securities lending times
The primary source of global securities finance news and analysis
ISSUE176 02 May 2017

New securities finance tools hit the street

New securities finance offerings are in the works, with Delta Capita acquiring Appendium and Squawker launching an equity finance platform for traders.

Business and technology consultancy Delta Capita has acquired Appendium as it gears up to launch a securities finance utility later this year.

Squawker, meanwhile, has successfully launched an equity finance platform that provides a central hub for European equity finance participants to bring the execution of their equity hedge trades on-exchange. Squawker said six investment banks are participating.

Delta Capita's Appendium, which was acquired for an undisclosed sum, boasts an enterprise system for the booking and transaction processing of stock loan, repo, cash deposits and collateral. Delta Capita plans to use the technology to support the development of its securities finance managed service proposition.

The deal will create a full-scope managed service solution aimed at the sell side, allowing participants to move away from their in-house technology and operations platforms towards a 'pay for use model', according to Delta Capita. A testing period for the securities finance industry has seen significantly reduced volumes and operating margins, the consultancy added.

Commenting on the purchase, Joe Channer, CEO of Delta Capita, said: "Adding Appendium to our existing suite of technology solutions further expands our cross-product managed service offering where we are seeing significant demand from clients as they seek to change their business model."

"The solution will enable clients to overcome what has been a challenging time for the securities finance industry. We will operate a standardised service model, supported by expert resources situated both onshore in London and offshore in Johannesburg, offering significant cost reduction."

Squawker's new platform allows equity finance traders to settle with three equity central counterparties, which also helps with trade reporting in compliance the second Markets in Financial Instruments Directive and Regulation.

It also has pan-European coverage of equities, depository receipts and exchange-traded funds.

According to Squawker, the equity finance platform overcomes restrictions and limits on trading in certain markets, such as automatic registration of share ownership in Spain.

Chris Gregory, CEO and co-founder of Squawker, commented: "The European equity finance market is currently estimated to trade over €2.5 trillion per annum."

"With six of the top 10 banks live and trading through Squawker, we are already seeing some significant trading traffic over the platform."

Continued on page 2

Inside Securities Lending Times

ISSUE176 02 May 2017

New securities finance tools hit the street

Continued from page 1

"With a further three of the top ten banks close to completing their deployment projects, Squawker has worked hard to provide the essential support that the equity finance community has asked us for," Gregory added.

Squawker, which specialises in execute hedging and capital optimisation transactions on-exchange, has added Ian Axe and Derek Bandeen to its advisory board.

Axe was recently named as CEO of investment bank Panmure Gordon and is the former chief executive of LCH.

He also previously worked at Barclays Capital.

Bandeen was previously global head of equities at Citigroup.

"The top-tier investment banks are under increasing regulatory pressure for on-exchange transparency and CCP cleared models across their operations," Axe said.

"They are all seeking to implement straight-through processing for equity finance to replace the traditional over-the-counter process."

Bandeen added: "Squawker's platform enables the large equity finance players to bring their execution of equity hedge trades on-exchange and provides a structure for them to manage their counterparty risk with CCP clearing."

Money markets code gets approval

The International Securities Lending Association (ISLA) has thrown its weight behind the Bank of England's (BoE) new voluntary UK Money Markets Code.

The new code was written by market participants and incorporates revised relevant sections of the non-investment products code, and also a revision and update of the gilt repo code and the securities borrowing and lending code.

According to the BoE, the new code sets out best practice expected from participants in the securities lending, repo and deposits markets.

It supersedes existing guidance in the incorporated codes of conduct.

By bringing these together, it will more clearly establish the framework for transacting in UK money markets in order to promote counterparty trust, fairness and overall market transparency.

The new code was also endorsed by the UK's Money Markets Committee, a senior-level forum for market participants and the public authorities.

All UK money market participants have to commit to the principles of the code by 1 January 2018.

ISLA CEO Andy Dyson said: "The code is a principles-based code that will provide a conduct-based framework that market participants will adhere to."

"We fully endorse and support this new code which firms will need to be compliant with from 2018."

Tesla finally breaks its shorting cycle

Short sellers remain in the driving seat with Tesla stock after it posted substantial losses in Q1 2017, according to FIS Astec Analytics.

The car manufacturer and alternative energy storage company has enjoyed has almost uninterrupted increases to its stock price since early December. Its share price rose from $181.88 on 1 December to close last week at $305.6.

CEO Elon Musk took to Twitter on 3 April to call out those shorting his company, saying: "Stormy weather in Shortville."

Q1 2017 results reveal revenue dips

London | Reporter: Drew Nicol

State Street, BNY Mellon and BlackRock all suffered disappointing starts to 2017, with securities lending revenue failing to increase as equities struggled.

State Street saw very slight declines in securities finance revenues in Q1 2017, securing $133 million, 0.7 percent less than the $134 million taken in the same period last year.

This is also a 2.2 percent decrease compared to $136 million in securities finance revenues taken in Q4 2016.

According to State Street, this slight decline is down to lower short interest in equity markets in Q1 2017.

BNY Mellon's securities lending revenue hit $49 million in Q1 2017. This was down from the previous quarter's revenue of $54 million, and also a marginal decrease on Q1 2016, which saw securities lending revenue of $50 million.

BlackRock's Q1 securities lending revenue failed to match last year's figures, with the world's largest asset manager recording $141 million last quarter, just shy of the $148 million achieved in 2016.

As part of its tangible assets sub-section of its Q1 report, BlackRock noted that the number of separate account assets and separate account collateral held under securities lending agreements increased from 177 as of 31 December 2016 to 187 by 31 March. The value of these assets went from $220 billion last year to $231 billion at the end of March.

As a business group, investment advisory, administration fees and securities lending revenue increased to $171 million from Q1 2016.

BlackRock said this reflected "the impact of higher markets and organic growth on average assets under management (AUM), and the effect of the roughly $370 billion in AUM acquired in the BofA Global Capital Management acquisition in April 2016".

