gradually shifted to the monitoring and the enforcement of, first, the implementation of the requirements, and then of the ongoing compliance.

Some areas appear to be highly harmonised, such as the sources of information used by NCAs with the purpose of verifying the compliance with EMIR provisions, or the supervisory competencies to which the different NCAs are entitled, according to their respective national regulations.

Other areas, such as enforcement procedures, although following different systems, do show a common underlying pattern, said ESMA.

However, it added, the aspect that appears less unified concerns the amounts of the fines, where the level of harmonisation is very low, with amounts ranging between a minimum of €125 and a maximum of €100 million.

In addition, in terms of criminal sanctions related to EMIR infringements, seven countries envisage this possibility in their legislation. In terms of sanctions, just three have so far been imposed.

Covip in Italy (Commissione di vigilanza sui fondi pensione) imposed two sanctions fines in connection with both articles nine and 11 (amounting to €105,000 and €60,000 respectively); and the Financial Conduct Authority in the United Kingdom imposed a sanction fine of £35 million for an infringement of article nine.

ESMA said it expects this first report to be the baseline for future reports on penalties and supervisory measures.

These reports will help monitor compliance in the different member states and possibly identify areas where a higher level of harmonisation could be considered to ensure a level playing field, it added.

ESMA has sent its report to the European Parliament, the Council and the European Commission, informing them about the findings.

ESMA has also published its final report for guidelines on the second Markets in Financial Instruments Directive (MiFID II) suitability requirements.

According to ESMA, the guidelines will make sure that the objectives of MiFID II can be efficiently achieved. ESMA stated that the implementation of these guidelines should strengthen investor protection—a key objective for ESMA.

ESMA said: “These guidelines aim to ensure a common, uniform and consistent implementation of the MiFID II requirements related to the assessment of suitability by


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SEC names Sarah ten Siethoff as associate director

The Securities and Exchange Commission has appointed Sarah ten Siethoff as associate director for the division of investment management's rulemaking office.

She will be responsible for developing recommendations for rulemaking and other policy initiatives relating to funds and investment advisers under federal securities laws.

Ten Siethoff has been a member of its Division of Investment Management in a variety of positions since 2008.

Most recently she has served as deputy associate director in the rulemaking office.

Before her SEC service, ten Siethoff was an associate with law firm Cleary Gottlieb Steen and Hamilton LLP.

providing explanations, clarifications and examples on how the relevant obligations related to the assessment of suitability should be fulfilled."

The paper summarises and analyses the responses to the consultation paper and explains how the responses have been taken into account.

The guidelines in the final report, build on the text of ESMA's 2012 MiFID I guidelines on suitability, consider recent technological developments of the advisory market—including the increasing use of automated or semi-automated systems for the provision of investment advice or portfolio management.

It also take into account the results of supervisory activities conducted by national competent authorities (NCAs) on the implementation of the suitability requirements and they also incorporate the outcome of studies in the area of behavioural finance.

Under the MiFID I framework, Article 35 of the MIFID Implementing Directive three required firms to obtain the necessary information to understand the essential facts about the client, and to have a reasonable basis for believing, given due consideration of the nature and extent of the service provided.

ESMA ask respondents to answer whether they agreed with the suitability assessment and specifically with the new supporting guidelines on robo-advice. ESMA said: "Respondents welcomed the approach that ESMA adopted when updating the existing guidelines and appreciated the fact that behavioural insights have been taken into account in the area of how the information should be presented to clients in order to avoid perceptive or cognitive distortions from impairing investors' answers, especially in relation to the provision of robo-advice."

It added: "Some respondents noted that the recommendation to firms to ascertain clients' understanding of risks and the relationship between risk and return of a specific investment by asking questions—provided under paragraph 17 of the draft guidelines—seems to go beyond MiFID II requirements."

