securities lending times

The primary source of global securities finance news and analysis

Conference Special

Mastering margin

New rules require new solutions for collateral managers

Visit www.securitieslendingtimes.com for the latest daily news updates

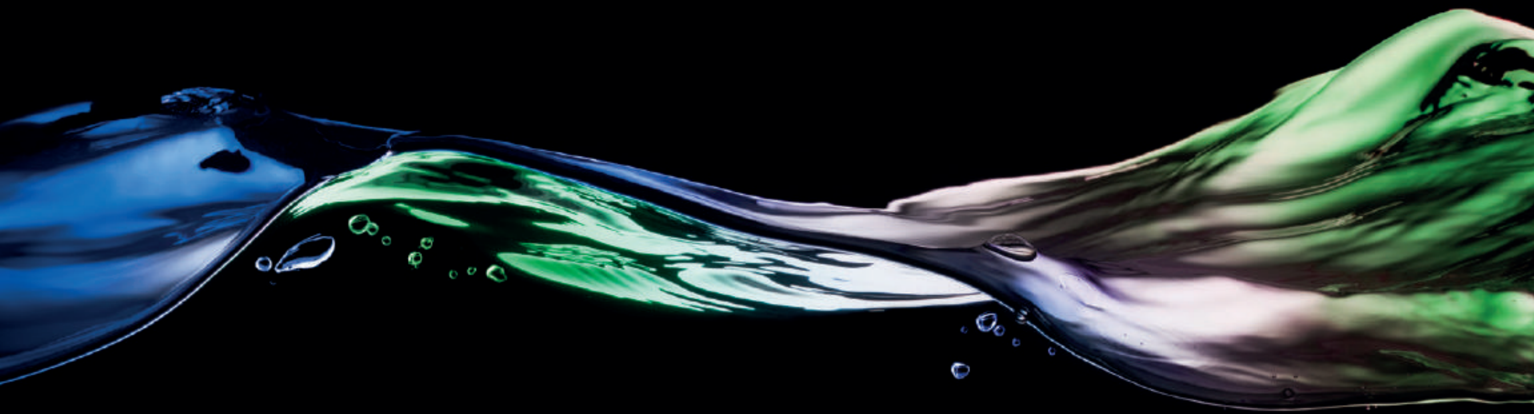
EQUILEND
OUR INNOVATION. YOUR ADVANTAGE.
&
TRAX®
A MarketAxess Company

SFTR
INTEROPERABILITY DEFINED

EquiLend and Trax offer all you need for SFTR—comprehensive point of trade ***and*** lifecycle reporting from trusted, regulated service providers.

©2017 EquiLend Holdings LLC. Proprietary and Confidential. For discussion purposes only. ©2017 Xtrakter Limited (the "Company"). Trax is a trading name of Xtrakter Limited. The Company is a wholly owned subsidiary of MarketAxess Holdings Inc. The Company is authorised and regulated by the UK Financial Conduct Authority.

the all to all
solution that brings
market participants
together



elixium.com

US appeals court dismisses US equity lending mismanagement case

Allegations of mismanagement of a securities lending programme brought by two US Bank pension beneficiaries was dismissed by the US Court of Appeals for the Eighth Circuit last week.

US Bancorp and its subsidiaries US Bank and FAF Advisors were exonerated for pursuing an exclusively equities-focused lending strategy to supplement US Bank's pension plan on the grounds that it became overfunded in 2014 and therefore posed no threat to its investors.

The Eighth Circuit affirmed the court's dismissal of the original case as moot, based on the pension plan's overfunded status, as there was no actual or imminent injury to the plan itself that caused injury to plaintiffs' interests.

It was alleged by the plaintiffs that a total equities strategy in the face of a deteriorating stock market was barred by Employee Retirement Income Security Act's (ERISA's) six-year statute of repose.

The court concluded that, because the plan is now overfunded, the plaintiffs lack a concrete interest in any monetary relief that the court might award to the plaintiffs prevailed on the merits.

The original putative class action against US Bank, US Bancorp and multiple directors challenged the management of a defined benefit pension plan from 30 September 2007 to 31 December 2010.

Defendants were accused of violating Sections 404, 405, and 406 of ERISA by breaching their fiduciary obligations and causing the plan to engage in prohibited transactions with a FAF Advisors.

It was alleged that these ERISA violations caused significant losses to the plan's assets in 2008 and resulted in the plan being underfunded that year.

Inside Securities Lending Times

Conference Special

Regulation Analysis
Euroclear's Olivier Grimonpont reviews how new margin rules are forcing collateral managers to adapt and collaborate.
page 16

RMA Report
The securities lending industry has some much needed respite from new regulations, and this year's conference was upbeat.
page 18

Collateral Panel
A host of market drivers are pushing the collateral market in several directions at once, and the best way forward remains unclear.
page 22

Margin Rules
Forthcoming collateral rules will require the buy side to find additional margin, writes BNY Mellon's Peter Madigan.
page 28

Data Analysis
The securities financing industry revolves around data, and providers are looking to help.
page 38

Industry Appointments
LCH gains John Horkan as COO, SIFMA votes in 2018 board, and NEX signs its next CEO.
page 42

Merrill Lynch fined for EMIR reporting failure

London | Reporter: Drew Nicol

Merrill Lynch International has become the first bank to be reprimanded by the UK's Financial Conduct Authority (FCA) for failing to report exchange-traded derivative transactions under the European Markets Infrastructure Regulation (EMIR).

The bank accepted a £34.52 million penalty relating to 68.5 million unreported transactions between February 2014 and February 2016.

Merrill Lynch International accepted a settlement early on in the investigation, thereby securing a 30 percent penalty reduction, from the original £49.32 million fee.

The FCA said the action "reflects the importance the FCA puts on this type of reporting".

The regulatory watchdog stated that reporting exchange-traded derivative transactions helps authorities assess and address the risk inherent in financial systems caused by a lack of transparency.

The reporting requirement was one of the key reforms introduced following the financial crisis in 2008 to improve transparency within financial markets.

In a statement on the enforcement, the FCA said: "While Merrill Lynch International were open and cooperative in assisting in the FCA's investigation and quickly took steps to remediate the breach, Merrill Lynch International were the subject of two earlier and related transaction reporting cases."

Mark Steward, FCA executive director of enforcement and market oversight, said: "Effective market oversight depends on accurate and timely reporting of transactions. The obligations under EMIR, as with the second Markets in Financial Instruments Directive, are key aspects of such oversight."

"It is vital that reporting firms ensure their transaction reporting systems are tested as fit for purpose, adequately resourced and perform properly. There needs to be a line in the sand."

"We will continue to take appropriate action against any firm that fails to meet requirements."

The plaintiffs, James Thole and Sherry Smith, who are both retirees of US Bank, do not allege that they have experienced any of these sorts of freezes or reductions in their benefits.

They instead claim they were injured by the increased risk of default from the plan's liabilities that exceeded its assets as a result of the significant losses caused by the ERISA violations.

The plaintiffs sought to recover plan losses, disgorgement of profits, injunctive relief, and other remedial relief pursuant to ERISA Section 502(a)(2), 29 USC § 1132(a)(2), and ERISA Section 409, 29 USC § 1109.

BRRD moratorium powers may cripple liquidity, says ISLA

Changes to moratorium powers under the Bank Recovery and Resolution Directive (BRRD) could seriously reduce the availability of securities for lending in the market, the International Securities Lending Association (ISLA), has warned.

In an open letter to the European Commission, ISLA CEO Andy Dyson spelled out how changes to moratorium powers under the BRRD could "severely reduce levels of liquidity for markets across Europe".

The letter comes in response to the European Commission's proposal to amend the BRRD by introducing moratorium power, which aim to harmonise the use of moratoria tools used by resolution authorities across EU member states.