One reason for the difficult Q1 2017 could be the performance of equities, whose revenue fell from $1.93 billion in Q4 2016 to $1.53 billion in Q1 2017, according to DataLend data.

A closer look at DataLend's figures shows that this loss was caused by a significant decrease in borrowing fees for a handful of red hot securities that dominated lending revenues last year.

The latest hot stocks list from FIS Astec Analytics for the Americas highlighted that short sellers have been consistently closing positions and reducing their exposure to Tesla by 16 percent since 20 March.

Commenting on the stock's repeat appearance in its weekly lists, FIS said the latest round of position closures suggested "that the negative sentiment towards the longevity of the Tesla marque could be starting to ebb away".

"Even with this recent change, more than 77 percent of the available supply of shares remains borrowed, so the company may well not be out of danger yet."

Tesla's share price hit the $300 mark for the first time recently, with an all-time peak of $312.39 on 10 April. FIS put the achievement down to good news about new models and increasing production.

NEX Group pairs ENSO and RSRCHX for MiFID II solution

The NEX Group's ENSO, a centralised treasury management solution for the buy side, is set to expand its broker vote tool to include research consumption for the second Markets in Financial Instruments Directive (MiFID II).

The new feature will be powered by RSRCHXchange, the MiFID II compliant marketplace for institutional research.

ENSO promises that the expanded tool will provide buy-side institutions with evidence-based evaluation of research providers and budget setting to comply with upcoming 2018 regulatory requirements.

Clients will gain a clear methodology for research payments, fully validating how payments for research were reached based on the quantity and quality of services provided.

Saudi Arabia kicks off securities lending

Riyadh | Reporter: Drew Nicol

Saudi Arabia has fired the starting gun on its securities lending and covered short selling markets as the country shifts from a T+0 to a T+2 settlement cycle to aid global market alignment.

The exchange previously operated on a T+0 cycle but slowed its system in order to better align itself with other markets.

Securities lending, along with the potential for short selling that it will enable, will now be allowed in accordance with internationally established rules.

Banks and investment funds can act as agents and brokers for borrowers and lenders if they are custody members of the exchange.

The Saudi Stock Exchange has borrowed heavily from existing rules laid out by exchanges with developed lending markets, with a few exceptions.

These include only allowing borrowed securities to be re-lent once.

The onus for complying with this limit is on the lender, who must inform the borrower when a security hits this buffer.

All securities borrowing and lending or short selling transactions must be recorded internally by all counterparties in compliance with the country's Capital Market Law, and may be called upon to report this information to the exchange.

Collateral provided for all transactions must be 100 percent equal in value to the borrowed security, not including relevant margins. The exchange also retains the right to disclose any information about short selling transactions and related positions.

The incorporation of securities lending and short selling comes as a part of an extensive overhaul of the Saudi Stock Exchange's framework in a drive to encourage foreign investment into the country. The initiative began in June 2015 with the approval of regulatory amendments to allow qualified foreign financial institutions to invest directly in Saudi Arabia-listed shares.

RSRCHXchange is the latest company to join Euclid Opportunities portfolio, NEX Group's financial technology investment business.

RSRCHX, RSRCHXchange's marketplace and MiFID II workflow solution for institutional research, was launched in 2015, in anticipation of the unbundling rules that come into force in January 2018.

Matthew Bernard, CEO of ENSO, said: "MiFID II is a key focus, not only for our clients but for the broader marketplace in 2017."

"By expanding our broker vote tool we are able to deliver an enhanced solution to address the pivotal research requirements for both our sell-side and buy-side clients alike," Bernard explained.

"At NEX, we have a strong history of partnering with businesses that are addressing tomorrow's issues.

"We are excited to collaborate with RSRCHXchange to solve this problem for our clients and the market."

Vicky Sanders, co-CEO of RSRCHXchange, added: "We are excited to be working with ENSO and enhancing their broker vote tool."

"They are award-winning innovators and they are providing the industry with an evidenced broker vote tool which is not only MiFID II compliant but also best in breed."

Borussia Dortmund bomber was shorting club shares, says prosecutor

A Borussia Dortmund bombing suspect has been accused of attempting to profit from the attack through shorting shares in the German football club.

Three bombs went off near the Borussia Dortmund bus on 11 April as the team travelled to its next Champion's League fixture in what was initially believed to be an Islamic terrorist attack.

German authorities arrested a man, identified as Sergej W, a 28-year-old German and Russian national, on his way to work on 21 April and charged him with attempted murder and other crimes.

The German prosecutor confirmed in a statement that the accused acquired 15,000 put options in Borussia Dortmund shares on the day of the attack, with a term to 17 June.

The options were purchased via the IP address of the Hotel L'Arrivée, where Sergej, along with the Borussia Dortmund team, were staying.

The German attorney general explained: "In the event of a massive decline in Borussia Dortmund shares, the profit would have been multiplied by the provisional calculations. A significant drop in the price would have been expected if, as a result of the attack, players had been seriously injured or even killed," the German attorney general said.

Two people required medical treatment after the attack, with Borussia Dortmund centre-back Marc Bartra needing wrist surgery. A police officer was also treated for shock.

Potential fatalities were only avoided because one of the devices, which were filled with metal pins, was placed about a meter off the ground and therefore too high to be fully effective, according to the German prosecutor's statement.

Borussia Dortmund's share price did fall from €5.73 on 10 April to €5.61 after the attack on 11 April.

The suspect attempted to pass the attack off as an Islamic terrorist attack by leaving three letters claiming a radical Islamist motive for the attack and making threats of further attacks in certain demands weren't met.

The documents were examined by experts and "considerable doubts about a radical Islamist origin" were quickly raised due to inconsistencies between this bombing and previous attacks.

Hedge fund revenue hits 2013 highs

Hedge funds' positive performance run continued into its third month in 2017, Preqin has found.

