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16 October 2019

# Automation Innovation

OCC's Matt Wolfe explains how the industry's back-office revolution has begun

Day two agenda inside

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# Build your wolf pack, support each other, and don't hire women just to tick a box, panellists explain

Women do not need to go it alone while forging their careers in the financial sector and should focus on forging a "wolf pack" of other women to benefit from their collective knowledge and experience, argued conference panellists.

Speakers at the Women in Securities Finance industry group panel discussion told a packed-out room on the first day of the Risk Management Association's conference, that research has revealed that professional women are more likely to suffer from a form of 'imposter syndrome' that causes a lack of confidence and feelings of doubt regarding their abilities, compared to their male peers.

One panellist highlighted a study of the gender split when it came to applying for promotions, which found that women would not put themselves forward for a more senior role until they thought they met 100 percent of the criteria required. Men, in contrast, were shown to be willing to apply for a role when they only had around 60 percent of the experience the it asked for.

Being part of a small group of women, described by panellists as a wolf pack, who can act as a support framework, in addition to a broader network of both male and female industry peers, is an essential part of the solution to this gender difference, a panellist stated.

"Confidence can be learned", noted a second panellist, who added that the existence of support networks and senior advocates for junior staff will encourage women who might otherwise talk themselves out of putting their hand up to take more risks.

As women take tactical risks in their careers and then succeed they will be encouraged to take more risks and put themselves out there, audience members heard. "Challenges and risks also bring opportunities," the panellist continued.

## Women in Securities Finance: Promoting talent, not coffee

Having confidence, the resilience to weather short-term challenges, an active and broad network, along with a focused, core group, were all cited by a panellist as the key four areas that women at every stage of their careers should focus on.

Representatives from the Women in Securities Finance explained ahead of the panel that the group was focused on being a talent development programme, rather a "coffee group", in order to provide additional support to both men and women in developing these points.

The group has hosted a series of events in partnership with the International Securities Lending Association, the Canadian Securities Lending Association and Finadium, as well as running their own events across North America.

Two further events for this year include a meeting in Toronto in November, which will provide an opportunity for members to develop their presentation skills in front of small and large audiences, and a one-day event in Boston that will focus on "building your brand".

Since the group hosted its first panel at the RMA last year its membership has almost doubled to over 300 securities finance industry participants.

## Diversity: More than just a box to tick

The industry's push for diversity and inclusion must not fall into the trap of becoming a simple box-ticking exercise, panellists warned.

Following a round-up of diversity-focused initiatives being promoted by several major industry participants, audience members and speakers were unanimous in their view that positive discrimination and quotas were not ideal solutions to the issue of gender disparity.

One panellist outlined the challenge they face in increasing the number of women in their team when the vast majority of applicants for jobs were men. The speaker explained that their firm's hiring practice requires them to invite a diverse range of applicants to interview but, ultimately, the successful applicant will be chosen on merit alone.

## French withholding tax confusion to be resolved this year

The French tax and regulatory authority is expected to publish new guidance by the end of the year to dispel market uncertainty around the country's withholding tax on manufactured payments.

The withholding tax on manufactured payments that came into force in July is causing a headache for non-french market participants with french counterparties due to the lack of official guidance around what entities are in scope, according to an RMA panellist and tax expert.

The speaker explained that payments made by non-French branches of French parents are believed to be in scope but the French authorities are yet to release any new guidance to clarify the issue.

According to the panellist, the French tax authority is expected to publish its advice for the market by the end of the year.

The tax on manufactured payments references French dividends is paid by French borrowers to a non-French lender at a rate of 30 percent if the loan does not meet a minimum holding period of 45 days.

The French borrower is responsible for applicable withholding and reporting.

The tax is targeted at preventing abusive short-dated transactions around dividend record date that are aimed at avoiding French withholding tax.

In was noted by the panellist that the tax can be recovered if the lender can prove to the French tax authority that the principal purpose of the trade was not tax avoidance.

Until then, the speaker stated, non-French lenders looking to avoid being caught up in the issue were told to either not transact with French counterparties or only lend for more than 45 days.

## Treasury and RMA join forces on new securities lending tax guidance

The Risk Management Association (RMA) is hopeful that a recent meeting with senior figures at the US Department of the Treasury will result in new guidance on the current interpretation of historic tax laws that are at odds with the aims of the market's post-crisis regulations.

