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Malaysia loosens the reins on lending

Bursa Malaysia has revised its securities lending and short selling rules in a bid to boost price discovery and market liquidity.

Investors in the Malaysian exchange's securities lending market are now allowed to borrow securities for the settlement of potential failed trades rather than be subjected to the buying-in process.

The revision aims to offer a way to mitigate the costs of genuine trade errors in the market.

In the short selling market, changes to the tick rule will allow short selling orders to be executed at the best current asking price or higher.

The change will provide greater price flexibility to market participants and aid price discovery and market liquidity, according to the exchange.

The reforms come under the exchange's Regulated Short Selling (RSS) and the Securities Borrowing and Lending-Negotiated Transactions (SBL-NT) Failed Trade Proposal frameworks.

The exchange recently valued the total size of its securities lending market at MYR 4.9 billion (USD 1.1 billion).

Bursa Malaysia CEO Datuk Seri Tajuddin Atan said: "The revised tick rule on RSS and SBL-NT Failed Trade Proposal frameworks are part of Bursa Malaysia's ongoing initiatives to create a more efficient marketplace for price discovery and trading, and to introduce market practices which are in line with more developed markets and jurisdictions."

"With our market fundamentals intact to preserve a fair and orderly market, this is an opportune time for Bursa Malaysia to further enhance the characteristics of the two facilities which is expected to improve market liquidity, provide improved flexibility to market participants in mitigating the risk of settlement failure and reduce transaction costs of trading on Bursa Malaysia."

"As Malaysia looks towards becoming a leading market in the Association of South Eastern Nations, RSS and SBL-NT are some of the important market mechanisms that we look to continually improve and enhance on."

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Societe Generale doubles down on Lombard Risk's collateral services

Lombard Risk has extended its relationship with Societe Generale as a user of its flagship collateral management solution—Colline.

Societe Generale will now leverage the platform for collateral management and optimisation of its exchange-traded derivatives (ETD) business, in addition to over-the-counter (OTC) and clearing.

The bank already uses Colline for its global securities services, prime services and investment bank operations.

Franck Docquier, global head of collateral management operations at Societe Generale, said: "Lombard Risk has been an excellent partner in responding to our group's global collateral management challenges and we see clear benefits for us and our clients, who are seeking a more agile and robust solution."

"This extended partnership demonstrates the high quality of service, trustworthiness and commitment offered to our business. We look forward to continuing our longstanding relationship with Lombard Risk."

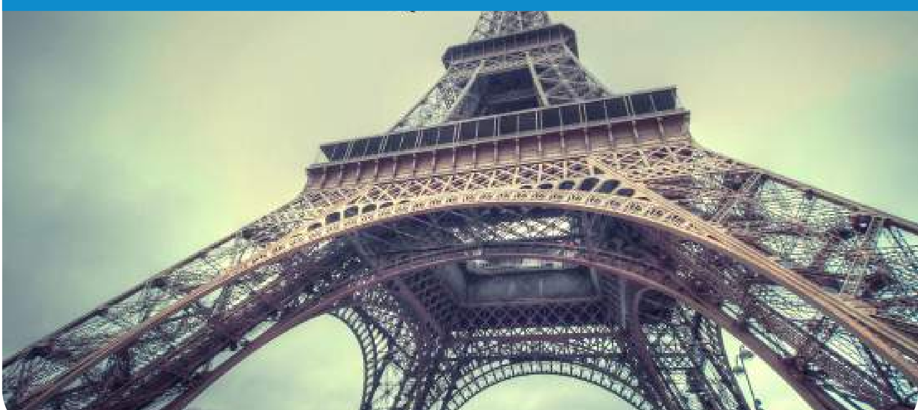
Alastair Brown, CEO of Lombard Risk, added: "This extended partnership forms part of our long established relationship with Societe Generale to improve its collateral management processes across all of its businesses."

"By offering an agile and adaptable solution, Lombard Risk ensures that it can continue to support Societe Generale's strategic collateral management objectives going forward."

Additionally, Lombard Risk has bolted on a new ETD module to Colline. The newly augmented offering will extend Colline's reach to all asset classes and products, covering securities lending, repo, OTC, ETD and exchange-traded funds (ETFs).

ESMA: CCPs, EMIR and MiFID II are top concerns for 2017

Paris | Reporter: Drew Nicol



The European Securities and Markets Authority (ESMA) is keeping the supervision of EU central counterparties (CCP) front and centre for its 2017 work programme.

ESMA plans to continue the work it began last year on tackling potential risks linked to the increased systemic importance of CCPs.

According to ESMA, this risk must be headed off before further application of its clearing rules enhance the role of CCPs in the market.

In its 2017 Supervisory Convergence Work Programme, ESMA described how it is "undertaking different activities to strengthen CCPs robustness and their supervision, such as common practices across CCP colleges, annual stress testing exercises and mandatory peer reviews".

ESMA chair Steven Maijoor noted that the authority must remain sensitive to "emerging challenges", such as the UK's eventual departure from the EU, "which will have implications for supervisory convergence".

Speaking on ESMA's regulatory priorities in 2017, Maijoor said: "The supervisory work programme sets out how both ESMA and national competent authorities will focus on fostering supervisory convergence across the EU. Our aim in pursuing this work is to achieve high, consistent standards of supervision that supports investor protection, orderly markets and financial stability, which are also key in supporting the capital markets union initiative."

"We will focus this year on preparations for the implementation of the second Markets in Financial Instruments Directive/Regulation in 2018, improving the quality of data collected by national competent authorities on which all supervisory authorities rely for market surveillance and risk analysis, addressing issues around the provision of cross-border services which may pose risks to retail investors and ensuring further convergence in the approach to CCP supervision."

The new ETD service comes in response to the uncleared margin regulations in the US and EU under both the US Dodd-Frank Act and European Market Infrastructure Regulation.

According to Lombard Risk: "Over the past year, Colline has been delivered to a record number of clients across both the buy- and sell-side in the US and Canada, with five major clients going live in the current quarter."

The strong client growth figures were attributed to the latest additions to Colline's services, according to Lombard Risk.

The technology provider will be delivering further global regulatory updates for Hong Kong, Singapore and Australia, in due course.

Helen Nicol, global product director, collateral solutions from Lombard Risk, said: "With the increasing breadth of Colline, new client segments are able to take full advantage of the time-tested resilience of our collateral solution."

"Giving access to solutions that provide performance enhancing functionalities is vital for client success. We already have a number of new and existing market leaders in the US and Europe signed up for the new modules."

"Driving the vision of change allows us to stay ahead of demand and gives our clients the greater agility they need to gain advantage in their given markets."

Proposed merger hits new roadblock

The proposed merger of the London Stock Exchange Group (LSEG) and Deutsche Börse has hit yet another stumbling block, as the board of LSEG declined to comply with last-minute demands from the European Commission.

The European Commission raised new concerns on 16 February around the all-share merger of equals, regarding the bond and repo trading fees currently being provided by MTS, LSEG's Italian electronic trading platform for European

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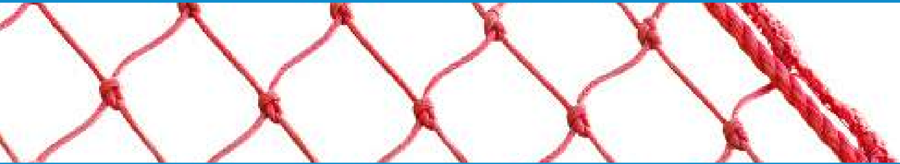
Digital Asset and DTCC complete concept for US repo netting distributed ledger tech

New York | Reporter: Drew Nicol



The Depository Trust & Clearing Corporation (DTCC), in partnership with distributed ledger technology developer Digital Asset, is preparing to embark on the second phase of constructing a repo netting blockchain solution.

DTCC previously produced a proof-of-concept, which it claims demonstrates the first successful netting of start leg of repo transactions with prior end-of-day net securities obligations.

