securities lending times
The primary source of global securities finance news and analysis
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Spain readies for PSPP securities lending programme as France tests daily auctions

Banco de España and Banque de France, the Spanish and French central banks, moved to make better use of their public sector purchase programme (PSPP) holdings via securities lending this month.

The Spanish central bank chose Deutsche Bank to manage its securities lending programme, which will make the securities that it purchased under the PSPP available to borrow in order to replenish EU market liquidity.

Banco de España has opened itself up to lending through repo and reverse repo against cash as collateral with primary dealers of euro area bonds and at other institutions with "an important role for market liquidity". Under the securities lending programme, cash and sovereign bond collateral will carry a 4 percent haircut, while the fee is the difference between the repo rate and the reverse repo rate.

The interest rate to borrow securities against securities as collateral will either be a fixed minimum fee of 10 basis points (bps), or a fee based on the prevailing market rates, whichever is higher.

The interest rate to borrow securities against cash as collateral will either be the rate of the deposit facility minus 30 bps or the prevailing market repo rate, whichever is lower.

Transactions have an open term and will be recalled at the latest for value 90 calendar days following the start of the loan.

Regarding borrow limits, an individual counterparty may borrow up to 2.5 percent of the amount outstanding of a single issue, with a maximum of €200 million for any such issue.

Transactions should be split into tickets with a maximum nominal size of €50 million.

Banco de España will also set limits for each individual counterparty for the overall borrowing volume and the borrowing volume against cash collateral. Transactions will be settled either on the same day or on the following business day or two business days later.

Iberclear and Euroclear have taken on responsibility for providing a facility for fails mitigation lending.

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Spain readies for PSPP lending programme as France tests auctions

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The French central bank, Banque de France, began trialling a daily auction scheme on 4 July to lend its PSPP holdings of French government bonds, known as Obligations Assimilables du Trésor (OATs), against cash collateral.

Trial auctions will be open at least one month to all eligible counterparties that signed the relevant contracts.

According to the Banque de France, the objective of the trial is to gain experience with the use of auctions in carrying out, streamlining, and enhancing the access to its securities lending activities, thereby further supporting the French repo market functioning.

Banque de France stated that it did not want to "prejudge" whether it would consider applying auctions more systematically in PSPP securities lending in the future.

Securities loans will have a one-week standard maturity. Bids in the auction will be collected and results allotted using the Bloomberg auction tool.

The competitive bids are to be placed in borrowing rate terms, and can be placed for all nominal French OATs held by Banque de France under the PSPP.

The allotted amounts will be subject to the €50 billion overall limit shared among eurosystem central banks accepting cash as collateral.

Bilateral operations will remain in place for bonds and maturities that are not included in Banque de France's auction framework.

Inside Securities Lending Times

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Collateral liquidity drought driving buy-side to CCPs, survey reveals

Securities lending and repo central clearing models are becoming more attractive to buy-side firms due to concerns over scarcity of short-term liquidity, according to an industry survey by BNY Mellon and PwC.

A joint report on the results explained that the buy side is "grappling to adjust to its new collateralised trading obligations as well as striving to secure access to sustainable sources of funding and liquidity".

The survey received responses from 120 global firms during Q1 2017. The report also highlighted that the "classic concerns" associated with use of central counterparties (CCPs) still endure.

Survey respondents cited the lack of appetite for posting margin and/or contributing to default funds, fellow customer risk, issues with access to collateral in the event of the member or CCP default, and an unequal playing field due to potential CCP participation by only a specific type of buy-side firm, as some of the factors holding back wider buy-side use of central clearing.

At the same time, more than 90 percent of participants noted a direct impact on their collateral obligations from regulations such as over-the-counter uncleared margin requirements.

Of the asset managers surveyed, 71 percent said they are counting on consolidating their existing dealer relationships to maintain access to liquidity. Just under half also intend to expand the number of relationships they have with banks.

The BNY Mellon-PwC report noted that larger and well-resourced buy-side firms have implemented, or are implementing, sophisticated collateral management initiatives, such as generating yield on collateral through securities lending.

These buy-side firms are also changing their models to view collateral as an asset class and also utilising collateral transformation.

Pension funds and insurance companies, which are the lifeblood of the stock loan industry, generally indicated a willingness to use new sources of liquidity, but 93 percent of respondents stated that an ongoing credit indemnification service provided by agents is a "critical consideration".


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Fend off reform fatigue, urges FSB

Hamburg | Reporter: Mark Dugdale

The Financial Stability Board (FSB) has called on the leaders of G20 nations to fend off reform fatigue and continue to work together through reinforced, voluntary, international regulatory cooperation grounded in agreed international standards.

FSB chair Mark Carney wrote to G20 leaders on 3 July ahead of their summit in Hamburg on 7 and 8 July to update them on the FSB's progress in areas such as OTC derivatives reform and shadow banking.

Through a series of reports delivered over the first week of July on multiple subjects, the FSB appears to be largely pleased with its work since the financial crisis of 2008 to minimise risks in markets, with Carney telling G20 leaders that reforms "are building a safer, simpler and fairer financial system".

