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The more things change

The International Securities Lending Association's (ISLA) annual conference has become a fixed point in the securities lending universe. No matter how severe the regulation or forceful the financial crash, it's always there.

Of course, its form might change. Once just a collection of lenders, ISLA now has a diverse membership. Its long-time CEO, Kevin McNulty, may be stepping down, but Andrew Dyson is taking over and his leadership guarantees continuity at a time when all around us the business is evolving.

That is Dyson's message for attendees of the 25th Securities Finance and Collateral Management, which, incidentally, used to be called the International Securities Lending Conference. His period in charge of the association will be evolutionary, not revolutionary, in line with the way the market is changing. As it embarks on its next 25 years, ISLA will continue to educate regulators, take a view of the market, and provide its members with the opportunity to get together at least once a year to discuss, plan and, when all the hard work is done, wind down and take stock.

Securities Lending Times would like to take this opportunity to wish Kevin McNulty well in the future and thank him for all of his hard work. ISLA, meanwhile, here's to another 25 years of importance to the business, whose future is far from fixed, but whose present in safe hands.

Mark Dugdale
Editor
Securities Lending Times

Contents

Meeting of minds

ISLA's conference co-chairs break down the creation of one of the industry's biggest annual events and what they see as the key topics driving the market this year

P8

Moving the dial

Kevin McNulty discusses his most memorable times as CEO of ISLA and as a long-term industry participant

P20

View from the board

ISLA chair Andrew Krangel offers a snapshot of what ISLA's board of directors will want its new CEO to focus on in the coming year

P24

Evolution, not revolution

Andrew Dyson, ISLA COO and imminent successor as CEO, discusses the state of the securities lending industry and outlines his plans for the future direction of the association

P26

Preparing for the benchmark change

Robert Chiuch of BNY Mellon Markets assesses the work to be done to implement the new overnight bank funding rate

P28

Conferences gone-by

ISLA's annual conference has toured much of Europe over the the past 25 years

P12

#ISLA25: Past, present and future

Some of the securities lending industry's most faithful participants reminisce about everything ISLA has achieved as an industry association and what it must do to maintain momentum going forward

P14

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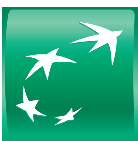

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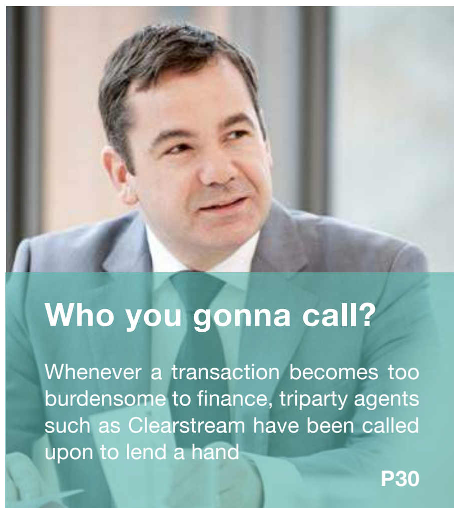
Contents



Who you gonna call?

Whenever a transaction becomes too burdensome to finance, triparty agents such as Clearstream have been called upon to lend a hand

P30

Triparty crashers

Nick Nicholls of GFT examines the puzzling case of an underused available and ready-made collateral management solution

P32

Collateral management: the road ahead

The collateral landscape is certain to change dramatically over the coming months, says Helen Nicol of Lombard Risk

P38

We didn’t start the crisis

David Lewis of FIS takes a stroll down memory lane to look back at some of the most important events (and acronyms) that have punctuated the securities lending industry over the past quarter of a century

P44

Falling behind

Contract management needs market-wide agreement on approach and standards, say Bimal Umeria and Jonathan Adams of Delta Capita

P46

ISLA 25

Attendees have three days of sessions to look forward to at the 25th ISLA Securities Finance and Collateral Management Conference in Vienna

P48

Views from the coalface

CORE Collateral founders Tim Harrold and Grant Davies explain why they launched a collateral consultancy firm

P36

It’s a data game

Richard Colvill of Consolo examines the SFTR, finding that it may challenge the beneficial owner/agent lender relationship in the not-too-distant future

P42

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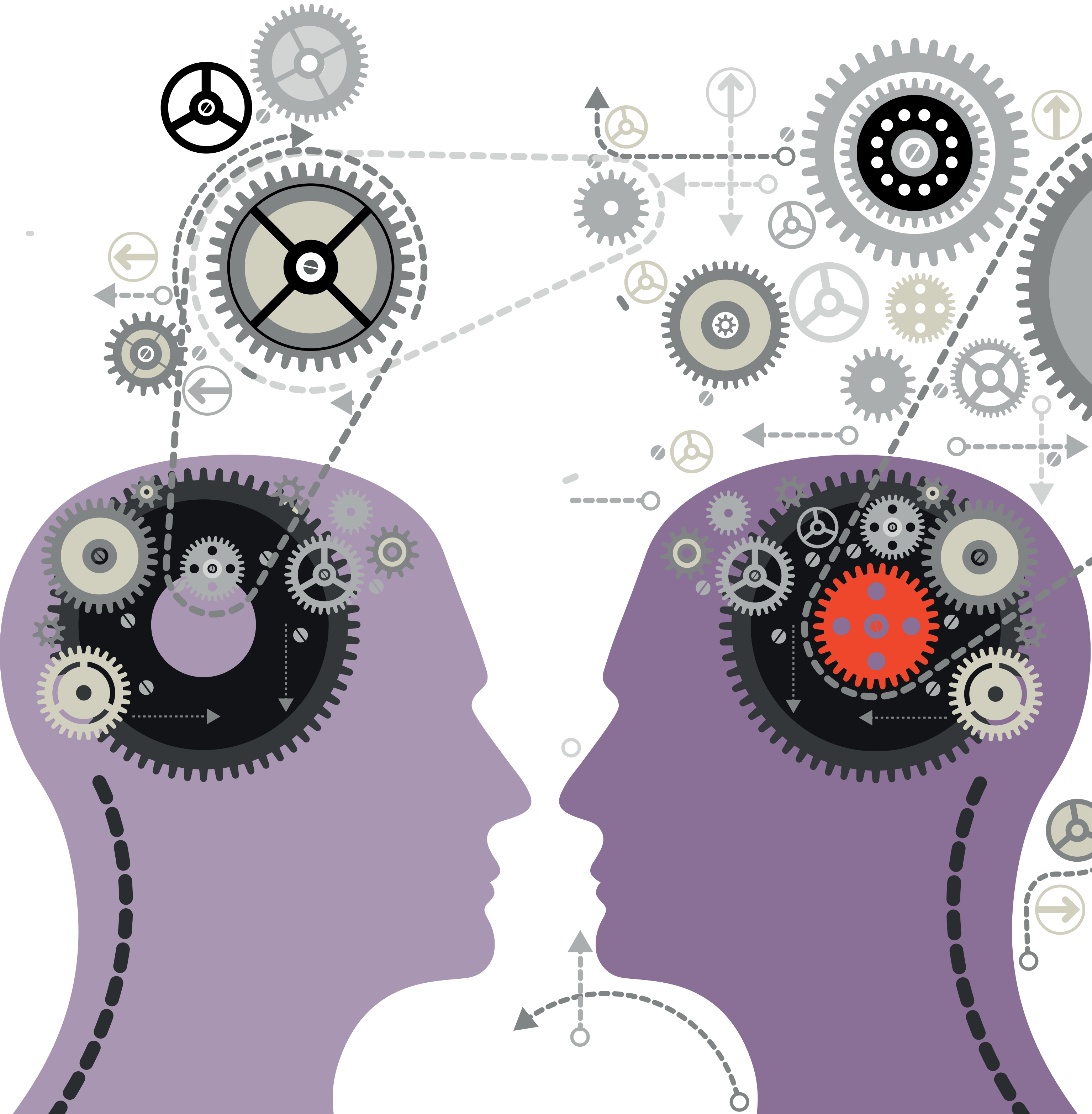
Meeting of minds

ISLA's conference co-chairs break down the creation of one of the industry's biggest annual events and what they see as the key topics driving the market this year



Drew Nicol reports

How has the securities lending industry developed over the past 12 months and how did this influence the creation of the ISLA conference agenda?

Martina Szameitat, global head of sales and marketing for bank resource management at Morgan Stanley and co-chair of the 25th ISLA Securities Finance and Collateral Management Conference: Securities lending continues to be a strategically important activity for most institutions and that hasn't changed in the past year. Excitingly, most have acknowledged the new opportunities presented through the evolving macro and regulatory environment. In addition to new revenue streams and the growth in demand for high-quality collateral, participants are also looking at non-cash collateral, collateral swaps, fixed-term trades and are generally a lot more flexible in the way they operate. The industry as a whole has also continued to become more efficient at navigating the new regulatory requirements and finding ways to manage their impact on day-to-day business. You see strong collaborations between market participants and industry associations as well as with the regulators themselves, all working together to deal with the challenges.

Additional themes resulting from the new regulation include the rise in importance of legal entity specific efficiencies, collateral transformation, balance sheet usage and durable funding. Many firms are investing heavily in their internal systems and reporting to establish where collateral is sitting and how it can be optimised. Combined with improved trading technology, greater efficiency is established all along the chain.

To this end, central counterparties (CCPs) are essential to the market's future and we believe critical in order to generate additional capacity for clients as well as resource benefits in this regulatory environment. Many of our contacts now see CCPs as a question of 'when' and not 'if' and have moved CCP connectivity well up their IT prioritisation list.

All this had to be considered when the International Securities Lending Association (ISLA) put together the agenda for this year's conference. From the very beginning, we wanted to ensure it is an event for all industry participants, looking at the shared problems of the global market and coming together as a community to tackle them for everyone's benefit.

David Raccat, global head of markets services at BNP Paribas Securities Services and co-chair of the 25th ISLA Securities Finance and Collateral Management Conference: The electronification of the business is an undeniable trend that has been ongoing for a few years now. We are in an era of minimising manual input while improving productivity. The other technology focus that we included and are really excited about is, of course, blockchain. We expect a lot of questions about how this technology will change our business and it will be very interesting to discuss how it will impact buy- and sell-side participants.

On regulation, the past 12 months have been more stable than previous years as we now have a much clearer idea what we are getting from regulators. The conference agenda reflects that but will focus on what new developments there have been, such as the finalisation of Article 15 of the Securities Financing Transaction Regulation (SFTR) for collateral re-use, as well as the practical aspects of all regulations on our market. We will also discuss moving on from liquidity coverage ratio to focus on the net stable funding ratio.

In terms of emerging markets trends that we will cover the obvious answer is the effect of the ongoing low and negative

ISLA conference chairs and co-chairs over the years

1992
Michael Cosgrave, State Street
William Pridmore, Harris Trust & Savings

1993
Michael Cosgrave, State Street
Richard Bentsen, Northern Trust

1994
Frank Stone, Norwich Union Investment Management
Elizabeth Siano, Bank of New York

1995
Jamie Ball, Mellon Trust
Cindy Gall, Citi

1996
Richard Warne, Chase Manhattan
Dee Trussell, NationsBank

1997
Pat Avitabile, Citi
Sheila Swanson, Cedel International
Leona Bridges, Barclays Global Investors
Charles Weidman, Bankers Trust

1998
Ann Hunt, Chase Manhattan Bank
Charles Weidman, Bankers Trust

1999
Peter Adamczyk, AIG Global Investment
Graham Jones, Norwich Union Investment Management

2000
Richard Bentsen, Northern Trust
Ian Hovey, Deutsche Bank

2001
Mark Hutchings, AIG
Christine Doria, J.P. Morgan

2002
Richard Steele, J.P. Morgan
David Castellanos, Barclays Global Investors

interest rate environments on our business. It now seems that low and negative rates are here for a much longer time than expected and I'm sure if we had asked about this issue last year we would have got a much different response than now. From a lender perspective. it is affecting yields and bringing a new dynamic to efficient collateral management.

How do all these themes come together in one conference?

Raccat: The agenda has been designed so that each session will play into each other within the wider narrative of the industry's development and will build upon each other as the conference goes on. I'm very excited for participants to bring their thoughts on these topics and move the story forward through the panel discussions and roundtables.