The second phase involves forming a stakeholder working group comprised of active US repo and related transaction market participants to collect independent feedback and ensure the solution is aligned with industry needs.

This phase is expected to be completed by June 2017, at which time the development phase may begin if the latest feedback proves positive.

DTCC explained that the new distributed ledger technology solution would allow it to claim control of the netting process throughout the transaction chain, as the first leg is currently settling outside of the system.

The close leg is already netted and settled by DTCC's Fixed Income Clearing Corporation (FICC), which provides the matching and verification of repo transactions for same-day settling trades.

Upon completion, the solution aims to allow DTCC to calculate a new net settlement amount at a point in time and record it in an immutable, secure and transparent distributed ledger that can be leveraged by FICC for new net securities and cash obligations with its member firms.

Blythe Masters, CEO of Digital Asset, said: "We are delighted to be working with DTCC towards the first industrial-scale implementation of distributed ledger technology for the $3 trillion per day repo market."

"As repo volumes continue to grow, phase two demonstrates DTCC's ongoing commitment to leveraging DLT for the benefit of their clients, making this one step closer to being a reality."

Michael Bodson, president and CEO of DTCC, commented: "We are very pleased with the results from our repo proof-of-concept effort with Digital Asset, and we see this project as another validation of the potential of this exciting, emerging technology."

"DLT was chosen because of its real-time information-sharing capabilities, enabling all parties to quickly view repo details after trade execution lowering risks and costs while enabling users to take advantage of the benefits of a central counterparty."

DTCC and Digital Asset value the US repo market at $3 trillion per day.

wholesale government bonds and other fixed income securities.

The commission told LSEG to sell the platform before the merger with Deutsche Börse can go ahead, demanding a formal proposal for divestment of LSEG's majority stake by midday on 27 February.

The board of LSEG decided it would not agree to this, calling the request "disproportionate" and stating it is acting in the best interests of its shareholders by declining.

This follows the European Commission's request, in September, for LSEG to divest its majority stake in LCH.Clearnet SA, the French arm of LCH.Clearnet Group, in order to address anti-trust concerns.

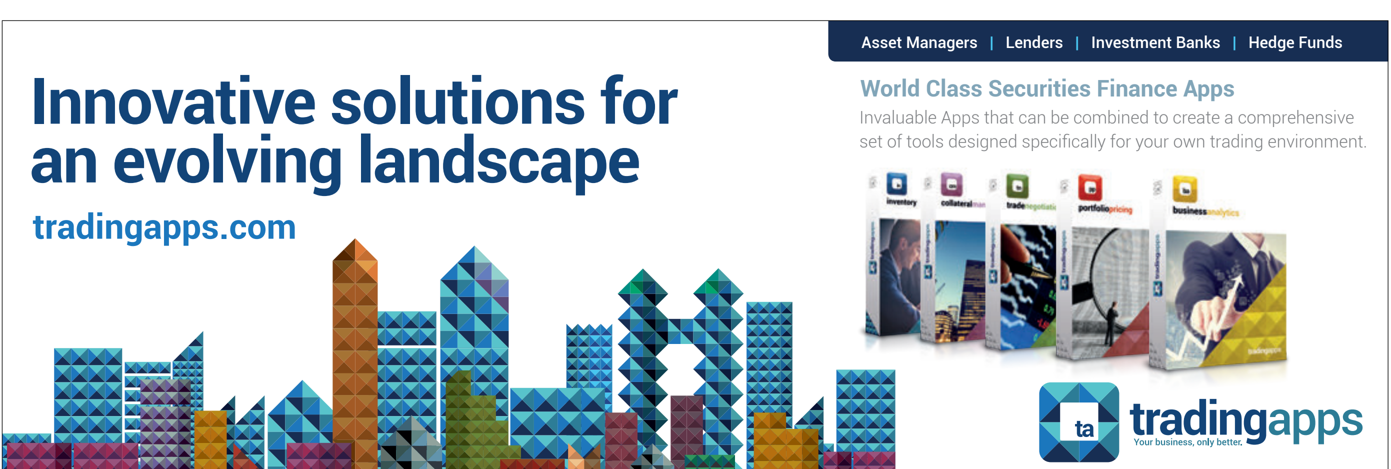
In January, Euronext placed an irrevocable all-cash offer for LCH SA, agreeing a put option and cash consideration of €510 million on the condition that the merger between LSEG and Deutsche Börse was completed. The sale was also subject to review and approval from the European Commission.

The new request arose from the commission's market testing of LSEG and Deutsche Börse's submitted commitment to the sale of LCH SA.

LSEG made the case that MTS is a systemically important regulated business in Italy, due to its role in the trading of Italian government bonds and other securities, arguing that it accounts for a "significant proportion" of LSEG's revenue.

In a statement, LSEG said: "Any change of control of MTS would require, in particular, the approval of the Italian authorities and would trigger parallel regulatory approval processes in other jurisdictions including the UK, Belgium, France and the USA."

It went on: "The LSEG board believes that it is highly unlikely that a sale of MTS could be satisfactorily achieved, even if LSEG were to give the commitment."



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"Moreover, the LSEG board believes the offer of such a remedy would jeopardise LSEG's critically important relationships with these regulators and be detrimental to LSEG's ongoing businesses in Italy and the combined group, were the merger to complete."

LSEG conceded that, based on its current position, the commission is unlikely to give the go-ahead for the merger.

However, it said the group "remains convinced of the strategic benefits of the merger" and will continue to work towards completion of it.

As well as requiring clearance from the European Commission, the proposed merger is subject to approval from all relevant regulators and authorities in all countries LSEG operates in.

Discussions are underway with the majority of these, but have not yet been concluded.

OFR: Margin requirements must rise to avoid amplifying market shocks

Market regulators must raise margin requirements for over-the-counter derivative transactions in order to address their procyclical nature and avoid amplifying liquidity issues during stress scenarios, according to the US Office of Financial Research (OFR).

In a recent research paper, the OFR examined the problem of setting margin levels that are high enough to reduce credit exposure yet stable enough to mitigate unintended procyclicality.

"The growing use of margin requirements in over-the-counter derivative transactions reduces counterparty credit risk but may amplify shocks to the financial system through margin calls when volatility spikes," explained Paul Glasserman and Qi Wu, the paper's authors.

"In times of higher market volatility, price changes are larger, so the minimum level of margin required to cover potential price changes with high confidence must also be larger."

"This dynamic can, however, have a destabilising effect on financial markets. With risk-sensitive margin requirements, a spike in volatility leads to margin calls on the firms trading through a CCP or bilaterally."

"The increase in volatility is likely to be correlated with other indicators of market stress, in which case these firms would need to post additional collateral precisely when it becomes most difficult to raise cash or other liquid assets."

The paper proposes shifting to 'through the cycle' margin levels that are less sensitive to day-to-day market conditions and therefore less prone to spike at the onset of market stress. "The cost of this added stability is that margin levels need to be higher in quiet times and may seem unnecessarily high as memories of past volatility fade," the authors added.

The paper also raises questions over the competence of the current EU rules regarding requirements of central counterparties adopt at least one of three suggested methods to minimise procyclicality.

"These rules are vague and therefore open to interpretation, despite the specificity suggested by the numerical values associated with the three options. The rules also fail to differentiate between features of different asset classes."

Northern Trust expands office in South Korea to boost Asia presence

Northern Trust has enhanced its presence in Asia with the opening of an expanded office in Seoul, South Korea

The new office builds upon Northern Trust's existing base in the country, which opened in 2014, and will allow for new business lines to be offered, such as foreign exchange.

The office is managed by Jai Yung Byun, head of South Korea office, and Mike O'Grady, president

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of Northern Trust and head of Asia Pacific. Northern Trust has an established presence in seven Asian markets including Hong Kong, Singapore, India, China and Japan.

