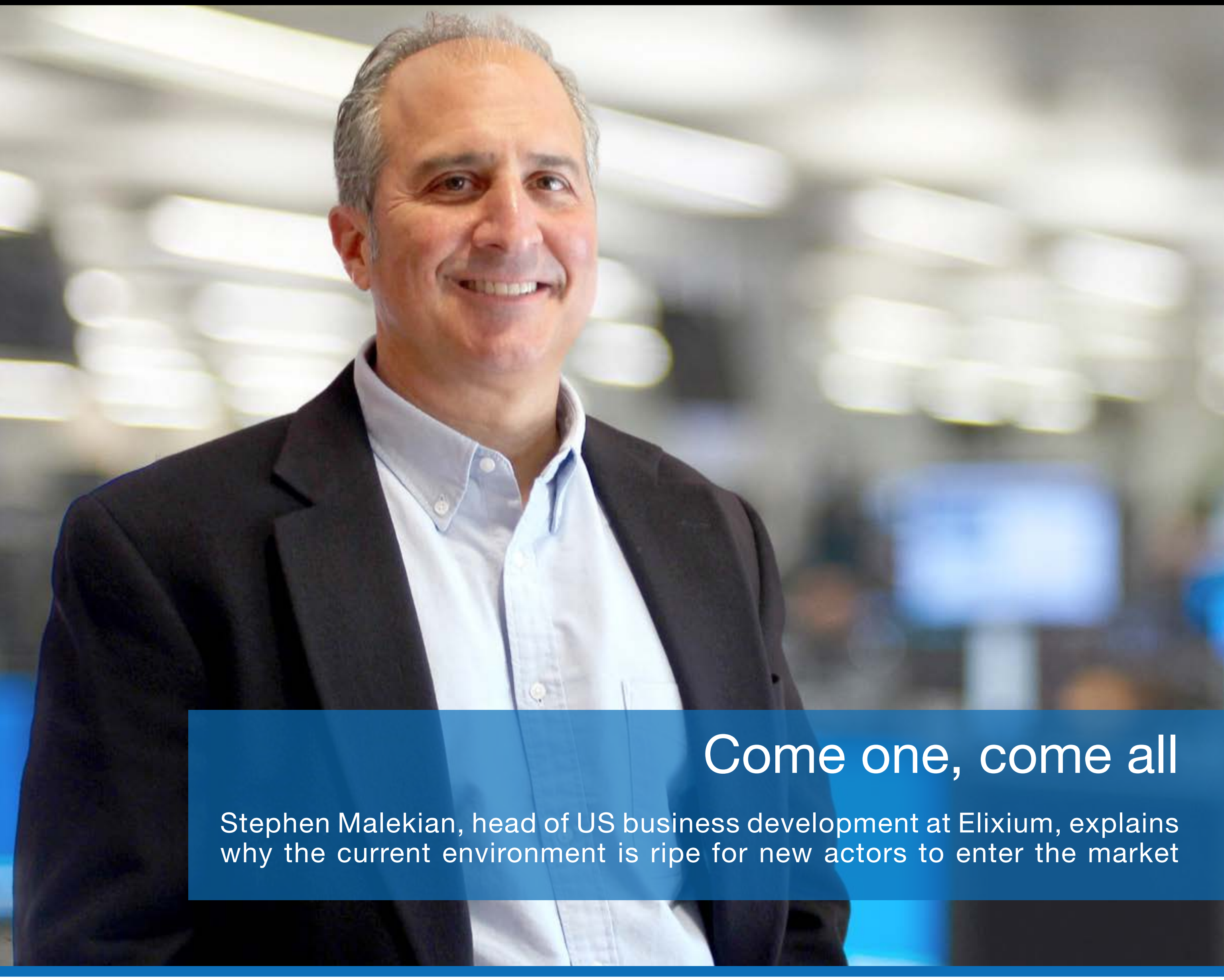
rma daily Day 3

33rd Annual Conference On Securities Lending October 2016



Come one, come all

Stephen Malekian, head of US business development at Elixium, explains why the current environment is ripe for new actors to enter the market

Inside: *All the latest RMA conference news and photos • Elixium elaborates on the future of its platform • Brown Brothers Harriman & Co reveals what's in store for securities finance*

Blockchain on the brain

Blockchain can be seriously meaningful and impactful in securities lending, attendees heard on the first day of the RMA Conference on Securities Lending.