Szameitat: This year is obviously a big year for ISLA as it's the 25th anniversary for the conference so you will see a theme of our development during that period come up throughout the conference sessions. The agenda starts with a look at how far the industry has come in the past 25 years and then moves onto the present and the issues we face now before looking ahead at everything we may possibly have to face in the coming years.

We have fantastic panellists this year who bring a huge amount of experience from way back from when the ISLA conferences first began as well as detailed industry expertise to share with attendees to raise awareness of business best practices.

How has the ISLA conference developed over the past 25 years and what makes it stand out from similar events?

Szameitat: The conference has grown dramatically in size over the years and is now bigger and better than ever before. Importantly, we focus on addressing the full value chain in our sessions, from the beneficial owners and agent lenders right through to the prime brokers and hedge funds.

We even have some representatives from hedge funds on the panel, which we didn't get a few years ago. We've also seen increased participation from the fixed income markets as well as treasury and other less obvious areas of securities lending, which give the ISLA conference a much richer diversity of panellists and raises the quality of the discussions.

All this has meant the conference is much more than just the vanilla overview you sometimes see and really gets involved in the practical elements of funding and collateral management. Our geographic demographics have also evolved and now we have 60 percent of our delegates coming from outside the UK, which is much larger portion than in previous years.

Raccat: When the conference first started it was mainly a networking event, but as it has developed we now see a large percentage of delegates in the conference hall, participating in the discussions and sharing their experiences with their peers. Hopefully this is a testament to the high quality of discussion that our previous agendas have created.

Our delegate lists show that a lot of senior figures from the industry make a point of attending ISLA's conference every year for both its educational and networking opportunities and so it's a great chance to mingle with a lot of industry leaders at one time, which is not always the case at every event. Budgets are tight at the moment but our attendance figures have remained consistently high for our industry and we hope this year's event will keep up the high quality that our attendees have come to expect.

2003
Sarah Nicholson, Morley Fund Management
Patsian Low-Donovan, State Street

2004
Mark Bailey, Credit Suisse First Boston
Patricia Fallon, Brown Brothers Harriman

2005
Philip Reichardt, Euroclear
Timothy Douglas, Citi

2006
Jane Hammond, Deutsche Bank
Michael McAuley, State Street

2007
Jane Hammond, Deutsche Bank
Christopher Kunkle, J.P. Morgan Chase

2008
Jonathan Lombardo, Citi
Sandie O'Connor, J.P. Morgan Chase

2009
David Hopton, Santander

2010
Richard Thompson, Northern Trust

2011
Tammy Phillips, Barclays

2012
Frederick Nadd-Aubert, Credit Suisse
James Templeman, BlackRock

2013
Andy Krangel, Citi
Ben Challice, Nomura

2014
Mark Barnard, RBS
Ed Oliver, eSecLending

2015
Philip Morgan, Nomura
Mark Whipple, Goldman Sachs

2016
Martina Szameitat, Morgan Stanley
David Raccat, BNP Paribas Securities Services

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PAST & PRESENT *FUTURE*

Some of the securities lending industry's most faithful participants reminisce about everything ISLA has achieved as an industry association and what it must do to maintain momentum going forward

Andrew Dyson
ISLA

What's your favourite memory of an ISLA conference and why?

The 1999 conference at the Hotel Arts in Barcelona was one I remember well as, for the first time, I fully realised the depth and breadth of this industry and its crucial importance to making the financial markets work.

How important is ISLA to the business today and why?

In a world of increasing complexity driven in part by regulation, it is important that ISLA brings member firms together to discuss mutual areas of common concern. Without consensus and the willingness to put certain valid commercial issues aside for the benefit of the market, it will be problematic to expect that we will be able to comply with regulators' demands in a timely and efficient way. In this regard our role is probably more important today than it has ever been.

What does the future hold for ISLA as an organisation and where would you like to see it focus its attention?

As a member-led organisation our direction will always reflect the views and aspirations of our members. In the immediate future, I see many challenges around the implementation of regulations such as the Securities Financing Transaction Regulation that we will have to respond to. Also, members clearly like and value our events and publications as a window into the regulatory world and I anticipate that we will be developing these in terms of both scope and content.

Ian Hovey

What's your favourite memory of an ISLA conference and why?

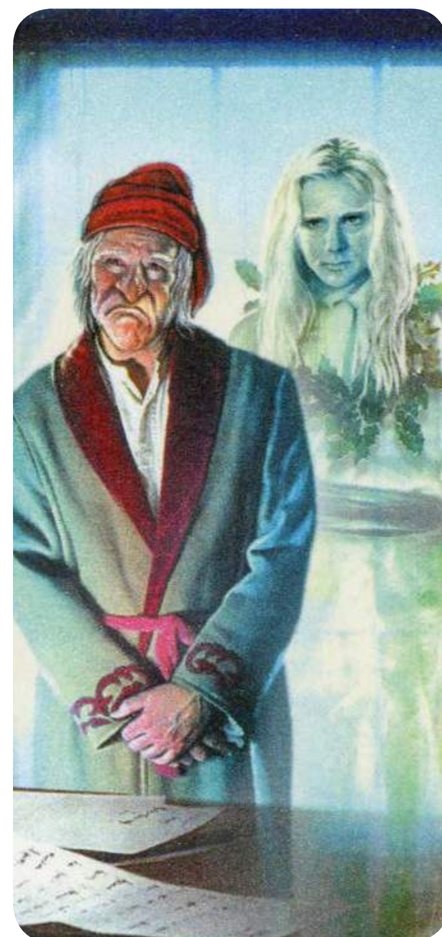
Having attended all the conferences since inception, I have many fond memories of the event and it would be difficult to select a single one. As the conference developed over the last 25 years, it has provided an important forum for informed debate and education as well as opportunity to meet with numerous counterparts in a collective arena. The overriding memory I have is just how much I learned from the event over those years.

How important is ISLA to the business today and why?

ISLA is extremely important to the business as it's an independent body that serves as a conduit between multiple external organisations and business providers. Through its tireless educational efforts, ISLA has developed an excellent reputation and rapport with regulators and other bodies that has and continues to be extremely valuable to the business and its members. Through its numerous sub-groups, it has also brought together businesses to evaluate issues and practices for the common good of the industry, a process which is ongoing today.

What does the future hold for ISLA as an organisation and where would you like to see it focus its attention?

The securities finance landscape is evolving, changing and adapting to the various different regulatory and financial challenges it faces. ISLA has been at the forefront of numerous of these issues and has been successful in educating and sculpting the landscape. I don't think there is any doubt that the business will face many difficult challenges in the future and ISLA will need to remain focused on the issues as they arise. However, I do believe the association has positioned itself well to be able to champion these causes well into the future.



Mohamed Moursy
ABN AMRO Bank

What's your favourite memory of an ISLA conference and why?

I attended all 25 conferences so I have many fond memories. Berlin 2010 was particularly exciting. This conference was a prelude to the creation of the new ABN AMRO Bank and I knew that I had to make the most of this perfect opportunity to raise our visibility and profile. I had a challenge on my hands and nothing invigorates like a good challenge. It was also fun watching England hang on in a frantic finish to a 1-0 win against Slovenia and reach the last 16 in the World Cup.

How important is ISLA to the business today and why?

It's very important as the regulatory developments are continuous. The work of ISLA also covers risk management, operation, taxation, training and, last but by no means least, communications and relationships within the industry. ISLA is as important to stock lenders as the British Medical Association is to doctors or The Law Society is to lawyers.

What does the future hold for ISLA as an organisation and where would you like to see it focus its attention?

The future of ISLA is tied to the future of the industry and the role of ISLA will evolve as our market evolves.

Sarah Nicholson
Consolo

What's your favourite memory of an ISLA conference and why?

Having attended over 20 of the 25 so far, I could tell a few stories of folk who are now senior figures in the industry but probably not without incriminating myself along the way, so that's all best kept for reminiscing in the bar in Vienna!

My most memorable moment was in Barcelona when I co-chaired the conference. It was the first year we formally recognised the importance of the networking opportunities and organised the agenda to accommodate them. Consequently, we had record numbers actually attending the conference sessions and the level and quality of debate was significantly better than I had seen before. Being part of the group that developed the agenda and delivered such a lively event that everyone was so engaged in felt like a real achievement.

How important is ISLA to the business today and why?

When I was first involved with ISLA, it had no full-time staff and was basically a group of lenders getting together to see if they could address a few issues more effectively as a team. We were quite limited in what we could achieve because we all had day jobs.

ISLA now delivers so much more, especially in the last few years with all the regulatory change that has overwhelmed the industry. The level of lobbying and education that is undertaken in Paris and Brussels can only have had a positive impact on the regulatory landscape. The sharing of intelligence between firms that ISLA facilitates seems to be a really important aspect to member firms that helps the industry anticipate the pipeline of change and meet the regulatory challenges more effectively. It is also noticeable that when an issue comes up, firms turn to ISLA first to help them understand it, see if they can change it, or think about how to resolve it.

What does the future hold for ISLA as an organisation and where would you like to see it focus its attention?

There is so much more the industry needs to get done and I think ISLA can be a key facilitator in achieving it. Finding solutions to requirements such as Securities Financing Transaction Regulation must be the immediate way forward, but even if there were no regulatory issues outstanding, ISLA still has an important role to play in areas such as facilitating non-competitive efficiencies to the industry, enabling conversations between firms about issues and problems, encouraging market best practices, education and training—not to mention getting the conference to its 50th anniversary!

Laurence Marshall
EquiLend Europe

What's your favourite memory of an ISLA conference and why?

When reflecting on previous conferences, Rome 2006 is the one that I remember the most.

The co-chairs and organising committee worked hard to provide a very interesting and broad agenda, to compete with an increasing amount of client meetings that were being held throughout the day. There were many delegates, the highest number to date I believe, and I remember how energetic and vibrant the event was.

I recall spending several hours having a passionate debate about EquiLend and market data with Brian Lamb and a small group. Several months later I became the EquiLend European chair. Maybe this was the start of the path to my current position.

When I was ISLA chair I can remember the concern leading up to the 2009 conference at The Hotel Arts as to whether we would meet our contractual obligations regarding minimum number of rooms booked for the event. Thankfully we met our commitment.

How important is ISLA to the business today and why?

It is hugely important to its members and the broader industry. The need for a collective voice when dealing with regulators is vital and ISLA has driven the increased dialogue and quality of discussion with them.

Together with other prominent industry associations, it has helped to coordinate and consolidate responses to a vast amount of regulatory proposals in recent years.

This has allowed for a far more efficient process and prevented fragmented responses. For many as well it serves as a clearinghouse of market-related information and knowledge.

What does the future hold for ISLA as an organisation and where would you like to see it focus its attention?

I expect the demands on ISLA will increase, particularly as we shift to an increased focus on regulatory implementation.

I can see that this will lead to increased work with members, on developing market standards and best practices as the market absorbs the changes.

The ever-increasing workload will test the independent structure, however history has shown that they can manage the balance and make the necessary adjustments when required.

Andrew Krangel
Citi

What's your favourite memory of an ISLA conference and why?

My favourite memory is co-chairing the 2013 Prague conference with Ben Challice. Working with Ben and the organising team was great fun and a real insight into the tremendous amount of work involved in putting a conference together. The build-up was stressful though as a few weeks before the conference Prague was under a few feet of water! When I attended my first ISLA conference (Paris in 1994), I never envisaged I would one day be centre stage leading one!

How important is ISLA to the business today and why?

I would say it is more important than ever. The regulatory headwinds we face will challenge us all and it's critical we have bodies such as ISLA, representing all the participants in the lending chain, addressing these changes.

What does the future hold for ISLA as an organisation and where would you like to see it focus its attention?

In the short term, the focus will continue to be on the changes in the regulatory environment and developing responses for the industry. Beyond that, further considering market best practice will be important given we all will have to adhere to those new regulatory requirements.

Mike Cosgrave

What's your favourite memory of an ISLA conference and why?