Northern Trust said: "As we continue to commit to our market, we are proud to be able to strengthen our client servicing capabilities and enhance opportunities for business development in South Korea with the opening of our new office in Seoul."

OCC goes from strength to strength

OCC saw a strong start to its securities lending business in 2017, with a 19 percent increase in new loans through its central counterparty so far this year.

The clearinghouse also beat its February 2016 figures by 8 percent.

The average daily loan value cleared in February was $152.96 billion, from 161,782 transactions.

OCC seems destined to continue the strong trajectory of securities lending growth that it maintained throughout 2016.

January to December securities lending activity was up 37 percent with almost two million new loan transactions.

Cleared futures volume was up 57 percent in February, compared to the year before, with more than 10 million contracts. Year-to-date average daily cleared futures volume was also up 45 percent with 505,209 contracts.

OCC was denied the boast of growth across the board by its exchange-listed options clearing volumes, which were down 3 percent from February 2016.

Year-to-date average daily equity options volume was down 8 percent, while average daily index options volume was up 4 percent in the opening months of the year.

UCITS and AIF sales fell in 2016

Net sales of UCITS and alternative investment funds fell to €455 billion last year as Europe was beset by plunging stock markets and Brexit.

The European Fund and Asset Management Association (EFAMA) round-up of 2016 was compiled with data from 29 associations representing more than 99 percent of total UCITS and alternative investment fund assets.

It noted a fall in net sales last year from the €740 billion achieved in 2015. "While the launch of the European Central Bank's quantitative easing programme boosted the demand for UCITS in January-April 2015, UCITS did not benefit from any positive developments in 2016," EFAMA explained.

"On the contrary, the stock market plunge in early 2016, weak economic growth and the UK's vote to leave the EU [on 23 June 2016] created much uncertainty about the future, which slowed demand for UCITS."

Despite the fall in net sales, assets under management in UCITS and alternative investment funds climbed above the €14 trillion mark for the first time ever in 2016. Net sales contributed to 52 percent of the rise in total assets, according to EFAMA, with market appreciation accounting for the remainder of the increase.

Bernard Delbecque, director of economics and research at EFAMA, commented: "The European investment fund industry ended 2016 with a new record high of assets under management, and good results in terms of net sales, considering the high degree of volatility in the financial markets and the rising political uncertainties."

"UCITS and alternative investment funds remain very attractive investment products in the eyes of investors, thanks to the protection offered by the regulation and the expected returns compared to alternative savings products."

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Traiana enhances swaps offering

Traiana has launched a new suite of services to allow swaps providers to electronically manage payments and confirmations in equity swaps.

The suite, known as the Swaps Centre, will offer users the ability to send confirmations and upload payment instructions in normalised formats to their entire client base for total return swaps.

The new service will be available via Traiana's harmony network and clients can access a user interface for both confirmations and payment notifications.

Traiana, a NEX Group subsidiary that monitors pre-trade risk and automates post-trade processing, promises that the interface will allow users to view confirmations across their swap providers, accept them electronically, and view the original documentation online.

For banks, the service will also help them to meet regulatory requirements to provide an efficient tool for multi-client confirmations.

The services is only available only for short-form total return swaps with underlying assets of equities, fixed income, American depository receipts or global depository receipts. Sectors, indices and custom baskets are also accepted, while other asset classes are expected to be added in the future.

Laura Craft, director of securities strategy at Traiana, said: "These new services will help firms to improve operational efficiency and reduce the frequency of profit and loss breaks as a result of inaccuracies and discrepancies."

"As the process is electronic, and enables normalised data sets, this can also be done much more quickly—daily rather than monthly—which has additional financial and operational efficiency advantages and ensures a greater degree of certainty in the T+1 and beyond reconciliation process via a dynamic and flexible online tool."

CloudMargin and SmartDX set out their stall with joint VM rules solution

CloudMargin, a digital collateral and margin management solutions provider, and SmartDX, a Smart Communications subsidiary offing trade automation and relationship document generation, have partnered to address the challenges posed by daily variation margin (VM) rules.

CloudMargin estimated that, on average, the new VM rules, which came into force across the EU on 1 March, will increase a firm's collateral activity by 500 percent.

The joint offering promises to enable buy-side investors and other over-the-counter (OTC) derivatives market participants to quickly and comprehensively sign new International Swaps and Derivatives Association documentation or 'repaper' their OTC agreements with existing or new counterparties through SmartDX.

Operational data will then pass to CloudMargin's collateral management workflow tool to handle the vastly increased volume of transactions.

SmartDX generates and hosts an extensive library of templates which can be configured to the specific needs of firms.

Participants can use the firm's cloud-based offering to collaborate on negotiated points and feed the agreements directly into industry utilities, such as IHS Markit's CounterParty Manager.

Lee McCormack, CloudMargin head of strategy and product development, said: "Despite the VM rule taking effect, only a small percentage of market participants have put in place a plan or the tools needed to post daily variation margin."

"But their operations workload and processes are about to change forever."

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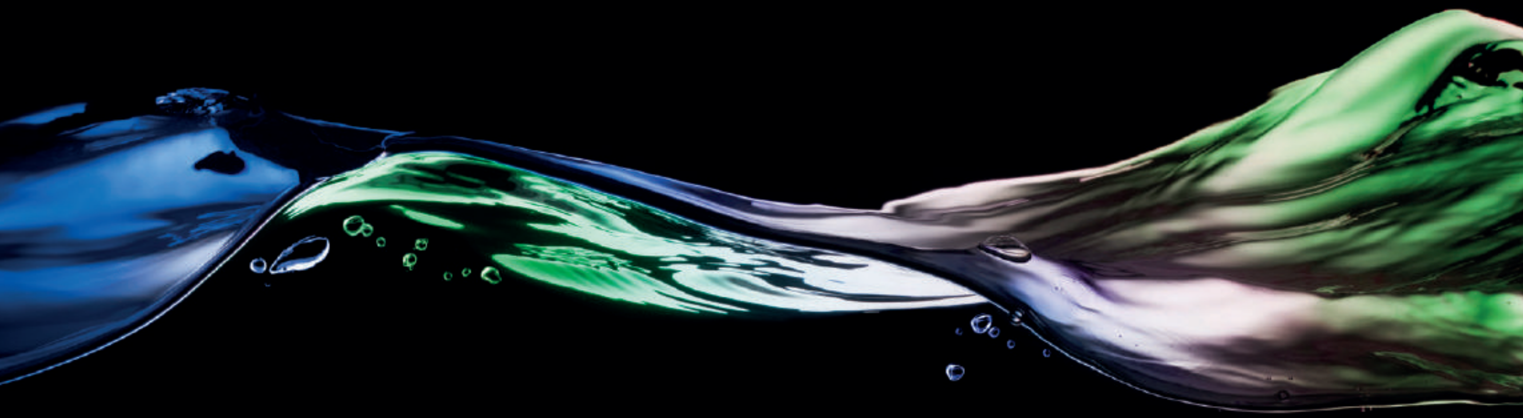

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Connection restored

Pierre Khemdoudi, managing director at IHS Markit, discusses the demands placed on data and what trends to expect throughout the rest of this year

How have the data demands of your clients developed in the past 12 months? Are they making the most of your services?

The data demands of our clients continue to evolve as the transparency demands on the securities financing business increase due to enhanced client interaction, regulatory changes and corporate pressure to make financing businesses more efficient and connected, such as centralised funding, interoperability with prime brokerage, and synthetics.

This is evidenced by the growing demand of our client base to ingest both current and historical data sets to power more quantitative strategies for their clients along with increased interest in our

independent consulting and benchmarking capabilities. These are two examples where IHS Markit's years of comprehensive historical short interest data supports off-balance sheet alpha generating strategies designed to work within the new regulatory framework.

By combining our proactive account relationship management with small and medium enterprise product specialists in all regions, we are working with our clients to ensure they are taking every advantage of our market leading position in the short interest data field.