The RMA's Tax Committee sent a letter to the US Treasury and the Internal Revenue Service in August to highlight its concerns that a lack of clear and up-to-date guidance on Section 1058 of the Internal Revenue Code is causing friction with the regulatory push towards term trades.

In the letter, the RMA noted that "the current uncertainty with respect to the Section 1058 eligibility of fixed-term securities loans generally results in many securities lenders refraining from such lending activity, thereby diminishing liquidity in a segment of the capital markets encouraged by the financial regulations discussed above".

It is this drain on market liquidity that the RMA is ideally seeking to resolve as it patently runs against the aims of US and international regulators to create a more stable market environment.

Since the liquidity coverage ratio was fully implemented in 2015 as part of Basel III's bundle of new regulatory requirements for banks, the RMA has observed that it is driving borrowers into longer-term securities lending transactions, meaning terms that go from 30 days to up to a year.

However, the move away from short-term funding is seen in stark contrast with the current interpretation of the tax rules under Section 1058, which does not include fixed-term lending.

Speaking on the RMA's Association Update panel yesterday, George Rapalje, the chair of the association's Tax Committee and head of tax for securities finance at State Street, told delegates that the Treasury had responded to the letter by inviting the committee to Washington to meet senior figures and discuss the issue in more detail.

Rapalje explained that following the meeting the Treasury fully understood the issue and the significance of it.

However, Rapalje added that the Treasury was also candid in outlining the myriad other issues currently on its docket, of which drafting new guidance on Section 1058 was not a top priority.

As a result, Rapalje said he is hopeful that he will see movement on the issue within the next

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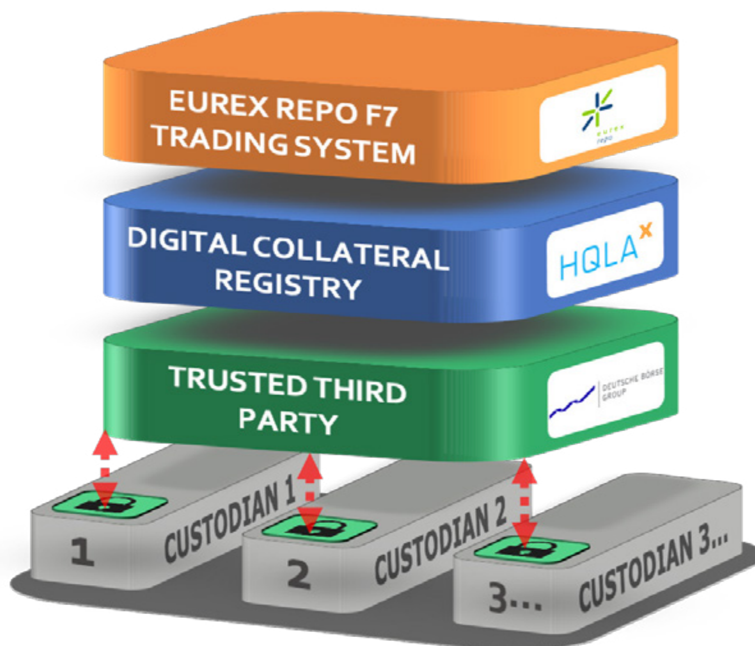


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six to 12 months but doesn't expect the desired guidance to be produced earlier than 18 to 24 months from now.

"It's a long term project and we won't fix 40 years of tax law in a few months," he concluded.

## EU FTT back on the agenda

Proposals for "enhanced cooperation" between EU member states on a new financial transaction tax (FTT) have been tabled by 11 market regulators, according to one of the conference panellists.

The 11-strong group, which includes France, Germany, Italy, Spain and Belgium, among other EU markets, are considering plans for a tax that would be applicable on acquisitions of equity shares in listed companies headquartered in the EU.

The proposed FTT is closely modelled on the existing Italian and French FTT, which is charged only on regular cash market transactions that are designated as taxable.

A tax expert speaking at the Risk Management Association's update panel session noted that it is unclear whether the proposal included a market-making exemption that covered acquisitions of shares hedging derivative positions.

The proposed implementation date is 1 January 2021.

Versions of an EU-wide FTT has been proposed several times since 2010, but concerns around how it would disproportionately impact the securities finance market, among other hurdles, have so far scuppered wide-spread adoption.

