ISLA Daily

Day 2

28th Annual Securities Finance and Collateral Management Conference

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Pirum's Simon Davies on achieving efficiency and regulatory compliance

GMSLA Pledge to reduce costs | SFTR backloading will introduce 'practical issues' | SFTR outlook from Trax | Speaker's corner | A major new route to market

Calypso teams up with IHS Markit on SFTR reporting

Calypso Technology has signed an agreement with IHS Markit to make the Securities Financing Transaction Regulation (SFTR) reporting process seamless for common clients of both companies.

Calypso is already expanding its cross-asset product suite and post-trade processing, collateral and securities finance platform to help clients meet SFTR reporting requirements.

This strategic alliance with IHS Markit, who partner with Pirum Systems for SFTR delivery, further extends the support available to clients.

The new interface is designed to offer clients seamless connectivity for SFTR reporting, from the booking of the trade right through to the trade repository, giving clients an end-to-end view of the reporting.

It facilitates integration, significantly reduces the time to market and amount of work needed to be done by each client and, will be supported by Calypso moving forward.

Pierre Khemdoudi, managing director and global co-head of equities, data and analytics at IHS Markit, said: “We are delighted to collaborate with Calypso to make the SFTR reporting process as seamless, efficient and simplistic as possible for our clients.”

“This agreement moves us closer to that goal, offering an integrated and comprehensive approach to managing SFTR requirements within the required timeframe.”

Adds Mayank Shah, chief of staff and head of strategic alliances at Calypso, added: “Calypso is aware of the pressure on financial institutions from the constantly changing regulatory requirements.”

“We are already helping clients to prepare for SFTR, and this strategic alliance with IHS Markit will enable us to extend SFTR support still further.”

“Common clients will benefit from a single interface to the trade repositories of their choice, with data validation, enrichment and pre-reconciliation to ISO 20022 format performed en-route in collaboration with IHS Markit.”

“This partnership is a continuation of our commitment to provide our clients with a

Broadridge launches change management service for SFTR compliance

Broadridge Financial Solutions has launched a management service to help companies design their target operating models to be compliant with the Securities Financing Transactions Regulation (SFTR).

The new service provides a practical blueprint for front-to-back changes to overall architecture, organisational structure, business processes and location strategy.

Broadridge will also offer project management, business analysis and testing support to augment internal project teams and help firms comply with SFTR in a timely manner.

Patrick Collins, practice lead for Broadridge Consulting Services in Europe, the Middle East and Africa, said: “At Broadridge, we leverage our deep knowledge of the securities finance business, experts who have held senior roles in banks, and lessons learned from The European Market Infrastructure Regulation and Markets in Financial Instruments Directive trade reporting to help clients solve issues related to SFTR implementation.”

He added: “We can specialise in helping firms cut through the complexity of SFTR, creating a long-term vision for their SFTR operating model that will provide a platform for future expansion.”

Pirum and IHS Markit complete successful SFTR testing with Rabobank

Pirum Systems and IHS Markit have successfully completed a full end-to-end test with Rabobank in preparation for the upcoming Securities Financing Transactions Regulation (SFTR) through DTCC's Global Trade Repository (GTR) service.

The test included ingestion, enrichment, validation and submission of securities financing transactions under SFTR.

The 48 firms committed to using the IHS Markit and Pirum Systems SFTR solution can now benefit from the connectivity through to TR submission to test the end-to-end service prior to pre-production testing in Q3 2019.

Duncan Carpenter, head of SFTR, Pirum Systems, cited: "This is a breakthrough for us and our clients. We have demonstrated the seamless integration between our clients, Pirum Systems, IHS Markit and relevant Trade Repository (TR)."

"This allows firms to generate and share unique transaction identifiers (UTIs) with their counterparts and pre-reconcile data prior to submission to the TR."

Pierre Khemdoudi, managing director and global co-head of equities, data and analytics, IHS Markit, stated: "Our testing environment can now be leveraged to submit trades for data validation, enrichment, report creation, ISO transformation and TR submission."

"This will allow firms to onboard and integrate to our joint SFTR solution, while running pre-production testing to identify and remediate issues, ahead of the reporting start date in April 2020."

Val Wotton, managing director, product development and strategy of repository and derivatives services, DTCC, said: "This marks an important step in establishing end-to-end flows from clients through to our trade repository and demonstrates the importance of the tools DTCC have created for the industry to facilitate early testing."

Wotton continued: "We are committed to working with our partners to help clients through the challenges posed by SFTR and look forward to working with our partners to deliver clients first in class solutions."

Allan Bolk, head of securities finance at Rabobank, commented: "This successful test result confirms we have made the right decision by entering in this partnership for the SFTR solution and we feel confident to be fully prepared for SFTR go live."

cost-effective, timely and complete end-to-end solution."

GMSLA Pledge to help reduce regulatory capital costs when borrowing securities

The main motivation behind the development of the Global Master Securities Lending Agreement (GMSLA) Pledge Master Agreement was to help regulated borrowers reduce their regulatory capital costs when borrowing securities, according to Habib Motani of Clifford Chance, who was a speaker at this year's International Securities Lending Association conference in Madrid.

The current GMSLA that is being used is called a title transfer structure.