ESMA also asked respondents if they thought further guidance is needed to clarify how firms should assess clients' ability to bear losses and if they agreed with ESMA's suggested approach on the arrangements necessary to understand investment products for the purposes of suitability assessment.

They further enquired, "Do you agree with the suggested approach for conducting a cost-benefit analysis of switching investments in the context of portfolio management or investment advice?"

ESMA stated the guidelines, written after summarising and analysing the responses to the consultation paper, will ensure that MiFID II's objectives are achieved.

The guidelines were published just as the European Commission published its 'Action Plan' on sustainable finance.

In the action plan, the European Commission stated: "Firms should ask about their clients' preferences (such as environmental, social and governance factors) and take them into account when assessing the range of financial instruments and insurance products to be recommended."

Commenting on the action plan, ESMA said: "We have included, pending changes to the legal framework, a good practice for firms addressing this issue."

"The good practice will contribute to raising firms' and supervisors' attention and awareness of this issue."

It added: "ESMA will monitor the legislative proposals under the European Commission action plan and will consider making focused amendments to the guidelines to reflect changes to the MIFID II delegated acts on the topic of sustainability."

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Conference Chair

Prepare for potential change

Roy Zimmerhansl of HSBC discusses what to expect from the 27th Annual ISLA conference in Lisbon

Maddie Saghir reports

What can delegates expect from this year's ISLA conference?

This year's conference is happening at a time when all firms are focused on 2019 as a year of potentially significant change for the industry. There are two specific items to note that will make some change a certainty—Brexit and Securities Financing Transactions Regulation (SFTR)—as well as new paradigms that may emerge from technology advancement and evolving investor attitudes.

This year's conference has some great speakers and panels lined up. What are you looking forward to most?

The moderators, panellists and keynote speakers are absolutely outstanding this year and perfectly suited to the challenging times ahead. With political, technological and business changes ahead of us, it's hard to pick only one item of particular interest. I have been in this business a long time and I can't recall seeing so many business-impacting events coming together within a single year.

By definition we are drawing the map for the first time in dealing with many of these issues so there are no right answers, just firms' views. I am simply interested in hearing the discussion and debates surrounding how different firms are approaching these issues. I am hoping that delegates will be able to walk away with a few new points of view to consider.

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

In addition to dealing with the return of volatility in the market, Brexit and SFTR have captured the lion's share of management focus, and rightly so.

Everyone is, and will continue to be focused on having flexible operating models that can adapt to the eventual requirements resulting from the Brexit negotiations. SFTR will place reporting requirements on securities lending market participants that may affect how some firms conduct their business.

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

Twelve months is a short period of time, especially when you take into account the regulatory-driven changes next year. Nevertheless, there are three key trends I would highlight. First, from a business perspective, we continue to see new investors making their securities available for loan. Second, essentially every developed and most developing markets now allow or even encourage securities lending. Those few that haven't yet, have it on their radar. Finally, increasing automation from trade execution through to reconciliation and reporting will continue. My view is that the people in this business need to focus on being client-driven problem-solvers and trading engineers.

I have chaired many conferences, but I have never been more excited than I am by the topics and speakers at this year's event.

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Roy Zimmerhansl
Global head of securities lending
HSBC

A bumpy road ahead

Christophe Roupie of Trax says SFTR will challenge many different firms in a multitude of ways. He explains more

What should firms be doing right now to prepare for the implementation of SFTR?

The Securities Financing Transactions Regulation (SFTR) will challenge many different types of firms in a multitude of ways. One of the first things that firms should get to grips with is the scope of SFTR across regions, entities and products. Trax were recently at the Securities Finance Masterclass in South Africa, discussing the impacts of European regulation at a global level. Depending on the branch structure and activity carried out, some firms will at best only have to share core data with their European counterparts, however, at worst some firms will be captured by the full reporting obligations. In reality, this scoping exercise should already have been carried out and reporting firms should now be at a stage where they are assessing the data requirements and working with their vendors to understand service offerings. Furthermore, firms captured by SFTR should also ensure that they are involved in the industry discussions led by the International Securities Lending Association (ISLA), International Capital Market Association (ICMA) and the Association for Financial Markets in Europe (AFME).