Two blockchain experts explained how the distributed ledger technology works and how it might be applied to securities lending.

It would have the most application in bilateral clearing, and could even help to achieve a T+0 settlement environment.

Benefits would include capital efficiency due to lower post-trade costs, enhanced revenue opportunities from increased velocity of trading, and reduced risk mutualisation.

Blockchain would also allow for pre-settlement compliance and comprehensive analytics for securities lending and repo transactions, as well as maximisation of return on assets and smoother corporate actions.

The panel then moved to dispel some of the worries that have been raised about blockchain.

Banks do not want anything to do with the public blockchain, which is used to validate bitcoin transactions, due to concerns over cyber security, the panel said.

Banks would prefer to set up their own networks and achieve interoperability.

The nature of the blockchain 'database' would also achieve absolute transparency for regulators, which would have a 'node' through which they would be able to access all of the participants' data.

What is blockchain?

A blockchain is a shared database on a peer-to-peer network. The technology works in much the same way as peer-to-peer file sharing services.

- Each peer maintains a copy of the ledger on its server
- Rules ensure every peer's copy is in sync
- Peers are economically incentivised to follow those rules

Collateral shift needs lender approval

Convincing US beneficial owners of the benefits of loosening their collateral requirements will be a "hard sell" going forward, delegates heard yesterday.

The established trend in the US market of the declining dominance of cash collateral will ultimately be stifled without the approval of more beneficial owners, according to conference panellists.

It was unanimously agreed that pushback from risk-adverse underlying lenders is the most significant stumbling block in the near future for the collateral management world.

"It's going to be a point of friction in the near term," confirmed one panellist diplomatically.

Demand for flexibility in collateral portfolios is coming strongly from the buy-side, explained an agent lender representative.

The onus is on lenders to respond to that or risk losing out on lending revenue in a market where supply far outstrips demand.

Broker-dealers are also requesting flexibility in their cash collateral postings, with a wider variety of currencies being incorporated.

The potential for equities to be brought into the collateral realm is currently being debated by regulators and industry participants as part of SEC Rule 15c3-3.

The combination of the rising cost of indemnification and strict collateral and counterparty rules are hitting beneficial owners' general collateral utilisation volumes hard.

Beneficial owners that do not evolve with the market risk being left behind, according to a buy-side panellist.

The panel concluded with the observation that, once US beneficial owners are brought over to the use of equities, it will take all areas of the industry, including triparties, clearinghouses and vendors, to come together to take on the major challenge of creating the necessary infrastructure for equities as collateral to exist in the market.

Don't over ref the game, says RMA keynote speaker

Donald Trump would rip up much of the financial services regulation implemented since 2008 in his first 100 days as US president, keynote speaker Anthony Scaramucci said at the RMA Conference on Securities Lending yesterday.

Scaramucci, a prominent hedge fund manager and member of Trump's campaign for the presidency, did not name the regulations that would be rolled back, but the US Dodd-Frank is likely to be on the list.

"If you over ref the game, you spoilt it," Scaramucci said.

Scaramucci added that financial services were likely to do equally well under Hillary Clinton as president, because left-leaning Democrat governments usually work closely with high earners and corporations to shape financial markets.

Scaramucci was critical of the 'Fed-centric' economy that has emerged since the financial crisis, again cautioning against too much oversight.

He pointed out that the Great Depression was caused by poorly executed central bank policy, and argued that the government's push for American citizens to own their homes was partly to blame for the financial crisis of 2008.

Financial crises will continue to occur, Scaramucci argued, given the nature of fear and greed, so monetary policy and regulation that works to move markets back to 'risk-on' mode, rather than prevent further 'risk-off' flights to safety in the future, should be the aim. For now, "we just need to hang in there", Scaramucci said, because financial services are like fashion, in that trends come and go, and time always tells.