Motani explained that the lender transfers ownership of the borrowed securities to the borrower and the borrower transfers ownership of the collateral securities to the lender.

He explained that industry participants say 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.

Although Motani explained that is true, he said it's actually a "slight misunderstanding".

Motani said: "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 being set off against the value of the obligation of the borrower to return the equivalent of the borrowed securities."

He added: "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 an exposure on the lender and being required to hold regulatory capital against that exposure. This can be expensive. The GMSLA Pledge is designed to enable collateralisation without creating this exposure."

SFTR backloading will introduce 'practical issues'

At the International Securities Lending Association (ISLA) conference in Madrid, one panellist noted that in relation to the Securities Financing Transactions Regulation (SFTR), backloading is a "tricky issue" and "will introduce practical issues".

The panellist said: "SFTR doesn't only require new trades to be reported but also trades that are already open on the go-live date."

They explained: "There is a six months "grace" period that the European Securities Markets Association (ESMA) has given for backloading."

"Backloading only starts six months after go-live, which radically reduces the number of trades that need to be backloaded. That is positive but it also introduces some practical issues in particular reporting on a net exposure of a portfolio basis."

In addition to SFTR, panellists also discussed the other upcoming regulation including the Central Securities Depositories Regulation (CSDR).

The moderator discussed the CSDR timeline and said that it has been something of a lengthy process involving lots of industry engagement.

It was indicated that there has been a delay to the CSDR deadline, and that the September 2020 deadline will be delayed by a few months to a possible November date—although this has not been officially confirmed by regulators.

Another panellist said: "ESMA is taking a three stage approach to CSDR. Following the acceptance of Regulatory Technical Standards for settlement discipline, we shifted our priorities from advocacy to practical implementation so from a cash bond market perspective and also a repo market perspective."

"We have mobiliesed a CSDR settlement discipline working group, which consists of traders—both cash bond and repo—and also operational experts, as well as legal and compliance representatives."

"It is predominantly sell side but increasingly we are seeing buy side members as well."

"We are working on a number of things including designing a passport mechanism and we are also looking to update our buy in rules, which will be impacted by CSDR."

Meanwhile, another panellist said that best practice is really important for driving CSDR forward and overcoming some of the settlement barriers will be a challenge.

REGIS-TR and Comyno partner on SFTR solution

Comyno and REGIS-TR have teamed up to provide an integrated Securities Financing Transactions Regulation (SFTR) solution.

The Comyno securities finance software extends its modular system with SFTR straight-through-processing.

Comyno explained that this makes it the "most complete securities finance one-stop-shop software solution".

Connectivity to REGIS-TR SFTR test-environment via Comyno's SFTR solution has already been established, enabling early validation and testing for their clients.

Katrin Grün, relationship manager at REGIS-TR, said: "REGIS-TR entered a partnership agreement with Comyno in order to support mutual clients who will leverage the REGIS-TR's trade repository services and support for the upcoming SFTR."

"Comyno's Securities Finance one-stop-shop software solution and REGIS-TR's unique SFTR Reporting offering will support market participants through every step of the SFTR journey."

Markus Büttner, CEO of Comyno, added: "We're delighted to work with REGIS-TR as a trade repository. After connecting successfully our C-ONE SFTR solution to their test-environment and achieve submission readiness for SFTR reporting, the clients will benefit from early validation and testing."

"With this partnership, we will deliver SFTR on time and help our customers to fulfil their SFTR reporting obligations."

Simon Davies

Business development manager

Pirum Systems

Achieving efficiency and regulatory compliance

As the industry tackles the biggest challenges to its ecosystem since the financial crisis, Simon Davies of Pirum explains that new regulation, reduced income and increased competition all present headwinds

The securities finance industry is currently grappling with what amounts to be the biggest challenge to its ecosystem since the financial crisis. New regulation, reduced income and increased competition all present headwinds, while complex and inflexible operating models create further challenges.

At Pirum we're increasingly being asked by our clients, how we can help them meet these trials and here we explore some of the key issues that our clients are facing and how they are dealing with them—including how to increase process efficiency and straight-through processing (STP) rates close to 100 percent, better manage costs and improve data usage in pre and post-trade processing.

Firms will be successful in adapting to the new world of regulatory transparency and efficiency if they maintain a high degree of agility and flexibility. While enormous benefits can be accrued, they will only be achieved after a period of flux and adjustment. With increasing transparency, there will be a drive towards better quality data to meet the compliance requirements, however, this will benefit trading decisions and post-trade processes from trade execution and collateral management through to settlement and reconciliation.

Additionally, in order to meet many of the regulatory requirements of the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR), firms need to improve front to back processes, increase automation and introduce standardisation in order to achieve efficiencies in their operating models—particularly processes and controls. This will allow firms to manage costs and increase business activity, which in turn will benefit profitability and competitiveness.

As noted, change is never particularly easy to implement, and there needs to be a clear agenda and impetus. Regulation is setting this agenda today, and this is creating opportunities for firms to improve how and what they do, but businesses need to recognise this driver and embrace it.