We're also looking forward to hosting our annual London Securities Finance Forum on 28 March and I would encourage anyone interested in attending to register soon. Highlights this year include a European Securities and Markets Authority keynote on the Securities Financing Transactions Regulation (SFTR) and a panel looking at fixed income lending, which is fast becoming one of the industry's key revenue drivers.

What are the main trends that IHS Markit's data has picked up on in the opening months of 2017?

Overall, industry revenues are tracking roughly where they were at the same point a year ago. However, the industry's revenue drivers have shifted from equities to fixed income.

This year is proving to be quite challenging for equities lending and we've seen revenues atrophy by 15 percent year-to-date. Markets have been a lot quieter over the last couple of months compared to the same period last year, which has driven down the average balances seen year-to-date by 5 percent. The value of assets in lending programmes has also increased by 20 percent in the past 12 months as markets rebounded. This has had a cooling effect on fees, which are down by 15 percent on average. Last year's runaway specials, such as Tesla, have also come off the boil, which hasn't helped things.

One country that is bucking the trend is Japan. It was a runaway success last year and revenues from the country have continued to hold up as the fees needed to borrow Japanese equities have climbed ever higher.

Disappointment in equities has been outweighed by fixed income lending where revenue is up by roughly 50 percent so far this year. This is driven by an insatiable demand for high-quality liquid assets as high-quality government bonds have seen their revenues jump by over 70 percent.

Interestingly, the improved revenue figures have almost entirely been driven by lenders being able to achieve better fees for their government bond loans as balances of government bonds have only increased by 10 percent. This represents an opportunity for lenders that have the ability to lend their assets out to take advantage of this developing opportunity.

Cash reinvestment, especially for USD cash balances, has also been another industry success story and we're seeing the industry generate over 45 percent more revenue from cash reinvestment so far this year than at the same point in 2016

IHS Markit recently partnered with Pirum for an SFTR solution. What sparked this pairing and how will your joint offering tackle the challenges?

Our partnership with Pirum stems from our desire to offer the best possible SFTR reporting solution. We already do some matching with our data and benchmarking services. Pirum is the recognised industry leader in that space, which is why we chose them as our partner to provide the matching engine for our solution.

Combining both firms also frees our development resources to focus on IHS Markit's key strengths in data handling. You can't overemphasise how important data handling and management will be to successfully tackling SFTR and we wanted to focus on this particular part of the challenge to ensure that we deliver a truly world class solution.

There are also benefits in terms of data connectivity and our combined reach means that either one of our firms currently has data pipes connected to more than 95 percent of the industry.

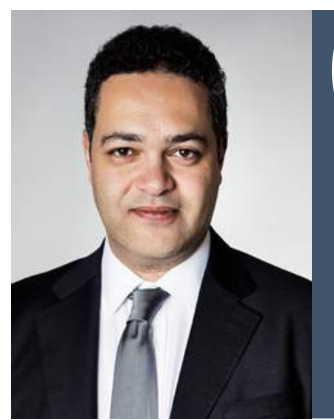
Given the current trend of back-office cuts, are you seeing more uptake of your services in the past year?

While we can't attribute it to 'back-office cuts', we have experienced an increased reliance on our data for enhanced analytics. Many firms cannot dedicate the same amount of 'research analysts' to predictive/quantitative efforts so we have had unprecedented demand for interesting and creative charts and data usage.

The industry's tilt towards growing reliance on fixed income lending has also opened up some opportunities for us as IHS Markit has a strong track record of delivering solutions to the bond market.

An example are the bond liquidity scores that we recently made available on our web portal. These scores give traders an indication of a bond's cash market liquidity, which is a key consideration when selecting whether or not to lend out an asset and how much to charge for it.

Looking further forward, we have a very disciplined investment strategy for our product development and we have been proactively shaping our product delivery to suit our clients' evolving needs. **SLT**



> We have been proactively shaping our product delivery to suit our clients' evolving needs

Pierre Khemdoudi, Managing director
IHS Markit

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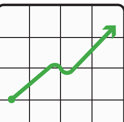

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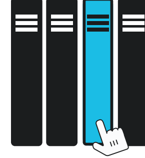

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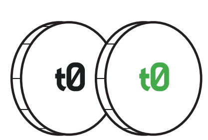

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Taking the strain

Industry experts from across the transaction chain outline the cost of SFTR's reporting standards from both a technological and financial standpoint, and discuss possible solutions

The SFTR reporting requirements are significantly burdening the business—do you agree, and why?

Garrett Berkery
Vice president of securities lending risk management
Brown Brothers Harriman Investor Services

The Securities Financing Transactions Regulation (SFTR) will impose a significant burden on the industry—but the challenges are not insurmountable. Based on the draft technical standards (DTS) the scope of the required data fields is expansive.

However, much of this required data is not customarily stored at transaction level—such as governing contract details. Even with vendors mobilising to offer solutions to industry participants, the requirements make it likely that an in-house development will be necessary, whether partnering with a vendor or not.

In addition, the number of fields that need to match to fulfil the dual-sided reporting mandate is significant, and far more than under European Market Infrastructure Regulation reporting.

It will be interesting to see what steps might be taken to better ensure that reported transactions match prior to submission to the trade repository.

Overall, despite the expectation that SFTR will result in significant costs to achieve compliance, it is hoped that the benefits of improved transparency to regulators will strengthen confidence in the business and drive future growth.

Ross Bowman
Business development, securities finance
BNP Paribas

Most financial regulations, are drafted, debated, consulted, challenged, re-drafted and reviewed, until they are either etched in stone, or implemented as 'principles' or 'guidelines', the interpretation of which is then hotly debated for some time after. SFTR is no exception. It is a far reaching set of regulatory obligations and practical requirements with an exceptionally wide blast radius, affecting the vast majority of SFT market participants.

If the underlying aim of the regulators is to gently guide the market towards being centrally cleared, executed through a recognised trading venue, and priced using transparent and publically quoted benchmarked rates, SFTR is a key piece of a much bigger puzzle and comfortably sits alongside other regulatory requirements.

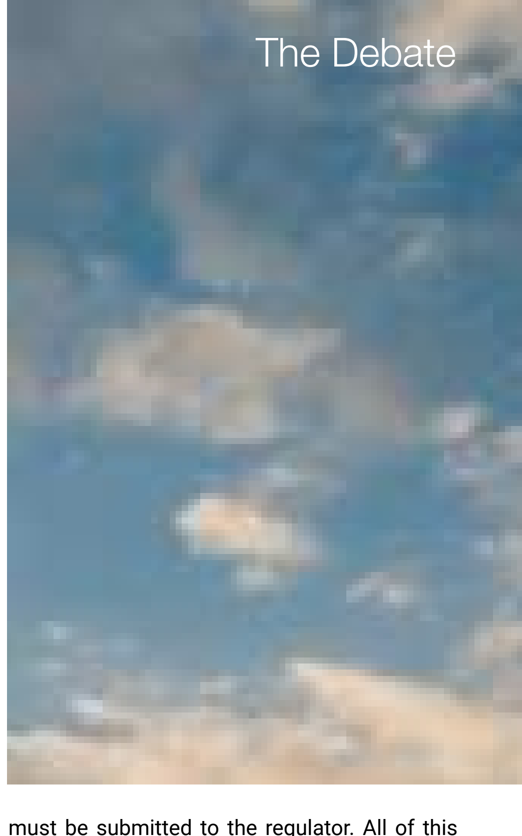
Anyone who has laboured over the vastness of the SFTR text will have a good appreciation of the challenges ahead. Game-changing the rules might be, insurmountable they are not. Its implementation will require industry-wide coordination of lenders, agents, borrowers, market utilities and system vendors to ensure whatever solution is delivered addresses the requirements of today, and remains 'fit for purpose' going forward.

Nerin Demir
Head of repo and securities finance
SIX Securities Services

It is obvious that SFTR, especially the reporting obligations, will absorb vast resources. The conundrum behind solving this, to some degree, is the indifference towards the nature of affected business models.