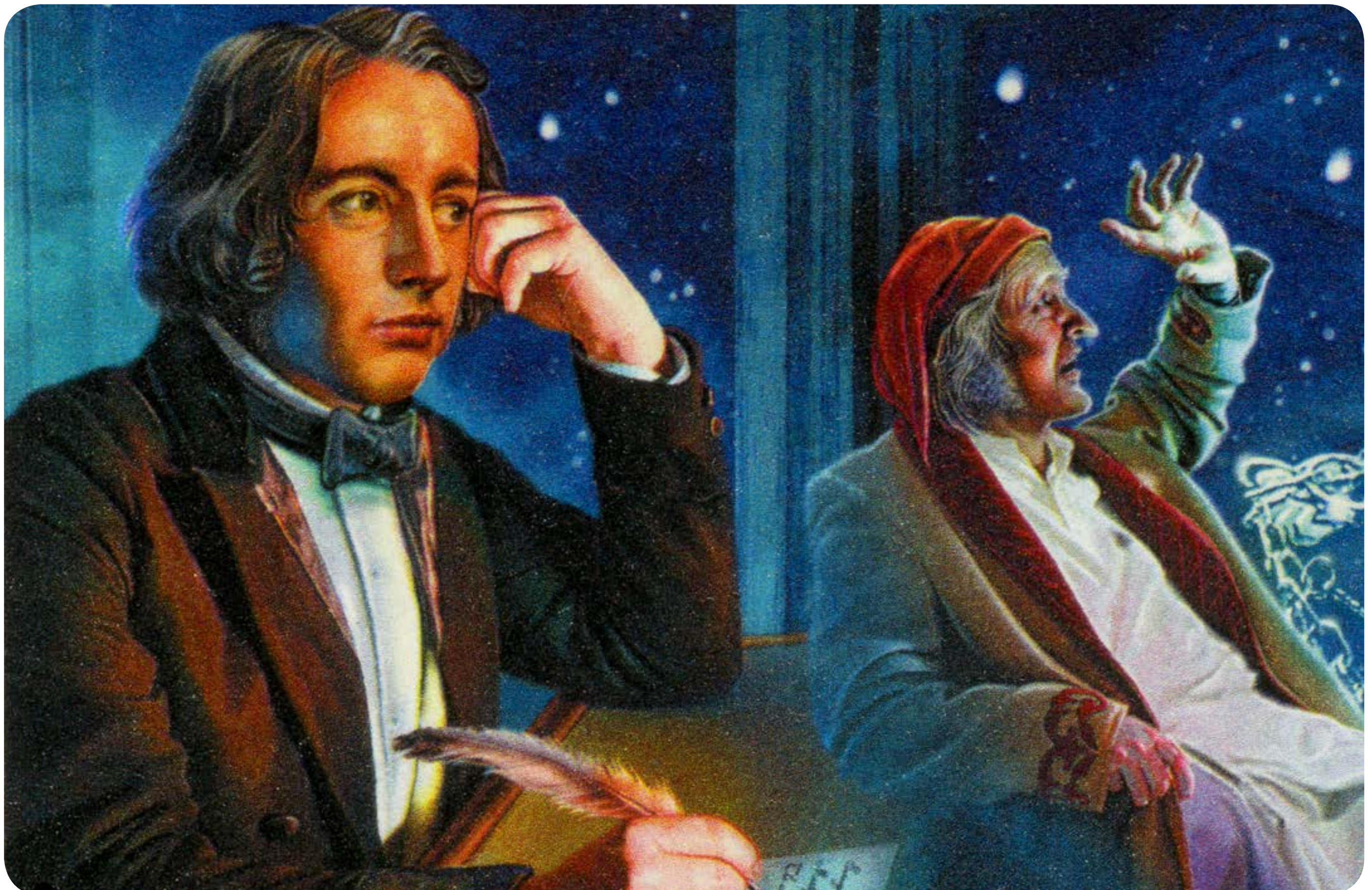
That's a hard one! I have a lot of good memories. If there is one I suppose it was the 1993 event that was staged in Barcelona, one that I was heavily involved in organising, but it's not for that reason. It's because the Barcelona event was a 'statement' that ISLA had bigger plans than just being a representative body for securities lending activity in the UK, which at that time I think it was viewed as being, particularly by our counterparts in the US.

How important is ISLA to the business today and why?

Although it's difficult for me to offer a very informed opinion, given I've not been involved in the market for some years, I've still kept in touch with developments and a good number of the securities lending elders, so I guess I have a reasonably good sense of what's going on in the market these days. So, with that in mind, I would say ISLA is even more relevant today, perhaps even than it ever was. The regulatory environment is such that it's placing additional compliance pressures on businesses, not only to stay on the right side of regulation, but also just to keep up with it. I think ISLA plays a vital role in keeping its members informed, contributing to working groups and making important representations, not only on behalf of its members, but also on behalf of the industry, to regulators and others that are in positions of market oversight.

What does the future hold for ISLA as an organisation and where would you like to see it focus its attention?

I'd suggest they should keep doing what they're doing, but perhaps they could bare their teeth a little more. Securities lending/financing is now a very embedded and vital component of the markets, unlike how it was perhaps even 10 years ago. It is well recognised and accepted now, not just by regulators, but also by, and perhaps most importantly, beneficial owners, which wasn't the case not too long ago. So, ISLA has perhaps an even greater challenge ahead of itself and I would suggest that challenge leads to a great opportunity for ISLA to lead from the front and bring the market with them to the regulators, and indeed other like-minded associations.



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Moving the dial

Kevin McNulty discusses his time as CEO of ISLA and as a long-term industry participant ahead of his departure for pastures new

During your seven-year tenure as ISLA CEO, what were the most noticeable changes to both the association and the industry as a whole?

Over the past few years, regulation has come to dominate the agenda for the association and the market itself. It wasn't the only area we worked on, but it certainly was top of our list in recent years. It wasn't always like that though. When I first joined the International Securities Lending Association (ISLA), we had a much more balanced agenda with groups focused on new markets, technology and education issues.

The second most obvious change is how ISLA itself has evolved. In 2009, I was the only full-time member of staff, but with a new hire approved this year, we now have a solid foundation. This growth has been essential for our members because they have had to focus more and more on the industry challenges specific to them and have consequently had less resources to devote to ISLA matters. At the same time, the demand for ISLA's services has gone through the roof and recognising the squeeze this creates and the importance of a trade association in these times, the ISLA board and our members have been very supportive in accommodating that growth.

Do you foresee ISLA being able to rotate its agenda back to focusing on a wider variety of issues than just regulation soon?

Yes, I'm optimistic that will happen, although I'm unsure how quickly. In the next two to three years, ISLA will be focusing on implementation of the defined regulations, which is a shift from our previous focus on education of our members on what exactly they should expect and voicing the industry's concerns to the regulators and policymakers to try and ensure a good deal for our members where possible. Looking ahead, there are some fairly hefty pieces of regulation still to be implemented, but once that's all bedded down I'm hopeful that ISLA can begin to implement a more balanced agenda again.

It's not completely about regulation though and we do work on other areas, such as our market education initiatives and six-monthly reports. We have some great ideas for how to build upon those, as well as launching other forums for specific segments of our membership, such as asset managers.

What were your most successful interactions with regulators?

I think we have been very successful in a number of areas, but the reality is we often end up with the best-of-a-worst set of options, rather than an ideal outcome from our negotiations with regulators. What we always try to do is move the dial in favour of our members. In terms of very positive interactions with regulators, I would highlight our work with the Financial Stability Board (FSB) on its 'shadow banking' initiative where we helped its work group to understand what our market does and why it does it. Our approach generally is to educate and offer facts that allow regulators to reach the right decision. The FSB's final policy proposals for our markets are pretty sensible and this was a good result for ISLA.

Another example would be the discussions we had with the EU institutions around the Securities Finance Transaction Regulation (SFTR). This one started on a very negative note because the European Commission surprised everyone by publishing a draft of the legislation before the FSB's policy work had finished and without any obvious consultation. The European Commission chose to adopt an European Market Infrastructure Regulation (EMIR) model

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for promoting transparency in the market, which we would argue was not ideal, and I highlight this as a success as in the course of a couple of years we successfully built relationships with key individuals within the EU Parliament and Council, and helped to steer the legislation in a more sensible direction.

Was there any specific piece of legislation that was particularly challenging to negotiate over?

Although I mentioned it as a success earlier, there were certainly some challenging battles involving the SFTR. In the end I think the outcome was a big improvement on where we could have ended up, but there are still quite a lot of specific points we were unable to get changed. We are now working with the European Securities Markets Authority (ESMA) on its development of the detailed technical regulations. We have a good relationship with ESMA and hope that we can get some more sensible concessions for our members.

The other piece of legislation that proved to be very problematic was the Short Selling Regulation. This was an extremely interesting initiative for me because it was the first piece of regulation that I was involved in that I saw develop from start to finish. What struck me most was how difficult it can be to influence policymakers when they have made up their mind about something. We had instances where some regulators fundamentally disagreed with what we and the market actually considered a short sale to be and that made things very difficult for crafting clear regulation.

Another piece of regulation that is still out there in the ether is the Central Securities Depository Regulation (CSDR), and this one has been causing problems for a lot of trade associations, not just ISLA. I think many market participants are really having a hard time seeing how the settlement penalty regime in CSDR will actually improve the market and it currently looks like a recipe for a real mess in Europe. There is still some hope for change. We are seeing some positive developments with the European Commission's willingness to reconsider some recently-implemented regulation, but I think it is unrealistic to expect a radical watering down of the CSDR any time soon and, once again, our market will have to adapt.

Can you give an example of a specific requirement that you were able to adapt through your negotiations?

With the SFTR there was going to be a strict requirement to obtain explicit consent from any collateral giver before collateral could be reused. It would have been ludicrous, to say the least, to require this when title to the collateral is moved, such as happens under the Global Master Securities Lending Agreement, and furthermore, the requirement could actually jeopardise the effectiveness of the collateral itself. Thankfully we were able to get this removed and move the dial back a bit.

On the other hand, though, we also argued that the transparency requirements for fund managers should be the same as those already in place for UCITS funds under ESMA guidelines, but unfortunately we were less successful in getting a good outcome there.

What is the secret to ISLA's success as a trade association?

ISLA has certainly grown in stature in the past seven years. It was growing before I joined and continues to do so. We are regarded as a credible trade association now and I would say we punch well above our weight given our size.

Early on in my role, the ISLA board made the decision to continue to operate as a smaller, industry-focused association and that has definitely been the best decision for our market during these years. It has allowed us to act as a clear voice for the market, but being smaller does pose some challenges that we have had to overcome, such as operating without the same level of resources or ready access to policymakers that the largest associations enjoy.

We have been able to mitigate this issue in part through collaboration with other associations such as the Risk Management Association and the International Capital Market Association, and also more broadly with associations such as the European Fund and Asset Management Association, where we aim to assist them with specific and technical matters relevant to our market.

As the team has grown, I think one real area of success has been our ability to put in place a much stronger member engagement programme. In addition to our working groups, we now run regional roundtables across Europe for our members outside of the UK, and have upgraded our website to provide much better access to our resources. This would not have been possible with a team of one.

How has the ISLA conference changed since you first attended?

I was actually at the very first ISLA conference in Scotland and I can see there has been quite radical change between the first conference in 1992 and today. The very first ones were about getting the marketplace together for the first time and the industry in Europe really beginning. It was also a much smaller event with roughly only 150 people at the first and a very different agenda to what we will see this year, when we expect around 600 people to join us in Vienna.

> "As the team has grown, I think one real area of success has been our ability to put in place a much stronger member engagement programme"

Kevin McNulty, CEO, ISLA

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A view from the board

ISLA chair Andrew Krangel offers a snapshot of what ISLA's board of directors will want its new CEO to focus on in the coming year

ISLA's annual conference has been running for 25 years now. What makes this event stand out from the rest?

Unusually for an association and therefore our conference, is the fact that we embrace the entire value chain in the industry from beneficial owners through agents on to prime brokers and service providers.

This is reflected in our delegate profile and topics discussed at our event. Also we are geographically very diverse with around 60 percent of our delegates coming from outside of the UK.