The proposed amendment was first revealed on 23 November 2016.

According to Dyson, the main implications are the lengthy durations of suspension.

He explained: "Moratoria have the effect of suspending payment and delivery obligations for up to a maximum of five working days."

"It is currently unclear whether the in-resolution power could be utilised on multiple

Visionary Collateral Management

Pirum introduces **Collateral**Connect. Building on its award winning, post-trade securities finance connectivity and automation services, **Collateral**Connect extends our offering into the front-office to provide cutting edge tools in support of enterprise-wide collateral management.

Seeing is Believing | For a demo please contact connect@pirum.com

www.pirum.com

Global Markets

Get the Most From Your Lending Program

Securities lending can be an important source of return and a key part of overall portfolio and risk management strategies. We offer individualised service, technology and a commitment to transparency to help you achieve your goals.

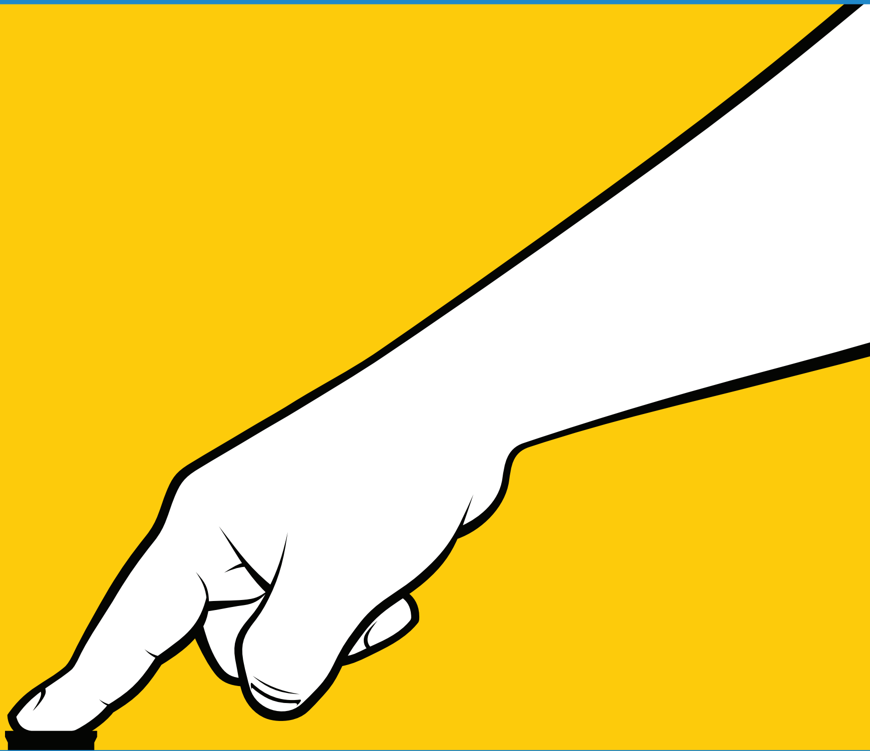
For more information contact
Alex Lawton, Head of Securities Finance, EMEA
+44 20 3395 4641 or alawton@statestreet.com

State Street Global Markets is the marketing name and a registered trademark of State Street Corporation used for its financial markets business and that of its affiliates. The products and services outlined herein are only offered to professional clients or eligible counterparties through State Street Bank and Trust Company, London Branch, authorised and regulated by Federal Reserve Board, authorised and subject to limited regulation by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority;
and State Street Bank International GmbH, London Branch, authorised by Deutsche Bundesbank and the German Financial Supervisory Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority.
© 2017 State Street Corporation - All rights reserved.

statestreet.com/securitiesfinance

DTCC launches SFTR solution

New York | Reporter: Jenna Lomax



The Depository Trust & Clearing Corporation (DTCC) is enhancing its European global trade repository (GTR) in support of the upcoming Securities Financing Transactions Regulation (SFTR).

According to DTCC, the new bolstered SFTR offering will be a significant addition to the existing reporting capabilities affecting 45 regulators around the world who have access to GTR data.

SFTR, which will be implemented fully in 2019, will require in-scope firms to report securities financing transactions including repo, securities lending and margin lending trades to an authorised trade repository.

Chris Childs, head of derivatives and collateral, and president and CEO at DTCC, said: "DTCC's GTR is the only user-owned, user-governed trade repository and has established itself as the market leader in trade reporting in Europe."

"We will leverage this expertise to ensure our product remains the market benchmark while identifying best practices and economies of scale that benefit all of our clients."

consecutive occasions, thereby making the maximum period of suspension uncertain."

Dyson suggested that this uncertainty could lead to a disproportionate shift of risk to pension funds, as well as regulated investment funds, private funds and other investors for whom asset managers serve as fiduciaries.

Another concern was the departure from the Financial Stability Board's (FSB) key attributes.

"The proposed moratorium powers are inconsistent with the key attributes," Dyson commented.

"The addition of multiple moratorium periods, which might be used consecutively goes beyond the intended limitations of the FSB principles and poses a risk to the financial stability which the resolution seeks to maintain."

ISLA is one of the primary market bodies consulting with regulators to tackle market issues, such as moratorium powers.

Wematch welcomes first lenders

Digital broker Wematch.SecuritiesFinancing has secured its first two lenders.

David Raccat, CEO of Wematch, said: "You can have the best technology in the world but if you don't have the liquidity you're going to die—it's critical."

"My objective is to get close to 10 lenders by the end of the year, and we are on track because we have several lenders currently in the onboarding stage at the moment."

Raccat added that Wematch had seen promising traction from the borrowers since the first lender joined.

On the sell side, Wematch boast 19 borrowers, including several tier-one banks, with $1.8

Consololtd

Business Change Specialists in Securities Finance

consololtd.co.uk

info@consololtd.co.uk

... to the next level.

Let Securities Lending take you...

Make idle assets work harder with Securities Lending. Behind the scenes, we generate low-risk additional revenues on your securities. The only impact on your business is enhanced performance figures, and today, every basis point counts.
We offer tailor-made agency, principal and lending solutions with remote access to suit your precise needs.
CACEIS, your comprehensive asset servicing partner.

www.munier-bbn.com

Contact:
Dan.Copin@caceis.com

www.caceis.com

caceis
INVESTOR SERVICES
solid & innovative

trillion worth of interest since the platform's launch in February.

The digital broker completed its first securities lending trade on 18 September between Bank of America Merrill Lynch and ABN Amro, trading in French equities.

Wematch initially went live with a focus on total return swaps and European equities, before moving into securities lending and repo services went live on 18 September along with an expanded the list of available asset classes.

No further SFT regulations on the horizon, says European Commission

The Financial Stability Board's (FSB) recommendations on securities financing transactions (SFTs) have been addressed to a large extent through the adoption of the Securities Financing Transactions Regulation (SFTR), according to the European Commission.

The European Commission said that FSB recommendations on SFTs meet all apparent requirements for success because of the introduction of SFTR.

It stated: "There does not seem to be a need for further regulatory action at this stage."

The FSB previously highlighted several recommendations for the commission to pursue in order to improve transparency and market stability with SFTs, such as monitoring cash collateral reinvestment.

In a report reviewing the success of SFTR, the European Commission stated that non-bank entities should implement regulatory regimes in their jurisdictions that meet FSB minimum standards for cash collateral reinvestment to limit their liquidity risks.

Another recommendation related to collateral valuation and management, stated SFT counterparties receiving collateral should only take collateral types that they are able to hold for a period without breaching laws or regulations, if they follow a counterparty failure.

On haircuts, the commission stated: "The quality standards of haircuts will be calculated once the SFTR reporting obligation becomes effective."

"The current market dynamics reinforce the need for a certain degree of caution and robust evidence when reflecting on regulatory action implying quantitative requirements. No other region has taken a decision on regulatory action on haircut floors at this stage."