The lifecycle management of repos and the resulting reporting requirements should not apply in the same way to an agent lender, for example, as the potential conclusions as a

Joint SFTR Reporting Solution



result of the collected data might potentially be misleading.

The attempt to collect data down to the transaction level of the collateral along with the link to the original transaction may cause operational constraints in a trade lifecycle, such as for substitutions.

As a triparty provider, we sympathise with the thrust of the industry to liaise with financial market infrastructures for reporting purposes and are prepared to support our non-Swiss participants.

Ed Oliver
Managing director
eSecLending

SFTR is going to take resources over the next two years, but it is a necessity. If the industry does not get it right, then the beneficial owners, that are responsible for the regulatory reporting, may review their participation in securities lending and could decide that they can't continue. However, I am encouraged by the recent developments of the data vendors that are working to come up with solutions as well as the industry's appetite to seek standardisation.

These efforts suggest that industry participants are figuring out what they do well, linking up with others that can supplement their capabilities, and coming up with cost-effective, efficient solutions. It will take some effort and will involve lots of testing, but we don't have a choice, this needs to be a success. The other burden on the industry is the cost of the solution. There is no extra money to be made by this reporting—it is a direct additional cost—so, cost-effective, scalable solutions are the key to success.

Manuel Leveque
Equity finance trader
CACEIS

SFTR represents a major challenge for CACEIS and the industry as a whole.

SFTR increases the operational burden, requiring the generation of highly detailed reports that must be submitted to the regulator. All of this demands close coordination between a large number of teams from across the group's operational, IT and legal departments.

Looking at SFTR in more detail, we are required to fill out many data fields for each transaction, with mandatory reporting on the trade date, and additional reporting for all repositories.This again requires the creation of dedicated IT system interfaces to ensure the information is accurate and timely, and is routed to the correct recipient or database.

Despite the obvious administrative burden, CACEIS is taking part in this initiative that aims raise the level of transparency for both clients and regulators.

Gregory Froehlich
Trader, equity finance
Natixis

The equity finance business has seen the amount of single operations over the past year increase significantly. Furthermore, the constant increase of triparty business has generated even more important collateral flows on the back of the principal trading.

A new standard for Interoperability
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SFTR requires each counterparty to report many trade parameters on thousands of daily flows and these parameters require matching with the counterparty in a very restrictive timeframe. We are talking about huge reporting constraints. As banks are running long-term cost controlling policies, the management of these constraints will be more than likely outsourced to post-trade service providers in collaboration with the third party collateral managers.

This move, in my opinion, will push even more, toward the trend of banks delegating post-trade to external providers, some of which are also able to supply trading platforms (with the aim to consolidate reporting, matching and trading tools).

These service providers have perfectly understood the impact of SFTR in terms of IT constraints for banks and are already moving to grab their piece of the pie.

Paul Wilson

Global head of agent lending product and portfolio advisory, investor services
J.P. Morgan

Implementing SFTR will be challenging for all participants—beneficial owners, agents and borrowers alike. It will require structural changes to the way business gets transacted, and some beneficial owners that on the face of it would appear to be out of scope may also be indirectly affected.

Some may see SFTR as being incompatible with certain current market practices. It will require higher levels of cooperation between participants who will need to work together to adhere to the requirements.

As a first step, the industry needs to develop a common set of principles and operating guidelines that act as a baseline for all participants to work from—this could mean standardised protocols and data reporting standards. There is certainly a consensus that improved reporting and transparency will be beneficial to the reputation of the SFT industry, and with added cooperation of the market participants, it is possible over the longer term to even have a positive impact on the industry, too.

Sunil Daswani

International head of securities Lending and capital markets client servicing (EMEA and APAC) Northern Trust

SFTR imposes two obligations: greater disclosure of lending activity by entities and the reporting of SFTs themselves to designated trade repositories.

The reporting requirements are initially going to burden the industry as each market participant develops the solutions required. While the regulations dictate the ultimate responsibility for SFTR reporting is with borrowers and beneficial owners, we recognise our responsibility to our clients, as the agent lender, to alleviate this burden.

Generally, challenges are expected during the implementation period, specifically as related to efficient communications between systems for agent lenders and borrowers regarding timing and demands of the available data. Industry-wide discussions on the mechanics of implementation are ongoing.

Northern Trust is actively engaged in those efforts and intends to provide the necessary support to facilitate required reporting under SFTR.

Clearly, there is a technology spend to comply with SFTR. Where appropriate, we are working together with industry groups towards a consistent and efficient industry-level approach. With this aim, Northern Trust is talking with many fintech companies to see if blockchain technology may be a benefit from reduced reconciliations across the board that may arise with the implementation of SFTR.

Mark Tisi

Head of EMEA client service
Deutsche Bank

While SFTR is being implemented in phases, the most significant one is, of course, Article 4. This creates significant data and technology challenges for the industry, especially when reviewing the draft regulatory technical standards (RTS). These standards include an inordinate number of required fields and even new fields that are not routinely used in participant systems or, in certain cases, not used at all today, such as is the case with unique trade identifiers and timestamps.

The level of resources and cost that agent lenders like ourselves will need to devote to this initiative cannot be underestimated.

While the reporting obligation does not technically belong to the agent lenders, beneficial owners would certainly be reliant on their agent lenders to provide data to them if they were in a position to report themselves.

However, this could create a significant overhead for beneficial owners that only participate via their agent programmes. Logic would then follow that the agent is in the best position to assist clients with their reporting obligations, otherwise the risk is that that certain participants simply decide the burden is too much and withdraw from the lending markets, which is not a good result for anyone.

At Deutsche Bank, we have been actively following and participating in industry developments for some time and we have responded to the various discussion papers and consultations. We are also reviewing all of the external solutions that are being offered.

We will continue to engage with our clients and work towards a solution or solutions for our clients and for Deutsche Bank. **SLT**

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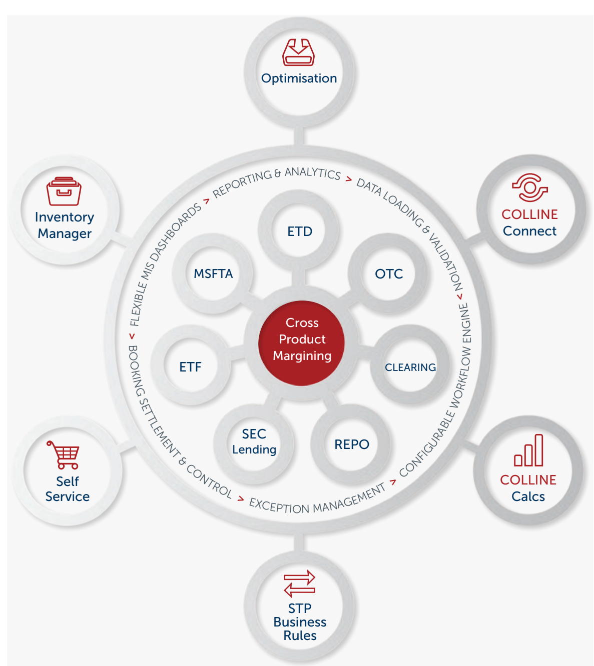

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Opportunities abound

Efficient collateral management can be an untapped well of significant savings in a number of areas, according to Phil Morgan of Pirum

With the securities finance industry's attention turned towards larger macro issues around capital and risk, it is easy to look past the fact that there are still significant opportunities to reduce capital utilisation through more efficient management of collateral exposure.

Live exposure management is ready

Despite enormous strides in the capabilities of technology in the last decade, a lot of the exposure management processes remain manual, operationally intensive and time consuming. Long gone are the days of agreeing a single exposure between two counterparts and moving a single piece of collateral to cover that exposure. New regulations have meant more complexities to collateral management and capital considerations have placed a larger emphasis on collateral optimisation.