What challenges are firms finding while preparing for SFTR compliance?

Budgeting, resources and high demand for expertise. Given the uncertainty around timing, since the European Securities and Markets Authority (ESMA) draft standards must be first endorsed by the European Commission, firms are struggling to make accurate estimates on how the budgeting cycles will look and where and when they need to scale up for implementation. We believe that building everything in house and not using a vendor solution or at least a module of a vendor solution may prove extremely challenging or even prevent some firms from being SFTR compliant in time.

Secondly, even where firms are already working on SFTR, the movement of resources from the second Markets in Financial Instruments Directive (MiFID II) to SFTR has not been as smooth as first hoped. This was initially due to the fact that MiFID II required significant focus well into Q2 2018 with reference data reporting under Regulatory Technical Standards (RTS) 23 and Best Execution Reporting under RTS 28 being particularly challenging. Uncertainties around the SFTR go-live date mean that even when firms are wrapping up or scaling down their project teams for MiFID II, the difficulties in planning and budgeting for a regulation that has no live date yet means that these resources cannot simply be moved onto SFTR. In some cases, firms will have to hire the same people or consultants with similar skills at a later stage, which takes us to the next challenge.

As with all new regulations, there is a high demand for product and regulatory knowledge. It will take time for the securities finance experts to understand the full impact of regulation and similarly for the regulatory reporting experts to understand the many complexities of the securities finance world.

To put it in a few words, the expertise crucially needed to support the initial phase of review could be strained.

Trax, the post-trade arm of MarketAxess, combines securities finance expertise in both repo and securities lending with comprehensive experience in trade and transaction reporting. It has indeed proved invaluable to our client base as we were able to initiate discussions on SFTR in the build up to MiFID II. The ability to offer continuing access to our teams and experts throughout the various regulatory lifecycles is at the heart of our value proposition.

What challenges are firms finding while preparing for SFTR compliance?

SFTR has the potential to drive automation into an area of the market that has typically been manual in its nature and continues to support off-venue over-the-counter (OTC) trading. Many conference panels will discuss the virtues of blockchain and distributed ledger technology and how they can be applied to the securities finance markets. This really is a case of trying to run before you can walk, particularly in the case of the bilateral repo market. The perceived benefits of SFTR are dependent on the position your firm holds in the market; it is generally accepted that at the very basic level, automation of confirmations and lifecycle events should already be in place. At Trax, we provide bilateral repo post-trade matching services to our clients. We believe that the majority of the bilateral repo market confirmation process is either managed manually or relies on settlement matching. With the size and importance of the market any regulation that encourages automation should be looked on as a huge positive.

As a result of SFTR, we do expect to see a move towards greater on-venue trading, which again should increase transparency and foster competition. The expectations from ESMA are very high as SFTR will help better understand some of the risks associated with securities finance, especially around the collateral usage. We have been encouraged by the changes in trading behaviours following the implementation of MiFID II and we will continue to support regulatory changes and provide our clients with the most appropriate solutions to meet their needs.

What would you recommend firms do to ensure a smooth implementation?

Aside from getting management buy-in and securing the budget the obvious answer would be to start early. However, if you are reading this and think that starting now is early, this is not the case. Do not leave this implementation down to either your securities finance or regulatory reporting teams. SFTR crosses organisations, and a successful implementation will be predicated on cooperation between the securities finance and regulatory reporting teams amongst others. A successful implementation should include automation of trading, affirmation, confirmation, matching and reporting. Through leveraging SFTR, reporting firms can maximise the chance of a smooth implementation by using the leading industry vendors in the securities finance space.

What will market participants be expected to report from day one?