"[But] there are nascent risks that, if left unchecked, could undermine the G20's objective for strong, sustainable and balanced growth," Carney warned.

Without naming US President Donald Trump's aim to repeal and replace the Dodd-Frank Act, and possibly halt implementation of key Basel III reforms such as the net stable funding ratio, nor the UK's decision to leave the EU, Carney said: "Giving into reform fatigue could erode the willingness of G20 members to rely on each other's systems and institutions and, in the process, fragment pools of funding and liquidity, create inefficiencies and frictions, reduce competition, and diminish cross-border capital and investment flows."

Carney added: "There is, however, another path that involves working together through reinforced, voluntary, international regulatory cooperation grounded in agreed international standards."

These include encouraging full and consistent implementation of standards to support a level playing field and reduce regulatory arbitrage opportunities, and revising legal frameworks to facilitate cooperation.

On this last point, Carney gave the example of sharing information among authorities on resolution and removing certain legal barriers that exist around the reporting of OTC derivatives.

James Slater, managing director of BNY Mellon Markets, said: "The funding environment is experiencing a dislocation due to the pull of two opposing forces—the introduction of collateralised trading obligations for the buy side coinciding with increased capital and liquidity requirements on the dealers traditionally called upon to provide such liquidity to clients."

"There is a structural shift in the market taking place which is impacting all the major players."

Michelle Neal added: "Respondents also believe that the continuing balance sheet pressure on sell-side institutions has constrained the ability of many traditional bank market makers to adequately service their liquidity requirements."

"As a result, many executives are seeking new relationships to backstop their existing liquidity providers, exploring trading with non-traditional counterparties and investigating participation on peer-to-peer liquidity platforms. There is a meaningful shift towards viewing the investment and trading process as much more than simply a series of transactions and this underscores why we're reinventing our own business."

"The focus in this new environment is to provide access to more and different relationships to better meet the liquidity demands of our clients."

Deutsche Börse engages T7 for cash

Deutsche Börse Group's Xetra trading platform has migrated its cash trading to its new T7 facility for the Frankfurt Stock Exchange, putting both Xetra and Eurex derivatives trading on the same system.

According to Deutsche Börse Group, the new system reduces latency, meaning the time for order processing, even further. Harmonising Xetra and Eurex trading technology also produces significant synergies and means lower development and maintenance costs.

Deutsche Börse also confirmed that Eurex trading participants will benefit from easier access to Xetra, while regulatory requirements and technical updates can be integrated into the trading system more quickly and efficiently.

The Xetra trading platform on the Frankfurt Stock Exchange is the global reference market for German equities and the leading market for European exchange-traded funds trading.

Roughly 1,000 international equities and 1,500 exchange-traded products are currently tradable on Xetra.

Eurex Exchange, the European Energy Exchange and the Bombay Stock Exchange already use T7 trading technology.

The Vienna Stock Exchange and the Irish Stock Exchange will soon migrate their systems to T7.

Hauke Stars, the Deutsche Börse executive board member responsible for cash market, pre-initial public offerings and growth financing, said: "The new trading technology T7 gives investors and exchange-listed companies access to a sustainable and extremely reliable system that already has a proven track record on different international stock exchanges."

"Trading participants specifically benefit from cash market and futures trading synergies and further reduction in latencies."

The migration to T7 follows Eurex's move to become the only exchange that offers futures and options on all major MSCI indices, in response to the launch of futures and options on the MSCI EAFE Index.

OCC continues to soar

OCC's securities lending activity through its central counterparty rose by more than a quarter in new loans in June.

The equity derivatives clearinghouse recorded 204,340 transactions last month, up 27 percent on the same time last year.

Year-to-date lending activity was also up 20 percent from 2016 with 1.1 million new loans, according to OCC's latest update.

The average daily loan value cleared by OCC in June was $154.4 billion.

Cleared futures volume was up 16 percent in June, compared to the same period last year.

The clearinghouse recorded 13.2 million contracts last month.

OCC's year-to-date average daily cleared futures volume was up 44 percent with 557,161 contracts in 2017.

LSM plans post-Brexit Lux move

Indemnity insurance provider Liberty Specialty Markets (LSM) will move its EU business headquarters from London to Luxembourg, as part of its post-Brexit strategy.

According to LSM, the move follows a detailed analysis of potential jurisdictions, with the aim of ensuring that the company's post-Brexit structure fits with its European strategy.

Once it has received regulatory approval, LSM will operate through an insurance company and insurance intermediary domiciled in Luxembourg.

LSM, which will retain its London office, is continuing to analyse potential structures for its new EU operation.

According to Nick Metcalf, president and managing director of LSM, the company has "ambitious plans for growing the business that we do within and from the EU, and Luxembourg best fits the design principles we set ourselves to best position our post-Brexit structure".

"It is important to us to locate ourselves in a robust regulatory environment, and Luxembourg offers us exactly that. The regulator is well-respected, pragmatic, and insurance-specific and so understands the market very well."