In order to remain competitive, firms need to develop capabilities to help them improve data quality and processes, and there are some choices to be made—particularly around what firms should be focusing on in the short and long term. When looking at the solution to some of these problems, firms clearly need to consider the functionality required but should also look at their connectivity within the ecosystem. It is around the interactions with the industry where we believe most efficiencies can be driven, that will drive benefits now and in the long run, or in other words how your firm interacts with the securities financing ecosystem.

What is the ecosystem?

If we look at the number of market participant interactions that a typical agent lender must deal with, we've calculated it's around 11,000 and increases to about 30,000 for borrowers/brokers. These figures come from the interactions a firm has at the beneficial owner level (the sub-funds on both demand and supply side), their asset managers, the treasury counterparts—both corporate and banking, other market counterparts and their entities, multilateral trading facility platforms, triparty agents, central counterparties (CCPs), data providers, global and local custodians, trade repositories, vendors (such as ourselves), etc. Each of these interactions creates a link, information exchange and latency as well as the need for data and processing.

Clearly, firms look to dramatically reduce the level of interactions and complexities in order to increase efficiency, through standardised contracts, feeds and the creation of 'hubs'. This is nothing new, markets have evolved in this way and our industry depends on this too, although it hasn't taken full advantage of the opportunities that it could provide. Securities finance, as a structured product, has numerous life-cycle events and dependent processes to manage exposure and profit and loss that rely heavily on these interactions, and it is here that we see firms struggling to gain efficiency.

Despite efforts, getting connected to the various actors within the industry can still be a hugely difficult task, and firms are looking for services that make this as seamless as possible and enable a plug and play into this ecosystem in a quick and cost-effective way. Once connectivity is established, firms can start to automate processes between them, and extend this to automate internal processes, focusing on exception processing—whether based on established bilaterally agreed rules or more sophisticated machine learning or artificial intelligence.

We see that 30 of the 35 industry lifecycle events can be automated in this way, increasing STP up to nearly 100 percent and reducing breaks by 98 percent compared to typical pre-automation processes.

Clearly, this will have enormous benefits when it comes to achieving Securities Financing Transactions Regulation (SFTR) and Central Securities Depositories Regulation (CSDR) compliance, improving data quality, reducing overall processing costs for firms from our calculation up to 30 percent and significantly increasing collateral efficiency. Additionally, firms can better manage their counterparty risk, by managing exposure with existing counterparts, but also allowing further diversification through increased capacity and enhanced controls.

What should you be doing?

Since firms have been preparing for SFTR we've seen a large increase in effort around pre-matching trades and automation—from additional counterparty reconciliation, new clients and cross product coverage—with securities-based lending (SBL) clients adding in repo reconciliation and vice versa, partly due to preparation for SFTR and more recently for CSDR, but also due to increasing complexity in their operating model from Brexit—where we've seen an increase in the number of entities firms have.

Many firms we're talking to have designed and are actively implementing their SFTR solutions and are now turning their attention to streamlining their operating model in order to support their compliance go live, but increasingly to drive through cost efficiency. For example, we've been helping firms fully automate real-time processing for their marks agreement, returns and recalls, exposure management—including triparty required values (RQV) processing and linking settlement to collateralisation, security payment orders (SPO) payment and corporate action management along with providing services to optimise collateral management. In turn, firms are building in data flows to their front office pre and post-trade decisions and we're seeing increasing demand for new industry links—whether additional CCPs or trading venues to help streamline the data flows and increase the value firms can extract from the ecosystem.

Firms are also looking at adopting new technology, such as machine learning, robotics and there is often a focus on distributed ledger technology (DLT). At this year's conference, the concept of a Common Domain Model (CDM) is being introduced. This will help support the adoption of some of this new technology and will certainly help with defining the model the industry can work towards adopting, although the definition is the relatively easy part and while the adoption itself will be difficult and we've seen with the ISDA CDM, firms have struggled to adapt to this model. As new technology develops—such as artificial intelligence and DLT firms will need to move towards a CDM in their operating model to leverage new technology, and move away from legacy technology. A defined CDM will help, but firms need to plan to adopt it in the long term, and leveraging services such as ours will certainly help, with the transformative potential that they can provide by aligning the ecosystem.

So, firms should now be looking at the functionality that is available to automate processes and enrich data, particularly those that can be utilised to make changes that help achieve regulatory compliance and at the same time increase efficiency with the aim of improving both revenues and reducing costs.