The commission has committed to "thoroughly monitor developments in SFT markets and the international regulatory space" and will reassess the added value of qualitative standards and haircut floors once comprehensive SFT data is available.

LEI compliance is non-negotiable

Securities lending industry participants must not neglect to find a viable method to comply with the fast-approaching legal entity identifiers (LEI) requirement, according to the European Securities and Markets Authority (ESMA).

The LEI is a 20-digit, alpha-numeric code that enables clear and unique identification of legal entities participating transactions.

ESMA stated that the introduction of LEIs under the second Markets in Financial Instruments Directive (MiFID II) will improve market surveillance and transparency and play a key role in the new harmonised data-reporting regime.

In a statement on the LEI requirement, Steven Maijoor, chair of ESMA, stated that there is no room for negotiation where LEIs are concerned under the incoming MiFID II rules. He said: "LEIs play a key role under the new MiFID II data-reporting regime as well as being essential in supporting regulator's work on transparency and market surveillance. It is vital that investment firms and trading venues make the necessary efforts to obtain their LEIs in good time."

Maijoor's warning comes just three months before the implementation of MiFID II on 3 January 2018.

At this year's IMN Beneficial Owners' Conference in London, Andy Dyson, CEO of the International Securities Lending Association, told delegates how regulatory requirements for new technology implementation, such as LEIs, will require more resources and bring additional costs to market participants, but audience members were assured these would be minimal.

"It has proven to be the most robust identification method for legal entities and as a result has been widely used by regulators in the European Union (EU) and globally," said ESMA in a statement.

ESMA stated that sourcing an LEI provider is "straightforward" and that a legal entity is not obliged to use an LEI issuer from its own country.

The use of an LEI is already required under a number of EU regulations and directives such as European Markets Infrastructure Regulation, the Alternative Investment Funds Managers Directive, Central Securities Depositories Regulation and Securities Financing Transactions Regulation.

It was developed following the financial crisis of 2007-2008 and ESMA states it's a system that works best for identifying legal entities.

MiFID II stalls Lombard Risk's half year revenue pipeline

Lombard Risk has blamed "market distractions" for a 16.4 percent drop off in H1 revenue figures.

transform | business

With our range of apps you can transform your securities finance business

2016 Best Software Provider

www.tradingapps.com

We See Opportunities. You Get to Take Them.

Explore new ways to optimize your cash and collateral with BNY Mellon Markets.

FINANCING | LIQUIDITY | COLLATERAL

BNY MELLON

Products/services are provided in various countries by subsidiaries or joint ventures of The Bank of New York Mellon Corporation (and in some instances by third parties) that are authorised and/or regulated within each jurisdiction, under various brand names, including BNY Mellon. Not all products and services are offered in all locations. The terms of any product or service, including without limitation any administrative, valuation, trade execution or other service, shall be determined by the definitive agreement relating to such product or service and subject to the relevant disclaimer for such product or service. This information is for general reference purposes only and does not constitute legal, tax, accounting or other professional advice nor is it an offer or solicitation of securities or services or an endorsement thereof in any jurisdiction or in any circumstance that is otherwise unlawful or not authorised. Your ability to use these services is subject to a wide variety of applicable regulations and to the oversight of relevant regulators in different territories and/or jurisdictions. You should obtain your own independent professional advice (including financial, tax and legal advice) before agreeing to use the various services referenced herein. ©2016 The Bank of New York Mellon Corporation. All rights reserved.

The collateral solutions provider cited upcoming regulatory deadlines, including the second Markets in Financial Instruments Directive, as the cause of "a temporary fall in services revenues and some delays in contract signings" in its half-year report.

Revenue for the year hit £12.7 million as of 30 September, down from the £15.2 million banked during the same period in 2016.

H1 annually recurring revenue up 4.9 percent to £6.4 million from £6.1 million in 2016, but sales bookings for the period was down 21.9 percent on the previous year, with software licence bookings dropping 63.6 percent.

Lombard Risk CEO Alastair Brown said: "We recognise that this has been a challenging first half for Lombard Risk. A number of opportunities we had hoped to secure in the period remain in the pipeline as market distractions such as MiFID II caused companies to delay on committing to new projects. "

"This leaves us much to do in the second half, and converting our strong visible pipeline will be crucial to us meeting market forecasts."

In its report, the firm cited a number positive highlights of its year so far, including the extension of its partnership with DTCC, a new mandate for the foreign branch reporting of a Taiwanese bank, and the collateral manager's first client win for Australian Prudential Regulatory Authority reporting.

Lombard Risk also signed six new AgileReporter clients from Europe, the Middle East and Africa.

Brown added: "However, with the size and quality of our pipeline at an all-time high, we remain confident this can be achieved. During the period strong foundations have been put in place, with an improved salesforce, a new development centre in Birmingham, and a renewed effort to target new business as well as extant cross-selling opportunities."

"We expect delivery of a strong second half will enable the company to meet its stated objectives of being cash generative. We believe this positions Lombard Risk well for the future and we look forward to updating the market on progress during the second half of the financial year."

News of Lombard Risk's regulatory woes come shortly after the European Commission ruled out a soft rollout of MiFID II, which is set to come into force on 3 January.

Clearstream promises continuity of UK services post Brexit

Clearstream confirmed it will continue to offer stable custody services to its UK-based clients no matter how the Brexit negotiations evolve.

The Deutsche Boerse subsidiary outlined its existential incentive in maintaining and nurturing its existing relationships with London-based firms in its monthly transaction data report for September.

Clearstream said it is preparing for Brexit by joining forces with all other entities of Deutsche Börse Group.

Despite the uncertainty that came after the referendum results last year, Clearstream said its main objective through Brexit was to minimise risk of cross-border settlement.

It is unclear how Clearstream and other financial services providers will be able to provide for their UK clients if the current Brexit negotiations fail to yield a viable deal for financial services to operate across the channel after the March 2019 deadline.

Philip Brown, co-CEO of Clearstream Banking, said: "We standardise what is fragmented.

FIS APEX

SECURITIES FINANCE AND COLLATERAL MANAGEMENT

- Proven solutions to manage and automate your entire securities finance business.
- Innovative enterprise-wide collateral management, trading and optimization.
- Managed services suite to help reduce total cost of ownership.
- Access to global intraday securities lending market data and insightful analysis.

Find out more at: FISGLOBAL.COM
Contact us: GETINFO@FISGLOBAL.COM

FIS acquired SunGard in 2015, one of the world's leading software and technology services companies

FIS and the FIS logo are trademarks or registered trademarks of FIS or its subsidiaries in the U.S. and/or other countries. ©2017 FIS

J.P.Morgan

Tailored solutions to meet each client's needs.

For more than 35 years, J.P. Morgan has helped clients to enhance returns with agency lending programs tailored to their unique requirements.

Our client's individual lending, collateral and reinvestment needs are met through a comprehensive range of flexible solutions supported by our leading technology infrastructure, our global expertise and the strength of our firm.

jpmorgan.com/IS

© 2017 JPMorgan Chase & Co. All rights reserved. J.P. Morgan is the global brand name for JPMorgan Chase & Co. and its subsidiaries and affiliates worldwide. Access to financial products, execution services, clearing and brokerage custody services is offered through J.P. Morgan Securities LLC ("JPMS") and J.P. Morgan Securities plc ("JPMS plc"). Bank custody and agency securities lending services are provided by JPMorgan Chase Bank, N.A. ("JPMCB"). JPMS is a registered US broker dealer affiliate of JPMorgan Chase & Co., and a member of FINRA, NYSE and SIPC. JPMS plc is authorized by the PRA and regulated by the FCA and the PRA in the UK and is a member of the LSE.

Clearstream has supported its clients in tough transitions before, among them the Argentina default and the beginning of the sovereign debt crisis with the restructuring of Greek bonds."

