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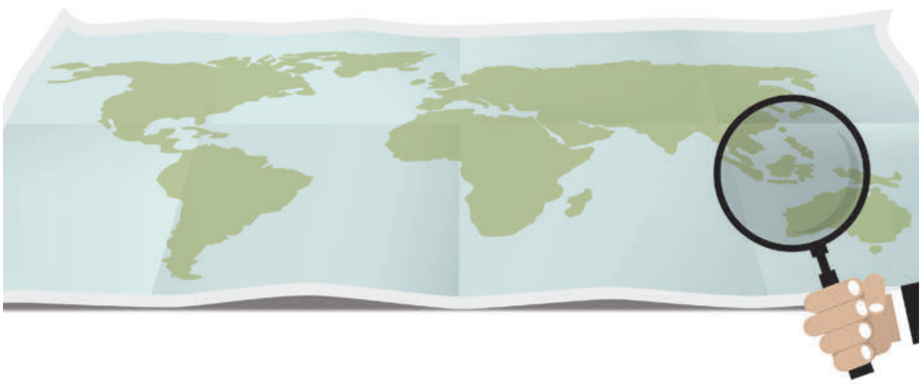

EU repo caught in 'perfect storm'

The European repo market experienced extreme volatility and dislocation during a year-end liquidity crunch in 2016, according to the International Capital Market Association (ICMA).

ICMA's European Repo and Collateral Council has warned that "[The repo market stress] could heighten risks related to banks' and firms' ability to meet margin calls, which in turn could have systemic consequences."

The council described how a convergence of post-crisis regulation, the financial policy of central banks, along with other global market trends, are "very much acting in confluence to precipitate the perfect storm".

In a report into the EU repo market, ICMA offered a "post mortem" of the European repo market's year-end woes.

"Market participants experienced extreme volatility and market dislocation as they tried to meet their needs for collateral in the form of high-quality liquid assets (HQLA) to meet regulatory requirements," ICMA stated.

The survey, on which the report is based, calculated the amount of repo business outstanding on 7 December 2016, with responses from 65 offices of 62 financial groups.

The results showed the baseline figure for repo market size stood at €5.66 trillion. ICMA clarified that this figure only reflects the percentage of data captured in the survey, which, although large, is not complete. Central banks repo transactions were also not included.

Using a consistent sample of banks that have contributed to the last three surveys, the market shows 0.8 percent year-on-year growth and 2.4 percent growth from the June 2016 survey.

Regulatory-driven demand for HQLA led to a 4.7 percent increase in transactions including this collateral type since June, to now sit at 60.6 percent.

There was also a lengthening of maturities to meet the regulatory horizon of the liquidity coverage ratio.

European Repo and Collateral Council chair Godfried De Vidts commented: "The 2016 year-end was the first real test for the market since the Lehman default and sovereign bond crisis (when the market functioned relatively effectively)."

"If the extreme volatility and dislocations witnessed at the end of December are an indication of future market resilience, we should be concerned. Market behaviour since the year-end, and forward pricing pressures for the March quarter-end, would seem to suggest that we may be entering a new normal for the repo market."

He continued: "Turbulence in the repo market will ultimately be felt most by the pension funds, insurance companies and asset managers to whom citizens entrust their money."

"Since demand for HQLA, quantitative easing, and pressures on banks' balance sheets are only set to increase, careful fine-tuning of some of the technical measures put in place by regulatory reforms, already being considered by the authorities, is fully justified."

In January, ICMA called for the European Central Bank to expand its securities lending facility in response to the extension of the central bank's asset purchase programme.

In its first quarterly report of 2017, ICMA noted that ECB's public sector purchase programme (PSPP), which directly relates to the European repo market, is approximately 80 percent based on government bond collateral.

"Holding securities within the PSPP naturally removes them from the market and it is only through the arrangements for securities lending that these holdings can then be made available to assist the market in meeting its operational needs."

South Korea confirms fresh short selling rule deadline

Seoul | Reporter: Drew Nicol

South Korea's financial regulator has revealed further details of its stricter short selling rules, set to come into force on 27 March.

The Korean Stock Exchange will be handed new powers to withdraw "overheated" stocks that receive "extraordinary increases in short selling and sharp falls in prices" during a single day for a 24-hour cooling off period, as outlined in a statement by Korea's Financial Services Commission (FSC) in November 2016.

Detailed conditions for the definition of "overheated" will be determined and announced soon.

In addition, the new rules dictate that securities to be short sold must be pre-delivered to the client's account. This amends the current rule that entities that violate short selling rules must submit the "agreement of securities borrowing" or to pre-deliver securities to be sold, before making further short-sell trading.

According to the Korea Exchange, the new rules will help to mitigate information asymmetry in short selling, while forcing short selling violators to pre-deliver securities prior to short-selling will enhance the effectiveness of penalties and bolster market transparency.

The FSC promised to strengthen sanctions against those who violate its short selling rules.

Rules such as the prohibition of uncovered short-selling and up-tick rules will be subject to "heftier fines" than those imposed on other violations.

In addition, those that short a stock during the period of paid-in capital increase will be barred from buying the newly-issued stocks.

Furthermore, price manipulative activities exploiting short-selling positions will be added to types of 'market disruptive activities' under the Financial Investment Services and Capital Markets Act.

The rule changes come as part of wider-spread reforms of South Korea's financial regulatory framework.

Previously, in late 2016, the deadlines for reporting and disclosure of short positions in large amounts or by shares was shortened from T+3 to T+2.

India offers fee savings boost to lending

The Indian National Securities Clearing Corporation has offered an olive branch to the National Stock Exchange securities lending market by introducing an incentive scheme that would see larger transactions rewarded with cuts to charges.

The new rates will be effective from 1 March and remain in place for 12 months. They will apply to all new lending transactions, but not rollover transactions, and could see participants save as much as 2 percent per transaction from the current monthly flat rate of 2.5 percent.

Transactions worth INR 10 million (USD 149,250) will receive the maximum 2 percent benefit, taking the transaction tax down to 0.5 percent.

Transactions valued between INR 5 million (USD 74,500) and INR 10 million earn a 1.25 percent cut, while those worth between INR 1 million (USD 15,000) and INR 5 million are entitled to a 0.75 percent discount.

Japanese firms attracting interest

Japanese firms were top of the list of most shorted Asian firms announcing during the week beginning 13 February, according to IHS Markit data.

Mobile games maker Mynet took first place with just under 15 percent of its shares out on loan, while other technology firms, such as Ignis, also featured prominently.

In a short selling research note, IHS Markit analyst Simon Colvin noted that the bulk of Mynet's short interest came after its shares more than doubled in price.

"This scepticism has been vindicated in subsequent weeks as Mynet has been unable to sustain the rally in its share price," Colvin explained.

Taiwan overhauls lending rulebook

Taipei | Reporter: Mark Dugdale

The Taiwan Stock Exchange (TWSE) has implemented fresh amendments to its securities lending rules and overhauled its regulatory interpretations interface in a bid to improve transparency and attract more lenders to the market.

In total, the exchange reviewed 14 articles in three chapters of its rulebook, most of which favoured lenders.

TWSE clarified that banks acting as agent lenders must adhere to the reforms.

The rules for securities firms and futures commission clients, regarding opening securities borrowing and lending accounts and internal book-entry transfers, were reformed to allow lenders in a fixed-price or competitive bid transaction to request an early redelivery of securities.

Rules regarding wire transfers by virtual account for securities borrowers providing cash collateral, paying borrowing fees and entitlement compensation on behalf of clients, and providing performance bonds for borrowing securities from clients, were also reviewed.

Further restrictions were also implemented to ensure that no additional loan is allowed within the 10 business days preceding a mandatory return date. Finally, the calculation of collateral value, related to submission, withdrawal, and marking-to-market of foreign currency collaterals, and rules regarding borrowers applying for return of foreign currency collaterals, were refreshed.

As part of its transparency boosting initiative, TWSE collected 14 letters of interpretation regarding the practical aspects of securities lending and placed these letters under the respective chapters and articles.