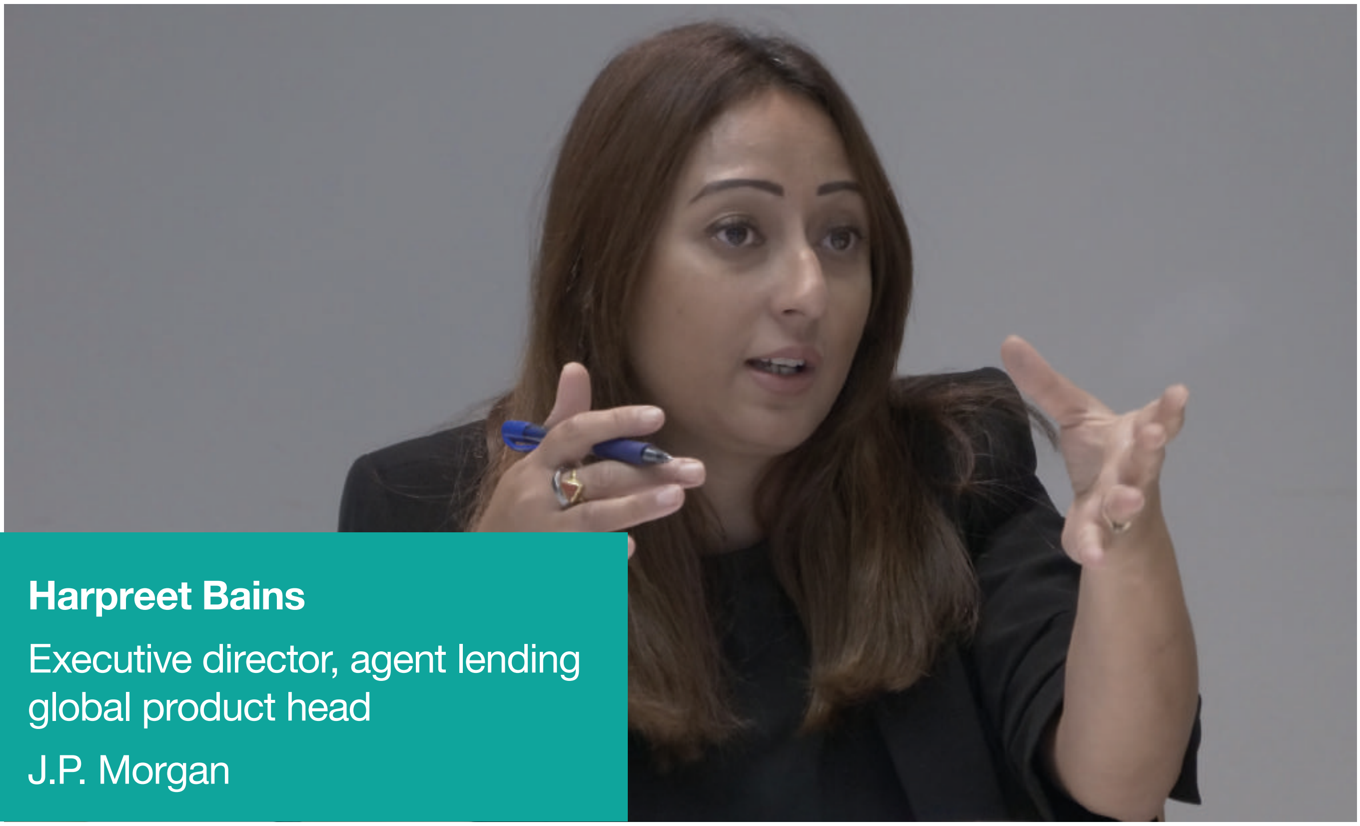
How long do you have?

SFTR will go live, for the first phase of reporting firms in April 2020 with roll out into Q1 2021 (with phased-in reconciliation beyond), CSDR will go live in September 2020. Both regulations pressure firms to improve their processes and here we have given a high-level overview of how we're helping our clients to achieve that goal. This doesn't give firms much time to deal with regulatory compliance, let alone manage changes to data and processes to help achieve this.

Clearly, some issues can be dealt with relatively effectively, particularly if you can take advantage of existing services within the industry where they offer support to get connected in a quick and efficient way. Other things like new technology adoption will take longer, but decisions made now will undoubtedly have ramifications on how a future model operates, so shouldn't be taken lightly.

As part of the industry ecosystem, Pirum supports firms with their pre and post-trade services across the securities finance industry globally, including securities lending, repo and collateral management. We have developed our solutions by acting interoperably with the industry and allow firms to seamlessly and effectively plug into the market with connectivity to trading venues, counterparts, CCPs, custodians, triparty agents and trade repositories.

Speaker’s Corner



Harpreet Bains

Executive director, agent lending global product head

J.P. Morgan

What role does securities lending play in the provision of market liquidity?

Securities lending plays a vital role in the well-functioning of the secondary markets in more than one way.

Firstly, it’s an important enabler for market making programmes and covered short selling. The latter is considered a necessary function by most market regulators for reasons relating to price discovery and corrections in overvalued securities, but also to provide market liquidity, particularly in the case of new issuance or illiquid assets. Therefore, it is no surprise that many frontiers and emerging markets that are looking to improve the depth and liquidity of their capital markets and attract increased flows from global institutional investors will focus on legal and regulatory reform to allow for securities lending and short selling to be considered.

Secondly, market liquidity is reliant on the timely settlement of transactions. A failing transaction can create a chain of market fails, so the ability to borrow to make timely settlement is crucial for an efficient securities settlement process. As the industry prepares for the tighter rules and sale fail penalties regime introduced through Central Securities Depositories Regulation (CSDR), the role of securities lending in preventing fails and improving overall market efficiency becomes even greater.

What opportunities are there in unlocking liquidity through securities lending in markets such as Spain?

Securities lending in Spanish securities is common practice, and as we have seen over recent years, this market has undergone significant securities reform resulting in changes to settlement processing and cycles and registration management. That said, a key opportunity which the industry watches closely is the relaxation of current restrictions that prevent local domiciled mutual funds from fully engaging in securities lending and in turn, prevents this growing market from fully capitalising on trading opportunities such as high-quality liquid asset (HQLA) lending.