The fast pace of these changes has often meant that technology has lagged behind. A particularly costly example of this is the way firms calculate and mitigate exposure in nearly all types of securities lending, whether the collateral is cash, triparty or bilateral non-cash.

These processes still largely operate in static time slices, sometimes only being reviewed and considered once a day. Counterparties still pick a fixed schedule to perform and reconcile their calculations, and subsequently instruct settlement based upon this one point in time. As a result, collateral movements occur after the fact and, by the time they settle, may no longer accurately represent the real state of exposure.

The result has always been that one side or the other is left with residual exposure that goes directly into their capital reserve. The old saying that 'time is money' has never been more true in such a fast-paced environment.

Pirum's triparty RQV reconciliation service has revolutionised intraday, real-time collateral management for collateral moved via triparty agents (currently Pirum manages $600 billion of non-cash collateral and instructs over $350 billion of RQVs). Our new, all-encompassing Exposure Management System extends the service to cover all collateralisation methods including bilateral non-cash, cash pool, cash rebate and intercompany collateral exposure across securities lending and repo trades. The incremental offering works in harmony with the existing triparty RQV service and offers additional features including:

- Full counterparty to counterparty exposure agreement workflow.
- Full audit and retrospective details of exposure agreements.
- A centralised platform to calculate, communicate, agree and record exposures for all counterparties across all collateral venues (bilateral, triparty, central counterparty).
- Live updates from client systems, counterparties, tri-party agents, trading venues and central counterparties.
- A management dashboard to identify key risks and alert users to significant exposure changes.

When clients layer in the new Pirum Loan Release service, which works in harmony with the Exposure product, it is now possible to see that exposure management can become an straight-through process and exception-based model. The added benefit is this automation makes same day prepay much easier to manage. For firms operating with constrained financial resources, it simply does not make sense to tie up capital in a non-productive manner, especially when technology and automation exists to prevent it.

With reporting obligations of the Securities Financing Transaction Regulation fast approaching as well, being able to manage exposures and reconcile in near real-time has never been more important.

Non-cash collateral in the US–No longer a pipe dream

No discussion of wholesale collateral management can be complete without addressing the fact that non-cash collateral is now well within

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the mainstream of securities finance in the US. Market data has shown estimates that as of 2016, non-cash had overtaken cash globally as the preferred collateral in securities lending. Largely driven by the fact that, for the first time, over a quarter of securities lending in the US was collateralised by something other than cash.

Since 2015, the trend has only strengthened. The upshot is that while cash is still the most common collateral in US securities lending and other securities finance activities, the US can no longer be called a predominantly cash market. This has only exacerbated the pain points discussed above: lack of real-time exposure management and a truly holistic and transparent view. This is further complicated in the US by the following challenges:

- The industry infrastructure is still largely centred on traditional 'delivery-versus-payment/cash collateral' settlement.
- Major vendors and utilities are extremely automated when it comes to managing cash collateral exposure, but not nearly so when it comes to non-cash collateral.
- Because the US market has historically been centred on cash collateral, the technology, business processes and systems were purpose built for the market and to handle cash collateral.
- Regulation and rules around the permitted use of securities collateral in the US are significantly different than in most other parts of the world. Reflecting a more stringent constraint of customer securities than in other jurisdictions and a regulatory bias for cash collateral.

US securities finance participants using non-cash collateral can benefit and learn from the challenges encountered and resolved by the European market and efficiently achieve highly productive and automated solutions. As US firms evolve from the non-cash paradigm, their investments and decisions are increasingly made on a holistic view of exposure. By utilising Pirum's suite of services they are achieving optimum capital efficiencies.

Efficient collateral management can be an untapped well of significant savings in a number of areas. The move towards efficiency does require engagement, but, many of our clients have achieved meaningful savings as they have streamlined their collateral exposures. In the new regulatory era, monetising and optimising these areas is a priority in many global financial institutions. **SLT**

As US firms evolve from the non-cash paradigm, their decisions are increasingly made on a holistic view of exposure

Phil Morgan, Head of business development
Pirum Systems

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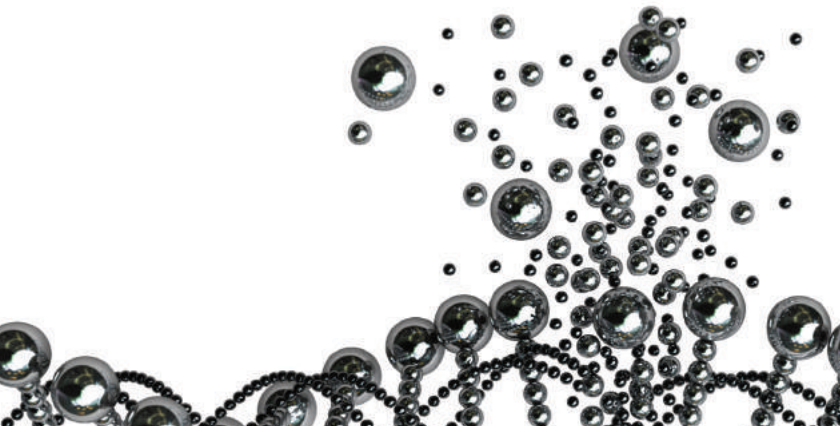
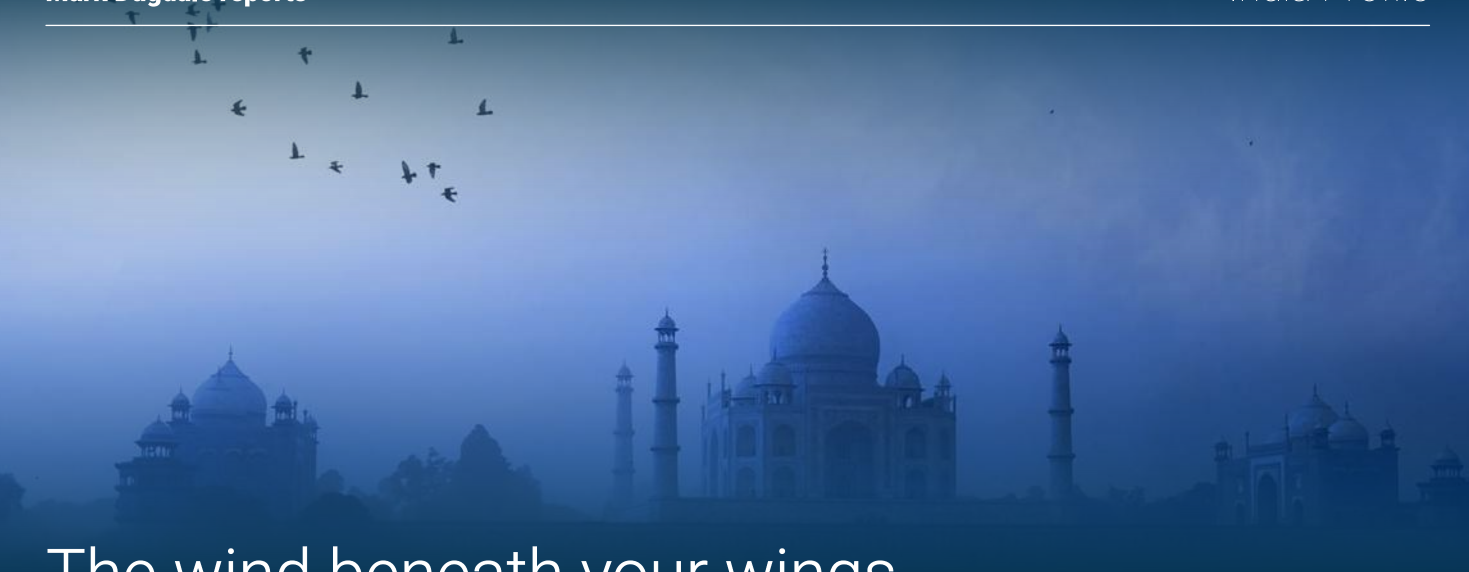




The wind beneath your wings

Being an exciting emerging market is all well and good, but how long can that status really apply before interest wanes? India is doing its best not to find out

Few emerging markets excite investors quite like India. With GDP growth of 7.6 percent in 2016, up from an average of 6.5 percent during the preceding three, according to the World Bank, it represents one of the biggest untapped opportunities around. But there is work to be done.