The latest amendments to Taiwan's securities lending rules come as part of long-term effort to bolster and streamline the market's regulatory framework.

Previous amendments allowed brokers to borrow securities directly from customers and extend the rollover limit from once to twice, from 1 February 2016.

Borrowing limits placed on customers were removed.

The range of securities eligible for securities lending was also expanded.

In 2015, onshore Taiwanese banking rules were relaxed to allow them to set more flexible margin levels and also to accept more currencies than just Taiwanese dollars.

CFTC offers respite from 1 March margin rules deadline

Swaps dealers have been gifted a seven-month grace period to finalise their compliance infrastructures for the new variation margin requirements set to come into force on 1 March.

The US Commodity Futures Trading Commission (CFTC) issued a time-limited no-action letter recommending that the commission's division of swap dealer and intermediary oversight (DSIO) should refrain from enforcing the rule until 1 September.

The letter acts as a compromise between unprepared industry participants and regulators that do not wish to be seen as going easy on banks in the wake of the 2008 financial crisis.

"The DSIO no-action letter does not postpone the 1 March 2017 compliance date for variation margin, rather it allows market participants a grace period to come into compliance," explained the CFTC in a statement on the decision to delay enforcement of the rule.

"Without a proper transition, DSIO believes there could be a significant impact on the ability to hedge positions for pension funds, asset managers, and insurance companies that manage Americans' retirement savings and financial security."

"This sort of phased compliance has been used many times in the implementation of the swaps rules contained in the US Dodd-Frank Wall Street Reform and Consumer Protection Act."

Attendees of the Deutsche Börse Global Funding and Financing Summit in January speculated that they would obtain last minute relief from the derivatives margin rules under the European Market Infrastructure Regulation.

Trump keeps campaign promise and takes aim at US Dodd-Frank Act

President Trump has paved the way for a sweeping regulatory overhaul by signing an executive order giving the Treasury broad powers to scrap rules that do not comply with the administration's 'core principles'.

Part of the core principles are defined in the executive order as enabling "American companies to be competitive with foreign firms in domestic and foreign markets" and "advance American interests in international financial regulatory negotiations and meetings".

A promise to prevent future taxpayer-funded bailouts is also included.

The executive order stipulates that the Treasury shall consult with the Financial Stability Oversight Council and report periodically to the president "on the extent to which existing laws, treaties, regulations, guidance, reporting and recordkeeping requirements, and other government policies promote the core principles", and identify any that "inhibit" these core principles.

Vocal Republican critics of regulation introduced after the 2008 financial crisis, including Trump, have repeatedly accused the Dodd-Frank Act of hamstringing US capital markets.

The new executive powers therefore brings the future of these frameworks into question.

While still on the campaign trail, Trump's transitional website, greatagain.gov, listed dismantling the centrepiece of financial services reform in the US as a primary objective.

Commenting on the executive order, Securities Industry and Financial Markets Association (SIFMA) president and CEO Kenneth Bentsen said: "SIFMA has long called for a cumulative review of financial regulations including those put in place since 2008 and we commend the Trump administration taking this action."

"Our capital markets are the envy of the world and also among the most regulated sectors in the US economy."

"It is imperative to ensure that our financial regulatory framework does not unnecessarily impede capital formation that drives job creation, economic growth and investor opportunity in this country."

Bentsen continued: "There is early evidence that regulation is negatively impacting capital markets that spur economic activity."

"A 2016 report by the Financial Stability Board found evidence that liquidity is declining in sovereign and corporate bond markets."

"The bond markets are a vital funding source for businesses looking to grow and invest in their future."

A 2016 Federal Reserve report also concluded that bonds are less liquid during times of stress due to the Volcker Rule.

Dodd-Frank still has its champions, however.

Speaking at the University of Maryland's Robert H Smith School of Business Center for Financial Policy following the election, Rick Fleming, a Securities and Exchange Commission investor advocate, defended Dodd-Frank.

He said: "The protection of investors must serve as the first principle guiding our financial regulations."

"We should think of those regulations not as a burden to be repealed or picked apart haphazardly, but as the essential nutrient for flourishing capital markets for a growing economy."

Trump has also signed an executive order that could do away with the Fiduciary Duty Rule.


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EquiLend to wind down flagship AutoBorrow

EquiLend is closing the doors on its long-time flagship AutoBorrow service after widespread migration to its newer Next Generation Trading product (NGT).

The trading and post-trade provider informed its clients of the closure in February. A wind-down process began two years ago to purge unused AutoBorrow schedules.

The AutoBorrow service first launched in 2001 but usage has waned in recent years, with more than 75 percent of EquiLend and BondLend trading activity now taking place on NGT.

In a note to investors, EquiLend said: “We anticipate that nearly all EquiLend and BondLend trading activity will take place via NGT within the upcoming months.”

“As NGT adoption continues to grow, we expect to sunset our AutoBorrow service soon,” EquiLend added.

NGT is a collaborative effort between EquiLend and its clients to deliver a consolidated, multi-asset class trading platform for the securities finance marketplace, according to EquiLend.

EquiChain plans to launch blockchain

EquiChain has released a working prototype of its blockchain solution for global capital markets, with plans to implement a full end-to-end custody pilot this year.

The infrastructure platform is intended to drive efficiency and improve global investor access in emerging and frontier markets through distributed ledger technology (DLT).

It consolidates the functions of the asset manager, custodian, broker, exchange and central securities depository, allowing for direct interaction and exchange of value between participants.

Hugh Madden, CTO of EquiChain, explained: “EquiChain’s use of cryptographic signatures reduces counterparty risk and prevents fraud, making blockchain-based transfers safer than other alternatives.”

EquiChain has also announced the closing of its initial round of funding, secured from board members, advisors and close stakeholders, and established two industry working groups.

One group will be focused on institutional investors, and the other will work on market infrastructure. They will bring together thought leaders, which will help the platform to develop while embracing current and future regulatory requirements as they come down.

Nicholas Bone, founder and CEO of EquiChain, said: “The current securities transaction lifecycle is complex, costly, time-consuming and fraught with risk. EquiChain will use DLT to redefine securities transaction flows creating a full ‘execution-to-custody’ capability.”

He added: “Blockchain is particularly relevant for emerging and frontier markets, which are often perceived by foreign investors as being higher risk, while typically having less cumbersome existing infrastructure to accommodate.”

“DLT gives such markets the opportunity to leapfrog existing solutions to deliver greater efficiency, liquidity and ease of access.”

Markus Ruetimann, senior advisor to the EquiChain board, commented: “Accessing frontier and emerging markets poses many operational challenges.”

“EquiChain’s solutions will make investing, trade tracking and data flows much more efficient and robust. This will make these markets more accessible for investment, whilst reinforcing local infrastructure,” Ruetimann added.

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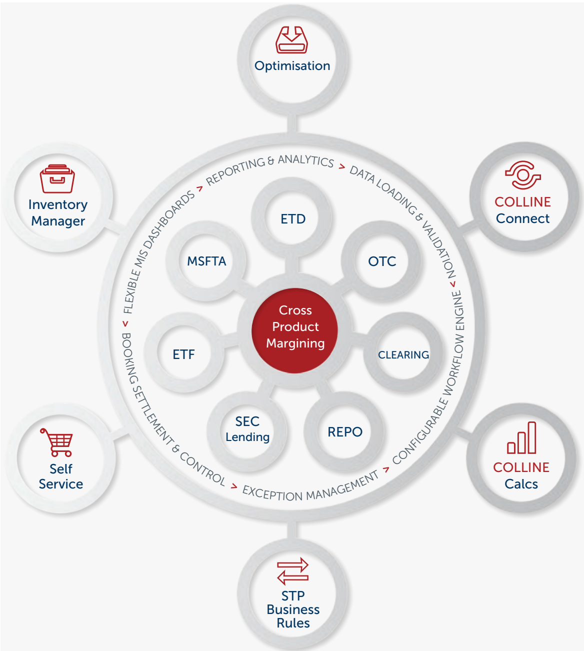

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Euronext's new post-trade platform

Euronext has set out a timeline for the implementation of its new post-trade solution, which will offer risk analytics, inventory management and collateral transformation services for fixed income, equities and commodities.