The reporting obligation for SFTR has a staggered approach with reporting requirements being phased in according to the type of firm. Investment firms and credit institutions will be caught in phase one or day one of go-live; central counterparty clearing houses (CCPs) and central securities depositories are caught in phase two, which is three months after go-live; insurance firms, UCITS, alternative investment funds and pension funds fall in phase three, six months after go-live; and non-financial counterparties being caught in phase four, nine months after go-live.

Having said that, whenever your day one is, the regulator will expect you to deliver accurate data within a T+1 reporting deadline and keep that information up to date for as long as that trade is live. This means reporting lifecycle events, loan value and collateral updates and reporting any errors that you have made to the trade repository.

What are MarketAxess and Trax currently working on? And what plans does the firm have over the next 12 months?

We have been working with leading industry providers in the securities finance space for well over a year. Trax, in preparation for SFTR, has been collaborating with Equilend to ensure we have a comprehensive solution covering all SFTR eligible assets. The combination of Trax's expertise in transaction reporting and repo matching, and Equilend's expertise in the securities lending space means that we are able to provide firms with the ability to trade, match and report through one solution. Having just completed a successful MiFID II implementation, Trax has now begun the process of building its SFTR solution and we are also enhancing our repo matching platform to bring further automation to our existing dealers and buy-side firms currently benefiting from our services.

We do see SFTR as an opportunity and the regulation will definitely help us in shaping our product offering. The Trax roadmap for 2018 and 2019 is pretty full already and we are looking forward to many new developments and potential growth opportunities in the post-trade, data and reporting space.

MarketAxess will also continue to enhance its all to all open trading solution globally and build on innovative trading protocols to help our clients across the buy and the sell side find alternative pools of liquidity in order to trade more efficiently and reduce their costs of trading to the benefit of the end investors. Ultimately reaching a superior outcome for the end client is the aim of better regulation and one we should all support and thrive to achieve.

We do see SFTR as an opportunity and the regulation will definitely help us in shaping our product offering

Christophe Roupie
Head of Europe and Asia
MarketAxess and Trax

The digital future

Walter Kraushaar of Comyno explains how competition in the securities finance market has changed from its historical ways

Historically, the securities finance market has been competing over products but in today's digital age, competition is rapidly increasing through the creation of platforms and networks, which offer straight-through processing and connectivity.

In today's world, the ultimate advantage over the competition will be achieved by building a better platform, rather than by continuing the use of existing outdated product suites.