If introduced, this change would be another step closer to achieving greater harmonisation across EU regulatory frameworks that address securities lending for similar fund types in other domiciles. Importantly, it would be providing additional liquidity to the marketplace by making available securities that are otherwise shut away in portfolios, as well as generating additional income for fund investors, which can be significant in respect of comparable fund performance.

Considering this in the wider context, traditional securities lending can also be adapted to enable the buy-side community to access collateral or liquidity in the market, alongside its continuing role as an alpha-generating tool.

The relevance of this is increasingly significant given the manner in which regulations have changed the way banks and broker-dealers as liquidity providers interact with the market, which is driving a client need for an alternative source of liquidity and financing. Having a variety of liquidity avenues to tap into is especially important in times of market stress when traditional sources may dry up, but also very pertinent today as market participants strive to secure efficient access to collateral for regulatory needs.

Xavier Bouthors

Senior portfolio manager securities lending

NN Investment Partners

Why is ESG investment becoming increasingly important for investors?

We believe there is a strong link between the longer-term positive impact of environmental, social and governance (ESG) integration and improved risk-adjusted returns, in addition to its effects on the well-being of both society and the environment. Aside from that, we are convinced of the benefits of integrating ESG information into the investment process for our equity, fixed income and multi asset strategies.

ESG is relevant because it relates to both corporate competitiveness and the strategic choices companies make. Focusing on ESG factors enables our analysts to unlock potential value by identifying the associated opportunities and/or risks, which fund managers then use as the basis for their investment decisions. Focusing on ESG also ensures that we live up to our values, and demonstrate good corporate citizenship. It helps us better align our core business with the broader expectations of society.

What impact is ESG having on securities lending?

The increased popularity of ESG investing is definitely raising the bar for asset managers. It is forcing more active ownership by fund managers and increasing the focus on engagement with companies. There has also been some question among certain ESG fund managers of whether securities lending and ESG can be combined. The problem is, that there is a void in terms of authority on this topic, with no clear guidance for market participants. This triggered our own assessment of the compatibility of the two. We analysed every aspect of securities lending and ESG, and that way discovered the areas that overlap. Then we adapted these areas to be compatible with our ambition to be a leader in responsible investing. We see this as a natural step in the evolution of the securities lending landscape.

The first thing to highlight is that our Responsible Investing team cannot engage with companies if the voting rights have been passed on to someone else. So, every security needs to be available for voting, which may sound simple and obvious, but it requires a solid process of monitoring record dates and issuing recalls when necessary.

Another area that we see impacted by ESG in recent times is the exclusion of securities that do not fit our ESG requirements for investment. These also need to apply to collateral received under securities lending. These "exclusion lists" were once tricky to incorporate but are now adopted by tri-party collateral agents as part of a push from beneficial owners.

Asset managers have also had to evaluate their approach to the potential issues arising from differences in fiscal status between assets and fund domiciles. Asset managers should conduct their securities lending activity in a way that complies with local tax rules, and seek to avoid entering into securities lending transactions for the purpose of improving their tax position. At NN IP we have measures in place to prevent facilitation of such trades.

Finally, a common perception of securities lending is that it facilitates shorting, and that shorting is bad because it undermines the value of long-only portfolios. However, the notion that securities lending is incompatible with ESG because it facilitates short selling is a misconception. We believe in efficient markets in which short selling plays a crucial role. This is well established and documented.

We’re ready for SFTR. Are you?

Sunil Daswani of Trax talks through the key challenges and what to remember in the lead up to the go-live date of SFTR reporting

In just under a year from now, the first phase of the Securities Financing Transaction Regulation (SFTR) reporting obligations will come into force. That may still seem a long way away, but as we know from the second Markets in Financial Instruments Directive (MiFID II), the European Market Infrastructure Regulation (EMIR) and a host of other regulatory regime change—and don’t even mention Brexit—it’s not. As most securities finance practitioners will appreciate, the clock is ticking and the race is on.

In 2017, early birds EquiLend and Trax, the post-trade services arm of MarketAxess, began working together on a joint SFTR solution designed to make client migration to the new regime as swift, painless and advantageous as possible. This was launched to market in late 2018, and several major clients from our industry-wide SFTR client working group are now proposing to adopt the solution. In addition, as I write this article in early 2019, we’re offering a live test environment for the SFTR Solution, for all firms to test their eligibility, data enrichment and business validations processes in a single place.

Having reached this point, what’s been clear to me during the solution rollout is that there are still many questions surrounding the what and why of SFTR. This article, therefore, serves two purposes, to draw out what we believe are the most important and pressing challenges and opportunities of the SFTR, and to describe in brief how the joint SFTR Solution can help our clients to face them head-on.

One: the key challenges

There is no doubt that SFTR will precipitate an extra reporting and control lift in securities finance functions across the industry. That is evident when you outline, even in brief, the challenges and requirements of the new regime.