The Euronext Chequers service will be implemented in stages throughout 2017, with the first phase scheduled for March.

Euronext Chequers electronic silo-based warrants will then be introduced later in Q2 2017, giving clear, transferable title to goods stored in silos.

Later phases will also see the launch of an electronic all-to-all asset financing platform supporting all asset classes pairing liquidity providers with takers.

This platform promises to meet increasing participant demands for collateral upgrade opportunities, given regulatory constraints relating to capital and margin requirements, and will help customers to control costs and improve efficiency.

Lee Hodgkinson, CEO of Euronext London and head of markets and global sales, said: "This initiative is particularly well aligned with the Euronext Group's agility for growth strategy, with the aim of building a broad-based offering to create more options in our post-trade franchise."

"We see a greater demand for high-quality collateral, and our customer-centric approach will help us to meet the needs of the financial community with efficient solutions."

"Euronext Chequers is also a response to increased regulation, which impacts on pricing and the availability of liquidity."

ISITC creates collateral working group

The International Securities Association for Institutional Trade Communication (ISITC) has formed a new industry trade group focused on developing best practices in the collateral management lifecycle.

The Margin and Collateral Working Group will discuss issues around regulatory jurisdiction rules and timelines, and operational best practices for collateral management processing.

It will also consider messaging standards for collateral calls, dispute resolution, margining and asset movement and segregation.

Amy Caruso, limited director of strategy and North America business development at DTCC-Euroclear Global Collateral will co-chair the group with Wayne Forsythe, managing director at State Street.

A third co-chair will join Caruso and Forsythe, but has not yet been appointed.

Caruso said: "This working group was created in response to the need for more clarity on current challenges in the collateral industry. We are eager to share best practices and have spirited conversations on the way forward. All who are interested are welcome to join."

WFE calls for CCP control over recovery

The World Federation of Exchanges (WFE) has deemed a scenario where a central counterparty (CCP) would need to initiate a recovery plan as "beyond extreme" and asked for patience from regulators in administering resolutions.

In a recent whitepaper, which discussed appropriate measures to mitigate the potential market disruption of a CCP going into recovery or resolution, WFE outlined the importance of allowing CCPs time to conduct their own processes in stress scenarios, without regulatory interference.

Moving markets forward

PASLA conference co-chairs Paul Solway and Glenn Horner discuss the trends most affecting Asia and how they are reflected in this year's agenda

Of all the global forces affecting Asia, which are most pertinent this year?

Paul Solway: As seems always the case, reflecting on events that have happened since last March, time seems to have elapsed extremely quickly indeed. So that can only mean one thing: the landscape continues to evolve and change extremely rapidly.

The headlines continue to be dramatic as well as global in nature, mostly focusing on political change and the downstream effects on macroeconomics, trade and fiscal policy that ultimately drive interest rates and market sentiment. Negative interest rates, Brexit and the US election have all had their own unique influences over market activity.

The pace of increased regulation, both direct and indirect, has become the new normal in the US and Europe and the question of if it would affect Asia has been a resounding 'yes' for all global institutions. In the region, however, the growth opportunity is still at the forefront of many conversations but it is now balanced with the need for efficiency both from a regulatory and capital standpoint. This efficiency has led to certain constraints but some additional opportunities beyond the fundamental earning streams that lending has relied on in Asia. Fixed income lending is a good example of 'new' flows that are positively affecting Asia.

Glenn Horner: As Paul noted, regulatory change continues to be at the forefront of the global agenda. A large percentage of the securities lending intermediaries, whether they be agents lenders or prime brokers and broker dealers, are globally active firms, so regulatory activity in one region has an overflow effect into other regions. I would note that we appear to have hit an inflection point in the global regulatory agenda, as the response to the financial crisis resulted in a continuing stream of additional regulatory burdens on market participants.

However, we have seen significant political upheaval at both the national and global level during the past 12 months. This has become most evident by the apparent breakdown in the finalisation of amendments to the standardised approach, as global regulators appear to have diverging views on an appropriate capital floor.

Additionally, with the new administration in the US we see increased pressure on potentially rolling back regulation within that market, as President Donald Trump has called the Dodd-Frank Act a disaster and plans to make major changes to it. This political and regulatory upheaval will likely lead to increased uncertainty in the near term, but potentially an easing of regulatory burdens in the long run as politicians and regulators weigh the economic cost of increased systemic safety.

How are these factors represented in this year's agenda?

Solway: The PASLA conference committee members are all active market participants, so current trends are always primary in the minds of our planning of the conference, with 2017 being no different. Having the conference in South Korea this year is important for a couple of reasons. We have not been back to Seoul for 12 years, and South Korean equities represented one of the top earning markets in region in 2016 for many institutions.

Fixed income continues to earn a place on the agenda given its growing importance as an asset class across Asia and our regional markets panel promises to be, as always, a crowd pleaser, especially as it will tackle markets such as India, Indonesia and China, including an update on the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programmes.

Horner: As usual the conference committee has put in place an agenda that will try to weave together both globally and locally important trends in legal, tax and regulatory, with how Asian markets and South Korea in particular are being impacted. We will then get a view into how the industry will continue to adapt and improve upon itself. The securities lending industry has a long history of not only surviving significant market disruptions, but actually thriving through constant innovation. The panels will provide attendees with a view of changes in technology and transparency, as well as how new tools such as central counterparties (CCPs) may create increased market efficiency.

Which topics are you looking forward to hearing speakers' views on the most?

Solway: Many markets in Asia have both onshore and offshore models, rules and varying levels of securities lending participation and access. Moving the conference around the region is a fantastic opportunity to hear from both sides of the liquidity divide, borrowers, exchanges, lenders and market authorities. Wednesday morning has been dedicated solely to the South Korean market and should give a multi-angle overview of what is happening in this exciting and diverse market.

Collateral flexibility and liquidity solutions have never been more important, both in South Korea and beyond, so Thursday morning should also attract a good audience nice and early. Even for those who are unable to attend, the later CCP panel should provide good insight into the theory and practice of regulatory-friendly structures and if they really are getting the interest from both buy- and sell-side clients across Asia.

Horner: I think the stay protocol and legal, tax and regulatory panels should set the table for a robust discussion about how a rapidly changing environment will affect the Asian marketplace. While I anticipate all of the panels will be very informative, I believe that the business leaders coverage of the current and future state of securities finance will provide an excellent close to the conference and really pull together the global and local in a very powerful way.

South Korea is one of the most active markets in Asia, but how does it compare to others in terms of market development and regulatory sophistication?

Solway: Actually, South Korea was the first market in Asia to break the model of equity lending by using onshore intermediaries to facilitate reporting and transparency in 2004/5. At first it was seen as difficult and clunky but, over time, it became a new modern market standard that other Asian markets have replicated in one form or another. As a result, participants, exchanges and regulators have a lens into their marketplace in order to better understand the flows of demand and supply.

There will be more on this topic at the conference during the panel focused on the South Korean market at 9:45am on Wednesday.

Horner: South Korea clearly recognises the true value of a healthy securities lending environment in building wide acceptance of its place in global capital markets and essential as a component as it continued efforts to upgrade its status to a 'developed' market under the MSCI methodology. The foundation blocks of the securities lending market are built on sound principles, which encourage participation for all, and have aided the development of a domestic hedge fund industry.

The market has faced several tests, with short sale bans instituted during the financial crisis, but pragmatic minds have prevailed time and time again. In what is an extremely diverse region, practitioners with influence on policy from emerging markets have sought tried and tested solutions to bring lending to their shores. South Korea has proven itself as a gold standard which others seek to emulate.

What's the one takeaway you would like non-Asia-based delegates to get from this event?

Solway: We have seen steady growth of volumes and earnings in Asia almost every year in modern times. However, 2016 was not as volatile as some previous years and so earnings saw a relative flattening to a certain extent. Despite MSCI delaying China's inclusion in its indices last June, and some other markets still only allowing very limited domestic securities lending activities, there remains plenty of growth opportunities—even for mature markets such as Japan.