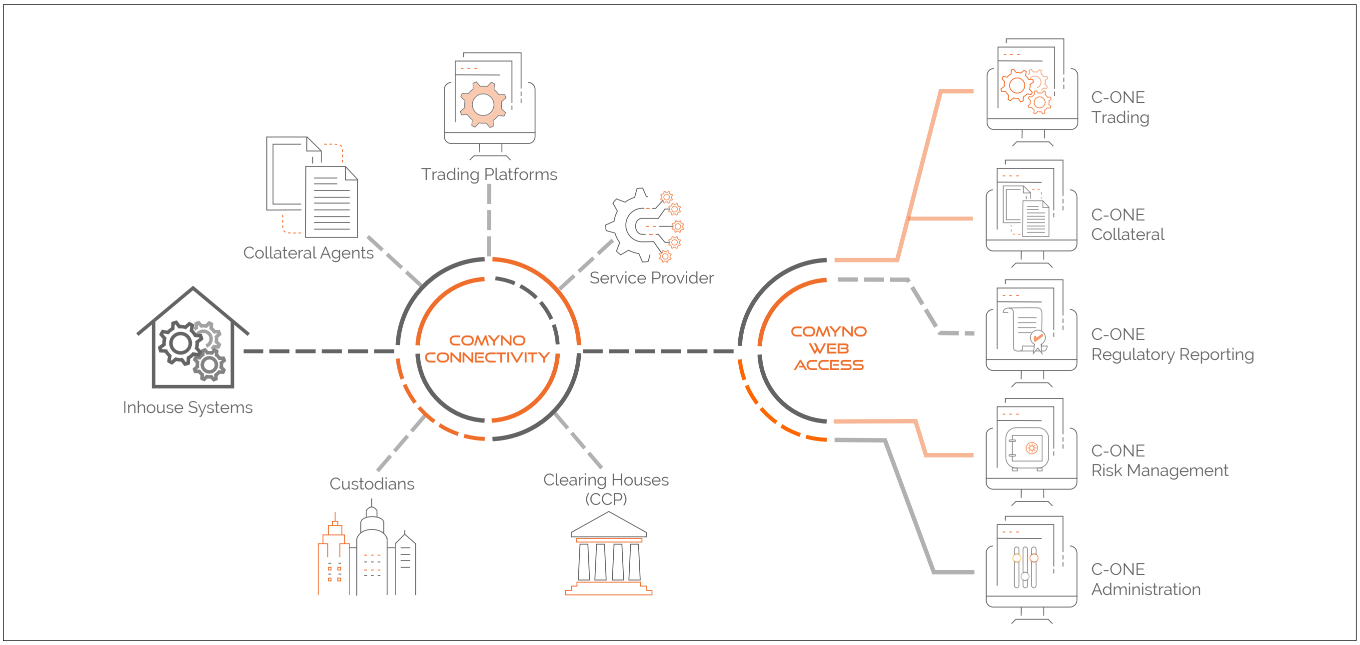
Especially in light of the need for transparency, many market participants, regardless of being big or small, are burdened by the need to break off silos and fulfil all regulatory requirements. Since the financial crisis, banks, brokers and asset managers have spent a lot of time, effort and money introducing new business models, integrating acquired businesses, and modernising their technologies to bring the best solutions and products to the market and to reorganise their businesses.

However, these strategic investments have often led to a jumble of old systems, knowledge, processes, and corporate cultures.

At the same time, new digital companies are entering the market without legacy issues and with a new digital approach to today's markets and regulatory challenges.

As a result, digital platforms have been introduced to the market to handle the increased volumes of data more efficiently and with a

Digital Platforms



variety of connectivity options to communicate with other IT systems. In general, a digital platform creates a combined development and delivery environment that provides users with consistent, accurate and timely data.

A data management platform imports data from many systems and enables customers to view the data in a clear and concise manner. Comyno has gone a step further with it's C-ONE platform that combines data management technologies and data analytic tools into a single software suite with an intuitive and easy-to-navigate customised dashboard/cockpit.

With its plug and play technology, Comyno provides various tools such as, C-One Collateral, C-One Trading, -One Risk Management and C-One Reporting.

These tools give our clients the ability to cover all securities finance related topics as efficiently as possible. The tools will be designed for the clients solely based on their respective requirements. A key role of the C-ONE platform is that it collects structured and unstructured data from a range of internal and external sources and then integrates and stores that data.

This platform also analyses and organises data to provide insight to data-driven parts of the business, such as securities finance trade, risk or counterparty analysis.The data incorporated into the platform can be first-party data, coming from an organisation's own applications, systems, websites and products, as well as second-party data from the outside world.

In addition, platforms use third-party data to fill in gaps in a company's own data environment.

Subsequently, Comyno's approach has always been to provide a proficient tailor-made securities finance platform that combines the client's specific business and reporting requirements with the necessary connectivity of the platform to almost any existing clearing house, tri-party agent, central counterparty as well as other IT-system solutions for in-house trading systems in the securities finance world.

By building a digital platform one party can easily connect its business with another party to build products and services, co-create value and save costs. This ability to 'plug-and-play' is the defining characteristic of 'platform thinking' and has resulted in the development of our C-ONE platform.

In the future, we will see more and more companies shifting from products to platforms and Comyno has already taken the next step to support that trend.