In 2018, an FTT was proposed Spain as a way to help justify a budget plan presented by the Spanish Government to the EU in October 2017. The Spanish Government wished to pursue a deficit reduction of 0.4 percent for 2019 instead of the 0.65 percent suggested by the European Commission.

Speaking to Securities Lending Times in November 2018 while the Spanish FTT was being debated, Daniel Carpenter, head of regulation at Meritsoft, a regtech service provider, said: "Spain is not the first, and certainly will not be the last country to enforce a tax on financial transactions, they're merely following the French and Italian authorities lead."

He added: "As global financial drivers and political pressure mounts, financial institutions can ill afford to be unprepared for the implementation of new taxes on the buying and selling of securities."

In September, the UK's Labour party also revived plans for an FTT for that would include over-the-counter trades in foreign exchange, commodities and related derivatives.

Labour's shadow chancellor of the exchequer John McDonell expressed support for an FTT in response to a report published in May by Intelligence Capital, which called for a move away from 'fast finance' which the report's author, Avinash Persau, described as "fundamentally flawed".

## Post trade innovation opportunities offer the most potential to improve, poll shows

Post trade is the part of a securities finance transaction that has the greatest opportunity for improvement, according to an audience poll during the RMA's fintech panel.

Audience members were asked if pre-trade, trade or post trade was the area with the most potential to improve, with post trade earning 62 percent of the vote and pre trade coming second on 33 percent.

The importance of post trade has grown significantly in recent years, explained one panellist, who said that five years ago he would not have expected post trade to be top in the poll.

"Post trade is now of critical importance to the profit and loss of a business," the speaker noted.

When asked to comment on the audience poll, another speaker added: "For securities lending, a lot of decisions around a trade come in post trade, so the poll makes sense."

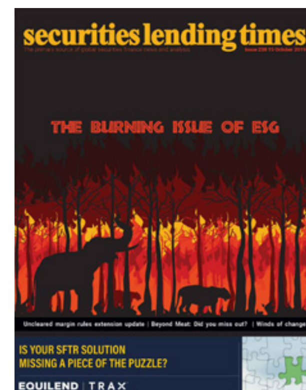
Several speakers noted that incoming regulations including the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR) were among the main drivers behind modernisation in the post trade space.

Electronification of documentation to achieve greater automation of basic processes and standardisation of data was cited by panellists and audience members as the primary areas of improvement.

According to panellists, this trend is directly driven by SFTR's reporting requirements and CSDR's settlement fails penalties, which are both due to come into force in 2020.

**Which area do you think has the greatest opportunity for improvement: Pre-Trade, Trade or Post-Trade**

| Area | Share |
|---|---|
| Post Trade | 62% |
| Pre Trade | 33% |
| Trade | 5% |

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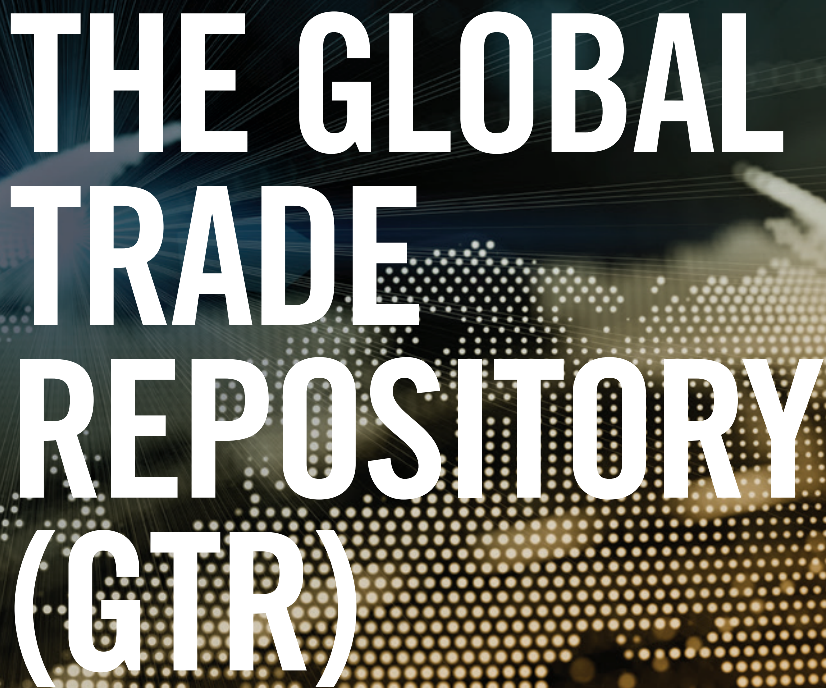