In its data report, Clearstream revealed that its global securities financing outstanding volume dropped by 11 percent in September, compared to the same time in 2016.

Volume outstanding fell to €446.8 billion last month from €501.6 billion in 2016.

Year-to-date volume outstanding was also down 12 percent from €524.4 billion in 2016 to €463.7 billion as of last month.

EU commission targets member states for MiFID II delays

The European Commission is pursuing legal action against 19 member states that are failing to comply with obligations under EU law, regarding the fast-approaching second Markets in Financial Instruments Directive (MiFID II).

The 19 member states include Belgium, France, Greece, Luxembourg, Netherlands, Portugal, Spain, Malta, and Sweden, among others.

According to the commission, the offending countries have failed to update the regulator on the progress they have made in transposing MiFID II into domestic law.

Under MiFID II, set to come into effect on 3 January 2018, investment research must be bespoke to each institution, and investment firms must pay for research with their own funds, or through a separate designated account, which is charged to the client.

The European Securities and Markets Authority has been resolute in its stance the no further compliance extensions will be offered ahead of January.

This means that post-trade issues such as research payment policies need to be addressed sooner rather than later.

Broadridge concludes blockchain pilot

Broadridge Financial Solutions has completed a blockchain technology pilot to enhance the operational efficiency and transparency of repo agreements.

The pilot, conducted in partnership with Natixis and Societe Generale, utilises distributed ledger technology in order to make complex processes "more secure, transparent and efficient".

The blockchain-enabled solution, streamlines the repo agreement and confirmation processes, limits manual interventions and reduces counterparty risk.

Vijay Mayadas, president of global fixed income and analytics at Broadridge, explained that blockchain can play an "instrumental role" in reducing operational cost and complexity within the repo market.

Mayadas said: "This latest blockchain-based initiative reflects our ongoing commitment to leading the development and implementation of innovative solutions that have the ability to make complex business processes in capital markets firms more secure, transparent and efficient."

Jerry Friedhoff, head of Broadridge's securities finance and collateral management group, added: "Proving the benefits of blockchain technology in the repo market lays the foundation for the development of broader collateral management solutions on blockchain."

In April, Broadridge, J.P. Morgan, Northern Trust and Banco Santander completed a blockchain pilot, enhancing the global proxy vote transparency and analytics.

See things from a position of advantage

Are you using Spire™, the industry-leading scalable securities finance platform?

Get an unobstructed view of the financial landscape to move quickly, make informed decisions, and reduce costs.

- Agency Lending
- Stock Locates, Loans, and Borrows
- Collateral Management and Optimization
- Cash Management

Spire delivers proven advantages—
- Improve risk management and control
- Accelerate workflows
- Achieve major operational efficiencies
- Make faster trades

Add Spire to your technology array. As a comprehensive, fully-integrated front-, mid-, and back-office solution Spire's architecture integrates with your preferred technology choices, consolidating workflows and beautifully interlacing with proprietary systems.

To learn more visit us online at www.stonewain.com or call (908) 508-0600 today.

400 Connell Drive, Suite 5300 | Berkeley Heights, New Jersey 07922

Stonewain Systems Inc. is an independent provider of world class software and solutions for the securities finance industry. Founded in 2009 by industry experts, Stonewain has emerged as one of the fastest growing software provider in this field. Our proven product platform, reliable services, and innovative solutions serve some of the leading players in the securities finance industry.

wematch.live

SECURITIES FINANCING

Discover the new Smart Tech platform which will disrupt the dealing pattern for Securities Financing

1

INNNOVATIVE

A new way to share interests and to facilitate negotiation and dealing.

2

INTUITIVE

Each dealer can easily input interests and navigate from inception to confirmation, through negotiation.

3

DIGITAL

Our real-time database is hosted on a secure and real-time application anticipating expected regulatory requirements around increased transparency, liquidity, matching, and reporting.

4

SECURE

Wematch is respecting thoroughly all the industry standards regarding information disclosure, communication between dealers, and confirmation sent by the broker.

5

FLEXIBLE

Wematch will constantly be upgraded following feedback from the users and market evolutions.

6

AT YOUR SERVICE

Our support team is always available at all time.

In your best interest

The platform is live **since February 2017** and has already processed **over 1tr $ worth of interests**.

Call David Raccat: **+44 7500 896 826**

www.wematch.live

Repo steps back from the brink

The European repo market may be recovering from the severe lack of liquidity experienced at year-end 2016, according the International Capital Market Association (ICMA).

In its latest repo report, ICMA's European Repo and Collateral Council (ERCC) noted that the market had experienced a 6.4 percent bump in repo business outstanding as of 7 June, compared to December 2016.

"This growth is broadly based across the survey and reflects the usual seasonal recovery from December to June, but may indicate that the European repo market is recovering from the severe lack of liquidity experienced at year-end 2016," explained the council in its report on the survey.

Demand for high-quality liquid assets, which was a feature of the last survey, remains an important driver of repo business, given the continuing growth in the already large share of government bonds in both the survey and in directly-reported triparty repo, albeit not to the same degree as in December.

The survey also found that cross-border business with counterparties in non-eurozone countries continued to grow at the expense of the market share of anonymous, meaning central counterparty-cleared, trading and cross-border business with counterparties in the eurozone.

ICMA noted that the non-eurozone activity probably came from global investment banks based in London.

Cash-driven repo continues to suffer from the abundance of central bank liquidity injected by quantitative easing "with general collateral financing losing further market share and the absolute size of triparty repo stagnating".

Godfried de Vidts, chair of ICMA's ERCC, said: "It is encouraging that the repo market shows some signs of recovery. Within the new financial regulatory framework, the importance of this short-term market towards stability is clear."

"The flow of cash and collateral for use by sell- and buy-side participants allows, among many other uses, for the margining of centralised and bilateral clearing."

He added: "After piling up new regulatory measures, some degree of balance has returned—not reversing what has been achieved, but adjusting it where unnecessary stress was created."

"I am confident market participants and the regulatory community at large can find the right balance to deliver a near optimal short-term financing framework, contributing to a capital market union as envisaged by many."

The quarterly survey asked financial institutions operating in a number of European financial centres for the value of the cash side of repo and reverse repo contracts still outstanding at close of business on 7 June.

The questionnaire also asked these institutions to analyse their business in terms of the currency, the type of counterparty, contract and repo rate, the remaining term to maturity, the method of settlement and the origin of the collateral.

Institutions were asked about securities lending and borrowing conducted on their repo desks.

The latest survey was completed by 64 offices of 60 financial groups. This is one less respondent than in the previous survey. Five institutions dropped out of the survey, three rejoined and one joined for the first time.

The next survey is scheduled for 6 December.

EXPERTS IN:

☐ SECURITIES LENDING

☐ RISK MANAGEMENT

☐ CLIENT SERVICING

☑ ALL OF THE ABOVE

ACHIEVE GREATER

NORTHERN TRUST

To learn more, visit northerntrust.com/securitieslending

ASSET SERVICING \ ASSET MANAGEMENT \ WEALTH MANAGEMENT

DIRECTED TO PROFESSIONAL CLIENTS ONLY. NOT INTENDED FOR RETAIL CLIENTS. FOR ASIA-PACIFIC MARKETS, THIS MATERIAL IS DIRECTED TO INSTITUTIONAL INVESTORS, EXPERT INVESTORS AND PROFESSIONAL INVESTORS ONLY AND SHOULD NOT BE RELIED UPON BY RETAIL INVESTORS.

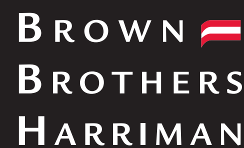
© 2016 Northern Trust Corporation, 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the United States. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation. For legal and regulatory information about individual market offices, visit northerntrust.com/disclosures. Issued by Northern Trust Global Services Limited.