DTCC completes first trade on CCIT platform

New York | Reporter: Drew Nicol

The Depository Trust & Clearing Corporation (DTCC) has executed the first trade through its Centrally Cleared Institutional Triparty (CCIT) platform, between Citadel and Morgan Stanley.

The new CCIT membership expands the availability of central clearing in the repo market and extends central counterparty (CCP) services and the guaranty of the completion of eligible triparty repo transactions between dealer members and eligible institutional cash lenders.

The first trade comes a month after the US Securities and Exchange Commission (SEC) approved rule changes that allow institutional investors to participate directly in the clearinghouse through CCIT membership.

According to DTCC, expanding the CCP guaranty to a broader number of participants would lower the risk of diminished liquidity in the triparty repo market caused by a large scale exit of participants in a market stress situation.

It would also mean that a failed counterparty can be centrally liquidated 'in an orderly manner' by FICC, thereby reducing the risk of fire sales that drive down asset prices and spread stress across the financial system.

CCIT comes under the umbrella of DTCC's Fixed Income Clearing Corporation (FICC) subsidiary. FICC works with asset managers, pension funds, insurance companies, state treasuries, along with other dealers and cash lenders.

Murray Pozmanter, DTCC managing director and head of clearing agency services, said: "We are very pleased to have been able to work with Citadel and Morgan Stanley to take this next step to make CCIT a reality."

"With a greater number of market participants leveraging the clearinghouse through the CCIT Service, we are able to strengthen both the safety and efficiency of the triparty repo marketplace," Pozmanter explained.

Tom Wipf, who is vice chairman of institutional securities at Morgan Stanley, commented: "We congratulate FICC on this important enhancement to the structure of the repo market."

"The combination of expanded market access for our clients and the overall reduction in counterparty credit risk is a major step forward for all participants in the repo market."

Wipf added: "FICC has worked diligently over the past several years to bring this strategic product to market and we at Morgan Stanley are proud to partner with Citadel on this inaugural cleared repo trade."

He added: "Our primary objective was to minimise disruption to our clients and policyholders and employees, and I hope to be able to demonstrate how we have achieved that, when we set out how our new structure will work after the summer."

"For our clients it will be very much business-as-usual. Europe is a key market for us and we are working towards expanding our capabilities and product offering in Europe over the coming months and years."

In March, Lloyd's of London also announced that as part of its post-Brexit plan it would be opening a new EU insurance company in Brussels.

EquiLend and BondLend break record

EquiLend and BondLend experienced a record-breaking trading day across the two platforms on 28 June 2017.

The firm recorded 36,977 trades, beating its last target from 26 August 2015.

EquiLend attributed the achievement to a rise in North American equities trading. Of these trades, 90 percent were conducted on the Next Generation Trading platform.

Legacy trading platforms, including AutoBorrow and Trade2O, will be discontinued in December.

As an upgrade, NGT offers global, consolidated securities finance trading across all asset types.

OneChicago expands futures range with a Friday thrust

Securities finance exchange OneChicago will introduce a new No Dividend Risk (NDR) Friday futures product on 24 July 2017.

NDR Friday futures are serially listed NoDivRisk futures that, in conjunction with the existing monthly futures, provide for futures expiring on the next five Fridays.

NDR Friday Futures will settle to stock on a T+3 basis, then shift down to T+2 in September.

Each Friday future has its own suffix in its symbol (I, J, K, L, respectively).

OneChicago saw a 32 percent increase in trading volumes in June over the same time last year.

Transaction volume was more than 1.7 million for the month.

The latest volume rise means OneChicago is up 26 percent for the first half of the year.

Italy's Prevedi extends BNP Paribas mandate to securities lending

Italian pension fund Fondo Pensione Prevedi has selected BNP Paribas Securities Services to provide it with securities lending services.

Prevedi, an Italian pension fund for employees in the construction industry, currently uses BNP Paribas as its depository bank and recently expanded this mandate to include securities lending services.

Stefano Catanzaro, general manager of BNP Paribas Securities Services Italy, said: "We are delighted to be extending the services we provide to Prevedi to include securities lending."

"We have built a close working relationship with Prevedi over the past few years and look forward to continuing to help them meet the needs of their members," Catanzaro added.

Diego Ballarini, CEO of Prevedi, added: "BNP Paribas's securities lending offering will help us optimise the financial management of the fund—for the ultimate benefit of our participants."

BNP Paribas has also secured four new European online banks as clients for its US broker-to-custody platform.

The service offers clearing, settlement and custody processes for US fund flow.

Germany's OnVista Bank, Spain's Self Trade Bank, Austria's Hello Bank, and the Czech Republic's Raiffeisenbank, have all signed up.

BNP Paribas added Sweden's Avanza Bank, Norway's Netfonds Bank and Portugal's Banco de Investimento to the platform in 2016.

Florent Thiry, head of financial intermediaries and corporates client line for the Americas at BNP Paribas, said: "Expanding the broker-to-custody global model to include the US has enhanced the bank's position as the key provider to international broker-dealer and banking clients."