Bridging the perceived gap between onshore and offshore access and liquidity is key to deepening Asian markets. Structural harmonisation can only happen by education for all participants—regulators, lenders, exchanges, borrowers and depositories, which will assist in Asia's constant evolution. From India to Japan, China to Australia, mature and emerging markets still have so much more to expand into.

Horner: It's clear that the industry on a global scale suffers from various headwinds in terms of regulation, liquidity constraints and counterparty exposures, but when you look around the world, there is no doubt that Asia presents a unique opportunity for widespread growth from so many and varied sources. The way that multiple markets have so many idiosyncrasies can actually be an opportunity, not a barrier. The jewel in the crown would obviously be if one day China could develop a workable framework that permits the large offshore institutional investors to enter the lending market. If that was to come to fruition, along with acceptance into the MSCI indices, then the shift from retail to institutional bias may one day even help stabilise the underlying market and China could perhaps move into a more 'developed' status, presenting a colossal opportunity for all participants.

Some policymakers in Asia are still skeptical about the securities lending. Is progress still being made in informing regulators about these market tools?

Solway: When it comes to the global financial marketplace, size and experience still matter—equity markets can be volatile and sensitive to sentiment, especially in uncertain times.

Regulators have a duty to protect and uphold rules that set the parameters for a sustainable and fair investment environment. With development comes maturity and boundaries must adapt. PASLA was created for the furtherance of the securities lending industry and relies on regulators, exchanges and monetary authorities to have an active dialogue and interaction with our members, of which there are now 62. Membership is open to both international and local institutions who actively participate in securities lending.

If Asia wants to be globally recognised as having functional and efficient capital markets, PASLA offers a fantastic conduit of information sharing, building regional consensus and best practice as well as international insights that can be drawn from and shared. With more than 250 participants expected at the conference this year, what better forum is there to discuss the issues, trends, challenges and developments for securities lending across Asia?

Horner: The PASLA conference is the only sizeable annual conference in Asia that is solely dedicated to the subject of securities lending. Hundreds of people travel from around the globe to attend and discuss an array of topical subject matter, network with colleagues and strategise for the year ahead. Given the diversity of the membership and attendance of regulators, senior officials, exchanges and market participants, it is therefore a perfect environment to hear a comprehensive eclectic mix of opinions. Being sceptical of anything is perfectly understandable, but listening and debating the issues is what makes a more well informed and educated decision. **SLT**

Asian ascension

A panel of industry experts discuss markets in Asia, with the potential of China, the Stock Connect and India's accessibility problems in the spotlight

Panel participants

Dane Fannin
Head of capital markets for the Asia Pacific
Northern Trust

Stewart Cowan
Asia Pacific head of agent lending
J.P. Morgan

Zubair Nizami
Head of Asian securities lending trading
Brown Brothers Harriman

Jansen Chua
Head of securities finance Asia Pacific
State Street

Francois Maury
Head of equity finance for Asia
Natixis

Rob Chiuch
Global head of equity and fixed income finance
BNY Mellon

Many of Asia's market regulators are pushing ahead with ambitious regulatory initiatives at the moment. Which market has made the most progress in the past 12 months?

Stewart Cowan: We have seen a number of regulatory changes to assist liquidity, specifically Malaysia's reforms to the uptick rule, Taiwan's consideration of a reduction to the securities transaction tax (STT) rate and the expansion of Stock Connect to include Shenzhen. These changes are all designed to improve liquidity and, in turn, pricing transparency.

While some regulators have indicated their desire to review short selling and lending regulations, market volatility may have been a factor that delayed further regulatory reforms. However, the industry remains encouraged by the consultative approach taken by Asian regional regulators.

Industry interactions have been particularly thoughtful and deliberate and we see this as the best practice when approaching market reforms.

It should also be noted that we continue to monitor European and US regulatory changes and their impact on the Asia Pacific. Specifically, we are watching the EU Securities Financing Transactions Regulation (SFTR), which is expected to impose greater disclosure of lending activity, including offshore branches.

Dane Fannin: Hong Kong made positive moves for securities borrowing and lending with its much-anticipated launch of the Shenzhen-Hong Kong Connect scheme in late 2016.

This complements the existing Shanghai-Hong Kong Connect initiative and importantly gives international investors access to China's two main bourses.

This marked an important milestone towards achieving an approved and feasible solution for lenders and borrowers of Chinese A-shares. This achievement could also potentially serve as a catalyst for China to be included in major indices, which would help to drive the liquidity pool of lendable assets ahead of any securities borrowing and lending structure being approved.

Francois Maury: If we take a wider look, we are seeing a general evolution towards greater homogeneity in the market regulations across Asia. The third driver has probably been the various new regulations coming from the US and Europe, such as the Dodd–Frank Act (especially the Volcker Rule) along with the various leverage ratios, triggering an ever increasing focus on resources management (liquidity, balance sheet, leverage) and changing market practices (more total return swaps, more asset versus asset deals).

What other markets have attracted your interest?

Fannin: South Korea has remained in focus over the past 24 months and we have observed robust growth in demand and revenue. We cite three key drivers for this: firstly, various regulatory measures introduced in other jurisdictions in the region have made it increasingly challenging for investors to execute their strategies effectively, highlighting the potential of South Korea as an alternative destination.

Secondly, South Korean authorities have introduced positive regulatory changes over the years in an effort to help promote increased liquidity and trading volume, which have attracted increased foreign flows of investment.

Thirdly, South Korea's economic construct has been exposed to major economic themes including a slowdown in China, falling oil prices, and others that have led to increased investment opportunities and increased trading in specials.

Malaysia also continues attract focus. Here, while market demand remains highly sporadic, which fundamentals such as currency and commodity price fluctuation largely driving activity, it is a market where supply continues to grow. We expect this to drive further liquidity and spur a greater allocation of capital from investors.

Zubair Nizami: South Korea was by far one of the standout markets in Asia last year and, certainly from our perspective, it generated significantly higher returns than Hong Kong, which in itself had a record year in 2015.

Lending demand was largely driven by the slowdown in the South Korean economy, partly due to sluggish growth in China, but also related to longstanding structural issues in key sectors such as heavy industries, shipping and shipbuilding. Although spreads have compressed in Malaysia and Taiwan, they still both offer attractive returns.

One of the biggest challenges for agent lenders is to engage the right type of client with the appropriate assets to engage in these markets, as they can require an increased level of involvement on their part in order to navigate through a myriad of legal, regulatory and operational hurdles.

Cowan: Naturally, we also continue to closely monitor the Chinese market for plans to expand Stock Connect, along with short selling and stock loan rules for further signs that China plans open it doors. While we have conducted initial due diligence on a number of Asian markets and have several markets on close watch, at this point we don't see any new markets nearing a point where they would be viable from an securities borrowing

> There are a number of additional opportunities with potential to grow Asia's revenue profile significantly
>
> Dane Fannin
> **Northern Trust**

and lending perspective.We continue to work to realise the maximum value from our existing markets. For example, Malaysia continues to garner a significant amount of interest and our existing business in South Korea and Taiwan is flourishing.

Jansen Chua: We recently added Malaysian lending to our agency lending capabilities. We continue to watch the emerging market space: Indonesia, India and the Philippines all raise interest regionally.

Maury: PASLA has made an interesting choice with Seoul, as South Korea has been high on our list in 2016. Our firm has made significant inroads in equity derivatives on South Korea in 2016.

We are now increasing our market presence in equity finance.

Rob Chiuch: Japan and South Korea continue to be sources of significant securities financing activity and earnings. In South Korea, a volatile market and high levels of corporate activity are driving opportunities for hard-to-borrow securities/specials (for example, pharmaceutical and shipping sectors).

Meanwhile, Japan is the most liquid market in Asia Pacific and is outperforming in the region mainly due to significant directional trading activity.

While the Asian markets are developing their securities lending infrastructure, the future of overall regional growth depends on China. Considering the progress that's been made, how much longer do you see that being the case?