BREAKING PATTERNS FOR 200 YEARS

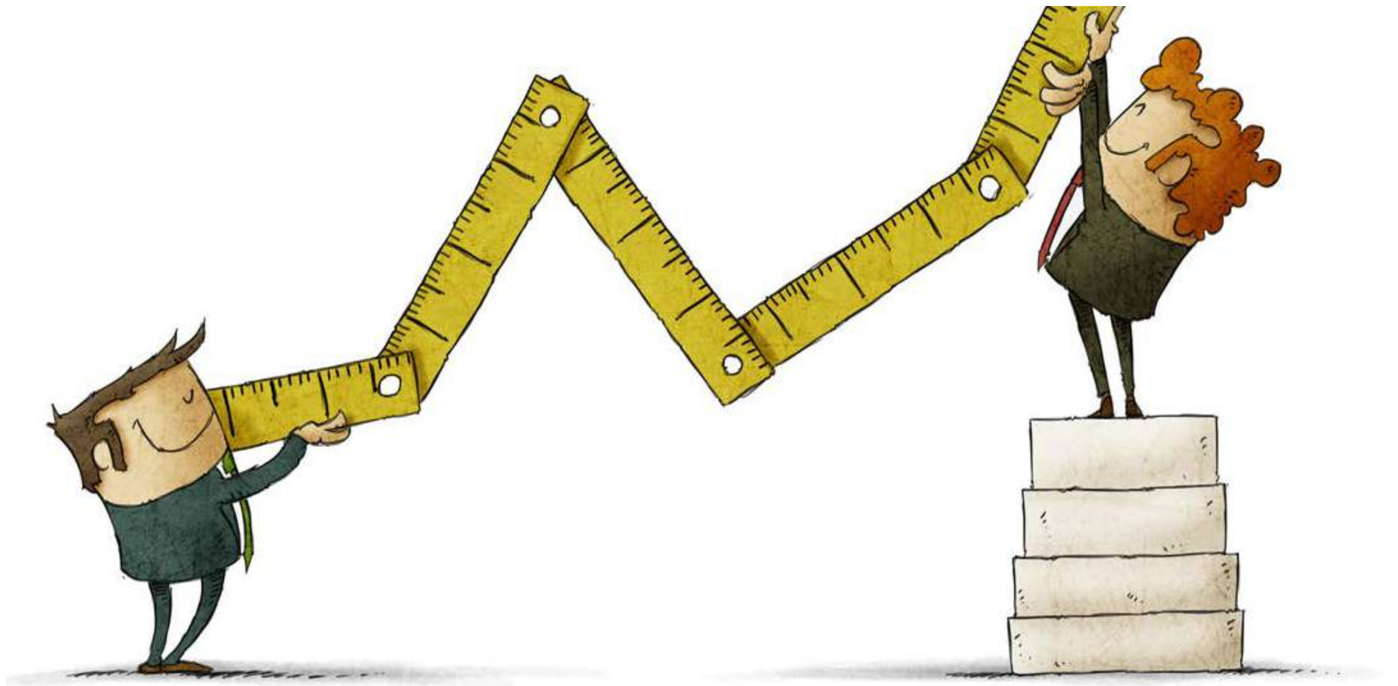
...because the conventional way isn't always the best way.

This advertisement is provided by Brown Brothers Harriman & Co. and its subsidiaries ("BBH")solely for informational purposes. This does not constitute legal, tax or investment advice and is not intended as an offer to buy securities or investment products. Approved for distribution in member states of the EEA by Brown Brothers Harriman Investor Services Limited, authorised and regulated by the Financial Conduct Authority. BBH and Infomediary are service marks of Brown Brothers Harriman & Co. © Brown Brothers Harriman & Co. All rights reserved. August 2017. IS-2017-08-17-3174

Accounting
Alternative Fund Servicing
Currency Hedging
ETF Services
Foreign Exchange
Fund Administration
Fund Distribution Support
Global Custody
Infomediary®
Middle Office Outsourcing
Securities Lending
Transfer Agency



NEW YORK BEIJING BOSTON CHARLOTTE CHICAGO DENVER DUBLIN GRAND CAYMAN HONG KONG JERSEY CITY KRAKÓW LONDON LUXEMBOURG NASHVILLE PHILADELPHIA TOKYO WILMINGTON ZÜRICH WWW.BBH.COM



Mastering margin

Euroclear's Olivier Grimonpont reviews how new margin rules are forcing collateral managers to adapt, and how collaborative solutions are the answer

DTCC-Euroclear Global Collateral (DEGCL) is fresh on the scene. What does it offer your clients and what inspired this collaboration between two leading global market infrastructures?

Both DTCC and Euroclear recognised that the incoming regulation for over-the-counter (OTC) derivatives was going to increase the complexity for market participants who would be required to exchange collateral in a timely manner to cover the new margin requirements. That was the starting point for the creation of the joint venture between DTCC and Euroclear.

The market anticipated a considerable upturn in demand and foresaw a need to mobilise collateral on a previously unseen global scale—both from the perspective of the volume and different user segments affected as well as the geographical complexities. As market infrastructures, Euroclear and DTCC were among the first to see the scale of the challenge the industry would be facing.

Regulation was becoming the driving force behind the need for a more efficient exchange of collateral—both cash and non-cash—forcing market participants to link collateral inventories in the US, Europe and Asia, as well as establish connections between the buy side and sell side. To a certain extent this shift in operational model was already happening, but on a much smaller scale than the one the new regulation was about to impose on the industry.

In order to address those challenges, DTCC and Euroclear came together to build a combined utility-like solution based on their respective proprietary technology that would address the needs of the market and smoothen compliance with the new regulatory requirements.

The two core components of DEGCL are the margin transit utility (MTU) and the collateral management utility (CMU).

The MTU is a comprehensive, straight-through industry solution that automates and streamlines the processing, settlement and reporting of margin and collateral for dealers and buy-side firms. The MTU automates, by standardising and optimising a previously fragmented and manual 'collateral settlement processes', and minimises risk while improving efficiency. Specifically, the MTU provides straight-through processing for the duration of the collateral processing lifecycle, leveraging participants Standard Settlement Instructions (SSI) held in the DTCC Alert system.

The CMU introduced a new level of efficiency to support collateral management in both OTC derivatives and financing markets. Its suite of collateral processing and monitoring services automates the collateralisation of exposures arising from derivative transactions, as well as from repos and securities lending.

The CMU's Inventory Management Services (IMS) enables the smooth mobilisation of US securities for further use in Europe through Euroclear's Collateral Highway infrastructure that is available through Euroclear Bank.

The changing regulatory landscape has made it essential to efficiently allocate as well as segregate collateral across business lines and location. As more and more firms become involved in the posting of margin to cover OTC derivatives exposures, the scale of the task facing infrastructure providers becomes massive. As the rollout of the new regulations continues, we will eventually no longer be talking about 20 or 30 group firms talking to each other, but 1,000—it creates

exponential challenges that will require increased collaboration from within our industry.

Going digital is an inevitable development in the markets evolution, how is this helping your clients?

Collateral management contracts are the starting point that define a firm's triparty activity. It is essential to set them up accurately and maintain control of their structure so that, at any time, our clients can see what contracts they have out there—active or under negotiation. Euroclear moved the entire triparty contract management process into the digital age through our new front-end service, EasyWay Contract management.

EasyWay Contracts is an intuitive digital tool through which you can define, negotiate and manage your contracts through a single online portal, offering full transparency of all your contractual agreements. By enabling dealers to digitally negotiate, approve and sign their contracts, we are facilitating the negotiation between the parties, improving the turnaround time and substantially reducing the implementation risks. In other words, EasyWay Contracts ensures quick and accurate contract implementation with a clear audit trail and full transparency at all times.