Market intelligence provider Preqin's AllStrategies Hedge Fund benchmark recorded returns of 0.68 percent last month, building on gains of 1.46 percent and 1 percent in January and February, respectively.

The results mark the hedge fund industry's best opening quarter of a year since 2013.

Overall Q1 2017 performance is now 3.18 percent in the black, according to Preqin.

Preqin highlighted that, with just one month of losses recorded since February 2016, the industry has now returned 11.61 percent over a 12-month period.

Amy Bensted, head of hedge fund products at Preqin, indicated that these figures could go some way to dispelling performance concerns within the hedge fund industry, as well as anxieties surrounding wider economic uncertainty that have troubled investors in the asset class over the past year.

Bensted said: "Hedge fund managers have delivered strong returns over this period, posting gains in 11 of the past 12 months and recording their strongest opening quarter to a year since 2013.

"Hedge funds across all leading strategies, geographies and size classifications have shared in this positive start to 2017."

"This strong performance across the board is crucial at a time when investor scrutiny is intense," Bensted added.

T ZERO

"In the software test, t0 successfully used the Bitcoin blockchain to record evidence of compliance with US SEC regulation on securities short selling, known as Regulation SHO."

– allcoinsnews.com

DISTRIBUTED LEDGER PLATFORM FOR CAPITAL MARKETS

T ZERO's modular, adaptable platform integrates with trade participants to create a real-time, authenticated, immutable ledger.

Pre-Trade

Encrypted Accounts
Transparency of holdings
Verification of assets
Reduced credit exposures

Trade

Venue with Enhanced FIX
Real-time transaction matching
Immediate settlement
Instantaneous DVP

Post-Trade & Servicing

Clearing and Reconciliation
No central clearing
Immediate processing & posting
Assets and ownership on chain

Performant Ledger

Distributed Register
Permissioned writes, distributed reads
Provisioned access with immediate reconciliation
Chain agnostic for asset type and distribution mechanisms

For more info, contact dtabacco@t0.com

High-quality liquid assets are stuck in the pipes, says European Central Bank

New York | Reporter: Drew Nicol

EU collateral liquidity has "deteriorated" due to government bonds being ensnared in stringent collateral reuse and new margin rules, the European Central Bank (ECB) has found.

All types of euro-denominated collateral has suffered from the effects of EU liquidity regulations requiring banks to retain more high-quality liquid collateral on their books, but the central bank noted that "the deterioration was most pronounced for government bonds".

The market's troubles were revealed as part of the ECB's quarterly qualitative survey on credit terms and conditions in euro-denominated securities financing and over-the-counter (OTC) derivatives markets.

The survey collected qualitative information on changes between December 2016 and February 2017. The results are based on responses from a panel of 28 large banks, comprising 14 euro area banks and 14 banks with head offices outside the euro area.

Credit terms offered to counterparties, both in the provision of finance collateralised by euro-denominated securities and in OTC derivatives markets, tightened for all counterparty types, according to survey respondents.

In its April report on the survey results, the ECB said: "By and large, the tightening of non-price terms was as important as the tightening of price terms."

"Worsened market liquidity and functioning, the reduced availability of balance sheet or capital and increasing internal treasury charges for funding were the most frequently cited reasons why overall credit terms had become less favourable, in addition to the tightening of non-price credit terms due to the implementation of new regulatory requirements on margins for non-cleared OTC derivatives."

"Credit terms are expected to tighten further for all types of counterparty over the next three-month reference period, between March and May 2017."

The report continued: "Looking at patterns in credit terms over a longer horizon, compared with one year ago responses indicated less favourable overall credit terms for all types of counterparty except banks and dealers. The tightening of credit terms was more pronounced with respect to non-price terms than for price terms. Also, overall credit terms for secured funding tightened year-on-year when government bonds, high-yield corporate bonds or equities were used as collateral."

Securities finance market participants have previously pointed to the slew of new regulatory requirements for higher liquidity for bank and non-bank balance sheets as an acute stress point behind the overall market liquidity deterioration.

The ECB's own asset purchase programme has also been criticised for only supporting a limited securities lending programme to release these securities back into circulation. The central bank has cut its monthly purchase target from €80 billion worth of government bonds to €60 billion, as of 1 April. It also loosened its rules on eurosystem central banks' ability to accept cash collateral in their public sector purchase programme's (PSPP) securities lending facilities, without having to reinvest it in a 'cash-neutral manner'.

Failed Icelandic bank loses UK High Court collateral valuation dispute

The UK High Court ruled that the non-defaulting party, Raiffeisen Zentralbank Österreich, had the right to determine the fair market value of the collateral at dispute.

Defunct Icelandic bank Landsbanki Islands has lost a legal challenge disputing the method used to value collateral that funded its securities lending and repo transactions around the time of its defaulted in 2008.

The UK High Court ruled in late March that the non-defaulting party, in this case Raiffeisen Zentralbank Österreich (RZB), had the right to determine the fair market value of the collateral at dispute.

When Iceland's government seized control of Landsbanki, then the second largest bank in the country, in October 2008, it was engaged in 11 repo trades and three securities lending trades with Austrian banking group RZB.

The dispute related to the interpretation of the term 'fair market value' as stated in the 2000 editions of the global master securities lending agreement (GMSLA) and the global master repo agreement (GMRA)

RZB argued before the UK High Court that the overall collateral bucket, which included corporate bonds from Wells Fargo, Countrywide and Morgan Stanley, was worth €74.7 million.

This figure was contested by Landsbanki, which argued that the hyper-stressed market conditions of the time made a determination of fair market value difficult.

Issue was also raised regarding whether default notices were effectively served by RZB on 8 October 2008, a day after Landsbanki admitted it was unable to facilitate a margin call.

IN A CHANGING WORLD,

BY THE TIME YOU MASTER THE GAME, THE RULES HAVE CHANGED.