What do you consider to be the biggest challenge facing the securities lending industry that ISLA will be aiming to tackle this year?

Regulation will again define our industry this year and our ability to adapt to this new world will be the most important issue we face. The International Securities Lending Association (ISLA) will continue to focus on working with regulators to ensure the challenges to our members are well articulated and the impact of these changes are understood within the industry.

Will this issue be discussed at the conference?

Although not a specific topic this year the thread of regulation will be woven into every panel session.

What do you hope to come out of the conference in terms of ISLA's interaction with its members?

The conference is a great opportunity to judge the mood of our members. We hope that discussions with them over the three days will help set our agenda and strategy so we are clear where we need focus our efforts over the next 12 months and beyond.

ISLA recently appointed Andrew Dyson to take over from Kevin McNulty as CEO. What will ISLA's board want Andy to focus on in the next 12 months?

Andy's immediate area of focus will be working with the board to hire a new COO.

Beyond that Andy will be looking at ways to further enhance ISLA's exposure to regulators and develop the strategic direction of the ISLA team.

As well as a new CEO, ISLA has added some new faces to its team recently. Are there further plans for expansion?

Sejal Amin add further depth to ISLA complementing the existing team. This will enable us to spend more time interacting with members as well as continuing to focus on the regulatory environment.

> "Regulation will again define our industry this year and our ability to adapt to this new world will be the most important issue we face"

Andrew Krangel, Chair, ISLA

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Evolution, not revolution

Andrew Dyson, COO of ISLA and imminent successor as CEO, discusses the state of the securities lending industry and outlines his plans for the future direction of the association

Congratulations on your appointment as the new ISLA CEO. What will you be looking to achieve in the coming months?

As I assume the role of chief executive at the end of the month, I am keen to stress that I feel that we have all been doing a pretty good job to date and any changes will be more evolutionary rather than revolutionary.

You will see a sharpening of our focus around managing and delivering our services to our members. Between now and the year's end I also hope to strengthen our team to provide us with more resources to deliver on both our regulatory agenda but also interactive with our members across Europe.

We should not forget that although International Securities Lending Association (ISLA) has paused for a moment, as we have reformed ourselves following Kevin McNulty's decision to move on, the regulatory implementation agenda, especially around the Securities Financing Transaction Regulation, is in fact quickening and it is important that we are in a position to help our members through this challenging period.

What's your take on the state of the securities lending industry at the moment? Are things improving for participants?

There is no doubt that the industry is increasingly under ever tighter regulatory constraints with borrowers in particular having to change their behaviour to reflect compliance with Basel III capital ratios. While this is clearly making business harder and more complex, there are still opportunities and for those that can embrace certain trading trends, such as term lending of high quality liquid assets, assets revenues can be both interesting and significant.

ISLA has evolved from being mostly UK-centric before to becoming more EU-focused in the past few years. Will you be looking to broaden ISLA's reach further?

ISLA is very much focused on servicing our members across Europe. We are very proud of how we have grown our membership across Europe in recent years and see this broader market as our natural territory. In terms of looking further afield we are of course very mindful of the excellent work by other associations such as the Risk Management Association and Pan Asian Securities Lending Association and would not want to encroach on what they do.

We already work closely with them on a number of globally important issues such as our collective responses to the work undertaken recently by the Financial Stability Board and see this as very much as the working model that we see developing in the future.

What are you looking forward to most at the ISLA Securities Finance and Collateral Management Conference?

This year marks our 25th ISLA conference and I am personally looking forward to having the opportunity to reflect on where we have come from in the past 25 years and if this can give us any clues or signals on where we go next as an industry. This industry has never been afraid of facing change head on and once again we are at an important moment in the development of our markets.

Andrew Dyson
COO
ISLA

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Preparing for the benchmark change

The market now has until 30 September to prepare for life without the federal funds open rate, says Robert Chiuch of BNY Mellon Markets

The securities lending industry never stands still. Changes in market practice and regulatory requirements continually challenge our business, and we need to consider the impact of each change across the full scope of a securities lending programme. One upcoming change that will affect our industry in 2016 involves the federal funds open rate (FFOR).

The FFOR is used in securities lending as a general benchmark for pricing securities loans versus cash collateral. It can also be used as a relative benchmark to evaluate a securities lending programme's intrinsic performance. ICAP, a UK-based broker, publishes the FFOR each business day. Over the past few years, benchmarks in general and the use of the FFOR in securities lending specifically have come under scrutiny. The International Organization of Securities Commissions's July 2013 Principles for Financial Benchmarks aimed to provide an overall framework for benchmarks used in the financial markets.

This framework included a set of quality, methodology and governance principles to be used when calculating and publishing benchmarks. The Treasury Markets Practice Group (TMPG) has also been reviewing benchmarks and in February 2016 published its Use of Financial Benchmarks in TMPG-Covered Markets: Three Sample Case Studies. The TMPG was concerned that the volume of trades used to set the FFOR was small, potentially subject to manipulation and also would be unlikely to meet the IOSCO standard.

In this environment of potential heightened scrutiny, the Risk Management Association (RMA) and the Securities Industry and Financial Markets Association (SIFMA) reported in a 4 May 2016 press release that ICAP had decided to stop publishing the FFOR as of 27 July. As of the date of this article, this proposed end date was extended to 30 September 2016. RMA and SIFMA, working together with ICAP, determined that a brief extension would be appropriate to allow the industry more time to adapt. Hence, the securities lending industry needs to reconsider its use of the FFOR benchmark during this period. In its May 2016 press release, RMA and SIFMA suggested using the overnight bank funding rate (OBFR), which is published by the Federal Reserve Bank of New York.

First published on 2 March 2016, this rate differs from the FFOR in two key areas. First, the OBFR takes into account not only federal fund transactions but also some eurodollar transactions. The FFOR did not include eurodollars in its calculation. Second, the OBFR is not a real-time benchmark.

When the New York Fed publishes the OBFR at 09.00 (EST), the rate reflects activity from the prior business day, whereas the FFOR was reported the same day. Since the OBFR is a previous business day rate, there is the possibility of asymmetry in market levels between participants, particularly over period ends as market participants could each react differently to market dynamics.

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The challenges

Given the FFOR's role as a benchmark in loan pricing and assessing programme performance (versus cash collateral), the change to a new rate presents three challenges for the securities lending industry: communication, implementation and operations. Broad industry awareness around the change has apparently been somewhat limited, particularly outside the US. Over the past few months, industry bodies and other interested parties have published announcements and shared information regarding FFOR's retirement, but this topic has not been a major focus point for securities lending participants. Regardless, discussions will need to take place between agent lenders, borrowers and beneficial owners about how the elimination of the FFOR and the implementation of any new benchmark will affect each party's securities lending policies, procedures and relative performance.

A new benchmark for loan rebates and securities lending programme performance may present certain implementation challenges for some participants. First, it's likely that some beneficial owners, agent lenders and/or borrowers will have documentation in place that contractually refers to the FFOR as a benchmark in one instance or another. This can include service agreements as well as policy and procedure documentation. The implications are obvious, but they probably differ widely in scope across industry participants globally that, with the extension of the FFOR's publication into September 2016, now have more time to react in an orderly fashion.

Adopting a new benchmark could also introduce operational challenges. For example, participants need to agree on the procedures for handling a variety of term structures if any are open over the new benchmark's implementation date.

They also need to understand how the transition to a new benchmark will affect administrative reporting, such as fee billing and/or performance benchmarking, over any transition date.

It's expected that awareness will grow more broadly as affected businesses explore and discuss all of their options regarding any future adoption and implementation of the OBFR as they react to the transitioning away from the use of the FFOR benchmark. Having these discussions now may help contribute to a smooth transition by the proposed end date in September.

If you are reading about this for the first time at the International Securities Lending Association's annual conference, the original 27 July 2016 deadline may be a shock. Rest assured, you now have until 30 September 2016, the last date the FFOR will be published by ICAP.

Here are a few questions to help you gauge your readiness for the benchmark change:

- Have you been discussing replacing the FFOR with a new benchmark?
- Are you taking an inventory of all securities lending documentation to determine where the FFOR is mentioned?
- Do you have an implementation plan for a new benchmark?

It's likely that some beneficial owners, agent lenders and/or borrowers will have documentation in place that contractually refers to the FFOR as a benchmark in one instance or another

Robert Chiuch, Global head of equity and fixed income finance, BNY Mellon Markets

Who you gonna call?

Whenever a trade becomes too burdensome to finance, triparty agents such as Clearstream are called upon to lend a hand, according to Pascal Morosini, global head of GSF sales at Clearstream Banking

How long have triparty agents been around, and how has their role changed in that time?

They have been around since the mid-1980s in the US and 1992 in Europe when Cedel (now known as Clearstream) launched the first triparty repo service. At the time, investment banks were looking to optimise the small securities positions left unfinanced on their custody accounts. They asked custodians to find a solution that would enable all of those little transactions to be packaged into a single transaction, while allowing for substitution. This was how triparty repo was born. It's the ability to finance multiple positions in different currencies while the administration of the collateral is outsourced to an agent on behalf of both the buyer and the seller. It brought many benefits to dealers, including greatly increased flexibility thanks to automated substitutions.

In the late 1990s, central banks were looking for collateral management solutions that would allow local and foreign banks to pledge securities to them in an efficient and transparent way. Since they were not equipped to manage important collateral flows, they naturally asked custodians and international central securities depositories (ICSDs) to provide a collateral management service with the same core features as triparty repo, but without a principal cash leg, as this leg is managed by them directly for market operations or discount windows.

Gradually, triparty repo transformed into triparty collateral management to service central banks, central counterparties (CCPs), bilateral loan arrangements, derivatives and securities lending.

Whoever had an exposure to cover, for whatever type of financial transaction, could use triparty agents to cover those transactions, depending on their needs and the size of the transaction. Generally speaking, when the number of counterparties expands and the required collateral becomes a burden, outsourcing to triparty agents makes perfect sense. The shortest definition of triparty, to me at least, is 'operational efficiency'.

Triparty collateral management has the same core and powerful features as triparty repo did in the past. However, we can now handle multiple contract usage, bringing operational efficiency to support increasing collateralisation in a post-crisis world in which we see a strong preference for secured over unsecured transactions.

And now, with new regulatory requirements, triparty agents are being asked for their help again?

Yes, this has been the case since 2008 and the collapse of Lehman Brothers. With risk mitigation becoming the focus of regulators, triparty agents have had to adapt and constantly invest in IT development to enable the banks to gain more visibility of fragmented inventory pools across the globe. Clearstream has re-engineered its optimisation engine to simplify the way eligibility, haircut and concentration rules are managed, but also to make it more flexible and granular to enable even its most sophisticated participants to perform their regulatory duties. To aid liquidity management, it even allows counterparties to stipulate specific optimisation requirements for month- or quarter-end reporting periods, as well as based upon the term or duration of any type of securities finance transaction.

How would you describe the triparty agent's role in light of upcoming regulatory requirements under the likes of Dodd-Frank and EMIR?

In 2016, the onset of mandatory clearing in Europe and the introduction of new global margining rules for uncleared derivatives are forcing counterparties to comply with new asset segregation

requirements, but at the same time look at innovative ways of managing collateral efficiently.

The ability to manage collateral in real-time is now becoming an essential part of daily collateral management and has thrust triparty agents into the spotlight. Triparty agents are set to play a major role because of their ability to mobilise and segregate collateral rapidly and efficiently. Financial regulation has played a major role in the evolvement of banking and securities finance over the past 12 months. While new liquidity guidelines and stress test requirements have encouraged banks to diversify their sources of liquidity, their ability to mobilise global inventory and make more effective use of their collateral continues to shape the way in which triparty services are developing.

Since the European Market Infrastructure Regulation (EMIR) and the US Dodd-Frank Act are imposing the use of CCPs for cleared derivatives and the segregation of collateral for non-cleared derivatives, the industry is logically turning to those with the capacity to manage collateral efficiently, including collateral transformation.

What will Dodd-Frank and EMIR require and when, and how can triparty agents help?