Another benefit of moving the contracts into the digital age comes from the resulting standardisation of the eligible criteria. While still offering the necessary level of granularity required to balance risks versus return, digitalisation forces clear, unambiguous eligibility criteria, pushing for harmonisation and reducing misinterpretation of criteria. Having access to digital data also enables easier review of criteria, comparison between sets and eventually providing better risk management data.

Is the EasyWay Contracts service already live?

Absolutely. The new EasyWay Contracts are available to our clients and I'm delighted to say that we've received excellent feedback. Most existing contracts are now visible through the tool and all new contracts are being implemented using the EasyWay contract management tool. We are definitely gaining traction in terms of onboarding triparty users onto EasyWay Contract.

From a number of bilateral discussions with clients, we have received very positive feedback and they really see the value of this solution. It's an innovative step that clearly addresses what has traditionally been a really difficult and time-consuming process. In particular, I'm convinced that EasyWay contracts will be a key facilitator and differentiator when we reach the subsequent phases of implementation of the new margin rules.

DEGCL is not the only solution that's come in response to regulatory demands. How will others, such as peer-to-peer platforms, affect the market?

New regulation has put a lot of pressure on banks' traditional lending activities and we have seen some banks become increasingly reluctant to offer liquidity to non-banking entities because of what it means for their balance sheets. The disruptions in the repo market at the end of last year and, to a lesser extent, at the end of the first three quarters of this year, highlights the unintended consequences of some of the regulation on buy-side firms that have relied exclusively on banks to manage their liquidity.

Pension funds and asset managers are the ones that are likely to suffer most from this evolving trend and this will naturally lead to a process of seeking out alternatives, such as the use of peer-to-peer lending platforms, to manage their liquidity needs.

Peer-to-peer platforms, or rather all-to-all platforms, have an important role to play for the market and provide an alternative way for a market to manage its liquidity. While still in its infancy, the interest in these initiatives, such as Elixium to name one, is growing.

Once they have successfully attracted sufficient liquidity, from both buy-side firms as well as those banks willing to benefit from new pockets of liquidity available through this type of collateral exchange, there is little doubt they will be successful.

That's not to say that peer-to-peer will solve all the recent liquidity issues we have witnessed, but it will become a key component in the financing toolkit that will serve to alleviate some of the restrictions and shortages we are seeing at the moment.

As peer-to-peer platforms become more prominent, one of the consequences will be the natural evolution towards greater standardisation within our industry to facilitate and encourage the participation of non-traditional counterparties such as corporates, asset managers and other buy-side entities.

How does Euroclear interact with peer-to-peer platforms?

Euroclear is an open architecture platform. We receive feeds from a number of sources, including peer-to-peer platforms, central counterparties (CCPs), and exchanges. I've often said that there's room for more than one provider in this market. We have already established links with a number of very sophisticated platforms. We see these new and emerging platforms as a critical part of the market infrastructure going forward, so we are doing what we can to help them succeed by assisting them with the onboarding of clients, streamlining of their legal documentation and standardising their collateral baskets.

Looking forward, is increased standardisation the future of the market?

It has to be. Collateral is growing in importance and the number of participants involved in the exchange collateral is expanding.

Managing the huge number of relationships without a minimum of harmonisation, in terms of contractual and legal documentation, eligibility criteria, reporting, input channels and so on, will just become unmanageable from a cost or risk management viewpoint.

Creating a tailor-made eligibility profile for individual counterparties will probably continue to make sense for some of your activity. But for the rest, the use of mass volume collateral exchanges and increased standardisation will make much more economical sense.

Going forward, I think we'll see new business becoming more generic, using standardised contracts and eligibility sets provided by either triparty agents, CCPs or peer-to-peer platforms.

Standardisation really is key. Euroclear developed a service called RepoAccess. This service enables a firm to sign one single legal document that gives them access to a community of dealers having all agreed the same terms. And the best thing is that our RepoAccess solution leverages the standards set by the International Capital Market Association for their global master repurchase agreement.

We are further expanding this to include similar services to support securities lending activity, leveraging the standards set by the International Securities Lending Association for the global master securities lending agreement.

I believe this is the future. Using industry approved standards to create a more automated and simple process saves firms time and money while reducing their risk. There's a lot of work to be done but Euroclear is working hard to get it done. **SLT**

The future is bright

The securities lending industry has some much needed respite from new regulations, and the mood at this year's RMA Conference was upbeat

The mood at the Risk Management Association's (RMA's) 35th Annual Conference on Securities Lending was one of cautious optimism that, for the first time since the financial crash, the worst of the regulatory barrage is behind us.

Speaking ahead of the association's event in Naples, the RMA's director of securities lending Fran Garritt said: "Since President Donald Trump has taken office some of the rule writing has slowed down."

Garritt added: "We were expecting progress to be made on the final rule on qualified financial contract (QFC) restrictions for global systemically important banks (GSIBs), the net stable funding ratio, and the single counterparty credit limits in the first quarter of this year but so far, we've only seen the final version of the QFC restrictions for GSIBs."

President Trump's executive order on financial regulation earlier in the year threw everything we thought we knew about the roadmap for market oversight for the next few years into question.

Many commentators at this year's conference speculated that, regardless of Trump's threats to take an axe to the red tape that's fallen on Wall Street in recent years, it was simply too unpalatable, both politically and economically, to table any major reforms to the likes of Dodd-Frank or Basel III. It was proposed that the general public would not accept anything that was perceived to be letting the banks off the hook. At the same time, for the banks themselves, implementation efforts for new rules frameworks such as the second Markets in Financial Instruments Directive (MiFID II) are simply too far along to consider turning back now. Nevertheless, the securities lending industry appears to have been given some much needed respite from new requirements coming down the pipeline.

European regulators also appear to have put their rule-writing pens down for a moment. The European Commission recently announced that "to a large extent, the Financial Stability Board's (FSB) recommendations on securities financing transactions (SFTs) have been addressed through the adoption of the Securities Financing Transactions Regulation (SFTR)".

It added: "There does not seem to be a need for further regulatory action at this stage."

All for one, and one for all

The effect of this brief reprieve on this year's conference was that panellists were able to leave discussions of the usual trials and tribulations to one side in favour of a more nuanced analysis of how the industry can work together to everyone's benefit.

During the regulatory panel, it was proposed that securities lending industry participants must work together, even to their individual detriment, in order to move the industry forward as a whole.

From an agent lender perspective, one speaker noted that the lending industry is demand driven and reactive to borrowers' needs, particularly as a result of the liquidity coverage ratio, the net stable funding ratio (NSFR), and even the Securities Financing Transactions Regulation. The speaker said: "The type of activity that we have seen is definitely a higher demand for transactions secured by non-cash collateral, greater demand for term

transactions, and in some cases, just the borrowers being more selective of lender type."

Another noted that adapting to borrowers' needs can have a significant effect on the agent lenders themselves. For example, increased demand for non-cash collateral will effect the agent lander's risk-weighted assets calculations. The speaker observed that the large brokers are generally part of larger banking institutions and so are indirectly subject to capital and liquidity ratios. Therefore, there is an understanding that the banks and brokers must work together to create a solution that works for everyone.

"Clearly the banks and the brokers are working together. There's a commonality of interest here to a much bigger extent than there ever was."

The RMA has been working to push the concept of allowing non-cash collateral by broker-dealers. While this is "completely contrary to the banks' interests from a capital perspective", as it would lead to higher indemnification costs, banks are nonetheless working with brokers to bring that about, in order to further encourage demand.

Another speaker also pointed to the proposed new 'pledge' global master securities lending afgreement (GMSLA) in Europe as an example of agent lenders and borrowers working together towards a solution that doesn't necessarily benefit agent lenders, but the market as a whole. The established way of borrowing is currently through a GMSLA, however, the speaker said: "Because of capital concerns on the borrower side, there has been a push to come up with a different type of GMSLA, a pledge GMSLA."