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**Matt Wolfe**
Vice president of strategic planning and development
OCC

# Innovation in the stock loan back office?!?

## Matt Wolfe of the Options Clearing Corporation discusses how the securities lending market is undergoing its own version of a back-office revolution to smooth out inefficiencies and processing errors

The back-office in any area of financial services is the least sexy and most under-invested part of any bank or brokerage. The back office is a cost centre, so why not invest in the best people and technology in the front office where trades are made and profits are generated? Of course, there is a minimal level of investment needed to ensure compliance and avoid any costly errors, but often the solution is to create another spreadsheet or hire a recent college graduate to bolster the back-office. Eventually, the demand upon the back office becomes so great that true investment and transformation occurs.

We saw this during the paper crisis in the 1960s, when brokers each had hundreds of staff focused solely on shuffling paper stock certificates around Wall Street. This was very inefficient, error prone, and hundreds of millions in securities were lost or stolen. This led to the creation of electronic certificates and the Depository Trust Corporation.

A similar problem occurred as the credit derivative market developed in the early 2000s. By 2005, 22 percent of derivative trade confirmations took 30 to 90 days to complete and 41 percent of trade confirmations were outstanding for more than 90 days. A study by the US General Accounting Office found that this backlog was caused by the prevalence of manual processes and discrepancies between buyers and sellers. This build-up in risk caused the dealers to work with the Depository Trust and Clearing Corporation to create DERIV/Serv and its automated system to electronically confirm trades.

It might be dramatic to say that the securities lending market is undergoing a similar back-office crisis, but there are definite inefficiencies and opportunities for significant savings and improvement. OCC recently conducted a survey of senior-level leaders at tier-one and tier-two banks, hedge funds, and agent lenders. The focus of the survey was on back-office systems, functions, pain-points and costs. The survey results showed that firms utilise a combination of multiple vendors and in-house systems to perform their critical operations. The survey respondents highlighted three key pain-points in the back-office processing: errors, manual processing, and escalating costs.

Errors were highlighted in the survey as a common pain-point for operations. For example, one firm reported that they have discrepancies every month with every counterparty on the amount of accrued interest.

Manual processing helps to create these discrepancies and is needed in order to resolve them. Contract comparisons, buy-ins, contract maintenance, and voluntary corporate actions are typically done using some degree of manual processing. At most firms there are at least two back-office staff for each trader.

Escalating costs were cited as the greatest pain-point. Most respondents estimated that they spend between $1 million and $2.5 million per year on post trade and reconciliation processing and a few firms reported spending $2.5 million to $5 million per year. In an industry where most contracts have very slim profit margins and there are increasing pressures to boost lending revenues, these costs are difficult to bear.
These three symptoms are common with the crises of the past, but history shows us that innovation follows challenge and that the back office of the future will be better in so many ways, some of which we are beginning to get a glimpse of.

### Where are we seeing innovation in the stock loan back-office?

Robotic process automation (RPA) is one emerging tool to help address the errors and manual processing. In at least one case, a firm is using RPA to double-check the price when the contract compare process identifies a difference in contract values. This catches many of the discrepancies and allows staff to focus on more complex problems. In another case, a firm is using RPA to automatically accept re-rate requests if the change falls within certain tolerances. This allows staff to focus on the more impactful changes and to spend time on more high-value tasks.

Machine learning is another emerging technology that is helping to boost revenues and control costs. By using different input data such as price, sentiment, and market rates, algorithms are identifying contracts that staff should consider re-rating.

Distributed ledger technology (DLT) is arguably the emerging technology that shows the greatest potential to transform the back office. If you think about the challenges that lead to the pain-points of errors, escalating costs, and manual processing, DLT is well suited to address the underlying causes of these problems.

Errors are caused by both the lender and the borrower not booking transactions or making changes to contracts in the same way and/or on the same day. Think of a couple of common situations:

- The lender and borrower independently enter a new loan in to their system with different rates
- The lender and borrower apply a return against different contracts
- The lender and borrower apply a corporate action differently
- The lender proposes and applies a rate change and the borrower does not
- The lender and borrower don't mark a contract using the same price

In each of these cases the independent asynchronous bookkeeping results in discrepancies between the lender and borrower.