Some other securities finance systems, which are currently available on the market offer a rather standardised securities finance product suite, which comes at a high cost, licensing fees as well as complex interfaces. Unlike these systems, the Comyno platform will offer customised adaptors and functionality available in the form of specific tools and single products, which can stand alone or be combined in any possible way.

The clients will always decide based on their own business requirements, which combination of tools, products and other services they will need to build their own personalised C-ONE platform.

In addition, Comyno offers independent strategic advice to merge our clients' existing infrastructure and personal requirements with the available tools of the C-ONE platform or in some cases we can develop additional customised tools as needed. Once all of this data is available on the digital C-ONE platform, the client is able to reshuffle the existing data not only extract several reports but also develop their own user interface.

Furthermore, it provides a tailor-made hosted solution with front end, middle- and back-office functionality at a reasonable cost for our clients. With the adaptor-based new platform technology, C-ONE does not need the programming and maintenance that is necessary for thousands of other interfaces and existing in-house systems. Moreover, our newly founded company Comyno DLT will add distributed ledger technology to the platform to support the world of crypto currencies and crypto assets soon. This is what we at Comyno understand as the digital future of the securities finance industry.

SFTR
BY NUMBERS

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1 **SFTR SOLUTION: EQUILEND & TRAX**

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

Cooking up a collateral treat

Ed Hellaby, business development director of FIS, suggests it is time to 'mise en place' your collateral operation

Have you ever wondered how it is that a professional chef can turn out a full service of dishes in parallel, while your attempt to whip up anything more than an omelet and coffee at the same time leads to a trail of destruction and charred pans? You could say it is a skill that the chef has honed over years of cooking—and it is, of course, true; years of practice go a long way toward being able to master a myriad of dishes and the associated time management to ensure they all come out together. Or perhaps you would put it down to the quality of the equipment they have at their disposal—but then, you also know that some restaurant kitchens in our capital cities are no larger than a suburban closet. For the real 'secret sauce', we must look to a French term well utilised in the culinary world, 'mise en place'. Unlike most of us, professional chefs do not prepare each step of a menu as they arrive upon it; instead, they will ensure each and every ingredient is pre-washed, weighed and prepared. They mise en place their kitchen, which simply means, 'to put everything into place'. This allows a chef to efficiently assemble dishes by adding their ingredients at just the right time, in just the right quantity. At this point you may be wondering what any of this has to do with collateral management—and my answer would be: quite a bit.

Over the past two years, we have seen a swathe of regulation generate the need to raise and mobilise both cash and non-cash collateral on a T0 or T1 basis. As the uncleared margin rules (UMR) continue to come into effect for new waves of market participant, the demands on liquidity and operations processing is set to climb. At a recent collateral forum, an industry veteran estimated that upward of $105 billion is now collected daily to cover initial margin (IM) obligations off the back of UMR for the phase one and two participants. This is on top of the existing margin requirements for cleared and non-cleared trades.

One of the key challenges facing collateral management teams on the buy side is ensuring there is sufficient liquidity available to meet their variation margin (VM) calls on a same day basis, while maintaining the lowest possible cash buffers to avoid a drag on performance. An intrinsic part of a collateral manager's daily job is now to ensure they can accurately determine tomorrow's VM and ensure they have worked with treasury to ensure they raise the cash they need. This mise en place of the cash is generally achieved by lending out their assets. The sooner and more accurately you do it, the better the outcome. Advanced collateral management solutions, such as FIS's Apex Collateral, are able to perform these kinds of 'what-if' calculations for VM to produce reports that can be passed to the treasury and funding groups automatically.

In a similar ilk, the buy-side can also expect to be hit hard by the demand to post IM for their uncleared trades. IM requirements for the most part must be satisfied with high-quality liquid assets (HQLA), something an asset manager may not be holding in sufficient quantities. An increasing trend on the buy side is to leverage post-trade optimisation to ensure that they are effectively using their existing portfolio of assets to its full extent. However, where there are shortfalls in inventory, they will likely have to turn to the securities lending markets to perform upgrade trades to raise sufficient levels of HQLA. As we are still two years away from the margin rules being fully in effect, we cannot be certain what kind of liquidity squeeze this will place on the market. However, we can be sure of one thing: with a rising interest rate environment and an increased demand for HQLA, we will see higher costs of borrowing in the securities lending markets. While this may be a boon for the beneficial owner community, it will likely eat further into the shrinking margins for actively-managed funds.