Chiuch: There is more progress to be made. For example, if China A-shares were included in MSCI, they would constitute approximately 55 percent of the total A-share market cap representing more than 1,400 A-share issuers—this would help expand the market. Another review is expected to happen in June this year. Another potential growth factor is offshore participation in the Chinese securities lending market. Currently, only domestic institutions are permitted to borrow and lend securities in China, but if regulations change to allow offshore participants, that could generate strong additional growth. If or when this will happen is anyone's guess.

Other markets with potential are Indonesia, the Philippines and Vietnam. A well-functioning securities finance model can complement broader expansion into these markets.

Chua: China continues to be a story for tomorrow rather than today. We believe one of the main growth stories in 2017 will be the continued development of institutional investors in China, driving the shift from a predominantly retail market to one that is more institutional.

Fannin: While China undoubtedly offers compelling long-term revenue propositions, there are a number of additional opportunities with potential to grow Asia's revenue profile significantly.

For example, India and Indonesia are two of the region's largest economies, and are progressing regulatory investment into securities lending.

Given the depth in liquidity and expected growth profiles of these markets, we expect them to be key securities lending destinations, as and when they become viable for offshore participation.

Cowan: It's hard to ignore China's ever increasing role and influence within the region. The potential for China to continue to drive the regional outlook for the foreseeable seems inevitable.

Maury: China is indeed the key country. We are hoping for legal progress on the subject of transfer of securities to lead to the development of a real onshore stock lending market.

In our recent conversations with regulators we have been under the impression that it would take some time.

> The potential for China to continue to drive the regional outlook for the foreseeable seems inevitable
>
> Stewart Cowan
> **J.P. Morgan**

> We expect that a more scalable model is unlikely to evolve in China within the next two to three years
>
> Zubair Nizami
> **Brown Brothers Harriman**

The Hong Kong-Shenzhen Stock Connect and its Shanghai counterpart have so far failed to inspire the securities finance market the way many hoped. What's your prognosis on the problem and is it being addressed?

Nizami: While a lending model for offshore holders of Shanghai listed A-Shares does exist via the Stock Connect scheme, its use remains limited due to various restrictions in place that curb both lending supply and end-user demand.

Regulatory momentum behind the further development of a viable offshore model has stalled somewhat given the turbulence that we witnessed in the Chinese equity markets during the summer of 2015.

Our view is that the Chinese Regulatory Securities Commission (CSRC) will continue to remain focused on overall market stability as opposed to further liberalisation of the securities finance market in the near term, particularly in light of China's ambition to be added to the MSCI Emerging Markets Index.

Longer term, we are optimistic that the CSRC will look to introduce gradual reforms to the offshore securities finance market.

That said, in terms of timeframes, we are probably quite some time away. We expect that a more scalable model is unlikely to evolve within the next two to three years.

Cowan: We have seen a lukewarm response by markets to Stock Connect, perhaps due to some of the intricacies of the model, however, the direction is a strong indication of the desire to expand and open Chinese exchanges to the broader international markets.

PASLA and other industry organisations and market participants continue to engage with regulators, however, since there is a substantive regulatory agenda we do not expect to see any significant changes to the current framework in the short term.

Chua: The much-anticipated advent of securities lending and borrowing via Stock Connect has not been activated as quickly as the market anticipated. This has muted demand for A-Shares via the platform, as directional positions have not met volume expectations.

Given concerns over issues like margin trading, regulators will likely require more time to become comfortable with the platform and the nuances it introduces.

Chiuch: Let's put things into perspective. The Shanghai Stock Connect was first launched in 2014. The Shenzhen Stock Connect was only announced mid-2016. While challenges exist, it's probably a little early for final conclusions.

One challenge is that only domestic participants are able to engage in securities lending and borrowing in China, so this limits the development of a more globally active securities finance market.

Additionally and in regard to China's same-day settlement period you don't have time to recall loaned securities to cover trades.Share suspensions in Hong Kong and/or China also remain a hot topic especially for exchange-traded funds (ETF) issuers in that space. ETFs are, furthermore, reportedly being considered as potential eligible securities in the Stock Connect.

Maury: I do not believe the Stock Connect was supposed to boost stock finance. It was simply an important step into the opening of Chinese equity markets.

Unfortunately, that positive step came somehow at a wrong timing, at the beginning of a deep market consolidation phase following the massive rally of 2015.

Therefore, volume of inward investment was somehow disappointing. Besides the regulatory environment needed for active stock lending and repo using the Stock Connect is not ready yet, which limits active trading on the short side.

> The advent of securities lending and borrowing via Stock Connect has not been activated as quickly as anticipated
>
> Jansen Chua
> **State Street**

tradingapps
Incisive financial tools

> Markets where regulatory change encourages liquidity are good candidates for stronger securities financing revenue flows
>
> Rob Chiuch
> **BNY Mellon**

Global securities lending participants saw strong revenue in 2016 due to turmoil in the Asian markets caused by China. Which markets are you expecting to follow this trend, or buck it?

Chiuch: Given its size and breadth and the current macro environment, Japan will probably continue to generate strong securities lending revenue. Hong Kong's liquidity and healthy average trading volumes are also favourable for securities lending activity.

Overall, markets where regulatory change encourages liquidity are good candidates for stronger securities financing revenue flows. Some Asia Pacific markets can be challenging for securities financing because of their size and the apparently reactionary way regulation responds to market trends. Depending on market sentiment, regulatory oversight in some markets could change. This can affect market liquidity, which in turn can hamper securities lending revenue.

Fannin: The scale of the Chinese economy means it affects most economies either directly or indirectly, and we expect its ongoing transition from a manufacturing to service consumption economy to continue providing opportunities for investors across Asia.

This should bode well for future securities lending demand.

This theme will be more obviously applicable to some jurisdictions than others. One of these is, of course, Hong Kong, given the access and exposure to China that it provides to international investors via H-shares.

The Hong Kong market boasts an impressive revenue stream for the industry, and given its growing depth of liquidity we expect this to continue.

Other markets including Australia, Japan, South Korea and Taiwan all account for demand relating to China exposure, whether that is a function of export demand or exchange rate sensitivity.

These all represent long-term themes that should continue to be important catalysts of demand for the foreseeable future.

Nizami: With a number of market valuations looking somewhat inflated and increasing sentiment around potential downside volatility, we could witness an increased focus on hedging as investor concerns surrounding a potential sell-off in the Asian markets grow.

We believe market neutral long/short equity strategies could see a bump in demand, which would ultimately drive demand for borrowed securities.

In addition, the impact of geopolitical events on capital markets and rising interest rates in the US may also contribute to increased volatility, which in turn could create greater distortions in pricing and thus generate securities lending opportunities.

However, the potential dampener on this outcome is if the political rhetoric becomes so distracting that a risk-off environment is created and activity levels become muted until investors gain a better understanding of where the markets may be headed.

Against this backdrop we are optimistic from a demand perspective and expect that Hong Kong, Japan and South Korea will continue to drive a significant portion of our revenue in Asia again this year.

Although China witnessed stable GDP growth of around 6.5 percent to 7 percent last year, which compares favourably to growth of 1.6 percent in the US and 1.7 percent in the eurozone area, there are still some investor concerns.

These include the state of its economy, particularly in relation to its gradually depreciating currency, as well as increasing capital outflows and high debt levels, especially in the property sector.

We believe these themes will provide securities lending opportunities for market participants in 2017.

> We expect that Hong Kong, Japan and South Korea will continue to drive a significant portion of our revenue
>
> Zubair Nizami
> **Brown Brothers Harriman**

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> The Indian market has been in an extended bull run since the Lehman shock, with the NIFTY tripling over the period
>
> Francois Maury
> **Natixis**

Cowan: 2017 has started relatively quietly. First, as a result of the spillover from end of year rebalancing by borrowers and; second, hedge funds appear to be taking a wait-and-see approach in the face of the current political changes.

One material change, which is driving demand, is the move away from stock specific shorts to the broader quant trading.

This has resulted in broader, more consistent demand albeit at lower spreads. That being said, we believe that overall the trading and revenue generation should remain consistent and continue its upward momentum.