The upcoming regulations introduce additional margin requirements on uncleared derivatives to reduce systemic risk. In addition to posting variation margin, counterparties will be required to exchange two-way initial margin on a gross basis. These requirements will be phased in from September 2016 onwards, depending on the size of the average aggregate notional amount of uncleared derivatives.

The collateral needed for meeting the initial margin must be segregated at a non-affiliated third party custodian or triparty agent such as Clearstream. For uncleared derivatives, our OTC Collateral service provides the bilateral collateral management of variation margins, while the initial margin segregation and management is covered by triparty services under Clearstream's Global Liquidity Hub.

Why are repo and securities lending being used to finance initial margin segregation? Is this the future of securities finance as a business?

It will certainly keep us busy for the next five years, or at least until more derivatives will be admitted to clearing and benefit from transaction netting, which will reduce the amount of collateral needed.

Repo and securities lending are the natural source of collateral mobilisation. The networks are already firmly established between buy-side participants, such as asset managers, pension funds and insurance companies, and the sell side. Repo and securities lending offer collateral transformation abilities as well as a deep liquidity pool to tap into.

Furthermore, triparty agents such as Clearstream offer the ability to reuse collateral received from reverse repos. Many counterparties already do this but there is also further innovation that could be explored. For example, collateral could be received using standardized basket or via GC Pooling, the leading, basket-based, repo service which is cleared through Eurex Clearing. GC Pooling gives clients access to straight-through processing services from several Deutsche Börse Group entities through one single point of access. Eurex Repo provides the trading platform, Eurex Clearing clears the trade and Clearstream provides the settlement and the collateral management services. This connection currently allows high-quality liquid assets to be segregated as initial margin for Eurex in an efficient and timely manner and could feasibly be extended to uncleared margin if there is demand to do so.

As EMIR and Dodd-Frank are imposing the use of CCPs for cleared derivatives and the segregation of collateral for non-cleared derivatives, the industry is logically turning to those with the capacity to manage collateral efficiently as well as offer the connections to collateral transformation

What can triparty agents do to make the mobilisation of collateral a quicker and more efficient process?

The ability to mobilise collateral within Clearstream's Global Liquidity Hub or via any of its Liquidity Hub Connect agent bank partners has created opportunities for firms to more effectively manage their global inventory pool while retaining the use of key local custodians across the globe. The Liquidity Hub Connect service mirrors clients' available positions at their agent bank in the Clearstream collateral management systems, thereby giving an overview of the assets without moving them out of the bank. This enables any agent bank client that is also a Clearstream client to consolidate its assets held at both institutions into a single pool to perform transactions with any Clearstream collateral receiver. We continue to invest in our Liquidity Hub Connect network based on client demand and the desire to optimise financing needs across different time zones, allowing them to operate a bigger global pool.

Target2-Securities (T2S) will continue to shape the European landscape for the next 12 to 18 months and many banks, dealers and custodians will re-assess how they intend to manage their access to cash liquidity and commercial bank credit under the auspices of Basel III. Clearstream will extend its collateral management capabilities into T2S from 2017, thereby giving clients the opportunity to manage not only a single global collateral pool but also to consolidate all of their euro financing in one location.

Clearstream links to other important securities markets such as US and Japan are also being worked out and will this year offer collateral givers the ability to tap into this inventory on a real-time, same-day basis. Finally, triparty agents are working to connect themselves with the aim of achieving full interoperability. This would enable collateral to be mobilised more efficiently.

As you can see, we have come a long way in 25 years. Some might say that our industry is slow to adapt compared to others. Consolidation and technology might accelerate this process, but we remain committed to continuing to deliver the best possible, flexible and reliable technology to support the 'collateral is king' era we are now in.

Triparty crashers

Nick Nicholls of GFT examines the puzzling case of an underused available and ready-made collateral management solution

For large institutions, the process of gauging whether they need to be complicit with Basel Committee on Banking Supervision (BSBC) 261 has started. Other firms need to prepare to meet the demands of collateral velocity and efficiency that will be required to meet the new regulation, something that cannot be done effectively or cheaply with manual processes. With this in mind, we at GFT have become somewhat baffled as to why the market is not embracing triparty for the purpose of managing over-the-counter (OTC) collateral.

Come September 2016, the larger firms and some of their clients will have three choices: (i) invest time and energy in repapering the International Swaps and Derivatives Association master agreement and credit support annex to triparty agreements; (ii) provide a manual solution to managing an increased call and substitution volume; or (iii) take a capital charge.

At this point, few in-roads have been made into the triparty route.

Triparty facilities offer an effective mechanism with which to manage the collateral call and substitution process that—relative to bilateral settlement—reduces settlement risk, over/under collateralisation, improves best use of assets, and caters for velocity. So, why have triparty facilities struggled to be embraced?

We've recently been exploring the holistic approach to collateral management and optimisation. In our previous paper, Turning Up the Dial, we spoke about this topic in great detail, expanding upon a number of themes, all interrelated to liquidity and capital management. We believe triparty facilities could be an integral part of the holistic model, enabling enhanced optimisation, settlement and control functions within the process.

When triparty agents offer and promote products that create cross-border movement of assets within their triparty frameworks, the uptake of triparty for managing collateral should, in theory, be much greater.

The reluctance of some firms to adopt triparty facilities needs to be reconsidered, as the regulatory environment that has become the 'new normal' continues to create greater challenges for collateral management.

Why triparty is becoming more important?

The drive to optimise collateral means that there is already a higher demand on settlements and collateral operations areas.

Firms that manage this today with a manual or semi-automated bilateral process are already straining under the demands of the collateral optimisation process, and the substitutions that this requires. Added to this, collateral processes are about to suffer further pressure with the advent of BCBS 261, which aims to reduce systemic risk and equalise the margin differentiation between cleared and non-cleared OTC derivatives.

The advent of this regulation will bring with it an estimated five-fold increase in call processing arising from zero thresholds and gross initial margining. This in itself is a further constraint against high-quality liquid asset (HQLA) liquidity. For those organisations that will be subject to the new rules, there will be a requirement that they cope with the additional call rate and an unavoidable reduction in readily available HQLAs.

Additionally, we are likely to see intra-day margin calls against cleared OTC derivatives. Without an automated solution, which enhances the reconciliation, call agreement and settlement processes, attempts to optimise the collateral and inventory positions will be almost impossible.

While optimisation is at risk within a manual process, collateral velocity will also need to improve. Greater demand on capital means that coverage of the counterparty credit exposure will need to be delivered faster and with greater certainty. Keeping up with this new demand will be a challenge.

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The benefits of adopting triparty

There are a number of advantages for firms if they adopt triparty:

An established process: Triparty has been used in secured financing markets for many years in support of large repo and stock borrow and loan transactions. If a firm has access to triparty today, it is easily adaptable to any collateral process.

Transparency of holding versus ownership at the point of default: Rehypothecation is possible within a triparty system. The triparty agent has a complete view of where the collateral entered the triparty system and where it's held, at any time.

Lifecycle events and management of the eligible portfolio: In ongoing collateral management, terms of eligibility are pre-set and can be managed on behalf of their clients by the triparty agent.

Eligible collateral that becomes ineligible on a downgrade will be substituted automatically. Substitution of securities due to corporate actions are also managed within the triparty service.

Managed substitution process: Under a bilateral arrangement, a firm that is actively managing its inventory may have to realign its positions across multiple counterparties in order to meet a substitution request from its trading desks.

If undertaken manually, this can take considerable time. Under a triparty framework, substitutions would be managed automatically, in line with any pre-agreed restrictions and in line with the use of sale of asset inventory on a delivery-versus-delivery basis.

Reduced fails risk: Using a triparty mechanism may give the pledger the opportunity to utilise positions that have not been used previously as there is less risk of those securities not being redelivered as and when required.

Velocity and improved straight-through-processing: With a greater level of automation and interoperability, collateral can move faster and be delivered quicker.

The triparty facility allows a reduction in the number of 'touch points' within the settlement of collateral, and can be delivered within an hour of the instruction being made.

Segregation is covered: Under BCBS 261, initial margin will need to be segregated. The forthcoming interconnectivity between triparty services should reduce custodian costs.

The triparty conundrum

Through conversations with our clients, we identified some of the most common perceived or real challenges clients have cited on why triparty isn't being adopted. They include:

- Cost of incorporating the triparty process into a firm's existing infrastructure may be too costly for smaller institutions;
- Triparty is only applicable to non-cash;
- Ceding control of one's inventory is perceived as an additional risk;
- Complex relationships between triparty providers and multiple clearing corporations and institutions;
- Cross-border movement of collateral strains firms' operational capabilities.

GFT has developed a number of approaches and solutions to address these challenges and concerns to help our clients experience the full benefits of adopting triparty services. We believe that triparty and central clearing will only increase in the future. Regulations affecting liquidity and capital would appear ripe for triparty collateral management.

While it would be overly optimistic to think there is one single solution that will create the ideal holistic collateral optimisation model, triparty mechanisms offer realistic answers to many of the challenges from regulations such as BCBS 261. Triparty would to some extent help in reducing the operational burden that will ensue once that regulation is enacted. For those firms that have a triparty capability for stock borrow and loan and repo, it is a relatively small step to adjust processes to include OTC collateral.

For firms without the imbedded infrastructure to support triparty, there are services that may be offered that reduce the cost burden. We suspect that, in many cases, the full cost analysis of managing a bilateral process has not as yet been undertaken.

Triparty should complement the bilateral process without any great need to develop further any current collateral management platform.

As of now, adoption of triparty has been left too late for the September deadline, however, longer term, triparty facilities can be a strategic adoption for OTC-cleared and non-cleared collateral. The question we would ask is: what is stopping you adopting triparty ahead of the next four tranches of BCBS 261?

Triparty should complement the bilateral process without any great need to further develop any current collateral management platform

Nick Nicholls, Business consulting lead, GFT

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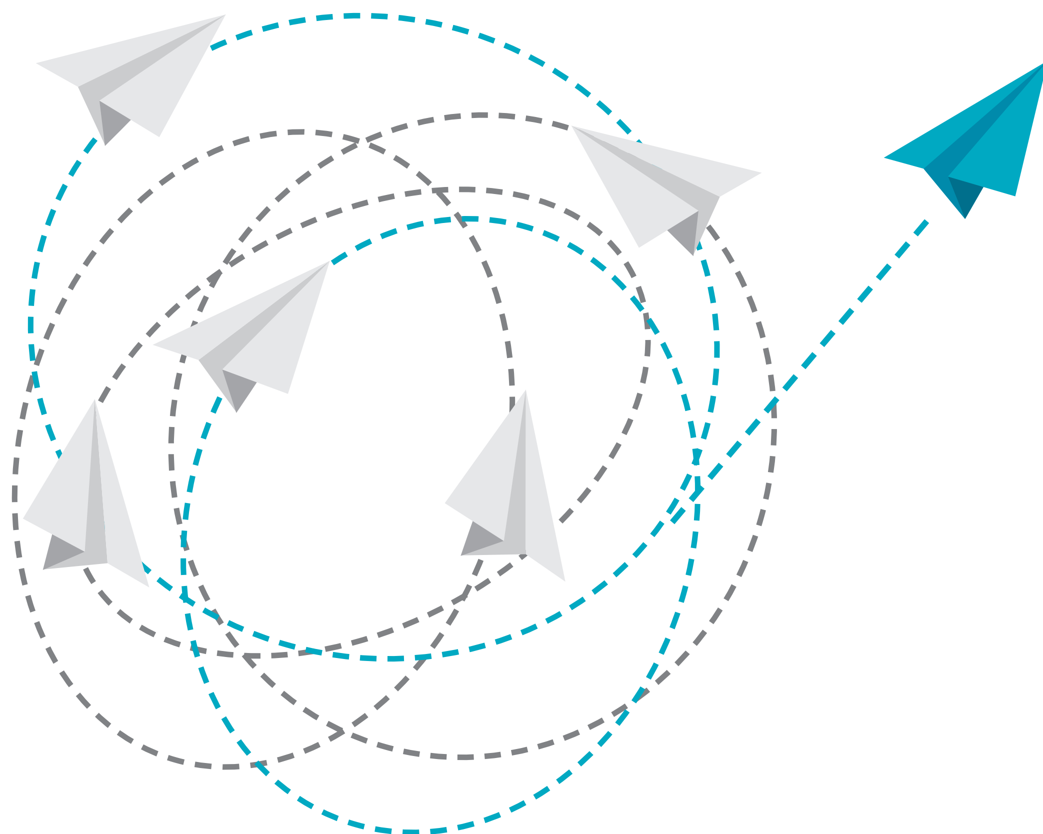

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Views from the coalface

CORE Collateral founders Tim Harrold and Grant Davies explain why they launched a collateral consultancy to serve today's market

What drove you to form CORE Collateral?