DLT systems are built around smart contracts that perform actions based upon a common set of pre-agreed upon rules. Smart contracts help to ensure that transactions and changes to contracts are recorded in the same way and at the same time. It can be said that existing technology already provides this capability; the lender and the borrower could both have the same code to perform the same action and store the result in their databases. DLT has an advantage over current technology in two ways. First, there is a single shared process as opposed to the same process being implemented at each participant, and the shared process cannot become out-of-sync across the participants because changes require agreement prior to becoming effective. Additionally, with DLT there is a single development and maintenance effort rather than parallel separate efforts.

Second, there is a shared record of contracts. This ensures that the participants cannot become out of sync because the same process cannot be applied against different versions of the contract. In today's world, there is no certainty that both the lender and borrower have the exact same version of the contract before applying a change. Looking at the common situations that cause discrepancies in today's world, we can see how DLT could prevent these errors:

- The lender and borrower cannot independently enter a new loan in to a DLT system with different rates because consensus would not be reached and the loan wouldn't be sent for settlement
- Smart contracts and consensus prevent returns from being applied against different contracts
- Corporate actions are applied by a single shared process using the same prior version of the contract and using the same adjustment parameters
- A rate change agreed to by both the lender and borrower would cause the shared version of the contract to immediately change. Without agreement the change wouldn't be made
- All contracts for the same security will be marked using the same price

By eliminating the sources of errors, we address the second pain point of escalating costs as the lack of errors will require less time and resources to review and reconcile breaks. Another significant cost savings comes from having a single shared process that is used by the entire network.

Take the Securities Financing Transactions Regulation (SFTR) for example. Some people have estimated that SFTR compliance will cost more than that imposed by European Market Infrastructure Regulation. If the industry was using a DLT network, then a single smart contract would be developed to create SFTR reports. The standardisation of the data and the ease of developing smart contracts would make the cost of compliance trivial for firms. Furthermore, trade repositories wouldn't necessarily be needed because the regulator could have a node on the network to view those records directly.

The third point of manual processing is also addressed by DLT for the same reasons. The lack of errors requires less (or no) manual interaction for breaks, and the availability of shared smart contracts to provide automation would mean that participants wouldn't need to choose between developing their own automated process or hiring staff to manually perform those actions.

Thinking back to the earlier back-office crisis of paper-based stock certificates and trade confirmation backlogs, the solution in both cases was the creation of a shared system designed by a trusted market structure provider.

OCC sees a similar opportunity to transform and elevate the current stock loan market infrastructure and is exploring DLT solutions with the goal of addressing the industry's back-office pain-points as well as providing product and service enhancements.

This is consistent with our ongoing mission to serve as the foundation for secure markets.

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# North American expansion

## Pirum's head of business development, Americas, Nancy Steiker, outlines how the firm is expanding its product line in the US and Canadian markets

Pirum has been servicing North American clients for many years. As the need for automation becomes a priority for institutions globally, Pirum's expansion into the North American market seems well-timed to help clients improve their daily processes. As a market practitioner previously, I experienced first-hand many of the process inefficiencies. Since commencement in my role at Pirum earlier this year, it has become apparent that operational inefficiencies still abound in the US and Canadian markets. As firms look to amend and improve their operating models, we have seen previously manually processed functions move to our batch overnight services and then swiftly to our real-time reconciliation service (as institutions realise the extent and the benefits of automation). Our clients are demanding global standardisation of automation processes for trade compare, marks, returns and exposure management.

Firms are looking at financial technology firms as the most advantageous way to adapt to the changing landscape, especially with regulatory changes and challenges. When considering whether to build or buy, financial technology post-trade processes offer clients reduced costs and operational efficiencies while enabling more time to focus on trading strategies and other market products.

Pirum has begun to expand its product line in the US and Canadian markets, commencing with SPOConnect. More than 10 firms have now adopted this service, which automates and centralizes all Security Payment Order (SPO) activity. The service is available to any area within an organization that process Security Payment Orders.

We have also completed US tri-party connectivity for our clients. Pirum can assist clients in calculating and instructing required values (RQV) for US triparty. Our RQV product at Pirum has seen an explosion in growth, with usage nearly doubling in two years to $1.4 trillion calculated daily, across 6,466 accounts and four triparty agents (BNY Mellon; Clearstream; Euroclear; and J.P. Morgan). Full straight-through processing RQV calculation and submission to all agents has been a well-established product for our international clients. However, this is now also required for US clients due to changing market processes and regulatory change. The much anticipated US 15c3-3 amendment is likely to result in further growth in triparty business for this region.