Due to growing demand for access to the repo and securities lending markets, the buy side are increasingly looking at setting up dedicated collateral financing/trading desks tasked with executing repo and securities lending transactions to raise the right kind of collateral. For those organisations new to this space, trying to determine where this process will fit in their overall process and system architecture is no simple task. Those lucky enough to already have an enterprise collateral management system with a real-time view of global inventory that can also support repo and securities lending trading, it may be as simple as flipping a switch to activate this functionality. For others with legacy in-house technology, or just a collateral operations solution, the road ahead may be a little more convoluted. Complex integration with trading platforms or third-party agents will need to be done to ensure that as the desk executes a trade and raises collateral, the positions show as available inventory for use within the collateral platform. This real-time flow of data is essential for anyone who may be looking to use any form of optimisation engine to most efficiently allocate inventory across the competing requirements for VM, IM and alpha generation through the lending programme.

We can think of the next chapter of collateral management the same way as we would a chef walking on to the line for a busy Saturday service. If we put into place a process that lets us determine and source exactly what collateral we need, where and when we need it, we put ourselves in the best position to succeed. And just like a chef, if we fail to mise en place our collateral operations, we will quickly find ourselves looking for a new kitchen.

"If we fail to mise en place our collateral operations, we will quickly find ourselves looking for a new kitchen"

Ed Hellaby
Business development director
Apex Collateral, FIS

Highlights from ISLA 2017

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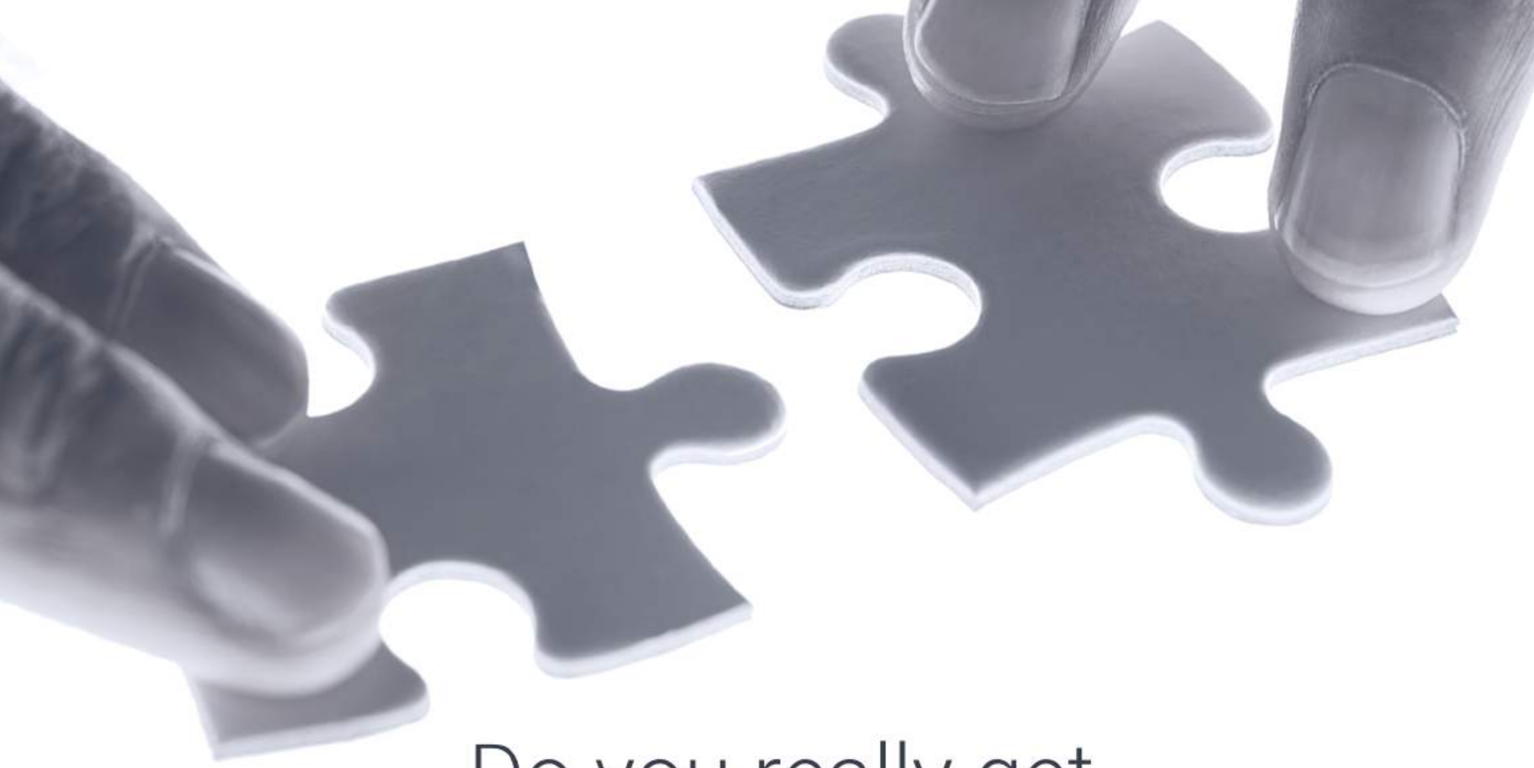