Setting up and on-boarding of underlying principals and their respective legal entity identifiers (LEI’s):

- LEIs are not stored in front-end systems today and will need to be going forward
- Disclosure of their underlying principles (beneficial owners) will create challenges for the borrowers of the data received from lenders
- Out of scope entities still need to have an LEI, for example, third-party non-EU entities will still have work to do if they are a counterparty

The need to have a unique trade identifier (UTI) generation, sharing and management throughout all lifecycle events:

- All new transactions will be required to have an execution timestamp

The ability to manage collateral allocation at beneficial owner/counterparty level:

- Trades with known collateral will be reportable on a T+1 basis
- Where collateral is not known at the point of trade, it is reportable on S+1
- Omnibus collateral structures are not conducive for automation and straight-through processing (STP)

Careful management of lifecycle events for securities lending, repo and margin lending transactions:

- Unlike MiFID, all lifecycle events that impact any of the reportable fields need to be reported through to termination

Dealing with the huge volume and complexity of data:

- Difficulty sourcing up to 40 percent of the required reportable data. For example, governing agreements and versions are some of the challenges
- Sources state that there may be in excess of 100 million transactions that are reportable daily

The phased implementation with backloading of data will create reconciliation issues industry-wide:

- Reporting requirements are phased but UTIs will still need to be generated and reportable by the in-scope party only

Two: A unique SFTR Solution from not one, but two market leaders

The key benefits of the SFTR Solution can be summarised as follows:

- A complete front-to-back solution from the point of trade to trade reporting
- Access to the leading securities finance trading platform, EquiLend’s Next Generation Trading
- Access to industry-wide UTI generation and sharing portal
- The Trax GUI provides complete visibility and audit trail of every step in the reporting lifecycle
- Supports lifecycle event management, loan and collateral allocations and centralised post-trade services
- A complete reporting solution including enrichment, eligibility and break management either via direct or delegated reporting

Trax is ready for clients to undertake detailed user acceptance testing (UAT) now, with a fully live test environment, so clients can really accelerate their implementation projects.

The SFTR solution has been built to be modular. This is of importance to clients, as it means that clients can tailor their

Trax is ready for clients to undertake detailed user acceptance testing now

product by choosing either a complete end-to-end solution, a single component to complement their existing framework or solution or something in between. That makes it potentially more cost-effective.

While we expect the regulation to increase the use of electronic trading via EquiLend's Next Generation Trading, or trades that are agreed bilaterally, the SFTR Solution can still offer the mechanism to share and enrich data including the UTI. Clients can match trades with any provider and use Trax Insight to validate and enrich each transaction. To ensure flexibility, the fully enriched and validated data can be returned to your regulation operations teams to report to your chosen trade repository utilising the 'prepared reporting' module.

Furthermore, Trax Insight allows for careful exception management with detailed analytics and benchmarking against your peer group. The dashboard also allows lenders, where they are acting as an agent, to provide access to the underlying beneficial owners, whose responsibility it is to report transactions. This can be on a read-only basis to satisfy their clients that their reporting obligations are being dealt with in a timely manner by their agent.

No matter how you choose to do your reporting or what part of the SFTR service you wish to take, we have created a community sharing portal to address the concerns we have heard from our clients about ensuring UTI's can be shared between counterparties from a single hub. This is known as the Trax UTI Portal.

Finally, an additional important element of what we provide is the expertise that clients can derive from a team of practitioners, with client-side experience, from two securities finance solution providers who can advise on providing a solution which fits your company and needs. Whether it's agency, principal lending or margin lending, prime brokerage and delta one, prop trading or treasury desks and repo or asset management portfolio, managers. We can help all those who all fall under the reporting requirements.

What to remember as we get closer to the go-live date

So, to close, my pick of six key items to remember for SFTR is:

- Easter weekend: SFTR Phase 1 goes live on Easter weekend 2020
- Backloads mean everyone must have shops in order: Any open loans after 180 days of your Phase go-live date need to be backloaded, so this data will need to be recorded and maintained to report in the SFTR standards
- Sharing of UTIs: The Trax UTI Portal can assist with addressing industry concerns
- Early commencement of UAT Testing is critical to pick up issues: At least six months is usually required once the onboarding has been completed (if using the SFTR solution). This can take some time depending on the complexity of client set ups
- Consolidation and minimising the number of vendors in the process and also across different regulatory reporting regimes: At Trax, all regulatory reporting can be completed on the Trax Insight dashboard including, EMIR, Authorised Publication Arrangement (APA), Approved Reporting Mechanism (ARM) and now SFTR
- Post implementation impact: It's not all about day one. Consider the nuances of different markets, lifecycle management, the volume of transactions and changes (not just to static data but changes with any part of the transaction from regulation, to counterparties to clients)

Regulatory reporting is here to stay. Trax has more than 30 years with global regulators to provide seamless solutions to clients, meeting the ever-increasing and complex regulatory reporting requirements. We strongly believe we offer clients the ability to report transactions accurately, completely and in a timely manner to ensure minimal management of exceptions through a single platform connected to trade repositories, national competent authorities and our Trax UTI portal.

Sunil Daswani
SFTR product management
Trax

A major new route to market

BNY Mellon goes live with cleared securities lending for clients via Eurex Clearing's Lending CCP

BNY Mellon has become the first agent lender to centrally clear a securities lending transaction on behalf of a buy-side client through Eurex Clearing's Lending central counterparty (CCP) platform

Eurex is the first CCP to develop a workable clearing model that preserves the existing relationships of the bilateral agent lending market without imposing the traditional obligations of a clearing member on buy-side participants.