Raccat to depart BNP Paribas Securities Services

David Raccat is leaving BNP Paribas Securities Services after 20 years, the bank has confirmed.

Raccat is currently global head of markets services, covering securities lending and foreign exchange, and also head of market and financing services (MFS) for the Asia Pacific (APAC) region.

He will be leaving both positions.

Raccat joined BNP Paribas Securities Services in 1996 and has held several senior roles, including head of global markets, global head of foreign exchange and business development for market and financing services, and global head of treasury.

He was appointed to the role of head of MFS APAC in 2014, adding to his responsibilities as head of global markets, a position he had held since 2011.

He is currently based in Singapore.

Raccat will also vacate his position on the board of directors of the International Securities Lending Association, which he joined in 2014.

Elixium goes live

Elixium, the new all-to-all electronic collateral and secured deposit marketplace, has executed its first transaction.

Citibank, as cash management agent, executed a collateral financing transaction on behalf of CME Clearing Europe. Insight Investment represented an unnamed UK pension fund on the other side of the deal. The trade took place on 6 October.

CME Clearing Europe is the first central counterparty (CCP) to trade collateral on the platform. Nick McCall, CEO of Elixium, commented: “Due to a historical lack of direct counterparty access for non-bank participants, a trade between a CCP and an asset manager or pension fund would have previously been highly inefficient and costly to facilitate.”

“The completion of our first trade demonstrates the rate of change in the repo market and the benefits of facilitating electronic all-to-all collateral trading in a regulated environment.”

Tina Hasenpusch, CEO of CME Clearing Europe, added: “We are pleased to have transacted the first trade on Elixium. CME Clearing Europe will use this platform as part of our commitment to working with the buy-side to manage their liquidity challenges, including the requirement to generate cash for variation margin.”

“Peer-to-peer solutions will help meet those challenges and the need to ensure that CME Clearing Europe has access to a diverse set of repo counterparties.”

Sovereigns consider sec lending

Sovereign institutions are considering expanding their commitment to securities lending to increase returns and to help alleviate what they perceive as a threat to liquidity in the financial markets, according to a new survey.

BNY Mellon and the Official Monetary and Financial Institutions Forum (OMFIF) surveyed two dozen sovereign institutions with combined assets under management greater than $4.7 trillion.

Their survey, whose results were reported in Mastering Flows, Strengthening Markets: How Sovereign Institutions Can Enhance Global Liquidity, revealed that 75 percent of the respondents are willing to allocate 10 to 15 percent of their balance sheets for securities lending activities, with some respondents reporting they are considering using 60 percent of their assets.

Some 70 percent of the respondents said they expect an additional return of five to eight basis points from these activities.

“Global liquidity has been strained since the financial crisis, driven by market disruption, regulation and policy action,” commented Hani Kablawi, head of investment services for Europe, the Middle East and Africa at BNY Mellon.

“Besides seeing this as an opportunity to grow returns and reduce costs, sovereigns see themselves as having the ability to mitigate some of the threat to global liquidity that market participants are facing.”

“Increasing sovereign fund participation in securities lending activities would benefit the financial markets by enhancing the liquidity in a wide range of assets. Doing so could compensate somewhat for the reduction in market-making activities by banks and broker-dealers,” argued Brian Ruane, executive vice president and CEO of BNY Mellon’s broker-dealer services business.

BNY Mellon and OMFIF’s report noted that regulations such as Basel III implemented after the financial crisis have raised the cost of balance-sheet intensive activities such as securities lending for banks and dealers, leading to greater risk aversion.

Actions taken by central banks, such as highly accommodative monetary policy, low interest rates and asset purchase programmes, have also contributed to lower liquidity, according to the report.

Ruane commented: “The bond buying programmes have removed just the type of safe assets that are in high demand, while the demand for these assets has increased significantly. Even though liquidity appears to be sufficient today, that could change if central banks become more restrictive. We have already seen the sensitivity of markets to indications that the US Federal Reserve might tighten monetary policy.”

Sovereigns looking to move into securities lending need to become more connected with key market participants such as custody banks, central clearers and triparty repo providers, according to the report.