AGENDA DAY 1

14:00-14:45	**Registration**
14:45 – 15:00	**Welcome Remarks by the ISLA CEO, Andrew Dyson**
15:00 – 15:20	**European Political and Regulatory Update** A retrospective review of the regulatory landscape since the crisis of 2008. This session will also focus on key regulatory initiatives still in flight. Bertrand Huet, Senior Vice President & Partner, Co-Head of Financial Services, FleishmanHillard
15:20 – 16:20	**ISLA's Legal & Tax Initiatives 2017/18** A comprehensive review of the work ISLA has been undertaking on behalf of its members within our legal and netting services business, as well as major tax developments during 2017/18. This will include considerations for new and existing netting jurisdictions, legal documentation including Pledge as well as German and Swiss tax developments. Habib Motani, Partner, Clifford Chance Steve Raddon, Tax Manager, BNY Mellon
16:20 – 16:50	**Opening Keynote Speech** Gabriela Figueiredo Dias Chairperson of Comissao do Mercado de Valores Mobiliarios (CMVM)


THE GLOBAL TRADE REPOSITORY (GTR)

17:00 - 18:30	**SFTR Workshop – 'Making Sense of it All'** SFTR is probably the most significant regulatory reporting obligation ever seen in our industry, and this session will allow delegates to understand how well the industry is preparing for this regime. The session will bring together all of the important stakeholders and provide attendees with a concise overview of the regulation and how the market is working towards compliance. **Session 1** — **ISLA Update on Legislation** Andrew Dyson, CEO, ISLA Sarah Nicholson, Consultant, ISLA Nikolay Arnaudov, Senior Policy Officer, ESMA **Session 2** — **Connectivity & Reporting Obligations** EquiLend FIS IHS Markit Pirum Tradeweb TRAX Broadridge **Session 3** — **Reporting & Delivery of Data to Trade Repositories** DTCC NEX Regulatory Reporting UnaVista, LSEG REGIS-TR **Session 4** — **Round Up - Including Implications & Considerations for the Industry**
18:30 – 20:30	**Welcome Drinks Reception**