Tim Harrold: The collateral market really hasn't evolved in the past 30 years in the way that the business manages collateral. There isn't a lot of product innovation and yet the burden on collateral management has increased exponentially. However, this is beginning to change and new products, such as cloud-based solutions, are being adapted for buy-side users and can offer a viable platform for collateral management, if participants are aware of them.

Grant Davies: The reality is that the current market environment, which is in part driven by the derivatives regulatory challenge, as well as the broader regulatory challenge felt by everyone from banks to buy-side participants, means that there are substantial demands in the collateral arena. Some of this demand is coming from businesses that have evolved in size but without sufficient emphasis on infrastructure, especially when it comes to adapting to the new regulatory environment, to buy-side firms that have never had to enter this world before now.

Whether you are an established investment bank that has been managing collateral for years, or a buy-side participant just discovering this space, collateral management can be a costly and time-consuming process.

At CORE Collateral, we look under the hood of our client's business and understand what it is they are trying to achieve, and what collateral management infrastructure is right for their specific needs, which may be very different to others. Investment banks are able to spend an enormous amount of money building personalised in-house systems to manage their collateral needs but smaller firms rely on triparty agents and software houses to develop solutions that might not always be fit their needs.

Sales people from software firms will often try to fit square pegs into round holes, but the reality is there is a huge advantage to gaining impartial consultations from someone who understands what a firm's business actually needs compared to the solutions out there.

Having said that, there are some excellent outsourced products out there that can really simplify the process without it costing a fortune, but participants need to be made aware of them before they enter into a long development process of building in-house.

What do you believe that CORE Collateral offers as a consultancy that your competitors can't?

Harrold: Most consultants come from a background of consultancy firms and that's their sole experience point. Very few consultants can legitimately say they have been at the coalface and are recognised industry practitioners. In conversations we've had with our first clients, it's our extended first-hand experience that they value most, especially at a time when our clients are losing that expertise themselves.

At the same time, a lot of consultancy firms focus on a specific area of collateral, usually derivatives because that's the hot topic right now. We feel that is old fashioned and the best firm will take a holistic view of the market.

Can you outline the industry experience you both bring to the table?

Harrold: I started in the industry two months before the market crash of 1987, so I have worked through every market event since

What we try to ask is if our clients really understand the potential cost of doing business as these regulations fully take hold, because it isn't priced-in at the moment and we're concerned that participants aren't aware

then, which as Grant mentioned, is something that a lot of firms don't have access to in their full-time staff.

I've seen the beginning of prime brokerage when Morgan Stanley first rolled it out internationally in the early 1990s on to the development of triparty and equity repo by Lehman Brothers. I also gained my first consultancy experience working with Data Explorers (now part of Markit) to build out their business. After 2008, I re-joined Grant at J.P. Morgan where I went from being a user of triparty to a seller of triparty. What I've observed in that time is that everyone, including service providers, operated in a very siloed structure. The subsequent slow drift towards centralisation highlights how unprepared the industry as a whole really is for the dynamic change that happening now.

Davies: Tim and I first met at Lehman Brothers at a time when it hosted the preeminent securities finance desk and before it came out of the back and middle office as part of the fixed income department. My triparty experience comes first from Bank of New York and then J.P. Morgan, which I joined at an incredibly challenging time as it had just lost its biggest client when Lehman Brothers failed two weeks before.

Between our combined history in the market we are able to offer expertise on how the collateral management industry works, both legally and functionally, along with the various participants involved to help find a solution to our clients problems, whatever they may be.

Are you focusing more on new entrants to the market?

Davies: We are certainly geared towards helping those newcomers to the space, but there is also a community of large and mid-tier banks out there that also need help with implementation or understanding the products out there that offer a best-of-breed solution. Larger entities are being forced to cut down on staffing costs and mitigate rising costs of compliance with regulation, which means some banks that have traditionally built in-house must now look to external providers and they need a helping hand to do it.

There are companies that have lost senior expertise and need someone with the extensive industry understanding that we can offer to plug that gap during a transitional phase.

Harrold: The big firms have got just as many issues as the small ones, they're just different problems. Big firms, for example, have to deal with defunct legacy platforms and siloes. The current environment means everyone has to adjust in some way.

Do you find that your clients are handling regulation well?

Davies: With all the regulation coming in at the moment, what we try to ask is if our clients really understand the potential cost of doing business as these regulations fully take hold, because it isn't priced-in at the moment and I'm concerned that participants aren't aware. All the regulation relating to liquidity standards and reporting in securities finance bring costs that can be quite draconian, and areas such as derivatives aren't factoring that fully in at the moment. What it ultimately means is that banks find it harder to hedge their portfolio and offer derivatives without adding those extra charged on to the client. All of this means that participants on both sides of the trade need to adapt, and that's where we come in.

Tim Harrold
Co-director
CORE Collateral

Grant Davies
Co-director
CORE Collateral

Collateral management—the road ahead

The collateral landscape is certain to change dramatically over the coming months, according to Helen Nicol of Lombard Risk

The new and complex rules mandated by the US Commodity Futures Trading Commission, the European Securities and Markets Authority and other regulators has caused the focus on collateral management to change considerably for both buy- and sell-side organisations globally.

The impact of the 2008 financial crisis demonstrated potential areas of weaknesses in the over-the-counter (OTC) derivatives markets. As a result, the G20 requested that the Basel Committee on Banking Supervision (BCBS) and International Organization of Securities Commissions (IOSCO) develop a consistent global set of standards for uncleared margin requirements resulting in the most recent regulatory technical standards (March 2016). The importance of the framework to the financial services industry cannot be underestimated as it lays out several key parameters as guidelines for the OTC derivatives market, including the exchange of daily variation margin, gross initial margin to be exchanged by both parties and held in such a way as to ensure that: (i) the margin collected is immediately available to the collecting party in the event of the counterparty's default; and (ii) the collected margin must be subject to arrangements that fully protect the posting party. The calculation of both initial and variation margin should also be consistent and any assets collected as margin should be highly liquid and be able to hold its value in times of financial stress.

The regulatory response to the financial crisis has been globally coordinated but has been locally implemented across jurisdictions—leaving much open to interpretation. Those institutions that are affected by the 1 September 2016 deadline have been reviewing the impact of the final draft in order to interpret the rulings and any global variances with the US and Asian regulations. The size of the uncleared market is substantial and despite a push towards central clearing, much of the derivatives market remains uncleared due to lack of standardisation, liquidity and customisation.

As a result of the changes, we have also seen interest from organisations looking to move non-OTC business lines onto a central clearing platform where possible. Extensions to central clearing business lines, such as those now offered by Eurex, CME and other exchanges for both repo and securities lending, are of interest to many participants. However, other regulations also affect these areas. For example, for repo and securities lending, the Financial Stability Board framework to standardise repo haircuts is yet to be fully implemented, as are the shadow banking requirements. The Securities Financing Transaction Regulation (SFTR), which is targeted at reforming shadow banking and improving transparency in securities finance transactions, creates additional reporting requirements to a trade repository. In addition, the SFTR mandates holding requirements for at least five years and reuse restrictions that reach beyond the scope of just the EU.

GFT

Low Triparty Adoption?
The OTC Collateral Conundrum

Our specialists can help transform your business by realising the benefits of Triparty for collateral management

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The European Market Infrastructure Regulation introduced reporting requirements and mandated clearing of swaps on central counterparties and the second Markets in Financial Instruments Directive (MiFID) creates new trading venues with obligations coming into effect from 2017. MiFID II and Packaged Retail and Insurance-based Investment Products Regulation will require increased disclosure relating to costs.

The complexity of the regulations across all areas of the business, combined with the jurisdictional variations, is causing buy- and sell-side organisations to rethink their operational processes, review their counterparty trading activity, and evaluate compliance implications. The clearing fragmentation reduces the advantages of calculating margin across a multi-asset portfolio, especially in the US where there are a variety of different accounts depending on whether they are for security, non-security, futures or swaps. Differing rules for US and European participants relating to segregation criteria adds to the complexity as organisations strive to manage costs effectively while attempting to provide a service to their end users.

Although many organisations continue to operate their collateral management functions in silos for multiple reasons, including legacy infrastructure and resource allocations, there now appears to be a drive toward a more streamlined approach as institutions look to reduce operational and technical overheads, automate internal processes and benefit from connectivity with external providers. The long standing debate over build versus buy appears to have lost impetus as organisations recognise the burden of attempting to keep pace with dynamic nature of regulatory changes.

Financial entities of all sizes are now looking for options to assist them with meeting the compliance criteria, coping with increased volumes and minimising trading costs. The increase in margin volumes as firms deal with both legacy and new regulatory agreements, and the additional initial margin required by central securities depositories, mean that many organisations may now have to manage four agreements (with clearing) rather than one for each relationship. The repapering challenge alone means many organisations may not be fully prepared for the deadlines.

The costs of assets considered eligible for collateral are likely to increase significantly due to an increase in demand. This in turn causes other issues, such as increased settlement risk due to the additional volumes and potentially puts pressure on organisations to additionally manage liquidity buffers. Managing the intra-day exposures and related settlements only increases existing funding pressures particularly in times of stressed markets. Firms need to review and understand costs for each product and look to streamline where possible. Sell-side organisations will look towards how those costs are provided to clients as they demand increased transparency.

In Europe, the additional concentration limit and wrong-way risk rules create added complexity for those looking to use alternatives to cash. The need for system enhancements, whether in-house or vendor provider, to be delivered within a short timeframe has created further burdens that may prove onerous to some of the smaller players.

Segregated custody accounts for uncleared margin are now being required in relation to initial margin and both principal and counterparties need to be able to send required value notifications for matching and validation to triparty agents as opposed to just the exposure and margin requirements. Limit rules mean that connectivity to multiple custodians may be required. This in turn creates additional costs and fragmentation as organisations attempt to record what they hold and where.

Operational risk increases with the rise in expected substitutions as the margin volumes and reasons for potential ineligibility grow. Ineligibility reasons, tracking of substitutions and associated settlements add further pressure on resources as does the expected increase in dispute tracking as a result of differing variation and initial margin exposure calculations.

The new proposals currently being developed for risk exposure measurement will have far reaching implications on current processes and result in increased demands in terms of the systems required to calculate exposures and the amount of capital needed to be held. As a result, technology will remain at the forefront of financial institutions focus for the foreseeable future and investment in both people and platforms will be vital. Solutions need to cover all instruments and enable holistic management across regions and business lines for both cleared and uncleared products—with the flexibility to be offered as an installed platform at a client site or in the cloud.

Those that lead and innovate will strive to provide competitive advantage and agility while others will be content to follow the market. Increasing focus will be on resilience and connectivity, automation and scalability across platforms. The spotlight will be on utilities and their proposed offerings and ability to keep pace as the market evolves—as will the big data and blockchain activities. What is certain is that the collateral landscape will change dramatically over the coming months.