According to the speaker, the International Securities Lending Association has been active in pushing an industry solution here, in order to address the inconsistencies brought about through different agent lenders and borrowers providing individual, bespoke documentation. The new pledge GMSLA is a solution that benefits only some of the industry participants, not including agent lenders, however "there is going to be no business if the borrowers are not borrowing".

The panel also noted that various cross-jurisdictional regulations such as the NSFR, capital floor rules under so-called Basel IV, and Standard Approach for Counterparty Credit Risk (SA-CCR) derivatives rules, there are significant differences in implementation status. For example, regarding SA-CCR, US regulators are still evaluating the rule, while in Canada implementation has been delayed until 2018, depending on the timing of implementation in 'key foreign markets'. In the EU, however, the rules have been adopted by the European Commission and are under consideration from the European Parliament and the European Council.

One panellist suggested that, while these discrepancies lead to uncertainty with regards to leverage, capital, credit risk, market risk, liquidity and derivatives, this uncertainty also provides "a real possibility of making some changes", offering the industry the chance to make a positive impact on the industry. He added that the industry has a "window" to "argue for certain things", and working in partnership with the industry is the right way to figure out what are the best points to tweak, and how to "lobby for the right edits".

However, while he expressed frustration at the length of time taken to finalise the rules, he said it's equally important to resolve the discrepancies in implementation between regions. Ignoring these discrepancies would make things far more complicated in the long run, and could "significantly alter the competitive landscape". The speaker concluded: "A rule coming in is one thing, unwinding it, editing it … takes many many more years."

No rest for the risk weighted

Despite no new regulations expected in the immediate future, industry bodies such as the RMA and ISLA still have their work cut out for them to assist the regulators in refining existing rules that pose a threat to our industry.

In its letter to conference attendees, the RMA voiced "serious concerns" about the effect that the single counterparty credit limits (SCCL) could have on securities lending. Currently, the proposed

methodologies banks must use to calculate their exposures from securities lending do not give any recognition of correlation or diversification within a netting set, which "grossly overstates credit exposure for agent banks".

The RMA is advocating for a risk-sensitive measure through comment letters and meeting with the Federal Reserve. The US Treasury has also recommended a more risk-sensitive risk calculation for SCCL. As previously mentioned, a new version of the SCCL was expected in the first half of 2017, but is now unlikely to be seen this year at all.

The RMA also noted that the final rule on the ISDA Stay Protocol in August "addressed many of the concerns raised by the RMA in its comment letters". A panel of RMA representatives praised the regulator's decision to amend the rule and acknowledge issues raised by several industry bodies that the initial rule, without exemptions for securities lending translations, would be a major blow to the market.

The letter stated: "[The final version] included carve outs from amending agreements for irrelevant qualified financial contracts that would most probably cover securities lending authorisation agreements. Additionally, there is a carve-out for agents thereby not requiring agent lenders to sign on their behalf."

There is also a US Nexus carve out, meaning agreements signed on behalf of US clients under US law with global systemically important banks do not need to conform, as they will be captured under US special resolution regimes. An RMA spokesperson confirmed the association is working with the International Swaps and Derivatives Association on the US module of the Stay Protocol.

Stuck between a rock and a regulator

Beyond the ongoing battles of refining incoming regulations that are not currently fit for purpose, the securities lending industry is also facing the challenge of losing market participants to overburdensome compliance costs. As is so often the case, it's the little guy that will suffer most from increasing costs and asset allocation requirements. According to conference panellists, the rising cost of compliance will likely prove too much for "hobby lenders" and will force them to leave the market.

"The cost of compliance really won't help growth. It will force out people who aren't able to afford it," explained one speaker on the SFTR and MiFID II compliance panel. New reporting features such as the need for a unique trade identifier were accused of creating barriers to entry for smaller and less frequent lenders, but agent lenders will be expected to shoulder the costs.

Audience members heard that the debate of whether to build or buy a solution was a persistent dilemma for in-scope participants, and US entities should not neglect to solve the problem themselves. One speaker urged: "Don't leave it up to your European counterparties to take on SFTR, you have to be on the ball."

It was noted by a beneficial owner representative that the build for SFTR was much simpler than that for MiFID II.

Concerns over cost of compliance flew in the face of reassuring messages offered by ISLA CEO Andy Dyson, who assured attendees of the IMN Annual Beneficial Owners' International Securities Finance conference in London in September that, although cost increases were inevitable, they would be minimal.

Market participants would have to start reporting their transactions to trade repositories 12 months after the publication in the Official Journal of the EU, and the reporting obligation will be phased in over nine months. The compliance deadline for MiFID II is set for 3 January 2018.

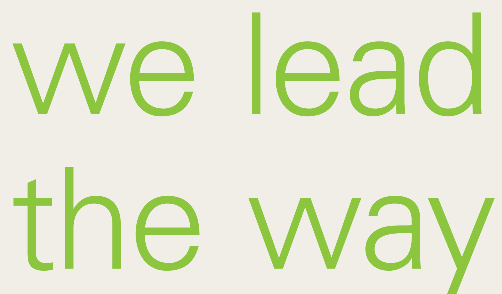
The up and coming

It has been nine years since RMA hosted a dedicated forum on Latin American securities lending and the region has come along leaps and bounds since then. In response, this year's RMA conference offered a Latin America-focused panel that allowed representatives from the region's markets, including Peru and Mexico, to showcase recent growth.

It was revealed that Argentina's securities regulator is expected to confirm plans for an on-exchange securities lending programme by the end of the year. The Comision Nacional de Valores (CNV) first proposed plans for the programme in September, but no official statements are available yet. CNV intends for the programme to facilitate short selling of equities and fixed income through local brokers.

According to panellists, unofficial discussions indicated that Argentina would likely model its securities lending programme on the established Brazilian model, meaning it would feature mandatory use of a central counterparty. Brazil is currently Latin America's largest securities lending market, with its B3 exchange recording BRL 64.90 billion ($20.62 billion) in lending volume in April. Argentina's lending programme will be guaranteed by the country's stock exchange and central securities depository. CNV will show securities on-loan at the lender's account and will accept responsibility for returning corporate actions to the beneficial owner.