Thiry added: "Our clients have greatly benefitted from the platform's effectiveness, flexibility and ease of use. We are delighted to work with these four new clients."

Vontobel choses Clearstream

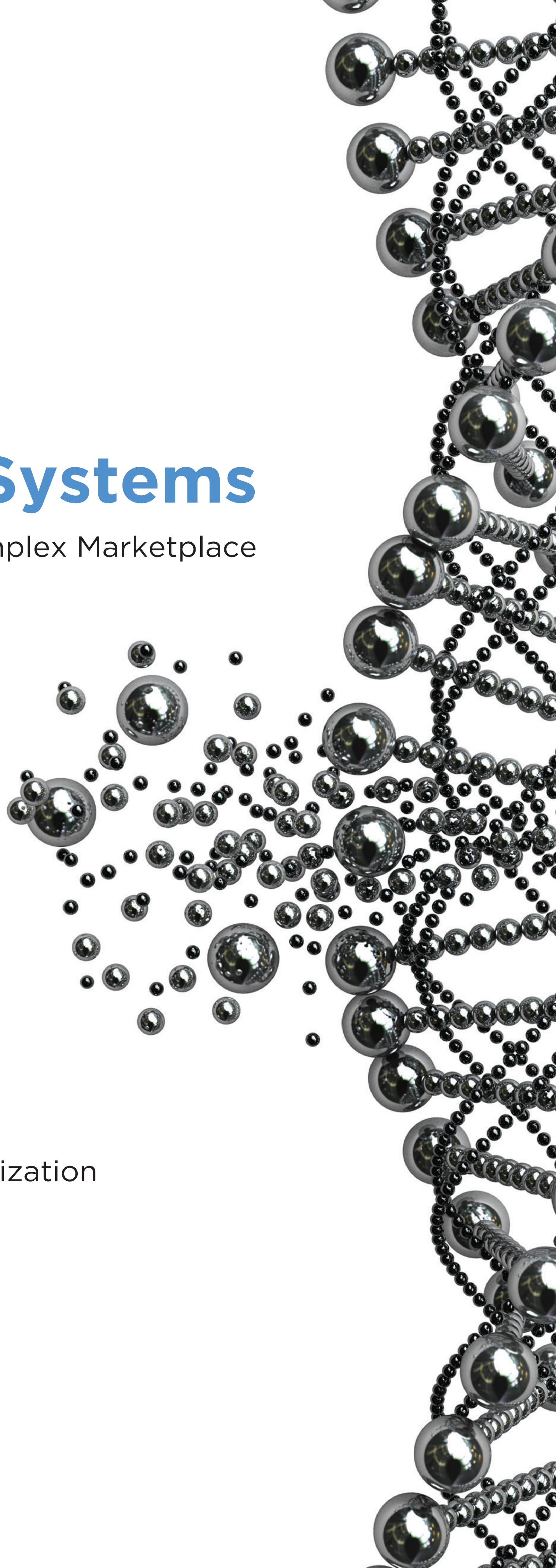
Swiss asset manager Vontobel is set to become a user of Clearstream Banking's investment funds processing infrastructure for its third-party hedge fund processing activities.

Clearstream's services will enable processing of all types of funds from mutual funds to hedge funds on a single platform.

Clearstream's Vestima platform support market participants to comply with the regulatory requirements and new rules on risk mitigation.

According to Clearstream, the current regulatory agenda has made asset safety a key concern for financial institutions and the asset management industry in particular.

The Deutsche Börse subsidiary cited UCITS V and the Alternative Investment Fund Manager Directive (AIFMD) as key factors that are reshaping the operational landscape of the European investment funds market and driving a growing need for transparency and efficiency in investment funds processing.



Citi launches Velocity Clarity, a big data platform for custody and fund services

New York | Reporter: Katherine Brown

Citi has launched Citi Velocity Clarity, a new data and analytics platform that utilises big data technology.

The platform concentrates on data analyses across Citi custody and fund services (CFS) products, with growth plans to include Citi's broader investor services activities in the future.

Citi investor services provides institutional investors with access a wide range of investment solutions, including securities lending, collateral management, custody and fund services.

Clarity is completely integrated with Citi Velocity, a research and trading platform, which gives clients easy access to Citi's data, analytics, research and execution services.

The new platform uses Citi's private, cloud-based, big data on demand infrastructure to allow fast consumption of information from various sources. Citi Velocity Clarity provides self-service customisation functions which include data on demand through an application programming interface.

Sanjiv Sawhney, global head of custody and fund services at Citi, said: "We are pleased to announce this exciting new service as a continued demonstration of our ongoing investment in Citi's custody and fund service offering globally."

Sawhney explained: "Clarity was designed as a turnkey capability, which allows clients to navigate through investment data in a seamless manner without the expense and time frame usually required to implement a full data warehouse."

"The feedback from early adopters has been very positive with clients praising the design, ease of navigation, speed and overall user experience."