Under the Eurex Clearing's Lending CPP model, James Slater, global head of securities finance, liquidity and segregation at BNY Mellon explained that lending agents can negotiate loans on behalf of their beneficial owner clients with traditional borrowers and then both parties can novate the loan to Eurex Clearing.

The trade was matched and novated through Pirum's CCP Gateway. Slater noted that upon novation, Eurex becomes the counterparty to both the original lender and borrower.

He said: "There is no requirement for either the lender or its lending agent to contribute to a default fund or post margin. In addition, neither the lender nor its agent is subject to loss mutualisation."

Clients will now be able to capitalise on growing market demand to undertake securities finance within a centrally-cleared environment, without the obligations and responsibilities of traditional clearinghouse membership.

Slater explained that the new clearing model "yields a number of specific benefits for beneficial owners".

Lending clients that join the Eurex Clearing's Lending CCP will be able to access a new source of borrower demand. According to Slater, Clearing can provide borrowers with certain capital benefits in comparison to traditional non-cleared bilateral transactions.

Slater suggested that this is because the borrower is now facing a highly-rated clearinghouse on the trade rather than the original lender, who may carry a higher risk weighting. As a result, borrower demand through this distribution channel is increasing.

He noted: "With this increased focus on the capital treatment of individual lending clients, clearing helps to maintain utilisation for beneficial owners that are disadvantaged—especially clients that reside in jurisdictions where it is difficult for borrowers to obtain necessary legal opinions.

The transaction was described as a "major new route" to the market for its clients. With increased automation and technology, Slater said that central clearing is "a natural progression in the evolution and transformation of the securities lending market"

Marcel Naas, managing director of Eurex Repo, noted that in recent years the margin and operational efficiencies offered by central clearing "have the potential to add huge value to the global securities finance landscape".

Naas added: "That's why we are so pleased that BNY Mellon has completed their integration into Eurex Clearing's Lending CCP platform and we welcome their first clients into the centrally cleared construct."

"This is just the beginning, and we anticipate much greater utilisation of our services going forward as the securities finance industry looks to realise the benefits of a CCP model."

BNY Mellon being the first agent lender to centrally clear an agent lending client's transaction through the Eurex model is "a breakthrough" in terms of creating a new way to transact in this marketplace, according to Slater.

He commented: "That breakthrough is the result of a huge team effort involving many stakeholders across the securities finance value chain, and we're thrilled that we've been able to develop an approach that we think will work for lenders, borrowers, lending agents and CCPs alike."

Slater also said he expects to see other agent lenders and clients begin to participate in the growing distribution channel.

Eurex Clearing's Lending CCP Strategic Committee group is made up of BNY Mellon, Morgan Stanley, Citi Investment Bank and Agency, J.P. Morgan, BlackRock and Natixis.

Commenting on the transaction, a strategic committee group member said: "The [strategic committee] is one unique gathering place for major securities borrowing and lending market operators to discuss face to face and on a regular basis on a range of items regarding clearing of securities borrowing and lending.Discussion can be either theoretic or very practical and knowledge and experience are shared in the most efficient way to get everyone to reach base capitalising on the group's experience."

Jonathan Lombardo, fixed income funding and financing sales at Eurex Clearing, added: "The recent formation of the strategic committee, has proven that a shared and transparent approach from Eurex and each member firm of the committee has led to a greater commitment to support and enhance the wider use of a CCP for this market.''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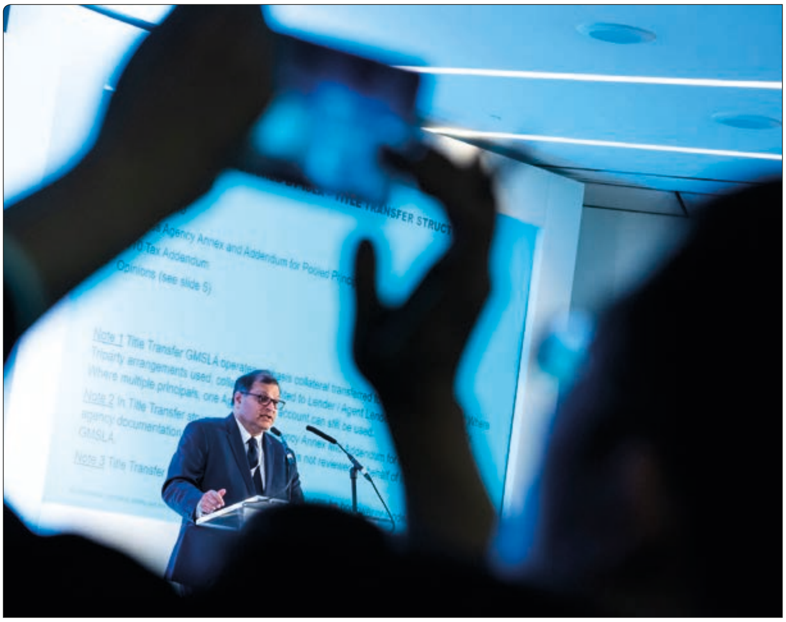