Japan and China are obviously significant economic drivers across the region (and globally) and events specific to these markets, combined with the political shifts, could provide volatility, which in turn may generate additional trading opportunities.

Chua: Japan and Hong Kong have shown considerable strength at the start of the year and are likely to be key markets in 2017.

Australia, South Korea and Taiwan all have potential for revenue generation, but the latter two may experience more volatility in earnings as regulations tighten.

India was pinpointed as the next lucrative market in 2016. Is that still the case, and why?

Nizami: That certainly was a rather optimistic prediction for 2016. From an offshore securities lending standpoint, it is quite a long way from being of any interest to us and our clients.

There are still restrictive parameters around loan tenures, collateral types, and other operational areas which certainly won't encourage much participation from the offshore market.

It could have significant potential in the long term, especially given the size and scale of the Indian economy.

However, until there are some wholesale changes to some of these aspects of the existing securities lending model, I don't think this is a market that would garner a lot of attention in the next few years.

Cowan: A limited number of international firms have been able to facilitate trades within India stemming from the current centralised clearing model which makes it difficult for many lenders to participate.

Since participation also requires a considerable amount of due diligence, legal and investment dollars, we anticipate international participation and overall volumes will continue to be quite low.

Chua: India continues to be a market of interest and one to watch regionally. Depth of supply continues to be a challenge for most lenders due to specific requirements around collateral and trade duration.

This has caused most lenders to wait until further developments bring the market in line with their existing programmes.

Maury: The Indian market has been in an extended bull run since the Lehman shock, with the NIFTY tripling over the period.

There was a volatility episode at the end of 2016 when Prime Minister Narendra Modi surprisingly launched a very ambitious demonetisation plan with the explicit purpose to crush the large shadow economy.

The immediate negative impact on growth of the reform has now been discounted by the market, with a nice start of 2017.

On the fiscal side also, some uncertainty was created by the reform of the tax convention with Mauritius. In general, we expect the Indian market to remain very interesting in 2017, albeit more volatile. **SLT**

> Depth of supply in India continues to be a challenge due to specific requirements around collateral and trade duration
>
> Jansen Chua
> **State Street**

AUSTRALIA

The Australian market, of which 'super' funds are a large part, has the power to transform performances. IHS Markit's data reveals how securities lending has fared since 2012, while Australia and New Zealand Banking Group and Northern Trust provide their analysis

Revenue

- 2016: $73.73 million
- 2015: $64.31 million
- 2014: $55.19 million
- 2013: $70.50 million
- 2012: $81.71 million

Average Utilisation

- 2017: 6 percent
- 2016: 7.2 percent
- 2015: 6.5 percent
- 2014: 5.4 percent
- 2013: 5.7 percent

Average Lendable

- 2017: $207.17 billion
- 2016: $176.75 billion
- 2015: $167.32 billion
- 2014: $199.69 billion
- 2013: $195.12 billion

Weighted Fees

- 2017: 0.42 percent
- 2016: 0.49 percent
- 2015: 0.53 percent
- 2014: 0.47 percent
- 2013: 0.6 percent

Average Value On Loan

- 2017: $12.41 billion
- 2016: $12.71 billion
- 2015: $10.73 billion
- 2014: $10.76 billion
- 2013: $11.07 billion

2017 figures are YTD. All figures are USD and for equities in 2016 unless otherwise stated

A position of strength

Securities lending is in a strong place in Australia. Dane Fannin, head of capital markets in the Asia Pacific at Northern Trust, explains the available opportunities

According to leading data providers, the supply of Australian assets accounts for approximately a fifth of Asia's inventory. Although declining dramatically during the global financial crisis, supply has now returned and eclipsed pre-2008 levels. However, this trend does not hold true for demand, which remains comparatively lower to pre-crisis levels by a factor of three.

This dynamic is no different those within the broader industry, although is perhaps more pronounced in Australia. It has been largely driven by a decline in index arbitrage strategies, which previously accounted for significant loan volumes before disappearing as a function of increased balance sheet costs and regulation.

A unique aspect of the Australian market is its domestic orientation and relatively intimate investment community, which makes a local presence valuable for relationships and information flows. In this respect, Northern Trust's trading presence in Sydney and capability to provide local expertise from there has proved valuable to clients.

In addition, as the superfund sector has continued to consolidate and grow, this dynamic has encouraged a healthy level of dialogue and benchmarking amongst asset owners, helping promote best practices and drive innovation in Australia. It has also been the backdrop for a growing change in perception towards securities lending within the beneficial owner community, which is increasingly reshaping the lens through which investors assess the value proposition for the product.

Re-engagement and renewed interest

For those participants who opted out of securities lending following the crisis, onshore appetite for local lenders to re-engage their programmes has generally been weaker relative to other jurisdictions.

Since then, the industry has been able to demonstrate how securities lending has evolved into a more robust, transparent and flexible offering, with new tools available for customising parameters and managing risk. We are now seeing increased interest in the product, including from asset owners who have not entertained the idea of participating in securities lending programmes before. As funds have struggled to fight the headwinds and impacts of the low interest-rate environment, the need to reduce costs and enhance performance has come to the fore, particularly for products that can deliver revenue streams at relatively low levels of risk.

Strategic opportunities

While some asset owners are working closely with their boards to obtain approval to engage in securities lending, there are lenders on another side of the spectrum who are advancing the way in which it can be used as a vehicle to drive the needs across other functions of the business.

One interesting theme being explored is the extent to which securities lending can help the needs of the treasury function, in respect of cash management and liquidity, through advanced concepts such as agency repo and peer-to-peer lending.

Helping to drive the decision making process on securities lending is the landscape for demand trends. Most Australian funds have a unique home-bias in asset allocation and therefore the opportunity to utilise Australian assets is of particular focus for lenders.

We see sporadic demand across the main equity index largely driven by directional strategies pertaining to the commodity sector, and expect this theme to persist, given the exposure Australia has to evolving global demand—particularly that of China.

As is the case in many markets, the really attractive inventory for borrowers lies beyond blue chip shares and in the mid- to small-cap arena, driven by a growth in quantitative-type investor strategies that typically trade within this bracket.

Fixed income opportunities

In the fixed income space, we have observed a notable trend in rising demand to borrow high quality liquid assets (HQLA) on a termed basis, driven partly by how Basel III requires borrowers to meet certain liquidity and funding ratios, such as the liquidity coverage ratio and the net stable funding ratio. Reforms to move over-the-counter derivatives to central clearing, requiring the posting of HQLA as collateral, have also been a catalyst.

Borrowers have also sought to raise HQLA by pledging lower-rated or less liquid securities, which, if otherwise not utilised, act as a drag on balance sheets. This increasingly common occurrence in the term lending of HQLA has given rise to new revenue opportunities. Foremost of these are owners of Australian government bonds who are willing to provide greater flexibility in collateral, and have the appetite for extended loan durations.

We feel that securities lending is in a strong place in Australia and expect continued efforts by beneficial owners to open up their programmes against a backdrop of robust global demand.

These trends should see a growing pool of domestic wealth driving divestment beyond the borders of Australia, increasing the importance of global service providers. We remain absolutely committed to helping our clients develop solutions locally that can help them achieve their long-term goals. **SLT**

The name's Bonds

Hugh Leonard, director of repo sales at Australia and New Zealand Banking Group, explains how the Australian market has excelled in recent years

Australia's fixed income repo market has grown in recent years as the supply of securities has ballooned following the financial crisis. The outstanding float of Australian commonwealth government bonds (ACGBs) has risen from AUD 55 billion (USD 41.98 billion) in 2007 to AUD 460 billion (USD 351 billion) today and is set to increase to more than AUD 600 billion (USD 457.89 billion) in the coming years.

Other securities, such as semi-government bonds, bank debt, supranational debt and corporate credit have also grown, and the debt market is approximately AUD 1.4 trillion (USD 1.1 trillion) in size.

The significant increase in foreign ownership of Australian debt due to both supply and the rise in demand in a low yielding environment has driven increased interest in the AUD repo market.