“Those that lead and innovate will strive to provide competitive advantage and agility while others will be content to follow the market”

Helen Nicol, Global product director—Colline-, Lombard Risk

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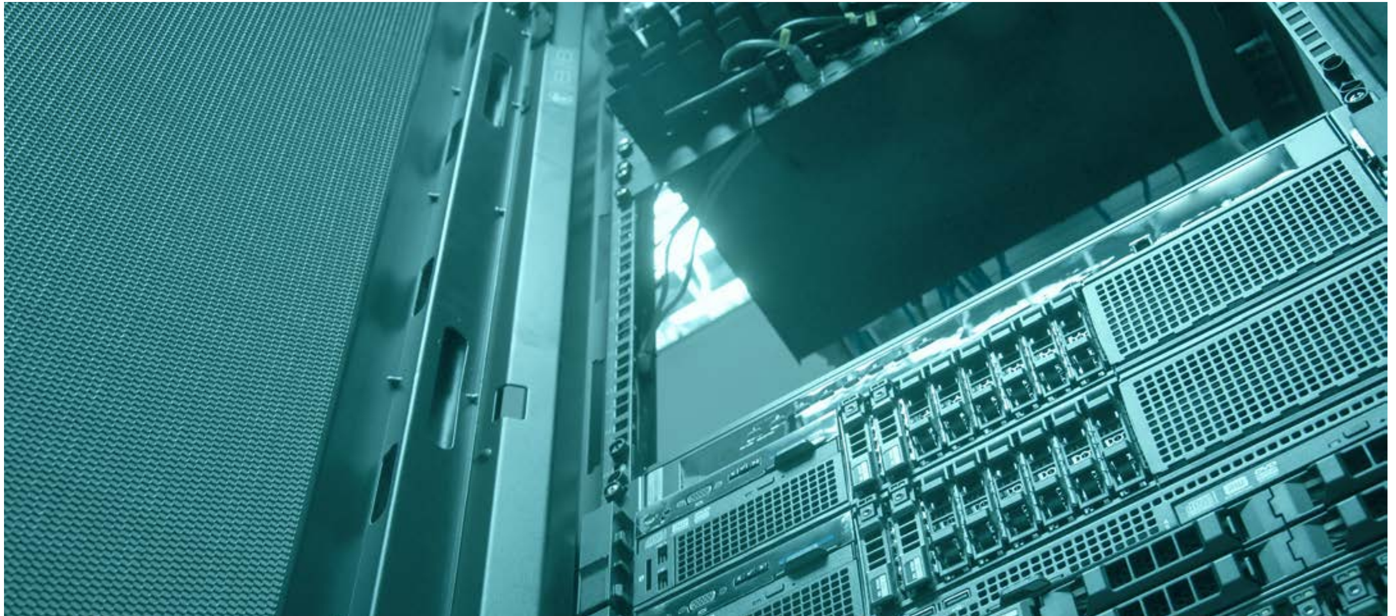

It's a data game

Consolo's Richard Colvill examines the SFTR, finding that it may challenge the beneficial owner/agent lender relationship in the not-too-distant future

If I were a beneficial owner it would take a lot of assurances from my agent lender for me to carry on (or indeed start) participating in a securities finance programme with the confidence that I am fully compliant with all regulations, current and pending. As a non-core product with small but, perhaps, meaningful returns, regulatory risk would be my highest concerns—and also the area I would want to spend the least time, effort and cost on.

These assurances from the agent lender and the ability not only to show expertise and knowledge, but also an efficient reporting and control process, are no longer a differentiator—they are a basic and standard requirement. If an agent lender can't prove that they not only understand the regulation, but are also able to comply and manage regulatory requirements, without the beneficial owner needing to invest or employ additional staff to do so, then they may as well shut up shop.

Take the Securities Financing Transaction Regulation (SFTR) as an example. This now legendary regulation is beginning to apply and will bring with it significant reporting requirements by the end of next year.

The regulatory responsibility and liability is with the beneficial owner to produce and deliver the copious amounts of reporting and the regulation imposes significant fines for failure. However, the expectation is that the agent lenders will undertake this task on behalf of their underlying clients. Realistically, they have to, because the potential complexity and data enhancements are such that, for most beneficial owners, they would close their activity down rather than consider accepting the potential risks and costs of developing solutions and undertaking the ongoing monitoring required.

The economics are such that it is logical for the agent lender to accept responsibility for this role and to not do so could mean a mass exodus of clients. The development of these solutions is not a differentiator, it is a necessity. The question is how to do so efficiently and in a robust and future-proof way.

Currently, collateral receivers (read agent lenders) are trying to meet Article 4 of the SFTR by the deadline in July. This involves notifying collateral givers (read borrowers) of the risks and consequences of providing collateral, as well as the potential and associated risks of any reuse. The industry has worked together on a solution and, along with other trade associations, the International Securities Lending Association (ISLA) has produced a standardised information letter that meets the requirements.

All collateral receivers are sending that document to anyone they receive collateral from. Once this initial exercise is complete, ongoing compliance will presumably be achieved by incorporating the document into the counterparty implementation process. This exercise is being undertaken, in the most part, by the agent lenders on behalf of the underlying beneficial owners and evidencing compliance should be relatively straightforward. This is a great example of the industry working together to meet regulation in the most cost-efficient way.

The other aspect of the regulation is more difficult to comply with. The SFTR will require three core reports from agent lenders: counterparty data, transaction data and collateral data, all delivered on a daily basis, and for transaction and collateral data, at an individual beneficial owner level. Each report is complex and requires more data fields than any existing system is likely to record, and often includes data fields most practitioners have probably not even thought of. Can you name 38 data fields for a single loan transaction?

One of the most complicated aspects the industry will have to figure out is how to apply unique trade identifiers (UTIs) to transactions on both the lenders' and the borrowers' reports. The regulator needs to be able to match the two sides of the trade and is enforcing the use of UTIs. Now, while this may be less of an issue when using a trading platform such as EquiLend, it does represents a particular

problem to an industry where the majority of transactions are still over the counter, recorded independently in internal systems, and only formally matched when instructions are sent to the market for settlement. Being able to apply a single UTI to both sides of the transactions is simply not possible in the current set-up, and will need to be resolved as a single market issue, and will probably involve the use of a vendor that can reconcile transactions, create UTIs and report them back to the lender and borrower.

Of course, as well as the ability to send the trade data to the vendor, this means systems may have to have the ability to receive additional data relating to existing transactions and enhance the internal record. If the market identifies a number of vendor solutions, an agent lender may need to establish connectivity with them all to service their approved borrowers. This is perhaps another for ISLA.

Collateral is a whole other consideration and the complexities of reporting data at a beneficial owner level that matches with the borrower is a minefield. Triparty agents may be able to help, but it is unclear if they are willing, or able (from a regulatory liability perspective) to report on behalf of the collateral receiver. Given that the most common agent lender model is to record valuations rather than securities line by line, the data requirements for this reporting are significant and complex in their own right.

In order to comply in the most cost-effective way, and crucially, to be able to look the beneficial owner in the eye and provide the assurances required to maintain business, the agent lender needs to be data-focused. All of the data points will be available within the firm's systems, but not necessarily in the lending systems. Agent lenders have a number of options available and these will depend on the technical set-up already in place. They can either look for lending system enhancements and rely on trading desks to input significantly more data on every transaction, or they can develop a reporting hub that takes the data, enriches and reports, or find a middle ground somewhere between the two.

Until later in the year, when the European Securities and Markets Authority reply to its recent consultation paper, the detailed data requirements won't be known. But, given the tight timeframes, firms can't wait to know all the minutia before establishing a strategy of how to comply and beginning the process of developing solutions.

Whichever way firms decide to go, data becomes key and having the right expert resource to analyse the data and develop the answers will be critical. Beneficial owners will be seeking assurances over compliance to the regulation and if an agent lender isn't able to deliver, we could potentially see a significant shift in the landscape.

> Beneficial owners will be seeking assurances over compliance to the regulation and if an agent lender isn't able to deliver, we could potentially see a significant shift in the landscape

Richard Colvill, Senior partner, Consolo

We didn't start the crisis

FIS's David Lewis takes a stroll down memory lane to look back at some of the most important events (and acronyms) that have punctuated the securities lending industry over the past quarter of a century

The International Securities Lending Association (ISLA) is celebrating its Silver Jubilee—25 years of service to an industry that is, itself, a service provider to the wider financial markets. My own career in financing started 23 years ago, just shy of the 25 years that ISLA has notched up, but thinking back to that time fills me with both nostalgia and not a small amount of wonder about how things have changed and what has happened in that time.

Those old enough to remember may recall the singer Billy Joel and his song We Didn't Start The Fire from the 1989 album, Storm Front.

It got me thinking about how the past 25 years have rushed past and how it might be summed up in a few key words and phrases (with apologies to Mr Joel):

...Securities lending for equities, fixed income repo for bonds, green screens, Global One, back-office function, fails management, OSLA, GMSLA, GESLA, 102/105 take it or leave it, paper tickets, telephone confirms, EUCLID, GEMMs, war bonds, floaters, sinkers and linkers, Euroclear autoborrow, barrow boys and red braces, convertibles (bonds and M3s), double digit benchmark rates, Japanese deflation, the millennium bug that never was...

(We didn't start the crisis)

...Collateral rehypothecation, front-office profit maker, performance benchmarking and transparency, deregulation and new regulation, dividend arbitrage, cash collateral is king, 70:30 splits, Basel II, MIFID I, zero margin US treasuries, third-party lending, weighted average maturities of many years, SPVs, pooled reinvestment funds...

(We didn't start the crisis)

...Agency lender disclosure, maturity mismatch, Lehman Brothers, Northern Rock, financial crisis, demonisation of lending in the press, government bail-outs, short selling bans, Japanese deflation, Woolworths, AIG, too big to fail, class action lawsuits, reinvestment yield collapse, cash is deposed, 98:2 splits, indemnities, new regulations, single stock futures, beneficial owner risk adversity, lending restrictions, custom collateral schedules...

(We didn't start the crisis)

...Basel III, minimum haircuts, equity collateral, 110+ percent margins, PIGS and BRICs, hedge funds, yield enhancement, collateral management and optimisation, collateral velocity, Financial Stability Board, central counterparties, collateral downgrade trades, Japanese deflation, lenders relax restrictions, MIFID II, evergreens, SFTR, BCBS, BRRD, CSDR, FTT, LEI, UTI...

(We didn't start the crisis)

...Collateral reuse, high-quality liquid assets, enterprise collateral, collateral management combined with delta one, repo and lending to make collateral and financing business desks, resolution stay protocols, MIFID II, capital adequacy, total return swaps, collateral optimisation, non-cash collateral becomes king, market recovery and expansion—oh, and Japanese deflation....

(We didn't start the crisis)

Many times, I, like many others no doubt, have been called upon to defend our industry and what we do. As a securities lending relationship manager, I have certainly had some robust conversations with those that could be described as detractors of the securities finance business, particularly when it has been erroneously connected almost on a one-for-one-basis with short selling, which is, of course, a legitimate market practice.

Our industry produces stable and meaningful returns for all those along the transaction chain, especially when adjusted for the low-risk profile. As a fundamental function of an efficient financial market, providing liquidity and settlement certainty, the financing business has much to be proud of, despite a few bumps along the road over the last 25 years and more.

The appalling parodying of the Billy Joel song is, of course, quite a flippant way to provide a review of the last quarter century, but our industry has been through much in the past 25 years. Some of those changes have been intentional, others have been through the actions of others; some have been beneficial and others far from it; some have been evolutionary and others revolutionary. In the end, the business has worked through those events and has, in many ways, come out stronger as a result. Perhaps smaller and leaner, but, in my view, certainly stronger and better placed to face the next 25 years.

Looking forward, there is much to do. The industry has to continue to adapt to ever tighter capital controls, those providing the assets may need to adjust to a non-indemnified trading environment while taking a more flexible attitude to collateral and maybe even wide fee splits. Market practitioners need to adapt to new practices, trading structures and the drive for ever greater efficiency and improved returns on capital.

Technology and system providers need to stay ahead of the curve and deliver leading edge software that can support the ever growing demands of the business at the least cost. There is indeed much to do, but if there is an industry that can make it, it's ours.

All together now...