Peter Camenzind, head of transaction banking at Vontobel, said: "We want to deliver the edge for our clients and embrace opportunities that make a difference."

"By moving our third-party hedge fund business to the industry market leader, we achieve a higher straight-through processing rate in the hedge fund processing and we offer our clients a new level of service quality based on Clearstream's expertise."

Philippe Seyll, co-CEO and head of investment fund services at Clearstream Banking, said: "We are delighted to extend our relationship with Vontobel and to start delivering services to this customer in the Swiss market."

"Switzerland has a high importance for us and is considered as one of our key markets."

GPP joins with Edgefolio for prime

GPP has partnered with Edgefolio to provide a capital introduction service to its prime brokerage clients.

Edgefolio's platform connects investors and hedge funds, creating technology-driven solutions for a traditionally conservative and fragmented industry.

Sean Capstick, GPP head of prime brokerage, said: "As the leading provider of prime brokerage services to the small and mid-sized hedge fund we are constantly asked how we can work with our clients to help them raise assets."

"Edgefolio offers a market-leading technology solution to connect investors and fund managers. Our partnership will now help our clients achieve their ambitions."

Leopold Gasteen, founder of Edgefolio, added: "Edgefolio's partnership with GPP is a great example of how Fintech can help solve the regulatory burden of cap intro, in the era of the second Markets in Financial Instruments Directive. Edgefolio's Marketplace equips investors with the tools to discover and analyse thousands of managers, and equips managers with the tools to maintain scalable investor relations."

Gasteen added: "Our partnership will see GPP's clients gain access to capital through cutting-edge technology and help Edgefolio refine its platform for prime brokerage clients. We couldn't be more excited about working with the team at GPP."

China closes first trading day on new Bond Connect platform

The first direct and fully electronic RMB cash bond transactions between offshore investors and mainland Chinese liquidity providers on Tradeweb's Bond Connect were executed on 3 July via its trading link.

The People's Bank of China reported that RMB 7.05 billion (USD 1.03 billion) was executed on the official first day of northbound trading on Bond Connect, with 70 institutions successfully completing 142 transactions with 19 onshore market makers.

Tradeweb Markets is a global marketplace for electronic fixed income, derivatives and exchange-traded funds trading that has become the first offshore trading platform to connect with the China foreign exchange trade system (CFETS). The partnership sets Tradeweb Markets as the main trading interface for offshore investors to access the new Bond Connect between China and Hong Kong, allowing foreign investors access to the third-largest bond market in the world.

More than 70 institutions joined to access Bond Connect through Tradeweb.

Bond Connect was launched by the People's Bank of China and the Hong Kong Monetary Authority in May, with the aim of enabling investors in mainland China and overseas to trade bonds in each other's markets.

Lee Olesky, CEO of Tradeweb Markets, said: "We are a global leader in electronic fixed income trading, and our fully electronic workflow has already begun to optimise faster and easier access to the Chinese debt market for institutional investors through Bond Connect."

"The introduction of electronic trading for Chinese bonds internationally is a catalyst for greater efficiency, connectivity and transparency in trading these bonds across a broader network."

Bond Connect user Endre Pedersen, senior managing director and chief investment officer of fixed income for Asia (excluding Japan) at Manulife Asset Management, said: "We are gaining streamlined, electronic access to the third largest bond market in the world."

"Tradeweb and Bond Connect have transformed the operational workflow for trading Chinese bonds, while improving price discovery and connectivity to liquidity providers."

New tool to tackle prime risk exposure

NEX Optimisation has launched a new automated credit rebalancing tool to combat limit over-allocation by prime brokers.

Designed in partnership with Citi, Rebalancer has already gone live over five electronic communication networks (ECNs), and is scheduled to be rolled out across more platforms before the end of the year.

It is intended to help prime brokers reduce their foreign exchange risk exposure by reducing the amount of excess they carve out at each ECN.

Rebalancer allows prime brokers that allocate credit to multiple trading venues the ability to move it around, if there is excess credit in one and a surplus in another. It considers the client's net position across all venues and automatically extends and withdraws credit as required.

Countdown to compliance

The FCA has revealed the UK market's final rulebook for MiFID II and now participants must mobilise quickly to achieve compliance. Drew Nicol reports

The UK's Financial Conduct Authority (FCA) pulled back the curtain on its collateral and reporting requirements for the second Markets in Financial Instruments Directive (MiFID II), and now the race is on to hit the 3 January 2018 deadline.

For securities lending activities, MiFID II places responsibility on the lender for ensuring that a borrower of safe custody assets provides appropriate collateral and accounts for value variables during the borrow period.

The FCA confirmed that this requirement applies in trilateral agreements if the lender is still arranging for the transaction to take place. However, although lenders must take responsibility for collateral, they are not required to hold the collateral directly, thereby allowing for central clearing to operate in the market.

In its final policy statement, the FCA said: "These rules apply to securities lending in respect of safe custody assets."