The repo market in Australia operates much like other repo markets globally. The central bank stands in the middle to provide or withdraw funds and provide lending on the basis of its eligible securities list. The major counterparties are the bank trading books, real money investors, central banks, hedge funds and foreign banks located both in Australia and abroad. The government's debt borrowing arm—the Australian Office of Financial Management (AOFM)—is also involved, providing securities lending as well as its regular borrowing program of at least two nominal bond tenders per week.

Take it off the top

The largest issuers of debt in Australia are the government authorities. While the individual states have separate debt programmes to fund regional expenditure, the commonwealth government is responsible for the vast amount of both revenue and expenditure nationally and has responsibility for the major expenditure. As such, it is the largest domestic debt issuer.

In the 2016-17 financial year, the AOFM is set to issue AUD 100 billion (USD 76.8 billion) of debt. This comes after several years of sizeable deficits and borrowing programmes of between AUD 70 billion (USD 53.7 billion) to AUD 90 billion (USD 69.1 billion). We expect issuance to be maintained at between AUD 80 billion (USD 61.4 billion) and AUD 100 billion (USD 76.8 billion) over the next three years.

The market has become flush with bonds at a time when balance sheets have become pressured by regulatory changes around the size of trading inventory. A contemporaneous decline in the foreign holdings of Australian government debt has meant the domestic market has had to soak up an ever larger supply. Regulatory demand for high-quality liquid assets has gone some way to helping with this, but it too appears to be reaching limits.

Lastly, lower returns in fixed income markets have forced both active and passive investors into yield enhancement strategies that have continued to drive financing costs higher.

Put your money where your rate is

Repo rates, therefore, have traded at the higher end of the range to the cash rate in recent months. Historically, the repo rate oscillated in a range of 3 basis points (bps) to 8 bps above the cash rate. Since the middle of 2016 the repo rate has traded between 25 bps to 33 bps above cash. This cost of funding has remained elevated since the middle of 2016 and has not managed to fall sustainably at any stage.

An unusual quirk for the Australian market is that lenders of cash are paid more via the repo market than in the unsecured cash market. This has led to cash rich funds and bank treasuries (those who may have disposed of an asset) to lend cash via repo and take advantage of the rates repo offers over unsecured lending.

The term market for repo has never fully developed into offering long tenor trades as seen in the US, Japan or Europe. Typically, terms are out to one week, with periods beyond one month only growing in recent history. The high capital costs for banks operating in Australia (as opposed to broker/dealers), has limited the growth of the repo market. Flow is thus concentrated in a handful of liquidity providers.

While the holdings of ACGBs by foreign investors have fallen in percentage terms due to increased supply, the absolute level of holdings has risen. So too have holdings in credit paper as investors who sought yield and security, something the Australian market has been able to offer. The total amount of securities under repo with the the Reserve Bank of Australia has doubled in the past three years to close to AUD 140 billion (USD 107.43 billion).

In this regard, ANZ has committed resources to the repo market with two full time repo traders and one repo sales person based in Sydney. ANZ is also able to offer repo to its customers via its global offices.

ANZ Research publishes weekly views on the repo market. Please contact Hugh Leonard or local your ANZ representative for access. **SLT**

The customer's always right

The IMN's Beneficial Owners' International Securities Finance & Collateral Management Conference in Florida saw many lenders shut down agents' calls for the terms of their strategies to be revised

IMN's Beneficial Owners' International Securities Finance & Collateral Management Conference in Florida provided lenders a platform to reassert their needs and stress the importance of certain aspects the status quo that some agents would like to change.

Above all else, for many beneficial owners, indemnification was the line in the sand that cannot be crossed.

Some agent lenders argue that indemnification is the appendix of the securities lending transaction. A benign feature that has outlived its usefulness but stubbornly remains, threatening acute pain at any moment. However, despite agent lenders' protest of the unreasonable balance sheet allocations associated with it in contrast to the level of protection it provides, beneficial owners, and their underlying investors, remain unwilling to allow the service to go under the knife. In the words of one beneficial owner speaking on a panel in Florida, any cuts to indemnification would force some to shut down their securities lending programmes.

The panellist explained that, although beneficial owners must bear the cost of indemnifying trades, the guarantee of redemption frees up budgets that would otherwise be absorbed by maintaining staff able to assess the counterparty risk associated with a trade.

In a separate panel, beneficial owners that do not have indemnification were advised that their collateral liquidation procedures must be efficient and be able to act quickly during a crisis scenario to avoid taking on losses.

Although the cost of retaining indemnification was acknowledged, multiple panellists countered with the opinion that, ultimately, beneficial owners lack the technology infrastructure and expertise to manage the counterparty risk exposures involved in removing that safety net.

Another beneficial owner observed that indemnification also serves to keep agent lenders honest by making sure they have 'skin in the game'.

Photos by Stacey Kelly, IMN

Agent lenders responsible for making their clients whole may be more motivated to act more efficiently in the case of a trade fail than they may otherwise, explained the speaker.

As usual, regulation is also at the heart of the problem. Specifically, concerns have been raised that the US Dodd-Frank Act's Collins Amendment and Basel III's capital ratios could potentially affect an agent lender's ability to offer the service.

Speaking too soon?

The US financial services industry has been rocked in recent weeks with newly installed President Donald Trump embarking on a reform programme that threatens to loosen the moorings that hold the country's regulatory framework in place.

Trump's executive orders giving the US Treasury powers to review and amend large swathes of post-financial crisis regulation has created a period of uncertainty in the future direction of markets at a time when fresh regulatory deadlines are fast approaching.

During a panel reviewing the landscape as it stood at the time—and a day before Trump would sign the executive order regarding the Treasury—speakers defiantly stated that the securities lending industry shouldn't expect an axe to be taken to banking regulation any time soon.

"I don't think we will see repeal of regulations," according to a legal expert panellist.

The panellist added the caveat that frameworks such as the new stay protocols are largely based on authority handed down from Dodd-Frank, meaning any amendments that may come will have significant knock-on effects.

An established market authority on the panel added: "Dodd-Frank isn't going away anytime soon, despite what you read in the paper."

A panellist with connections to policymakers also reaffirmed that the move to shorten the settlement cycle from T+3 to T+2 is receiving a lot of momentum from the industry and is expected to come into force in September.

The final draft of the rule is currently being formulated and is expected in March. For beneficial owners, the key change is that the recall window for on-loan securities will become a day shorter.

The question of whether the review of Rule 15c3-3, which may be amended to allow equities to be accepted as collateral in the US, is likely to move forward this year was posed to the panel.

The response was that it is very unclear, although talks are ongoing.

Row back for repo

The emergence of central banks reverse repo programmes is an admission that balance sheet regulations have gone too far, according to the keynote speaker the conference.

Keynote speaker Manmohan Singh, a senior economist at the International Monetary Fund, suggested that central bank quantitative easing policies are causing the traditional “plumbing” of financial markets to “rust” due to an over-reliance on government programmes. “There’s two balance sheets in play,” Singh explained.

Non-banks that are accepting newly printed money for their bonds are contributing to the emerging liquidity issues because these securities “end up siloed at the US Federal Reserve”, instead of being reused within the market.

Singh also highlighted the risks posed by the expanding divergence between the secured and unsecured funding rates. The rift that currently exists between these, although still within acceptable parameters, is an unhealthy feature of the current market environment.

The rift must be closely monitored in the future, especially if the much anticipated rate hike occurs in March as some panellists predicted. If the two rates continue to drift apart, the monetary policy transmission will be impaired, Singh concluded. **SLT**

Prevailing easterlies—The trade winds of Asia

Madalin Prout of FIS Astec Analytics examines lending in the Asian markets in the context of global political upheaval and explains why China's domestic market may finally be coming to terms with securities lending

In recent months, Asia has taken somewhat of a backseat in the global headlines, which were largely dominated by the new president of the US, Donald Trump, as well as the fallout from the Brexit vote in the UK, and the potential for seismic economic and political changes in Europe arising from forthcoming elections in both France and Germany. Most of the usual cyclical discussion around the stability of economic growth in China has shifted to focus on the future of the Sino-US trade relationship, with opinion fluctuating almost daily based on the latest statements from Trump.