ANTICIPATING YOUR BUSINESS ENVIRONMENT

At Securities Services, we support your business in adapting to ever changing regulations. Our expertise across the globe ensures your assets are serviced effectively in over 100 markets.

www.securities.bnpparibas

BNP PARIBAS

The bank
for a changing
world

BNP Paribas Securities Services is incorporated in France as a Partnership Limited by Shares and is authorised and supervised by the European Central Bank (ECB) the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the AMF (Autorité des Marchés Financiers).

BNP Paribas Securities Services, London branch is authorised by the ACPR, the AMF and the Prudential Regulation Authority and is subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request. BNP Paribas Securities Services, London branch is a member of the London Stock Exchange. BNP Paribas Trust Corporation UK Limited (a wholly owned subsidiary of BNP Paribas Securities Services), incorporated in the UK is authorised and regulated by the Financial Conduct Authority.

In his ruling, Justice Robin Knowles dismissed Landsbanki's interpretation of the GMSLA and GMRA collateral rules and concluded that despite correct pricing under such conditions being difficult, the non-defaulting party had the right to do so.

Justice Knowles explained: "I am unable to treat as irrational an assessment of fair market value based on the information RZB did have in the present case and without more. I do not rule out that the position may be different in the circumstances of other cases."

"There is no doubt that the information available in the present case was imperfect, and it is to be noted that it includes the Bloomberg or BGN prices ," Justice Knowles added in his ruling.

"However, the circumstances at that time were imperfect. Any assessment of fair market value would have been imperfect but the non-defaulting party was nonetheless entitled to make one."

Justice Knowles also ruled that although Landsbanki was unable to produce proof of receipt of default notices and the onus for proving that such a notice was sent is on the sender, "it is more likely than not that the faxes were collected".

Clearstream GSF suffers under QE

The quantitative easing policy of the European Central Bank continued to stifle EU securities financing businesses in the opening months of 2017.

Post-trade services provider Clearstream saw the volume outstanding of its global securities financing business fall by 12 percent in March, compared to the same period in 2016.

Outstanding volume last month reached €474.4 billion, down from €538.2 billion.

January to March average volume was also down to 8 percent, from €530.2 billion in 2016 to €486.3 billion in 2017.

Clearstream saw its assets under custody increased by 3 percent in March, from the same time in 2016, and by 4 percent, on average, year-to-date. Assets under custody now stand at €13.39 trillion, up from €12.98 trillion in March last year.

The Deutsche Börse subsidiary also recently expanded its repertoire of services with the launch of a new settlement solution for German debt for customers that clear German bonds and repos through LCH.

The move follows LCH's extension of its RepoClear service to cash and repo trades on German government securities last month.

Trades cleared through LCH's Paris subsidiary can be settled in Clearstream Banking Luxembourg accounts.

Combined with Frankfurt as an existing settlement location, Clearstream customers will be able to settle transactions either in central bank money via Frankfurt or in commercial bank money via Luxembourg.

The new service for German bonds and repos will also take advantage of Cleastream's links to the Target2-Securities (T2S) platform.

Tihis will give customers the ability to settle their German government securities in Frankfurt as the German central securities depository (CSD), while benefiting from Luxembourg's securities lending and collateral management services as an international CSD.

LCH's new offering covers trades on German government and regional debt.

Clearing members are able to use Clearstream Bank Frankfurt or Euroclear France as their CSD, or Euroclear Bank as a settlement agent.

Pension funds pick Northern Trust

Belfast | Reporter: Stephanie Palmer

Northern Trust has been appointed to provide securities lending for £6.7 billion in pension fund assets belonging to the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC).

This is the thirteenth appointment for Northern Trust under the Local Government Pension Schemes (LGPS) National Framework Agreement (NFA).

As well as securities lending, Northern Trust will provide global custody, accounting, performance management and foreign exchange services for the pension fund assets.

David Murphy, chief executive of NILGOSC, which administers the LGPS for Northern Ireland, said: "As a leading expert across the LGPS, Northern Trust has a strategic focus on the LGPS market and a proven commitment to this segment."

He added: "Combined with its ability to provide high-quality tailored solutions that meet our specific requirements, this was a key factor in their appointment."

Northern Trust has also supported NILGOSC in appointing a team dedicated to transitioning new clients' assets.

James Wright, head of the institutional group for the UK and Ireland at Northern Trust, said: "At Northern Trust, we understand that the pensions landscape is continually evolving and are committed to creating tailored solutions for our clients to meet their changing needs."

"We are a focused and trusted provider to pension funds and through our experience and expertise are well placed to help them meet their demands for regulatory compliance, governance and transparency."

Last month, Northern Trust was appointed under the LGPS NFA to provide global custody and other services for £550 million in pension fund assets for the Scottish Borders Council.

BNP Paribas aims for €2 billion+

BNP Paribas is aiming to increase its revenue from securities services to €2.2 billion by 2020.

The French custody bank revealed the aim as part of its recent investor day, with a list of expanded service offerings proposed.

Securities services revenue at BNP Paribas has increased from €1.4 billion in 2013 to €1.8 billion last year.

BNP Paribas is aiming to offer joint global markets and securities services solutions for institutional clients in a bid to boost revenues, as well as offer multi-asset outsourcing to the sell and the buy sides, and leverage digital technology to increase client value.

It also wants to expand its footprint in China and the US, where it was recently selected as the local custodian for Raiffeisen Bank International's $3.2 billion domestic portfolio.

Stefan Wallner, head of network management at Raiffeisen Bank International, said of the mandate: "BNP Paribas Securities Services's international presence and global operating model were key to our decision to appoint them as our local US custodian."

He added: "We were also impressed with the quality of BNP Paribas's corporate actions services and the expertise and commitment of the team."

Hazeltree boosts liquidity network

Buy-side treasury management solutions provider Hazeltree has added Federated Investors to its network to provide liquidity services for funds with excess cash.

This partnership provides mutual clients an efficient way to manage and sweep cash to Federated Investors money market funds.