"Responses to our pre-consultation costs survey and the European Securities and Markets Authority (ESMA) MiFID II consultation indicated that the clear majority of firms already take collateral in these circumstances. We therefore do not believe these changes have a large impact."

There's a hole in the bucket, dear borrower

Concerns about strains on liquidity have plagued MiFID II and similar initiatives that bring fresh collateral demands since their inception.

Speaking at The Network Forum in Warsaw, Anna Biala, a partner at Clifford Chance, highlighted some of the challenges of MiFID II that could affect custodians, including pointing out that the directive prohibits title transfer collateral arrangements with retail clients.

She said it is currently unclear as to whether this includes securities lending and repo transactions, adding: "It seems that that was not the intention of the legislators."

Biala warned: "the new rules might have an impact on securities lending and repo transactions", and a wider effect on the market.

"[MiFID II] might impact market liquidity," she warned.

Segregation rules under the directive are quite restrictive, and "the risk is that this will disrupt the flow of collateral in the financial systems, which is quite problematic, bearing in mind that various regulations now require additional collateral", she concluded.

Above and beyond

The FCA's policy statement sets out the ways in which the UK's policy will go beyond the requirements of EU legislation, but noted that the authority has an obligation to consider the government's economic policies when implementing it.

"We have considered the benefits to consumers and to the integrity of the UK market of our proposals, set against the costs for firms and therefore overall the extent to which the UK remains attractive as a location for internationally active financial institutions."

Particularly, the statement responded to consultation paper CP16/29, released in September 2016, which received 211 responses and caused the FCA to revise some of its proposals.

Inducement rules in relation to research will still be applied to collective portfolio managers, not only to investment firms that are subject to MiFID II.

However, the FCA amended its original proposal around how quickly charge deductions should be passed into an research payment account (RPA), and clarified that it does not intend to require investment managers to have a single RPA per research budget.

The real winners of the final version of the FCA's MiFID II rulebook were the local Government pension schemes (LGPS), which at the previous reading were at risk of being hit hard by the requirements.

The FCA appears to have acknowledged industry concerns and has lowered the threshold for the size of portfolio that a local authority must have in order to "opt up" to professional client status.

In essence, this makes it easier for local authorities investing on behalf of a LGPS pension fund to upgrade to professional client status if they wish to and benefit from the provisions that brings.

Speaking on the amendment, Joe Dabrowski, head of governance and investment at the Pensions and Lifetime Savings Association, said: "We welcome the publication of the final MiFID II rules and guidance from the FCA as it shows that they have listened to the industry's concerns."

"The LGPS has over £217 billion invested and one of our key concerns about the original consultation was that the decision to classify local authority pension funds as retail investors would have put real constraints on how they delivered value to their 5.3 million members and how they might continue to invest in infrastructure projects."

"However, the FCA has listened to the industry's concerns and taken steps to allow them to 'opt up' more easily. In particular, the revised approach recognises the difference between authorities and pension funds and the skills, experience, and level of regulation that guides the LGPS. Following this announcement, it is now time to concentrate on making MiFID II work in practice to ensure that LGPS schemes are in a position to meet the January 2018 deadline."

Alas poor UCITS

For alternative investment fund managers, best-execution rules under MiFID II will not be extended to them, as was originally proposed. However, the FCA maintained that collective investment undertakings that are not UCITS will not be automatically considered either complex or non-complex. This includes non-UCITS retail schemes and investment trusts.

The FCA clarified that "most of what is in the MiFID II conduct provisions is familiar in the context of the existing UK regulatory framework.

But, as well as the specific adjustments firms will need to make, their implementation presents an opportunity for firms to consider their existing approach to compliance and their efforts to put the interests of clients at the heart of what they do."

"In this regard, having an effective governance structure and the right culture are crucial to implementing MiFID II successfully."

The FCA acknowledged that implementation of the directive before the 3 January 2018 deadline represents a challenge for firms, "particularly given that important issues concerning the interpretation of the legislation are still being resolved".

But it added: "We expect firms to take reasonable steps to meet this deadline. Firms who still need to apply for authorisation or variation of permission should prioritise as a matter of urgency their submission of complete applications."

"Such firms must have contingency plans in the event that by 3 January 2018 they do not have the required permissions." **SLT**

Less data, more actionable information

Securities finance must avoid analysis paralysis ahead of upcoming regulatory deadlines. David Lewis, vice president of FIS Astec Analytics, explains

Data, especially what we commonly describe as 'big data', is all around us, influencing and occupying ever greater parts of our lives. But this explosion of data can also bring problems, hiding the actual evidence or important nugget of information below terabytes of noise.

Much can be done to filter the noise, but data management, interpretation and data visualisation techniques are only one part of the answer, especially where the securities finance and collateral industries are concerned.

FIS Astec Analytics has been in the data industry for more than 15 years and during that time, we learnt much about how to collect and process data. But, arguably more importantly, how to present it so raw data becomes actionable information. Few lending providers lack a client reporting engine or facility of some description, and will have, no doubt, been through the same development paths.