"India's ambitions to accelerate GDP growth to double-digits will require a strong financial sector to allocate savings towards the most productive investment opportunities," the World Bank added later in its India update. "A well-functioning financial sector boosts productivity growth, while guarding against volatility."

Where India still has a way to go is securities lending. As the majority of securities lending in India takes place through the National Stock Exchange (NSE), its statistics paint the fullest picture of the market. The infographic overleaf indicates that the stock exchange's subsidiary, the National Securities Clearing Corporation, cleared 77,730 trades in 2016, generating $9.23 million in lending fees. These trades had a notional turnover of $1.79 billion.

Compare these figures to IHS Markit data on Asia's biggest market, Japan, which saw $305.41 million in revenue achieved last year from an available inventory of $547.09 billion, and it's clear that India is still relatively minor.

More participation needed

Through approved intermediaries such as the National Securities Clearing Corporation, securities lending participants can conduct trades for terms of up to 12 months, with early recalls embedded in. A rollover facility of three months exists, and transactions are charged at a rate of 2.5 percent, payable to the NSE, on each lend, borrow and rollover.

In an effort to develop securities borrowing and lending market and increase local and foreign participation, the NSE has implemented multiple changes. A facility of preferred depository was made available, allowing borrowers and lenders to more easily specify which pool account they want pay outs to be directed. "This facility has helped members receiving pay-out in their preferred depository account. This has also reduced the operational risk involved in making cash market pay-ins, as the window between securities borrowing and lending pay-out and cash market pay-in is very small," according to the NSE. In other developments, NIFTY 50 securities are now accepted as collateral, and participants can transfer collateral placed in the form of cash and fixed deposit receipt to or from other segments. The NSE explained: "This would help participants immensely in collateral management and reducing overall cost of funding collateral."

Less hesitation desired

Despite these efforts, market participants, particularly foreign ones, remain unconvinced about the viability of India as a securities lending market in the near-term.

Martin Corrall, who is on the executive board of the Pan Asia Securities Lending Association (PASLA) and group lead of a sub-working group on India, sees foreign participation as a key concern. "It's expensive for foreign borrowers in India," Corrall explains. "Offshore entities are required to post cash as collateral with high interest rates and no rebate paid, which creates an unfair playing field, whereas domestic players are allowed to post securities. Concern on the Securities and Exchange Board of India's (SEBI) view of overseas direct investment and limited supply due in part to the securities borrowing and lending infrastructure, has led to minimal offshore activity. Market access is concentrated on single stock futures."

SEBI initiated feedback last year on concerns that foreign portfolio investors (FPIs) have issues accessing India's capital markets. One of the three work streams was on securities borrowing and lending. A working group was formed consisting of market participants, of which PASLA was represented, and an extensive list of requirements was submitted and subsequently discussed. Corrall says: "We have yet to see any changes resulting from the feedback to SEBI. I can understand concerns around opening up the market to foreign institutions but at least they do recognise limitations to market access for FPIs."

"India has the potential be a significant market. It's probably second only to China in Asia in terms of opportunity. We anticipate in due course changes will materialise to move towards what we see in more developed capital markets." **SLT**

INDIA

Securities lending: The numbers

2016 at the National Stock Exchange of India saw plenty of securities lending activity

Trade volume

JAN	FEB	MAR	APR	MAY	JUNE
9,957	11,443	6,385	5,642	5,803	5,757
JULY	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**
4,499	4,829	3,726	2,966	8,520	8,203

Traded quantity

JAN	FEB	MAR	APR	MAY	JUNE
37.86 million	50.02 million	23.11 million	24.6 million	31.36 million	30.76 million
JULY	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**
27.76 million	24.16 million	18.33 million	14.5 million	37.38 million	33.62 million

Lending fee turnover

JAN	FEB	MAR	APR	MAY	JUNE
$1.21 million	$1.52 million	$790,000	$770,000	$910,000	$850,000
JULY	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**
$540,000	$470,000	$360,000	$200,000	$790,000	$820,000

Notional turnover

JAN	FEB	MAR	APR	MAY	JUNE
$192.1 million	$198.38 million	$134.44 million	$137.67 million	$160.41 million	$137.43 million
JULY	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**
$114.77 million	$129.01 million	$98.81 million	$100.04 million	$195.74 million	$187.1 million

Source: National Stock Exchange of India. All currencies are USD.

Casino stocks fail to come up trumps

Despite having a former operator in the White House, most US casino stocks have missed out on the post-election rally. Short sellers, meanwhile, are largely sitting on the sidelines. Simon Colvin, analyst at IHS Markit, explains

The Trump presidency has so far proved to be a double-edged sword for US gaming stocks. While having a former casino operator in the White House is arguably an asset for the industry, his divisive rhetoric has the potential to scare off overseas visitors which account for a significant portion of gamblers in Las Vegas—the largest US gambling destination.

While it's still too early to tell what impact, if any, the new administration will have on foreign visitors, large tourist destinations, such as New York City, are already bracing for a fall in overseas visitors.

While losing a portion of their high-spending overseas visitors is potentially a risk for the industry, investors don't seem to worry as US casino stocks haven't experienced any significant bearish activity since the US election back in November. In fact, the opposite has occurred. The eight US constituents of the VanEck Vectors Gaming ETF (BJK), which tracks global casino and gambling stocks, have seen the demand to borrow their shares fall to the lowest level in two over years. This sustained covering means that the sector sees roughly a third of the demand to borrow its shares than it had 12 months ago.

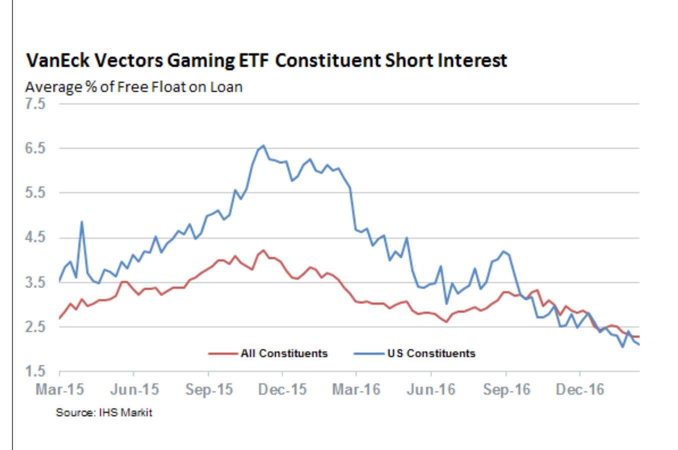
This lack of appetite to short comes despite the fact that US casino stocks have, by and large, underperformed the wider US market since the election, as the US constituents of the BJK ETF have returned 5 percent since the election, which is only a third of the 15 percent advance registered by the S&P 500 over the same period.

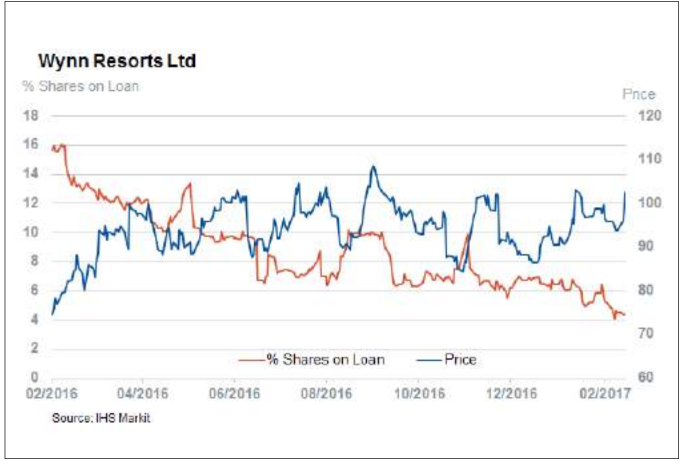
Recent earnings reports have fueled this underperformance as the three largest US operators, Las Vegas Sands, MGM Resorts and Wynn Resorts, all posted relatively downbeat profit figures which saw all three firms fall short of analyst forecasted EPS estimates. The former two of the three were particularly affected by poor earnings as their shares fell by 5 percent and 8 percent respectively on the day they announced earnings. Short sellers seem to be taking the cue from analysts, who are forecasting all three firms to brush aside recent earnings setbacks, as all three operators currently have a lower proportion of their shares out on loan than on the eve of the election.