Despite such a high level of ongoing uncertainty over key issues, at the time of writing, the global stock markets appear to be rebounding following the post-election sell-off. Almost every stock market in Asia had a positive first month of 2017, which is good news for the long side but questions persist about the sustainability of such growth given the nervousness surrounding the political environment in both the US and Europe.

Looking at securities lending data from FIS Astec Analytics (see Figure 1), the short side is also undecided on the future of the Asian stock markets. Equity lending volumes have been relatively flat since the last seasonal spike in September of last year, with average costs to borrow remaining stable as well, at least across the past three months. Looking further back we can see that the weighted average borrowing costs have been reducing over time, potentially due to demand levelling off against increasing supply becoming available as a result of the general maturing of local markets, such as Taiwan and South Korea.

Of course, the early Lunar New Year in 2017 has meant activity in the observing markets has not been able to gather pace following the Christmas and New Year period, and it remains to be seen how the trends will develop with the holidays now over.

There are other headwinds that may affect securities lending volumes, including the difficulties faced by hedge funds battling with low returns and high fees, leading many investors to exit funds and forcing many to close. Also, post-crisis regulations are reaching implementation stages, which will restrict prime brokers' ability to service their less profitable clients' borrowing requirements on a global level.

However, it's not all doom and gloom in the regional outlook. Over the past 12 months, there has been increasing appetite from domestic firms, including the Chinese brokerages operating in Hong Kong, to increase their securities lending and borrowing activities. Although this will take time and established market participants would do well to help educate the new entrants on standard market practices, the increasing familiarity of domestic Chinese firms with securities lending and can only be positive for the development of the Chinese market in the long term.

Taiwanese regulators have also been active in the securities finance market, moving to create a marketplace that is easier to operate in, particularly for agent lenders.

Recent changes include expanding the list of eligible securities that may be lent, as well as removing borrowing limits from clients. As a result of these changes, the Taiwan Stock Exchange is hoping to attract more lenders into the market as well as increase transparency. More liquidity may slowly bring down the commonly higher fee levels seen in Taiwan, but this is just one aspect of the ongoing development of a maturing market.

In addition, other Asian markets such as South Korea are demonstrating that there is an appetite among local firms to build their international businesses, not just in their traditional domestic markets. Domestic beneficial owners and borrowers are both seeking to develop their international strategies in order to achieve levels of growth that are not possible domestically. This is generating opportunities for counterparties and technology firms alike as these companies seek partners in their new markets. It remains to be seen how this will translate in terms of evolving business practices in domestic firms, which have so far presented some challenges to international counterparties.

Transparency is something that will increasingly be on the minds of all securities financing jurisdictions, including those across Asia. The implementation of the Financial Stability Board's (FSB) transparency directive will affect every jurisdiction and national competent authorities are being charged with gathering market data to pass on to the FSB. The European Securities and Markets Authority already has plans in place that will demand all securities finance transactions, including trades of "equivalent economic effect", are reported to an approved trade repository commencing September 2018. This will include Europe-based branches of overseas banks, which will no doubt include many Asian banks.

FIS understands that the Bank of Japan is actively participating in the FSB data experts group and, considering its compliance with the directive, other jurisdictions are likely to follow. As a global provider of systems and securities finance market data, FIS is closely engaged with these developments and is working towards delivering global solutions for our clients.

While there is a great deal of work to be done—be it the relaxation of regulations in developing markets, or the implementation of new transparency requirements, designed to bring extra stability to the market—it is true that securities lending in Asia still offers some of the highest returns for lenders across all the regions. Despite some global uncertainty, much of it driven from economic and geopolitical pressures outside the region, there are ample opportunities in this vibrant and developing market for those willing to seek them out. **SLT**

Figure 1: Trends in Asian equity securities lending volume and intrinsic rate over the last 12 months, indexed as of 9 February 2016

Source: FIS Astec Analytics

The Bank of Japan is actively participating in the FSB data experts group and other jurisdictions are likely to follow

Madalin Prout, Senior vice president
FIS Astec Analytics

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April 2017

26-27

finadium.com/conferences

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Luxembourg

May 2017

3-5

www.icmagroup.org

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Switzerland

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events.marcusevans-events.com/epi2017/

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Media and Communications Officer

International Securities Lending Association (ISLA)

London

An opportunity exists to join the International Securities Lending Association as media and communications officer. The position will report to the ISLA COO but working with a small team at ISLA. The key area of focus will be on communications to our membership and the broader industry.

Project Manager / Consultant

Alexander Ash

London

This is a unique opportunity for highly motivated project managers/ programme managers to make a significant contribution to the capital markets operations transformation practice at one of the most successful global consulting firms. You will help grow the capital markets practice through support for business development activities, developing value propositions and playing a lead role in client engagement and assignment delivery.

Project Manager

Alexander Ash

London

A major investment bank is undertaking the MiFiD II investor protection implementation and have a fantastic opportunity for a project manager to play a key interface role within the business.

Securities Operations

Bruin

London

Our top tier, global banking client is looking for a securities operations inventory manager to join its securities lending operations department.

Comings and goings at the Federal Reserve, eSecLending and Hazletree

US Federal Reserve governor and key architect of post-crisis US banking regulation Daniel Tarullo has tendered his resignation, effective 5 April.

Tarullo was instrumental in the creation of rules set by the embattled Dodd-Frank Act, and his resignation offers an opportunity for President Donald Trump to further his campaign promise for an overhaul of banking regulation by allowing a potential roadblock to reform to be replaced with a successor with views more in line with the White House.

President Barack Obama appointed Tarullo to the board in January 2009 for an unexpired term ending 31 January 2022.

Tarullo served as chair of the board's committee on supervision and regulation and was also chair of the Financial Stability Board's standing committee on supervisory and regulatory cooperation.

In his two-line resignation letter addressed to the president, Tarullo declined to offer a reason for his early departure.

Tarullo's resignation marks the latest in swathe of Obama-era senior regulators standing down under the new administration, including Securities and Exchange Commission chair Mary Jo White, who vacated her position after four years on the day of Trump's inauguration.

The loss of another experienced figure at the central bank will be seen as a win for Wall Street, which had been a vocal critic of Tarullo's strict standard setting as part of his interpretation of Dodd-Frank, as well as the newly energised anti-regulation wing of the Republican party.

eSecLending has appointed EquiLend's James Moroney as head of global equities and corporate bond trading, as of 27 February.

Moroney replaces Jeffrey O'Neill, who held the role since 2013.

Phil Picariello, head of short-term investment management, will take on the additional responsibility of managing eSecLending's government bond trading team.

Previously, Moroney served as a product specialist at EquiLend.

A spokesperson for eSecLending said: "[The firm] is eager to have James Moroney join the team as he brings a tremendous amount of experience in securities lending, having previously held roles at Bank Boston, State Street and most recently, Equilend."

Hazeltree has appointed Don Jefferis as managing director of strategic accounts, to lead business expansion into new markets.

Jefferis has more than 30 years of experience in professional services, software product management and business development in the energy and software industries.

Previously, he launched the process and technology practice at Opportune LLP, an energy-focused consultancy, where he was a partner and strategic advisor.

At Hazeltree, he will be responsible for expanding and leading business development into strategic markets such as insurance companies, endowments and pension plans.

Sameer Shalaby, president and CEO of Hazeltree, said: "We are consistently seeing increased interest in Hazeltree's treasury solutions across all areas of the investment management industry, driven by the increasing complexity resulting from regulatory shifts, investment diversification and escalating demands for transparency. With Don Jefferis's leadership, we are well positioned to expand into a number of additional buy-side markets."

Jefferis commented: "I became unequivocally convinced that the operational pain that Hazeltree solves for its asset management clients has broader applicability across new markets."

"In Hazeltree terms 'active treasury management' turns treasury operations on its head, from a cost centre to a profit centre, while reducing risk and facilitating regulatory compliance. Perhaps most importantly, 'active treasury management' is also emerging as a due diligence topic among increasingly discerning institutional investors in search of greater transparency, systemic risk diversification and a commitment to best practices." **SLT**

securities lending times

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