Hazeltree provides an interface to sweep excess cash to a wide range of liquidity products through its partner network.

Federated Investors offer money market funds a range of short-duration options managed to deliver enhanced yield potential.

This partnership provides a straight-through process between buy-side firms and Investor Federated funds.

"Federated's commitment to providing our clients a superior set of options for allocating and managing cash is exemplified by our new partnership with Hazeltree," said Brian Ronayne, Federated's senior vice president and national sales manager for capital markets and institutional cash.

Sameer Shalaby, president and CEO of Hazeltree, said: "With the continued focus on cash and liquidity management by our clients globally, Hazeltree is uniquely positioned to deliver an efficient way to aggregate and manage cross-counterparty cash accounts and sweep unencumbered free cash to money market funds. We welcome Federated to our well-established partner network and look forward to collaborating with them to provide our mutual clients with automated access to their liquidity products."

Financial services will thrive after Brexit, says William Hague

Lord William Hague sees a positive future for the UK's financial services industry post-Brexit, but attendees at SWIFT Business Forum London were not so easily convinced.

In his keynote speech at the conference in April, the former head of the Conservative party suggested that as long as the financial services industry remains open for business, it will remain strong.

But a poll of attendees revealed that 60 percent believe the UK financial services industry will merely survive outside of the EU, while 40 percent think it will thrive.

In his speech, Hague reminded delegates that a Brexit deal will be based on the "overall architecture", saying "there isn't going to be a brilliant deal for financial services and a terrible one for the car industry, or the other way around".

The EU is strongly opposed to a sector-by-sector outcome. The overall architecture means ending free movement as it now exists, and therefore leaving the single market, and this will necessarily apply to financial services.

While there should be concern about any threat to the UK's industry, Hague said in his speech: "It would be a mistake to be defeatist about this."

There is "critical mass" in UK financial services that cannot be easily replicated elsewhere, he said, adding that this is "one of the most sophisticated and liquid markets in Europe". Hague said: "The key for the UK will be remaining open, whatever the outcome of the negotiations, to talent and business and markets from all over the world, while maintaining a highly competitive environment at the same time."

SWIFT tests for reconciliations tech

The Depository Trust & Clearing Corporation (DTCC) Wealth Management Services (WMS) business will go ahead with new capabilities to meet the US Department of Labor's mandatory best-interest standards for retirement savings, despite the department delaying implementation of the standards.

The WMS business has developed new features and service improvements intended to help with disclosure and sharing of commission schedules, fees and expense data, as required under the new standards, which were scheduled to come into effect on 10 April.

A trier's market

Attendees of Finadium's Investors in Securities Lending Conference heard how RWA ratings are influencing behaviour and peer-to-peer lending is on the rise

Finadium's Investors in Securities Lending Conferences, held in New York and London, threatened to shake-up an otherwise familiar event schedule for the would-be securities finance professional, and the London iteration didn't disappoint.

London attendees heard how risk-weighted asset (RWA) ratings under Basel III are dictating the attractiveness of assets. This has created a buyer's market, with borrowers choosing which lenders they trade with on the basis of the RWA ratings of their available stock.

According to panellists, Basel III's balance sheet management rules have significantly affected certain borrowers to favour lenders without RWA issues in order to avoid exposure limits.

The total loss-absorbing capacity (TLAC) standard for globally systemically important banks (G-SIBs), which are part of Basel III's balance sheet requirements, state that G-SIBs must meet a minimum TLAC requirement of at least 16 percent of RWA from 1 January 2019. This will increase to 18 percent on 1 January 2022.

Minimum TLAC must also be at least 6 percent of the Basel III leverage ratio exposure from 1 January 2019 and at least 6.75 percent from 1 January 2022.

A panellist added that the jurisdiction a lender is based in and the netting opportunities available in a trade are just some of the factors borrowers consider when choosing a lender.

Peer-to-peer lending is one alternative route to market for beneficial owners that are struggling to lend out their assets, although a panel representing some of the largest agent lenders in the market claimed to be unperturbed by the their clients' increasing interest in disintermediation.

The entire panel agreed that looking to cut costs and maximise revenues through more streamlined trading structures was natural and something that has always existing within the market.

One panellist stated: "It will be a very small part of the market for the most sophisticated beneficial owners. If you're a link in the chain but you can't add clear value then you will be cut."

Another panellist said the rise of peer-to-peer lending is likely to help improve liquidity, which is a key concern for European market participants in the context of the European Central Bank's public sector asset purchase programme.

Peer-to-peer lending has accelerated thanks to the launch of a number of technology solutions built to facilitate direct asset transfers.

Platforms such as Elixium, which launched in 2016, now enable clients to utilise excess cash assets by directly trading with counterparties that might not otherwise be visible.

Missed revenue opportunities

James Palmer, product specialist at DataLend, revealed in a presentation at the conference in London that securities lending revenue for Q1 2017 hit $2.05 billion, down $247 million from Q1 2016.

The drop off could have been due to poor equity revenue that was partly mitigated by an uptick in fixed income revenue. Palmer put this down to improved collateral valuations.

Equity revenue fell from $1.93 billion in Q4 2016 to $1.53 billion in Q1 2017. A closer look at DataLend's figures showed that this loss was caused by a significant decrease in borrowing fees for a handful of red hot securities that dominated lending revenues last year.

The shorting favourites of 2016, namely, Nordic tech firm Fingerprint, South Korean healthcare provider Celltrion, and Tesla in the US, have also all come off the boil, causing a knock-on effect on lending revenue.

According to DataLend, revenue from hot securities, meaning anything that earns 250 basis points (or more) in borrow fees, dropped from $1.19 billion of the total $1.93 billion earned in Q4 2016, to $793 million worth of the total $1.53 billion in Q1 2017.

This trend began to form in Q4 last year, with revenue at the close of the year down from its yearly peak in Q3, but the effect on securities lending revenue only really came into focus with the first quarterly reports of this year.