SmartStream snaps up Mauer

William Mauer has been wooed away from BNP Paribas after two years at the bank, to join SmartStream as sales manager.

Previously, Mauer was vice president for the BNP Paribas US agency securities lending business.

Before this, he was vice president for sales at SunGard (now FIS).

Mauer will continue to be based in New York at SmartStream.

Come one, come all

The environment is ripe for new actors to enter this market, according to Stephen Malekian, head of US business development at Elixium

What is Elixium's core offering?

Elixium is a wholly owned subsidiary of Tradition, which is a UK interdealer-broker that provides a marketplace where all-to-all trading can take place electronically. Collateral and liquidity providers are able to come together to trade bilaterally on a standardised basket of securities cleared bilaterally, or through a central counterparty (CCP) or a triparty agent.

Elixium is looking to move into the US market in the near future. What opportunities do you see there?

In Europe, repo is used by roughly 15 percent to 20 percent of corporate treasurers as a funding tool. In the US that figure is closer to 85 to 90 percent, it's enormous. Therefore, the problems we see in Europe will be all the more acute in the US.

In Europe, the market is still on a learning curve but in the US they are far more educated and on-board with the idea of secured lending because there are so many people doing it.

You've taken the helm of Elixium's new US business. What's your experience prior to joining the company?

I have a fairly simple background. I first joined Salomon Brothers in 1981 and I've since been involved in the repo market from 1984. I ran the US repo desk from 1992 and then was put in charge of the global desk in 1997 after Citibank and Travelers Group merged to form Citigroup.

After that I moved to Barclays in London to run its European and Asian fixed income financing business from 2011 until 2014. All of my 35 years of experience has been on the sell side so far, so this is a new experience for me.

What is it about Elixium's offering that's so attractive?

Since the financial crisis a regulatory corset has been placed upon the banking system that has challenged the high-volume, low-margin activities like repo to meet the returns hurdles on a bank's cost of long-term capital. As a result of these constraints, it's safe to say that the net balance sheet of banks has been reduced by around 80 percent across the spectrum of fixed income.

Therefore, outside of a 'platinum' group of banking clients, there are many collateral and liquidity providers that banks are no longer able to offer access to the balance sheet in the same way as before—and that's where Elixium comes in.

Elixium's aim is to attract and pool together collateral and liquidity in a fragmented market.

As a multilateral trading facility we have to treat all our clients the same and that's what the regulators like about us. For the first time, everyone in the market has access to liquidity electronically through pre-approved credit lines, cleared either bilaterally or through a CCP or triparty agent.

Anyone is able to trade on our platform that has the pre-approved credit lines and the appropriate legal documentation. We envisage our client base to come predominantly from the buy side as they are the ones that had balance sheet access but are now being constrained and subjected to much wider spreads, or both.

There are also buy-side entities that are now expected to need more liquidity due to new regulatory requirements, such as those around over-the-counter (OTC) derivatives, where initial and variation margin rules have necessitated the mobilisation of high-quality liquid assets (HQLAs) to generate cash.

How does your platform work with CCPs?

The Elixium platform itself is not restrictive to a membership such as a bank to non-bank CCP, but our clients can easily choose to meet on the platform and then post-trade decide to give the trades up to a CCP if both are members. That's the beauty of the platform, all doors are open.

So the new regulatory landscape has really created a gap in the market for you?

Absolutely. This platform wouldn't exist without the regulation we have now because it's choking the market to a point where there's a lot of collateral out there but it has become difficult to get it to the people that need it.

It's so important that we, as a market, fix this problem because otherwise the flows of money that we all rely on will simply dry up.

A lot of people are too focused on dealing with the changes in the long-term financing market, but if we don't sort out the issues with the day-to-day cash markets then that's going to affect everyone a lot sooner.

The banks know they can't keep doing business the way they have been and it's time for them, and the whole market, to evolve.

If regulation is driving your clients' demands for your services, do you expect appetite to increase as more stringent requirements are implemented?