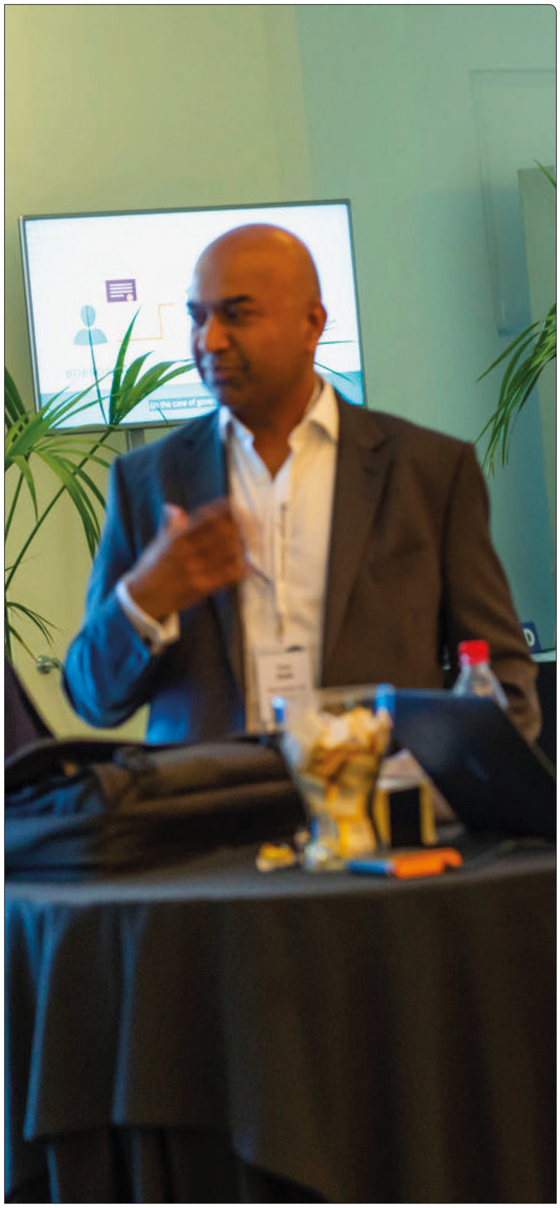

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AGENDA DAY 2

08:00 - 09:30	**Beneficial Owners Breakfast Briefing (Closed door event for Beneficial Owners)**
08:30 – 09:30	**Breakfast & Registration**
09:30 – 09:45	**Welcome Remarks** **Gilly Meth,** Managing Director, Morgan Stanley **James Templeman,** Managing Director, BlackRock
09:45 – 10:15	**Keynote Speech**
10:15 - 11:15	**Unlocking Liquidity Through Securities Lending** **Spain, Saudi & Beyond...** The support for new markets and the search to unlock new liquidity is at the heart of our markets. This session will look at the role that securities lending plays in the provision of market liquidity and explore some of the new and existing opportunities to do so . As we think about the broader CMU agenda, the panel will consider the importance of allowing Spanish domiciled UCITS to fully engage in securities lending, whilst drawing upon examples of markets and regions outside of Europe who are dealing with similar issues on the road to development and expansion. In the context of liquidity management and optimisation, the panelists will also consider the role of central clearing, pledge and other routes to market in the overall debate. **Moderator:** Ed Oliver, Managing Director, Product Development, eSecLending (Europe) **Speakers:** Harpreet Bains, Executive Director, Agent Lending Global Product Head, J.P. Morgan Benoit Dethier, Director, Iberia Head of Business Development, Citi Securities Services Mathew McDermott, Global Head of Cross Asset Financing, Goldman Sachs Boaz Yaari, CEO, Sharegain

11:15 – 11:45 **Networking Coffee Break**

11:45 – 12:45

Navigating a 'New Europe'

The uncertainty around the exact shape and form of the UK's departure from the EU, has consumed considerable time and effort over the past three years. However as we look past that and the known unknown, there is much to debate and consider for the future landscape of Europe. This session will assess the key regulatory, economic and business drivers that will shape decisions. The arrival of the new EU Commission and Parliament, the potential loss of the UK's voice from the European parliamentary arena, implications for data and cyber security, as well as the changing demands of clients more broadly.

Moderator:
Andy Hill, Senior Director, Market Practice and Regulatory Policy, ICMA

Speakers:
Matthias Graulich, Global Head of Fixed Income, Funding and Financing Strategy and Development, Deutsche Börse Group
Sven Kasper, Senior Vice President & International Head, Regulatory, Industry and Government Affairs, StateStreet Bank and Trust Company
James Knightley, International Economist, ING
Graeme Perry, BNP Paribas

12:45 - 13:00 **Presentation - ESG and Securities Lending**

13:00 - 13:45

The Impacts of ESG on the Institutional Investor Landscape

Moderator:
Jane Gimber, Account Director, Financial Services Practice, FleishmanHillard

Speakers:
Xavier Bouthors, Senior Portfolio Manager, NN Investment Partners
Rene Nikolodi, Head of Equities & Themes, Swisscanto Invest by Zurcher Kantonalbank

4.30-6.30 **Afternoon Drinks Reception**


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