It will be fascinating to observe how the ripple effects from the Securities Financing Transactions Regulation and Central Securities Depositories Regulation will affect the North American markets, but, given our position at the heart of this in Europe, the Middle East and Africa, we remain well-positioned to help our clients globally through what could be a complex and demanding period for our industry.

I am looking forward to expanding on this as we continue to engage in North America, to assist our client's post-trade needs.

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# Buy-side moves on central clearing

## Jonathan Lombardo, senior vice president fixed, income derivatives funding and financing division for Eurex Clearing, outlines the strategy for buy-side clients to access centrally cleared repo and securities lending markets

### Transformation of the repo market

Pension funds play an important role both in the financial industry and the daily life of pensioners in Europe. The aggregated assets across the EU are more than €5.2 trillion. Regulatory changes, in particular, the mandatory clearing of over-the-counter (OTC) interest-rate swaps (IRS) and the increase in capital requirements on banks, impose significant challenges to European pension funds. But these challenges also resulted in interesting new solutions for pension funds, asset managers and insurance companies.

The long-term nature of their liabilities requires pension funds to hedge interest rates and inflation risk. The relative lack of long-dated bond issuance in Europe by high-quality issuers, such as governments, has driven many pension fund managers, especially in the UK, the Netherlands and Denmark, to utilise standard interest rate and inflation-linked swaps for hedging. Traditionally, these swaps were not centrally cleared and hence exposed the pension funds to counterparty and operational risks. The introduction of the Uncleared Margin Rules increases collateral requirements and adds further complexities as bilateral collateral schedules are not standardised typically. Central clearing of standardised OTC derivatives is a central pillar of European Market Infrastructure Regulation and aims to reduce risks, improve market access and increase transparency.

While pension funds in general welcome central clearing, the requirement of central counterparties (CCPs) to meet the daily variation margin obligations in cash could, in times of increasing interest rates, create a challenge for pension funds, which are typically fully invested. Essentially, they have three options: run a cash buffer, secure bilateral credit lines or access the uncleared or cleared repo market. Holding significant cash balances typically diminishes investment returns, and bilateral credit lines are very expensive continuously.

Accessing the €7.3 trillion pan-European repo market instead seems a natural choice. Nevertheless, based on the historic experience, such as during the Lehman crisis, the bilateral repo market has not been very liquid during times of stress. The additional capital and liquidity constraints on banks have further reduced the available capacity.

### Repos are integral components and essential tools of the banking industry

In Europe, almost no dealer-to-client repos are centrally cleared. Therefore, they are based on a one-to-one credit relationship between individual borrowers and lenders and are typically governed by a specific legal agreement. That sounds easy and uncomplicated until you recognise that most of the dealer-to-client business is still executed via phone. Equally, negotiating the legal agreements is a lengthy process, sometimes taking up to 18 months. It is also limited

in capacity–not only because each bank has limited financing lines, but also because the time to trade and settle bilateral repos is often limited, given the fragmented and ageing settlement infrastructure.

Meanwhile, many buy-side entities do not have the resources to assess and monitor the credit risk of a large number of counterparties. There is hardly anything scalable and nothing digital available.

A solution to this problem comes from centrally cleared repo markets. Following the 2008 financial crisis, almost all interbank funding migrated from unsecured to secured, i.e. repos. Similar to OTC IRS, the large majority of inter-bank repo and roughly 70 percent of repo turnover overall is now centrally cleared in Europe. This market is dominated by commercial banks but also sees participation by supranational, government financing entities and central banks. In the US, more than 1,800 buy-side entities are already centrally clearing repo.

Several buy-side entities already access Eurex's centrally cleared repo market via Eurex Repo's Select Invest offering. This model allows clients to invest cash securely via centrally-cleared reverse repos. To meet the aforementioned concerns by pension funds, Eurex recently expanded its offering: we now also permit buy-side clients as Select Finance participants to raise cash via our centrally-cleared repo markets.

## Easy access to a completely new market segment via Eurex

This segment had until now been closed to pension funds and other buy-side entities in Europe. The new offer directly addresses the liquidity concerns and the regulatory challenges for pension funds. By accessing Eurex Repo's liquid centrally cleared repo markets they can invest cash securely and also raise short-term funding utilising more than 13,000 international securities identification numbers and trade with more than 140 Eurex Repo participants. This means access to 140 repo liquidity providers from commercial banks to central banks and government financing agencies. All under one standardised legal agreement, with straight-through processing and without the need of bilateral credit lines.