Yes, and we're seeing this now. Money market reform, the second phase of which is coming up on 14 October, is already causing the funds/LIBOR basis to widen.

There's also the triparty reforms, which have reduced the amount of triparty activity that's being done due to the time constraints on filling and unwinding triparty trades.

This means there is now more bilateral trading, which really goes against the grain of what the regulators intended to achieve. The end of J.P. Morgan and BNY Mellon interoperability of GCF Repo also contributes to the overall fracturing of the market.

When you put all of this together, it adds to the overall low liquidity and volumes and increased volatility in the cash market.

Elixium's platform will help alleviate that by mobilising collateral and increasing the liquidity.

We believe that regulators will look upon this model for an open marketplace favourably.

Counterparties that traditionally haven't had the ability to trade together can now come together without assuming any more risk. It's an end to fragmentation.

At the same time, our clients are able to gain greater visibility with regard to transparency, best price and best execution, meaning that it's all moving towards what the regulators want when it comes to future compliance with rules such as the second Markets in Financial Instruments Directive.

You're sitting on a panel during this year's RMA conference that looks at how the traditional value chain might change. Can you offer a flavour of what you expect to discuss?

I think the days of expecting banks to be the sole credit intermediator between buy-side cash and collateral providers have gone due to fundamental changes.

Between the ratios on capital, leverage and liquidity that banks are trying to be compliant with, and the needs of buy-side participants to access the repo market at closer-to-market prices, the environment is ripe for new actors to enter this market. **SLT**

Teaching the future

Keith Haberlin, senior vice president at Brown Brothers Harriman & Co and moderator of the Current and Future State of Securities Finance panel, reveals how finely balanced the business is, and what's in store in the future

How balanced is securities finance between opportunities and challenges?

The industry has had to contend with many challenges over the past few years, mostly because of regulation, and in my opinion it's doing a good job of adapting to it.

Certain parts of the business have shrunk but new opportunities have emerged to help meet the liquidity and collateral needs of the capital markets in the new regulatory environment.

There are also some secular themes that I believe give the industry reason for optimism. Chief among these is the need for asset owners to capture every basis point they can in an environment where low-cost products are winning market share and yields are so low.

The markets would appear to be overvalued too, which presumably will entice hedge funds to increase activity once the direction of the US presidency and Federal Reserve policy becomes clearer.

Your panel will act as a summary of the RMA conference—what do you expect the overriding theme to be? One of optimism?

I expect it to be one of collaboration and pragmatism. The regulatory environment is affecting segments of the supply chain very differently and what seem like priorities or opportunities for one segment are challenges for another. For example, I expect a lot of discussion around a migration towards non-cash collateral in the US.

This is because it has a clear benefit to borrowers given their cost of pledging cash under the new rules, but can represent challenges for agent lenders and beneficial owners.

Finding solutions which work for all parties will be a key theme of the conference.

In terms of the future, can we expect to hear a lot about the likes of blockchain and peer-to-peer lending? In your opinion, will these changes be revolutionary or more gradual?

The industry needs to keep an eye on any solutions which could disrupt the current model or offer efficiencies and blockchain and peer-to-peer lending fall into that category.

This needs to be balanced against the very real fact that the complexity of the business has never been greater and prime brokers and agent lenders are playing a greater role than ever in absorbing this, as well as providing credit intermediation.

For these reasons, I don't see these solutions as revolutionary to the business, but there will likely be opportunities for these to be adopted. **SLT**


33RD
ANNUAL
RMA CONFERENCE
ON SECURITIES LENDING
SPONSORS
BROWN
BROTHERS
HARRIMAN
BUSINESS PROGRAM
THURSDAY, OCTOBER 13


SLT
SECURITIESLENDINGTIMES
•25 Issues per year
•Dedicated news and features
•Free to access website
•Printed conference specials
GRAND
BALLROOM
GENERAL SESSION
8:30am - 1:30pm
FIRE DEPT. VALVE
SecuritiesLendingTimes


IHS Markit
The New Intelligence
IHS Markit


Transcend
CoSMOS
The future of collateral and liquidity management is here
Transcend
Street Solution