Wynn resorts, which used to be the most shorted US casino stock, has led this covering after demand to borrow its shares shrank by over a third over the last three-and-a-half-months.

A global trend?

Short covering among global casino shares isn't limited to US traded firms as the average demand to borrow non-US constituents of the BJK ETF has shrunk by a similar margin in the past three months. US operators again played a role in this trend as their Asia-listed operations, Sands China, Wynn Macau and MGM China, have led the covering. **SLT**





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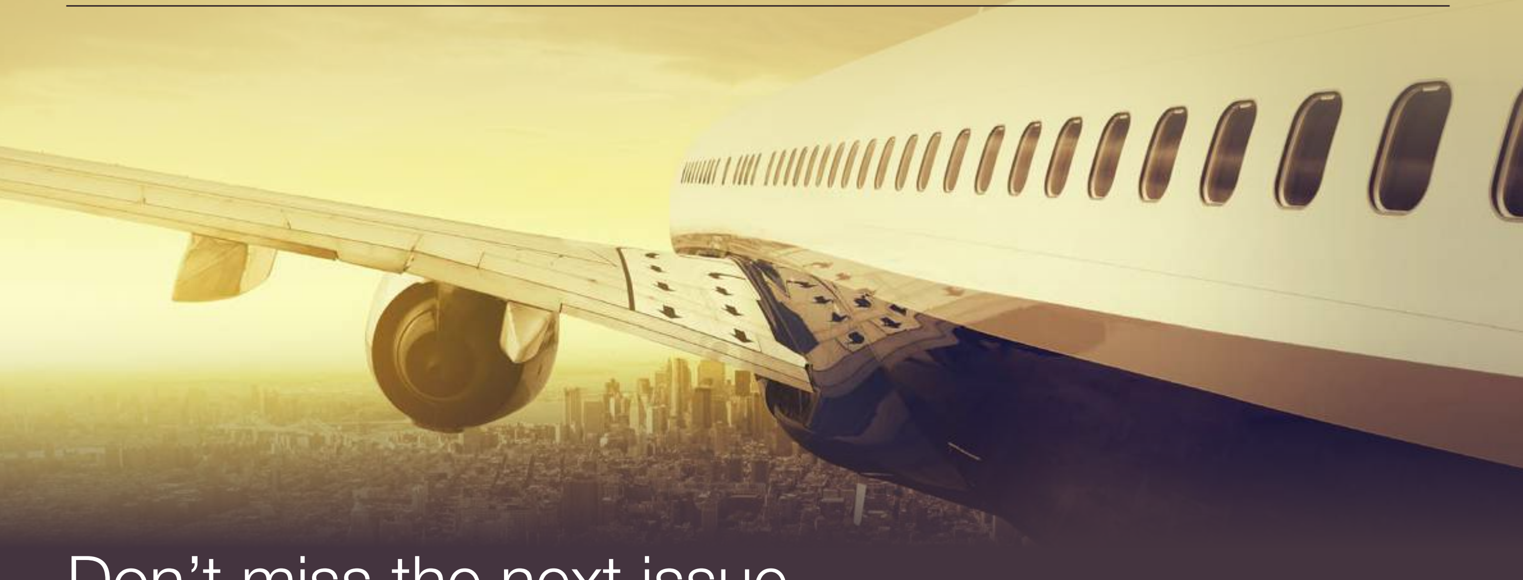

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Comings and goings at NEX Exchange, PIMCO, Euronext, Hazeltree and more

UK stock exchange NEX Exchange has appointed Mireille Dyrberg to its board as a non-executive director.

Dyrberg is currently COO of TriOptima, a NEX Group subsidiary, which lowers costs and mitigates risk in the over-the-counter derivatives markets.

Since joining TriOptima in 2008, Dyrberg has overseen the growth of the company and helped build the strong, robust and effective technology infrastructure that exists at TriOptima today, according to NEX Group.

Tom Binks, chair of NEX Exchange, said: "Mireille Dyrberg joins the NEX Exchange board at an exciting juncture as we help more companies than ever list on our NEX Exchange main board and growth market. In addition to her involvement in governance, Mireille's significant technology expertise will be a huge asset as we further develop our strategy."

PIMCO has secured Kimberley Stafford as its new head of Asia Pacific.

Stafford, who previously served as global head of PIMCO's consultant relations group, replaces Eric Mogelof and will relocate to Hong Kong.

Mogelof is moving back to New York in June to take on the role of head of PIMCO's US global wealth management business. Both will report directly to PIMCO CEO Emmanuel Roman.

Stafford commented: "I look forward to building on the excellent service that Eric Mogelof and our team in Asia Pacific have delivered to clients."

"I will be supported in this role by a best-in-class regional leadership team and deep bench of talented investment professionals, both in Asia Pacific and around the world."

Roman said: "Kimberley Stafford is the ideal executive to continue to serve our clients in the incredibly important Asia Pacific region because of her deep understanding of the asset management business, her commitment to our clients and proven strategic leadership."

He added: "Kim and Eric are proven leaders who will serve our clients in these important roles in Asia Pacific and the US and are an example of the deep bench of executive and leadership talent PIMCO has globally."

Euronext has appointed Paulo Rodrigues da Silva as CEO of Euronext Lisbon following the departure of Maria João Carioca, effective early March.

Silva will also become CEO of Interbolsa and member of the managing board of Euronext.

Previously, Silva was an executive board member Caixa Geral de Depósitos.

Stéphane Boujnah, Euronext CEO and chair of the managing board, said: "We are delighted to welcome Paulo Rodrigues da Silva to our team."

"I am confident that his extensive experience in both the financial and technology industries make him an excellent choice of leader to fulfill Euronext's commitment to developing its operations in Portugal."

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"This includes the upcoming opening of our new IT centre in Porto, which already hosts more than a hundred engineers and IT operators."

"Paulo will play a critical part in accomplishing Euronext's ambitions in Portugal and contributing to the Euronext group. I would like to thank Maria João Carioca Rodrigues for her contribution to Euronext and wish her luck in her new role."

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, an energy-focused consultancy, where he was a partner and strategic adviser.

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."

He added: "With Don Jefferis's leadership, we are well positioned to expand into a number of additional buy-side markets."

Jefferis said: "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."

The appointment follows a spate of new hires for Hazeltree.

In November 2016, J.P. Morgan's Sal Ventura joined as head of client relationship management and Ayman Sakr was appointed to the position of head of worldwide client services.

Dag Rudiløkken has returned to DNB Bank after a six-month spell at Nordea Bank.

Rudiløkken, who was previously head of securities finance trading at DNB Bank, rejoined the bank this month as a trader.

He left DNB Bank midway through last year to join Nordea Bank as a senior sales manager in equity finance.

Rudiløkken previously served as DNB Bank's senior vice president in the securities finance department since 2003.

He has also worked as head of securities finance at DNB ASA, Norway's largest financial services group, of which DNB Bank is a subsidiary, between 2003 and 2006, before moving to Carnegie Investment Bank in Norway as branch manager.

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."

"He brings a tremendous amount of experience in securities lending, having previously held roles at Bank Boston, State Street and, most recently, Equilend." **SLT**

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