The slow start to the year was reflected in the quarterly results of some of the largest entities in the market, with major agent lenders, such as BNY Mellon and BlackRock, posting lower revenue figures.

Beneficial owners are also "leaving money on the table" by failing to engage in scrip options, panellists warned.

As much as 80 percent of scrip options are being concluded sub-optimally, meaning a significant revenue opportunity is being missed.

According to IHS Markit's latest market report, the total value of European scrip dividends has jumped 10-fold over the last decade, to reach €26 billion in 2016.

IHS Markit analyst Simon Colvin said: "Scrip dividends are a growing part of the industry's revenue mix."

"The incremental revenue generated does not necessarily incur any additional risk due to the sub-optimal elections chosen by a large part of the beneficial owners community."

Another conference panellist representing a large agent lender commented: "It's so annoying to see so much money being left on the table."

Attendees heard that agent lenders must improve communication with their clients to ensure they are optimising their strategies around scrip options.

The importance of focusing on scrip options has come into sharp focus. Recent political events have caused major economic upheaval and significantly increased the potential revenue to be generated from scrip options and associated trades.

IHS Markit clarified the value of scrip trades for beneficial owners. Last year, lenders earned $106 million in securities lending revenue from the 85 scrip dividends paid by Stoxx 600 constituents, representing 7.2 percent of the European securities lending revenue generated last year.

We'll be CCP-ing you

Finadium's New York and London agendas were the first in a while to deny attendees a dedicated central counterparty (CCP) panel.

Speaking on the decision to forgo a discussion on CCPs, Finadium managing principal and conference chairman Josh Galper said: "We look forward to more information from CCPs in securities lending, including their benefits in pricing and liquidity."

He added that the door is open to a CCP-focused panel at future events.

The absence of a CCP panel was just one of the ways Finadium sought to shake things up in the securities lending conference circuit.

Conference sponsors, made of agent lenders, broker-dealers and data providers, were limited to eight delegates each to ensure that beneficial owners made up a significant proportion of the events attendees.

According to Finadium, just over half of the event's attendees were beneficial owners, with delegates primarily representing pension funds and insurance companies. **SLT**

Specials dry up as volatility eases

The number of equity specials, and the fees they generate, has fallen significantly, which has affected revenues. IHS Markit's Simon Colvin reports

Securities lending revenues earned by beneficial owners over the opening quarter of 2017 failed to match those earned in Q1 2016, when surging market volatility took the industry's profitability to levels not seen since the financial crisis. Overall, industry revenues are down by over 6 percent from the same period last year. Equities are the main culprit as the securities lending fees earned by the asset class came up short by a massive 21 percent. In dollar terms, the overall revenue shortfall amounts to just over $113 million for the entire group of beneficial owners that contribute to IHS Markit Securities Finance dataset.

IHS Markit's Securities Finance Quarterly Review highlights that declining equities revenues are a global phenomenon as Asian, American and European markets all failed to match the revenue tally earned over last year's opening quarter.

The relative calm in the equities market experienced in Q1 has played a large role in this revenue slump as short sellers gave up fighting the global bull market that has gripped equities in the months since the US election. Decreasing appetite to sell shares short in the current market is perhaps best highlighted by the fact that far fewer shares traded special over Q1 than during same time last year.

Specials, defined as the shares which trade with a fee of more than 100 basis points, used to make up 17 percent of the 5,000 most actively traded stocks at the end of Q1 last year. The recent calm has seen the proportion of specials shrink to 14.6 percent at the end of March, the smallest number since the end of 2015.

Not surprisingly, commodities related stocks, which were responsible for much of the market upheaval last year, drove the specials retrenchment after commodities markets started to rebound from the lows set last February. Nearly a quarter of all energy names used to trade special in the first week of March 2016, the week after what turned out to be the lows set in oil prices. That number has since nearly halved as 15 percent of energy names traded north of 100 basis points at the end of Q1—the lowest proportion since the end of 2015.

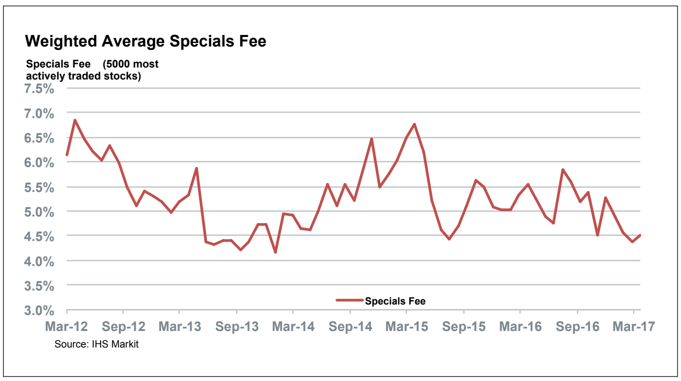
The other commodities sector, materials, has also registered a material decline in the number of its shares trading special which has fallen from 19 percent to 15 percent over the past 12 months.

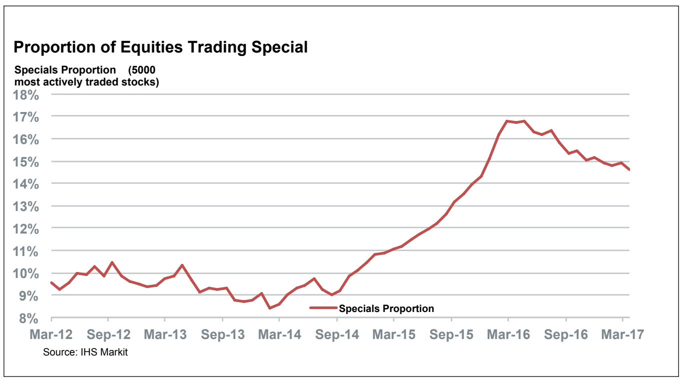
The story isn't entirely driven by the commodities sector, however, as the main protagonists of last year's volatility, a slowing of growth in China and the threat of deflation in Europe, meant that pretty much every other sector registered a material rise in the number of shares trading special. The market rebound means that 18 of the 22 non-commodities related sectors traded with a smaller proportion of on specials at the end of March than the same period 12 months ago.