However, the second, and important, part of the equation is knowing, with some certainty, what the actual questions are and whether we, as an industry, are answering them with the information we provide.

When we talk to our beneficial owner clients, it is interesting to note the change in tone and subject as time passes. Over the years leading up to the financial crisis, the focus had always been on profitability, returns to lendable and utilisation results. An under-performance by one or more basis points, when compared to the peer benchmark, would elicit some robust conversations and probing of an agent's strategies. Immediately after the crisis, clients focus was primarily concerned with exposures and collateral coverage.

Profitability, while obviously still crucial, became, somewhat of a secondary subject and reporting benchmarks pivoted towards a confirmation of whether your particular fund, with its specific characteristics and asset profile, was in the ball park or not, when compared with the benchmark.

Where funds were more than one or two notches off the median, an explanation around collateral schedules and counterparty limits and approvals was often enough to explain the under or over performance. Should something appear under collateralised, that would have been a different story.

Move on to more recent times and that tone has changed appreciably once more. While funds are more problematic to align with a statistically significant peer group, owing to the increasingly unique characteristics of funds, especially where collateral profiles are concerned, the focus has once again shifted towards where the money is made.

This should not be surprising to anyone in the market, whether a participant agent, borrower or beneficial owner.

Lower yields and incomes from other market activities has put pressure on securities finance to deliver, not only in terms of absolute revenues, but also in cost and balance sheet optimisation.

Correlating with the renewed focus on fund performance is, comfortingly in many ways, a significant increase in engagement from asset owners. Pressure on the traditional transaction chain to yield more income for its participants has rarely been greater.

Fund types and domiciles that, only a few years ago, might have struggled to even consider lending their government bonds, are now pushing term trades against flexible collateral types. Some fund owners are actively pressing for peer-to-peer lending opportunities, potentially causing some disintermediation in the marketplace.

That said, agents represented on a panel at the International Securities Lending Association's recent conference in Berlin, made good arguments as to why they should retain their position in the chain, but it is inarguable that change is coming.

Asset owners seeking actionable information on new trade types, such as evergreens, enabling them to make better informed decisions and understand more clearly how such trades are priced is driving many of the changes that we are seeing as a provider in this space.

Delivering both trading systems and market data, FIS is also seeing data and functionality requirements changing as a result of regulations and the strategic actions the industry is taking to respond to them as best it can.

The Securities Financing Transactions Regulation (SFTR) has become omnipresent in all industry-related conversations. The impact of what is effectively just a reporting requirement, could be seismic.

While asset owners are concerned with how they will meet their obligations, or how much it will cost them to have their agents undertake this work for them, market participants are looking to how the industry can be changed to turn a regulatory requirement into an opportunity.

Replacing agency lending disclosures is one potentially positive spin off from the implementation of SFTR, but other related changes may affect the lending disclosure process integral to the way trading is currently undertaken.

Advanced data around risk weighted asset usage and cost-effective counterparties will bring the trading process forward, moving allocation and disclosure up the timeline, potentially improving efficiency across the transaction chain. In order to achieve this, however, we will not only need to have the right data to hand, but we will need to know what questions to ask.

There are some questions that are very likely to flow to the top of the beneficial owner's agenda, and these may include how such changes align with any sense of fairness in trade allocations.

The second Markets in Financial Instruments Directive describes client management and fairness obligations, including greater clarity around trading choices and the justifications behind them.

This will, no doubt, shine a light onto the new processes and procedures the industry is currently considering, particularly when the asset owners increased interest in incomes and profitability is borne in mind.

As market participants and providers throughout the transaction chain, we are all keen to both increase the size of the income pie, as well as perhaps increasing our own share of it, but with all the changes coming down the pipe at our business, not only will the answers and information be vital, but knowing what to actually ask will be key. **SLT**

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60 Seconds with Stephen Sassano

Stephen Sassano has a wealth of US-focused experience in securities finance

What's your background?

I am a married, father of two boys living in New Jersey. Our kids keep us very busy with their activities but we also enjoy the beach and boating when things slow down in the summer.

I started my career in operations and worked my way up to trading various securities lending and repo products.

I now have more than 15 years of trading experience with both equity and fixed income collateral.

Products traded include equities, US treasuries, emerging markets, corps and G7 bonds.

What industry qualifications and relevant certifications do you have?

I have held the title of vice president at Credit Suisse and Morgan Stanley. I am Series 7 and Series 63 certified.

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

My last position was a vice president with Credit Suisse prime brokerage. I sat within securities lending on the equity finance and collateral trading desk.

Our main objective was to fund the entire equity division while following the guidelines of 15c3-3, the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

Various triparty, bilateral, and collateral upgrade trades using both fixed income and equities were used.

These trades maximised collateral efficiency and managed balance sheet usage while simultaneously covering shorts.

What I enjoyed most about it was working with a great team that touched many parts of the firm, such as treasury, hedge fund sales, client service and operations.

The position allowed me to use all my experience while making a positive contribution to firm policy and the firm's profit and loss.