OSLA: Overseas securities lending agreement

GMSLA: Global master securities lending agreement

GESLA: Gilt-edged securities lending agreement

EUCLID: Euroclear's messaging service

GEMMs: Gilt-edged market makers

Basel III: A series of banking reforms introduced by the Basel Committee on Banking Supervision currently being implemented to improve market stability

MiFID I/II: Markets in Financial Instruments Directive

SPV: Special purpose vehicle

SFTR: Securities Financing Transaction Regulation

BCBS: Basel Committee on Banking Supervision

BRRD: Bank Recovery and Resolution Directive

CSDR: Central Securities Depository Regulation

FTT: Financial Transaction Tax

LEI: Legal entity identifier

UTI: Unique trade identifier

Global One: FIS's securities finance solution

> In the end, the business has worked through those events and has come out stronger as a result. Perhaps smaller and leaner, but certainly stronger and better placed to face the next 25 years

David Lewis, Senior vice president, FIS Astec Analytics

Falling behind

Contract management needs market-wide agreement on approach and standards, say Bimal Umeria and Jonathan Adams of Delta Capita

Our current slow, fragmented and manual process of changing legal agreements is increasing risk. Multi-jurisdictional business growth, product diversity and regulation are making the process convoluted. Legal agreements, annexes and addenda require regular review and change; and this is increasing the administrative and legal burden. Finance is at the forefront of innovation, but document processing is falling behind, even despite increased regulatory demands on documentation execution and change. Manual, slow and fragmented contract maintenance negatively impacts investment in cross-product collateral optimisation infrastructures.

Regulations often simplify and standardise products to reduce risk. This works for vanilla products with sufficient volume to commoditise without reducing liquidity. However, complex products remain 'paper-based', without widely-agreed electronic processing standards. The more people involved, the bigger the problem.

Contracts can be editable documents stored on servers or sharing systems; or stored on advanced content and contract management systems. The former are changed manually, but the latter may have some automated templates or workflows. Systems also break documents into logical parts, allowing easy localised editing and specific labelling of terms and rules. However, transferring contract terms and rules to systems to be turned into action points is complex—some agreements, such as the Global Master Securities Lending Agreement (GMSLA), have many annexes and addenda.

The diverse rules and criteria for collateral management further complicate this. Changing collateral eligibility or margin percentage may cause unexpected liquidity outflows. Ensuring processes are automated can help prepare for this. In adverse markets, client requests to raise minimum collateral levels mean substituting higher quality securities or cash, requiring changing addendums in bilateral agreements.

Cash was previously straightforward, liquid collateral, requiring minimal administrative overheads. However, interest rate declines in several markets have made it less attractive and increased demand for high quality securities—meaning more contract management and admin, a problem for institutional clients.

Contract negotiations often happen by email, without controlled sign-off and execution protocols. Changes are manually transferred to recipients—highly error-prone and worsened by users manually intervening to ensure rules are applied in time. Insufficient agility and precision causes avoidable counterparty risk, especially in periods of market stress.

The solution

Contracts must be easily modified and consumed by systems with limited manual intervention. We're not there yet, but there have been moves towards achieving higher automation and productivity. The goal is market-wide agreement on approach and standards. Even innovative solutions must share a protocol to be properly digitalised. Migration won't be easy, especially when converting legacy contracts. The first step is easy, electronically managing existing paper documents by scanning documents to extract information and then standardising language. This is being developed, such as Enterprise Data Management Council and their Financial Industry Business Ontology.

Investment in studies and development of 'smart contracts for financial services', or electronically modelled and structured contracts is also happening. These allow automatic delivery to business applications, providing efficiencies.

A centralised solution with electronic interfaces feeding downstream and allowing automation would allow everyone to access, amend and agree the contract. However, this requires legal processes, which aren't digital yet. The technology for this is being piloted by asset managers. Designing and building functionality suitable for the securities finance industry is complex and industry participants and bodies need to collaborate.

Highly automated contract management could be optimised and run through a utility, such as CCPs for clearing. This includes proving to regulators that legal change is effected and complied with swiftly. Industry associations would have tools to effectively negotiate regulatory change.

Effective and low-risk collateral and counterparty risk management can only be achieved with accurate and up-to-date legal agreement rules and data. Many banks are tackling the problem manually—unsustainable in current market conditions and impossible in volatile ones.

A utility or managed service, with secure, centralised and standardised contract management would benefit all parties in the chain with an intelligent and dynamic solution, expediting contract change and reducing risk. Functional and rapid change wouldn't just be beneficial, but a prerequisite in achieving more efficient and effective collateral usage.

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Jonathan Adams
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Delta Capita

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Agenda **Day 1 (21/06/16)**

14.30 - 15.30	**Conference registration**
15.30 - 15.40	**Welcome speech by the conference co-chairs** **Martina Szameitat,** managing director, Morgan Stanley **David Raccat,** global head of market services, head of Asia Pacific, BNP Paribas Securities Services
15.40 - 16.10	**Keynote speaker** **Harald Müller,** deputy head of strategy division, Oesterreichische Nationalbank
16.10 - 16.50	**Legal, regulation, tax and an ISLA update** Speakers: **Habib Motani,** partner, Clifford Chance **Andrew Dyson,** COO, ISLA
16.50 - 17.45	**Discussion roundtables** An opportunity for delegates to get directly involved in the debate. **Blockchain:** Sweeping away the misconceptions and creating a vision of the future itBit will be providing a 101 of blockchain technologies with particular reference to the securities processing markets. This glimpse into the future will allow attendees to better understand how this technology has developed and what attendees might expect to see in their markets in the very near future. itBit is a financial services company offering a suite of products leveraging traditional capital markets infrastructure and blockchain technology. Speaker: **Jason Nabi,** head of EMEA, itBit Trust Company **Securities Financing Transaction Regulation:** Joining up the implementation dots This session will provide a vivid update on the current state of play of what is the single most important regulatory reporting requirement ever seen in securities finance and how it interacts with other reporting regimes such as MIFiD. This will be an opportunity to exchange ideas and debate common concerns around this piece of legislation that will underpin the fabric of securities finance for many years to come. Speakers: **Rupert Perry,** co-founder, Pirum, **Tina Baker**, consultant, ISLA **Andrew Dyson,** COO, ISLA, **Habib Motani**, partner, Clifford Chance **Central clearing:** Are we nearly there yet? The hard bite of regulation, scarcer and more expensive capital together with a need for operational efficiency all seem to be driving securities finance in the direction of central clearing. The market has traditionally embraced change and innovation so is it time for the clearinghouse to become an integral part of the industry? Join the discussion with your peers on the remaining barriers to wider securities financing transaction clearing and learn from key stakeholders about what should be expected in the coming months on this exciting and strategically important development. Speakers: **Matt Collins,** managing director and head of EMEA securities lending, Morgan Stanley **Jonathan Lombardo,** SVP, funding and financing services, Eurex Clearing

Time	Session
08.00 - 09.00	**Conference registration and breakfast**
09.00 - 09.20	**Co-chair welcome speech: 25 Years of ISLA and the industry** **Martina Szameitat,** managing director, Morgan Stanley **David Raccat,** global head of market services, head of Asia Pacific, BNP Paribas Securities Services
09.20 - 09.50	**Keynote speaker** **Steven Maijoor,** chair, ESMA
09.50 - 10.50	**The industry leaders' debate: a whole new world** Senior industry practitioners discuss the near term tactical challenges that exist in securities finance as well as, more importantly, provide opinions on the medium and long term strategic direction of the business. What is here to stay and what is dying away? Moderator: **Ed Oliver,** managing director, product development, eSecLending (Europe) Speakers: **Alex Lawton,** senior managing director, State Street Global Markets **Mark Newton,** managing director, head of prime equity finance, EMEA, Barclays **Ciaran O'Flynn,** managing director, Morgan Stanley **Casey Whymark,** managing director, UBS
11.20 - 12.20	**Traders' panel: develop the possibilities, or now is the time** Desk and business heads will talk about execution across all products and frame discussion against debate had in the previous session (on strategy and industry drivers). What is in the toolbox to deliver optimisation and efficiencies? Senior traders and desk heads will discuss where revenues are made today and what will be the key drivers of revenues and profitability in the future. This will include thinking about what changes counterparts in the market will need to think about to realise many of the new opportunities. Moderator: **Richard Deroulede,** head of indexation and securities financing trading Europe, Societe Generale Speakers: **Kirtes Bharti,** global co-head, securities lending, Scotiabank **Shane Martin,** managing director and head of client financing, global prime finance, Deutsche Bank **Mathew McDermott,** managing director, fixed income, currency and commodities, Goldman Sachs **John Shellard,** managing director and global head of trading, agent lending, investor services, J.P. Morgan
12.20 - 13.20	**The collateral scarcity debate: do we need to do more with less?** With latest figures from ISLA suggesting that over 90 percent of all European government bonds are lent against non-cash collateral, the role of collateral in the securities financing markets in Europe is key to its success and it will be a strong driver of how it develops in the future. The panel will debate the supply and demand dynamics associated with collateral and consider how future demands will be met, and if unlet securities lending pools are the answer. As the market has to do more with less, how will the market create further efficiencies and how can other markets, such as derivatives, learn from the development of collateral management within securities financing as they too have to think about creating a more efficient and transparent collateral management world? Regulation is driving aspects of both supply and demand for collateral and the panel will look at how regulation is changing behaviour in this critically important area of the market. Moderator: **Staffan Ahlner,** global head of collateral management product, BNY Mellon Speakers: **Matthias Graulich,** head of cross market strategy, Deutsche Boerse AG **Grigorios Markouizos,** global head of fixed income finance and collateral management, Citigroup **Julien Mazzacurati,** economist, ESMA **Phil Morgan,** managing director, head of prime finance EMEA, Nomura International **Roelof van der Struik,** investment manager, PGGM

Agenda **Day 3 (23/06/16)**

Time	Session
08.30 - 09.00	**Registration and breakfast**
09.00 - 09.10	**Co-chair welcome speech** **Martina Szameitat,** managing director, Morgan Stanley **David Raccat,** global head of market services, head of Asia Pacfic, BNP Paribas Securities Services
09.10 - 10.10	**The clients' perspective: breaking the chains** Clients discuss how they see market developments influence their use of the securities financing market. Will regulatory pressure on banks end up benefitting end-users or is it perceived more as a threat? Is the traditional 'lender – bank–borrower' model over? Moderator: **Richard Hochreutiner, director group treasury, head global collateral, Swiss Re** Speakers: **Matt Brunette,** global head of financing, Norges Bank Investment Management **Mick Chadwick,** head of securities finance, Aviva Investors **Stuart Cogen,** head of treasury, Marshall Wace **Mark Wendland,** head of global fixed income finance, Citadel
10.10 - 11.10	**Changing business landscape** Regulations post the financial crisis have reshaped the securities finance market. However, it could be argued that fundamentally the business model may not have actually changed much. So, what does the future hold? Will the current market structure need to expand and include a cleared SFT environment to facilitate increased capacity for both lending and financing activity of clients, which will allow it to expand in an efficient way? Or will the status quo prevail? The panel will discuss and consider whether firms have a need to completely change the way they lend, borrow and finance securities in order to comply with the changing business landscape. Moderator: **James Templeman,** managing director and global head of securities lending trading, BlackRock **Speakers:** **Mark Jones,** senior vice president and head of international product management, Northern Trust **Frederick Nadd-Aubert,** managing director and global head of securities lending sales and strategy, Credit Suisse **Susan O'Flynn,** managing director and global head of CCP strategy, governance and optimisation, Morgan Stanley **Steve Wager,** EVP global operations and development, itBit Trust Company
11.40 - 12.40	**Navigating the future** Individuals that have been within the securities finance industry through both the good and the bad times will be brought together in this final session of our 25th annual conference. They will reflect on the past 25 years history as well as their predictions for the future. In an ever changing business and economic landscape, policymakers around the world have enacted new rules and legislation. Strong risk management coupled with transparency are key in order for the the market to reinvent itself. Industry leaders will put into context how the business will need to be rebuilt and reshaped. Moderator: **Jules Pittam,** ex-market practitioner and non-executive director Speakers: **John Arnesen,** global head of agency lending, BNP Paribas Securities Services **Jonathan Cossey,** global head of equity finance and EMEA head of prime brokerage, J.P. Morgan **Kevin McNulty,** CEO, ISLA **Roy Zimmerhansl,** global head of securities lending, HSBC
12.40 - 13.20	**Closing keynote speaker** **Lord Evans of Weardale KCB DL,** former director general of the British Security Service MI5 (2007-2013)
13.20 - 13.30	**Closing Remarks** **Andrew Krangel,** director, EMEA head of agency securities lending business management for Citi and chair of ISLA

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