In addition, Eurex Clearing uniquely permits the combination of central clearing of repos and OTC IRS via its ISA Direct clearing model. This not only expands the number of repo liquidity providers significantly but also offers additional operational, liquidity and safety advantages for both product lines, such as using the same cash account, the re-use of repo collateral for initial margin or the necessity of only one single clearing agreement.

PGGM is the first pension fund manager clearly convinced by Eurex Clearing's offering, enabling its clients to access the centrally cleared repo market at Eurex Repo. With the increasing volumes in our derivatives clearing offering, we are optimistic that other European pension fund managers will seek access to our repo market place and manage their collateral requirements more efficiently.

## Evolvement in the securities lending market

Eurex Clearing's established CCP for the securities lending market has been working with a core group of strategic partners such as BNY Mellon, BlackRock, Citi, J.P. Morgan, Morgan Stanley, Natixis, State Street and UBS. This led to enhanced security and efficiency of a market that has been traditionally defined by OTC bilateral transactions. The Lending CCP service operates an integrated solution for securities lending transactions while providing the possibility to maintain existing business relationships between market participants. The business customs of the securities lending market strongly influenced the establishment of the Lending CCP. It retains key components of the bilateral model while introducing CCP-specific benefits such as a favourable capital treatment and an expanded counterparty base. Moreover, ongoing legal and regulatory developments are driving market participants to consider greater use of CCPs.

Eurex Clearing's Lending CCP provides clearing of securities lending transactions for fixed income securities and European equity markets. Clients have the option to trade via an electronic market such as Eurex Repo F7 or via two connected trade capture providers, EquiLend and Pirum. The Lending CCP offers flexible collateral options for both cash and securities as collateral and incorporates the use of tripartycollateral management services. A specifically designed clearing model enables participation for agent lenders and buy-side clients.

## Cost-effective pricing through central clearing

Borrowers have indicated that more beneficial pricing is available by using central clearing to maintain cost-effective pricing. The Lending CCP allows for enhanced solutions for borrowers to take advantage of netting capabilities, increased margin utilisation across cleared products and a greater capability to allow for efficient re-use of collateral.

Buy-side participants consider several key issues as being most critical for their involvement in the Lending CCP. The major determining factor for banks is the opportunity to reduce cost and generate revenue for clients by selecting the Lending CCP over existing bilateral trading relationships.

The Lending CCP model is specifically designed for beneficial owners such as pension funds, the Undertakings for the Collective Investment in Transferable Securities (UCITS) funds as well as sovereign wealth funds. It enables participation in a CCP model without the requirement to provide margin and pay default fund contributions. Any modification to a beneficial owner's existing lending arrangement or practice involves an education and approval phase, particularly when it involves using a CCP that is different to a bank, typically involved in a bilateral transaction. Eurex Clearing has worked directly with beneficial owners and jointly with their agent lenders to explain to various fund boards, trustees and risk committees the mechanics of how the legal, operational and risk process is undertaken by a CCP. As a result, beneficial owners and agent lenders are using this specific model for their securities lending activities in Europe.

Eurex Clearing has been in discussions with regulatory bodies as well as different types of beneficial owners alongside their agent lenders regarding the multiple jurisdictions and regulations that govern such lending agreements and collateral arrangements. As an example, an established model for UCITS funds in Ireland and Luxembourg is available that allows the transfer of title of the collateral with a pledge-back to the CCP. This model enables the fund to participate without contribution to the CCP's default fund.

The Lending CCP has received an increase in participation from new borrowers, buy-side clients and agent lenders over the past year. Its focus remains to broaden the range of clients, markets and assets that can be cleared and to maintaining its role as a leading market infrastructure provider and partner.

Over the coming years, CCPs will continue to progress and become even more important. All the advantages of central clearing lead to greater safety and integrity in the financial markets. As both are objectives that market participants have in common, Eurex Clearing expects further demand for these services. As a result, its role in the securities finance markets will be further enhanced and strengthened.

*John Templeton*
*Managing Director*
*BNY Mellon Markets*

## Future SFT Toolkit: The Evolution of Your Institution's Business Model' panel

This is a timely panel discussion covering the changes to the securities financing transactions marketplace that our respective firms have witnessed in recent years. This is clearly a broad topic, so it helps that we'll be hearing from borrowers and lenders that have very different books of business and different opportunities to solve for.