Telecommunications are a holdout from this trend as 20 percent of the sector now trades special, up from 15 percent 12 months ago. This is only a small consolation for the industry, however, as the sector is only responsible for 83 of the 5,000 most actively traded equities in the securities lending market, less than a quarter of those in the energy sector. Borrowers are also less willing to pay up for the shrinking number of specials as the weighted average fee commanded by all special stocks fell to 4.5 percent at the end of Q1, down from 5.6 percent 12 months prior.

Both the falling proportion of specials and their increasing cheapness combined explain the near totality of the $299 million revenue gap experienced in equities over Q1 as the average daily revenues from specials was $3 million short of that delivered 12 months ago. **SLT**

IHS Markit's Securities Finance Quarterly Review





Don’t miss the next issue

Securities Lending Times is present at all of the major securities lending conferences around the world. Make sure you pick up a copy of the latest issue

ICMA’s 49th Annual General Meeting and Conference

Luxembourg

May 2017

3-5

icmagroup.org

The European Pensions & Investments Summit 2017

Switzerland

May 2017

3-5

icmagroup.org

6th Collateral Management Forum

Germany

May 2017

18-19

glceurope.com

ISLA’s 26th Annual Securities Finance and Collateral Management Conference

Germany

June 2017

20-22

isla2017.com

Peter Lane, formerly of Maple Securities, is looking to get back into securities finance

What's your background?

I'd always been keen to work in the City once I left school and, after working for a couple of small stockbroking firms, I joined Kleinwort Benson Securities in 1987. I stayed within the Kleinwort Benson Group for just under 12 years, during which I worked within a variety of operational and client services roles. I'd also met my future wife, Michaela.

In 1999, I joined Maple Securities (UK) with a mandate to develop a middle-office function within securities finance. The company had been established in the UK for just under three years and, as a result, there was huge scope to develop new products, strategies and market footprint. Within two years of joining, I was promoted to the trading desk with responsibility for the gilt repo book and coverage of UK equity securities finance trading, before taking on responsibility for developing a US domestic and American depository receipt trading book. From 2006, my role was focused on European equities and fixed income across stock loan, repo and total return swaps products.

I have been married to Michaela for 12 years. We have two children and live in Beckenham, Kent.

What industry qualifications or relevant certification do you hold?

I've held the CF30 certification with the Financial Conduct Authority since 2001 and more recently gained ACSI status (associate membership) with the Chartered Institute for Securities & Investment. I'm keen to continue my personal development with the CISI programme to ultimately reach MCSI status.

What was your last position in the industry and what did you enjoy most about it?

My last position was as a securities finance trader at Maple Securities covering European and international equities and fixed income. It was a wide remit with responsibility for securities finance coverage of proprietary trading desks, managing a specials matched book, developing and trading event-driven strategies, forecasting cash flows, and executing funding transactions. I always enjoyed the variety of the role, the fast pace of trading, reacting to market news, the opportunities to research and implement new strategies, and the development of strong collaborative relationships internally and externally with other market participants.

I'm very fortunate to have worked within a great team, alongside Alasdair Sutherland and Ben Prade in London and reporting into Walter Kraushaar as global head of treasury and securities finance in Frankfurt.

What area are you looking to get back into?

The securities finance market in London has compressed somewhat over the last 12 or 18 months so I've realised that I need to be flexible to continue within the industry. I'm still interested in trading opportunities in equity finance, collateral or funding but would be happy to explore new avenues within the wider securities finance industry. There are some great innovations being developed by financial technology companies specialising in securities finance solutions and it would be interesting to have the opportunity to help develop these products as the market looks to create efficiencies and meet their regulatory obligations.

What do you feel the industry needs most?

The industry is without doubt going through a period of transition: new revenue streams need to be established, a more proactive approach to collateral management adopted and further efficiencies introduced in operational processes.

What do you feel you could bring to a future role?

I would bring a wide market and product knowledge, as well as strong business relationships, which I have developed over more than 16 years working within the industry, not to mention a proactive, enthusiastic and positive approach to a new role.

What is the best way to contact you?

The best way to contact me is either via my LinkedIn profile or to my personal email address, peterlane.uk@yahoo.com **SLT**

The latest industry vacancies

For more positions, visit www.securitieslendingtimes.com/recruitment

Head of Business Analysis

Alexander Ash

Home counties

The head of business analysis will be responsible for driving professional excellence within the practice through effective capability development, resource management, delivery quality assurance and clear leadership.

Data Business Analyst

Alexander Ash

London

A leading securities services organisation is working on regulatory reform within its asset management outsourcing division and has a fantastic opportunity for a business analyst to play a key role in data change under Solvency II.

Equity Derivatives Flow Sales

City Wharf Financial Recruitment

London

European investment bank and a top-tier brokerage firm are both urgently looking to recruit equity derivatives flow sales people with five to seven years of experience, covering institutional and hedge fund accounts.

Prime Brokerage Sales Desk

City Wharf Financial Recruitment

London

A global mid-tier investment bank based in London is looking to develop its prime brokerage business. It's keen to attract experienced prime brokerage sales people with at least five to 10 years-plus experience. Suitable candidates will be those who have a hands-on approach selling directly to hedge funds and institutions with a good profit and loss on a yearly basis.

Comings and goings at State Street, Trading Apps, OCC and more

BNY Mellon's Adam Sporn has joined State Street's enhanced custody business development team for North America.

Sporn, who shifted to State Street in late March, is responsible for developing new business opportunities, cultivating existing relationships and serving as a product expert in industry affairs.

He reports into Jim Bryant, senior managing director for State Street's enhanced custody business development team.

Previously, Sporn was managing director and head of business development for Borrow Plus, BNY Mellon's principal securities finance programme.