HELIX
Financial Systems
HELIX
Financial Systems
HELIX
Financial Systems


ION


tradingapps
GET AHEAD
tradingapps
GET AHEAD


Broadridge
rma daily


DATALEND
OVATION.
EQUILEND


spire


Broadridge


FIS
rma daily


HelixSL


DCC


rma daily
Pick up your free copy
rma daily
Pick up your free copy


spire
Software Solutions


SLT
SECURITIESLENDINGTIMES
•25 Issues per year
•Dedicated news and features
•Free to access website
•Printed conference specials
FIRE DEPT. VALVE
rma daily
Pick up your free copy
SLT
SecuritiesLendingTimes


Unlock Trapped Liquidity
Profitability. Liquidity. Compliance.
PLEECO

Agenda Day 3

7:30 to 8:45

Buffet Breakfast — Co-sponsored by: Dexia Credit Local National Bank of Canada Financial

8:45 to 9:45

Prime Broker Participants and Trade Strategy

Given the complexity of prime broker balance sheets: where they are domiciled, how they are organised, and the message of their hedge fund clients, what are their various trading strategies? Learn how these brokers have incorporated the following approaches: total return swaps, single stock futures, physical securities lending, and the pros and cons of each instrument. Which is most desirable given the current market and regulatory pressure? Where does each one fall short and what dictates the financing outcome?

Moderator: Tejash Patel, Managing Director, Morgan Stanley

Panellists:
John Nicholson, Managing Director, Citi
Nick Rankin, Co-Head of Global Prime Services and Global Head of Securties Finance, Jefferies
Dennis Shikar, Managing Director, Natixis
Robert Zekraus, Director, Scotiabank

9:45 to 10:45

Keynote Speaker
Glenn Booraem, Principal & Fund Treasurer, Vanguard Group

10:45 to 11:15

Coffee Break with Exhibitors

Co-sponsored by:
BNP Paribas
Brown Brothers Harriman & Co
Deutsche Bank Securities
Natixis
OCC
Pleeco
Transcend Street Solutions

11:15 to 12:00

Changes to the Traditional Value Chain

As markets change, how are business models changing? Learn how the industry is responding to recent trends, including peer-to-peer lending and situations where prime brokers act like agents and where agents act like prime brokers. Do different methods result in the same value proposition for your client? If so, how does it impact borrowers from a capital standpoint? What does this mean for agents with respect to regulatory oversight, their relationships with beneficial owners, and indemnification?

Moderator: John Arnesen, Global Head Agency Lending, BNP Paribas

Panellists:
Eric MacDonald, Global Head of Enhanced Custody Trading, State Street
Stephen Malekian, Head of Business Development-US, Elixium
Patrick Morrissey, Head of Trading, Vanguard

12:00 to 1:00

Current and Future State of Securities Finance

Hear industry leaders summarise topics discussed during the conference and their concerns about future developments affecting your institution every day. Discussion will include the regulatory impact on the industry, hedge fund demand, and how participants justify their fees. How are capital and balance sheets causing institutions to change their strategies? Panellists will also discuss market turbulence, such as Brexit, the erosion of the European securities lending markets, and emerging markets.

Moderator: Keith Haberlin, Senior Vice President, Brown Brothers Harriman & Co

Panellists:
Indrajit Bardhan, Managing Director, Credit Suisse
David Martocci, Managing Director, Citi
Anthony Schiavo, Managing Director, Morgan Stanley
Mark Whipple, Vice President, Goldman Sachs

1:00 to 1:15

Closing Remarks and Thanks
Business Programme Adjourns for the Day

1:30

Golf Tournament
Sponsored by: BMO Global Asset Management Securities Lending

6:30 to 8:30

Reception

Special thanks to our product sponsors:
Bottled Water – EquiLend
Delegate Booklet – BM&F Bovespa
Delegate Lanyards – FIS
Notepads – Trading Apps
Delegate Bags – Stonewain Systems
Flash Drives – ING Financial Markets
Internet Kiosks and WIFI – Northern Trust
Hotel Keycards – Eurex Clearing
Registration Desk – Debevoise & Plimpton