We'll begin the panel with a focus on the most recent developments we have seen in terms of trade types (repo, securities borrowing and lending and derivatives), trade structures (pledge and centrally cleared), and constraints (balance sheet and capital). We'll discuss the importance of collateral optimisation across these trades, and also the challenges to meeting an optimal collateral state for both sides of the trade.

We'll also review how crucial technology has become to our ability to execute on these priorities. And we'll talk about how important it is to align resources, not just in technology, but across the front, middle and back offices, and among business partners in order to execute on the opportunities uncovered.

**Moderator:**
Matthew Collins, Managing Director, Morgan Stanley

**Panelists:**
Bogdan Fleschiu, Executive Director, J.P. Morgan
Patricia Hostin, Managing Director, BlackRock
David Morris, Managing Director, Credit Suisse
John Templeton, Managing Director, BNY Mellon

*Robert Zekraus*
*Scotiabank Global*
*Banking and Markets*

## Strategic Shifts in the Macroeconomic Environment panel

Macro-economic landscape and potential impacts to securities finance, given events such as Brexit, tariff wars, short-term interest rates, and the 2020 US presidential election.

Related market topics will include the transition away from US dollar London Interbank Offered Rate with a focus on Secured Overnight Financing Rate as an alternative reference rate; discussing the impacts of Uncleared Margin Rules, which could drive an increase in collateral costs; the development and evolution of central counterparties; and updates on leverage rules and liquidity ratios like the net stable funding ratio.

**Co-chair:**
Robert Zekraus, Global Head of Client Capital Management and Funding
Scotiabank Global Banking and Markets

**Moderator:**
Fran Garritt, Director, Securities Lending & Global Risk, The Risk Management Association

**Panelists:**
Joseph Abate, Rates Strategist, Barclays
Michelle Girard, Chief US Economist, Natwest Markets

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# Agenda Day 2

| Time | Session |
|---|---|
| 7:30 A.M. | **Buffet Breakfast** |
| 8:45 A.M. | **Welcome**<br><br>Alina Casner, Managing Director & Associate General Counsel, BNY Mellon<br>Robert Zekraus, Managing Director, Scotiabank |
| 9:00 A.M. | **Strategic Shifts in the Macroeconomic Environment**<br><br>Moderator:<br>Fran Garritt, Director, Securities Lending & Global Risk, The Risk Management Association<br><br>Panelist:<br>Joseph Abate, Rates Strategist, Barclays<br>Michelle Girard, Chief US Economist, Natwest Markets |
| 9:45 A.M. | **Fixed Income: Where is the Convergence of Securities Lending and Repo?**<br><br>Moderator:<br>Casey Spezzano, Managing Director, Head of Flow Collateral Trading, NatWest Markets<br><br>Panelists:<br>Laurie Brignac, Chief Investment Officer, Head of Invesco Global Liquidity, Invesco Advisers<br>John Falcone, Head of Portfolio Finance, Field Street Capital Management<br>Brad Fryer, Head of U.S. Fixed Income Lending and Cash Reinvestment Trading, J.P. Morgan<br>William Gonser, Managing Director, RBC Capital<br>Jennifer Imler, Managing Director, Head of WFS Funding, Capital and Liquidity, Wells Fargo |
| 10:45 A.M. | **Coffee Break with Exhibitors** |
| 11:15 A.M. | **Keynote Address: The SEC Today: How the SEC's Current Priorities Are Shaping Its Regulatory and Enforcement Agenda**<br><br>Speaker:<br>Mary Jo White, Partner and Senior Chair, Debevoise |
| 12:15 P.M. | **Future SFT Toolkit: The Evolution of Your Institution's Business Model**<br><br>Moderator:<br>Matthew Collins, Managing Director, Morgan Stanley<br><br>Panelist:<br>Bogdan Fleschiu, Executive Director, J.P. Morgan<br>Patricia Hostin, Managing Director, BlackRock<br>David Morris, Managing Director, Credit Suisse<br>John Templeton, Managing Director, BNY Mellon |
| 1:00 P.M. | **Business Programme Adjourns for the Day** |
| 1:30 P.M. | **Tennis Tournament** |
| 5:30 P.M. | **RBC Reception** |

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