The role involved managing the bank's client-facing activities, including sales and relationship management, with a focus on hedge funds and liquid alternatives.

Sporn's CV also includes 11 years in Morgan Stanley's securities lending group, where he was responsible for building out incremental supply for prime brokerage clients through exclusives and enhancement swaps.

Trading Apps has snagged EquiLend's Jacqueline Cacace as its new senior business analyst.

Cacace's role focuses on developing and designing business requirements for existing and prospective Trading Apps clients, as well as serving as an extra point of technical contact for Trading Apps growing US client base.

She will also serve as a sales engineer assisting the head of US sales.

Cacace joined the securities finance technology vendor's New York office on 1 April and reports to Matthew Phillips, head of delivery.

At EquiLend, Cacace was vice president at its product management office from October 2013. She also served at J.P. Morgan and Morgan Stanley.

Cacace follows EquiLend's former head of sales Chris Valentino, who moved to Trading Apps in September 2016 and now leads its US office.

"Jacqueline Cacace's impressive experience and commitment to the industry are consistent with the culture we have and continue to build upon at Trading Apps," said Matthew Harrison, CEO of Trading Apps.

"We view Jacqueline's appointment as a testament to the growing demand for our products, services and expertise in the North American market."

Former Clearstream global head of securities financing sales Pascal Morosini has resurfaced as CEO of new regtech platform i-Hub.

i-Hub is part of the POST Luxembourg group and facilitates client documentation onboarding, delivering significant operational efficiencies for securities finance.

The platform focuses on know-your-customer document management.

Morosini resigned from Clearstream in July 2016 after 20 years at the firm.

His departure followed Deutsche Börse Group's decision to fuse the agency lending services of Clearstream, Eurex Repo and Eurex Clearing in 2015 to better serve large, fixed income lenders.

OCC's senior leadership shake up has continued with the appointment of David Hoag as senior vice president and chief information officer.

Hoag will fill the role left by Luke Moranda. Moranda, in turn, will become senior vice president and senior information technology adviser to OCC's new president and COO John Davidson, who will join the clearinghouse in early May.

Both Hoag and Moranda will report directly to Davidson.

Previously, Hoag served as chief technology officer for Halo Investing, which developed and now offers a pre-defined market return trading platform for investors.

"I am very pleased that David Hoag will join our technology leadership team," said Craig Donohue, OCC executive chair and CEO.

"OCC must continue to cultivate confidence in our resiliency while simultaneously meeting the needs of market participants with cost-effective solutions.

"David can build upon the progress and momentum created by Luke Moranda and our IT team to help ensure that OCC has the technology infrastructure in place to assess the ability to meet the evolving needs of our clearing members while also meeting the heightened expectations of global regulators."

Donohue added: "As our senior IT adviser, Luke will focus on OCC's future state IT capabilities, including modernising and improving our software development life cycle processes. I have great confidence in Luke's ability to deliver outstanding results in this new role, given his background and experience."

The Depository Trust & Clearing Corporation (DTCC) has appointed four new members to its board of directors.

The new members are Michael Herskovitz of AllianceBernstein, Kathleen Lynch of UBS Americas and Wealth Management Americas, Umesh Subramanian of Goldman Sachs, and Lara Warner of Credit Suisse.

DTCC's board of directors provides direction and oversight for the corporation, on behalf of its global stakeholders, in a bid to help promote safety and stability in the financial markets.

There are currently 20 directors, 13 of which are representatives of clearing agency participants.

Three are non-participant directors, and two are designated by Series A and B preferred shareholders. The final two directors are DTCC's president and CEO, and its non-executive chairman.

According to DTCC, the new board members were selected to improve the depth of expertise on the board.

Herskovitz is director of fixed income risk operations and technology and co-head of enterprise operational risk at AllianceBernstein, a role he has held since 2006. He has also co-authored two books and several research papers on mortgage-backed securities pricing and analytics.

Lynch is COO for UBS Americas and Wealth Management Americas, responsible for oversight of the front-to-back control systems and maintaining smooth operations. She joined UBS in 2012, from Merrill Lynch, where she held various leadership positions in global research and investment banking.

As global co-head of the Goldman Sachs technology division, Subramanian is also a member of the firm's committees on risk, finance, model risk control and technology risk. He also serves on the investment banking division technology investment committee, and has previously led the finance engineering team.

Warner is responsible for all global compliance and regulatory issues at Credit Suisse, and is a member of the executive board at both Credit Suisse and the Credit Suisse Group. She was CFO of the firm's investment banking division between 2010 and 2015, and before this was global head of fixed income and economic research.

Robert Druskin, non-executive chairman of DTCC's board, and chairman of its executive committee, said: "We are delighted to have four talented and knowledgeable industry leaders join DTCC's board of directors."

He added: "We also extend our deep gratitude to our former board members for their tireless service and contributions to DTCC and the broader industry."

The new board members replace Darryll Hendricks of Global CCS and UBS Investment Bank, PIMCO's Cynthia Meyn, and Derek Ross, a former partner at Deloitte UK, who have all completed their terms.

Paul Walker of Goldman Sachs has also left the board, choosing not to stand for re-election. **SLT**

securities lending times

www.securitieslendingtimes.com
Twitter: @SLTimes_

Group Editor
Mark Dugdale
editor@securitieslendingtimes.com
+44 (0)203 750 6022

Deputy Editor
Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
+44 (0)203 750 6019

Reporter
Drew Nicol
drewnicol@securitieslendingtimes.com
+44 (0)203 750 6022

Contributors
Becky Butcher • Barney Dixon

Marketing Director
Steven Lafferty
design@securitieslendingtimes.com

Designer
James Hickman
jameshickman@blackknightmedialtd.com
+44 (0)203 750 6021

Publisher
Justin Lawson
justinlawson@securitieslendingtimes.com
+44 (0)203 750 6028

Office fax: +44 (0)20 8711 5985

Published by Black Knight Media Ltd