We were always challenged to come up with innovative trades to meet firm needs and the ever changing regulations.

What about some of your other previous roles?

At Morgan Stanley, I was a fixed income repo sales person, specifically covering hedge fund clients. I helped bring value to our customers while also providing our repo desk with valuable liquidity.

A funding component was also part of the job as I reinvested customer cash in the firm's triparty trades.

At Refco Securities, I was a repo and cash execution trader focusing on emerging markets and corps. I also got to facilitate customer foreign exchange trades, which gave me great exposure to the foreign exchange market.

At BNP Paribas I traded US treasury and agency repo.

What area are you looking to get back into?

I am looking to get back into a role that allows me to leverage my past experience with equity finance, securities lending, and repo.

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

I have both equity and fixed income lending and repo experience and understand the current regulatory environment with LCR, NSFR and the pressure firms are under to meet balance sheet limits.

I have the contacts and experience to innovate trades that will help firms meet these requirements (or take advantage of if you have extra balance sheet) while maximising collateral efficiency and profit and loss.

What do you feel the industry needs most?

In my opinion, the industry needs global uniformity and some easing of the regulations. An example would be to make equity collateral acceptable to pledge under 15c3-3 in the US.

Europe currently does accept equities as collateral, which gives it a more flexible market compared to the US.

What is the best way to contact you?

I can be reached via:

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Senior Business Manager

Alexander Ash

London

An investment bank is undertaking a major transformation programme within its DCM/ECM/advisory COO function and have a fantastic opportunity for a senior business manager/COO to manage both operational and transformation initiatives for the business.

Credit Risk Analyst

Bruin

London

A global investment management group is seeking an experienced credit risk analyst to join its London team. The successful candidate will report to the global head of counterparty credit risk and will be responsible for monitoring, analysing and reporting on the model's performance.

Liquidity Manager/Treasury Manager

Alexander Ash

London

The candidate will be responsible for further development and implementation of the liquidity management and funds transfer pricing framework in relation to the bank's portfolio of businesses

Liquidity manager

Alexander Ash

London

An investment bank with operations all over the globe is currently searching for a liquidity manager to join it on a contract basis in its offices in London.

Comings and goings at OCC, RBC, HSBC and ENSO Financial Analytics

OCC has brought on Amy McCormick into the new role of first vice president of financial risk management.

McCormick joins OCC from the National Futures Association (NFA) where she was a managing director responsible for a multi-divisional $60 million programme to overhaul clearing risk management systems and oversaw examinations, investigations, and risk management teams.

She will report to Dale Michaels, executive vice president of financial risk management at OCC.

Prior to the NFA, McCormick served as an executive director at CME Group in risk management from 2012 to 2015 where she led a successful initiative on real-time risk management.

According to OCC, McCormick's work turned a slow batch process into the ability to view exposures on updated positions and prices in under a second to be able to detect, analyse, and mitigate any risk management concerns.

"As a systemically important financial market utility, we must have the right people in the right roles to help OCC to ensure confidence in the financial markets and the broader economy," said Craig Donohue, executive chairman and CEO of OCC.

"Amy McCormick's 22 years of experience in risk management for a self-regulatory organisation and a major global derivatives exchange will help OCC in its continued efforts to reduce systemic risks, increase transparency, and provide capital and collateral efficiencies for market participants."

Royal Bank of Canada Investor & Treasury Services (RBC I&TS) has poached J.P. Morgan's Hong Paterson to lead its Singapore business.

Paterson will be country head and director of global client coverage in Singapore, leading business development and client coverage in the country.

She joins from J.P. Morgan Commercial Banking in Singapore where she was an executive director, responsible for multinational clients. Previously, she was responsible for developing strategic cash and liquidity management solutions for J.P. Morgan Investor Services in the Asia Pacific.

According to RBC I&TS, Singapore represents an important market for the business, and for its global asset manager and sovereign wealth clients.

Andrew Gordon, managing director for Asia at RBC I&TS, said: "Hong Paterson's substantial experience and extensive knowledge of the local market will be invaluable in driving our business and client activity in Singapore."

As of 30 April, RBC I&TS had almost CAD 4 trillion in client assets under administration.

HSBC has appointed Terry Alleyne to its securities services client management team, as a client executive.

Alleyne will be a key contact for European insurance clients, and will be responsible for growth in the segment.

Based in London, he will report to Linda McLennan, who leads the insurance sector within client management.

Alleyne joins HSBC from Citigroup, where he was business manager for global custody product management for Europe, the Middle East and Africa, working with financial institutions across the insurance, asset management and banking sectors. Previously, he has also held positions at J.P. Morgan and BNP Paribas.

A memo issued by HSBC said the hire "demonstrates we are investing in our client management franchise".

Paul Busby has left HSBC to become head of sales at ENSO Financial Analytics, a NEX Group company.

Busby, who is based in New York, previously served as managing director at HSBC for five years. Prior to that he worked at Deutsche Bank Securities as America's head of securities lending and global prime finance. **SLT**

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