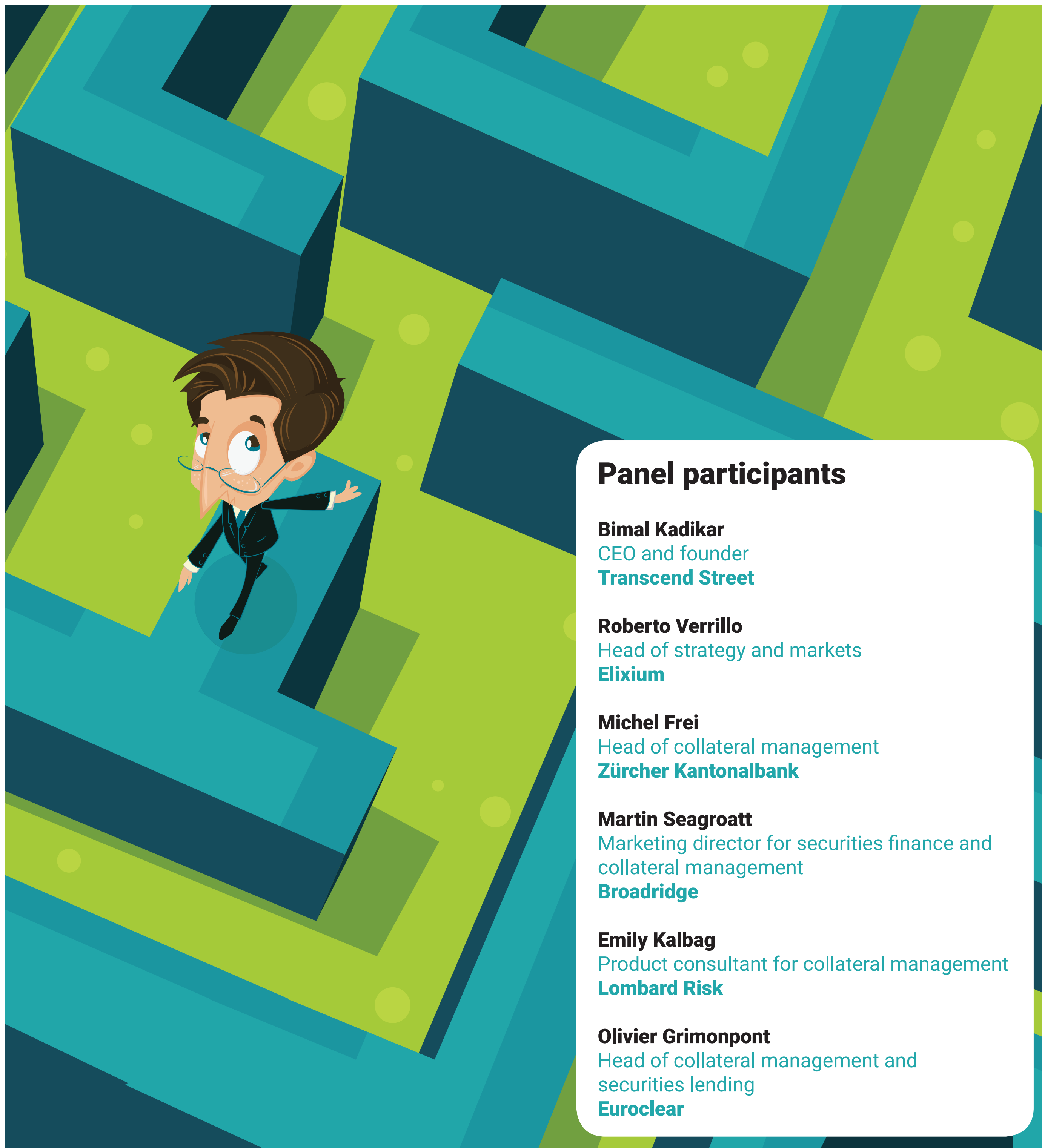
The securities lending facility comes as part of a package of capital market developments aimed at raising Argentina up to 'emerging market' status from its current 'frontier' classification. Argentina is the the only Latin American country yet to evolve into a recognised emerging market among its clearest peer group, which also includes Mexico, Peru and Colombia. Another conference speaker added that delegates should expect to hear a lot more from Argentina in the next few months and into next year, as the capital market reforms take hold. **SLT**



OCC guides its customers safely and securely through a dynamic marketplace with the industry's most innovative risk management, clearing and settlement services. We're always on course.

OCC is the world's largest equity derivatives clearinghouse and a leading innovator in risk management solutions. As a Systemically Important Financial Market Utility, OCC provides market participants with industry leading efficiencies in the clearing and settlement of options and futures transactions. We strive to achieve the highest standards possible in everything that we do in order to promote financial stability and integrity in every market we serve.

The Foundation for Secure Markets www.theocc.com



Panel participants

Bimal Kadikar
CEO and founder
Transcend Street

Roberto Verrillo
Head of strategy and markets
Elixium

Michel Frei
Head of collateral management
Zürcher Kantonalbank

Martin Seagroatt
Marketing director for securities finance and collateral management
Broadridge

Emily Kalbag
Product consultant for collateral management
Lombard Risk

Olivier Grimonpont
Head of collateral management and securities lending
Euroclear

Solving the collateral maze

A host of market drivers are pushing and pulling the collateral market in several directions at once, and the best way forward remains unclear. Industry experts attempt to unpick the challenges

How will the recent rate hikes affect demand for non-cash collateral under the new regulatory framework?

Roberto Verrillo: Rate hikes, and movement in interest rate curves, for some will involve having to pass more margin, increasingly in the form of cash. With the well-documented issues around collateral to cash transformation and capacity/cost, this could prove to be expensive should the markets price in steeper curves.

Martin Seagroatt: Rate rises can change the dynamics for some interest rates swaps, necessitating transfers of margin and lead to a requirement for some market participants to source higher quantities of collateral. In addition, interest rate rises can also change the opportunity costs of holding different asset classes.

We will also see more securities coming back into the market through tapering, as central banks remove cash from the system, meaning a larger supply of securities available as collateral.

Olivier Grimonpont: It is fair to say that the evolution of rates has always been one of the factors playing a role in the cash versus non-cash collateral decision, however, the weight of the regulatory requirements (for example, segregation requirements) and of the cost of capital has increased and will continue to support the demand for non-cash collateral.

What can be done to install new frameworks to release new sources of collateral to address potential shortfalls?

Bimal Kadikar: Our feeling is that the first step is acknowledgement by key stakeholders that collateral is a valuable, common asset throughout the organisation. Coordinated use of this collateral will be an ongoing strategic imperative for all successful financial institutions. Because collateral is usually isolated across business silos, disparate margin and operations centers and treasury areas, there is a tremendous amount of inefficiency when it comes to optimising allocations, particular when viewed at the enterprise level.

Therefore, optimisation can be a tremendously powerful tool for increasing available sources of collateral and matching them with targeted uses. Unfortunately, there is no silver bullet to implementing optimal collateral efficiency. Every organisation will have its own needs and strategies. But at a fundamental level they will have to understand all the constraints on their collateral and be able to analyse a comprehensive collateral dataset of positions and balances. Once this is in place, operating decisions can be executed with a focus on straight-through processing. If done right, the firm should benefit through an enhanced liquidity, risk and cost profile across the enterprise.

Grimonpont: The Euroclear Collateral Highway has been developed around that problem, that being, the ability to mobilise assets, wherever they are held to wherever they are needed to meet increasing collateral obligations. It is for that purpose that in cooperation with agents and central securities depositories head of our collateral management and securities lending CSDs, we have launched inventory management services to allow a smoother mobilisation of securities whether held within or outside Euroclear. And through our joint venture with DTCC, we are allowing smooth mobilisation of US assets onto the Highway.

In addition to accessing various pools of collateral where they are initially held, it has become important to support non-banking institutions in lending their high-quality liquid assets (HQLA) against less liquid collateral, providing them with a robust operational and legal environment to conduct these transactions. Those include triparty collateral management services as well as linking to new all-to-all trading platforms to help those firms to, safely and efficiently, generate additional revenues while enabling their HQLA assets to be used as collateral to cover potential shortfalls.

Verrillo: Elixium is designed to specifically address the impact of regulation, balance sheet pressures, and deteriorating levels of liquidity in the repo market by providing participants with collateralised liquidity on a fair, transparent, low-cost and equitable basis. It was created in response to the market requirement for an all-to-all marketplace in collateral and secured deposits.

Michel Frei: One of the most efficient ways to source collateral is the repo market. The problem is that most of the big platforms don't give you full access on the collateral received. So, even, there is enough liquidity to source collateral on those platforms, you end up not being able to really use the collateral where you need it. New frameworks should ease interoperability between different collateral locations in order to use the current marketplace more efficient.

Seagroatt: It is not yet clear whether we will actually see shortages of collateral. However, as more firms fall under the uncleared margin reform rules around initial margin (IM), and pension fund clearing exemptions end, there will most likely be an increase in collateral demand. In the event of localised shortages, it is more a case of being able to unlock and mobilise collateral efficiently to where it needs to be when it needs to be there.

Looking at ways to increase interoperability between triparty agents, custodians and central securities depositories (CSDs) could help to reduce localised collateral shortages and unlock fragmented pools. Initiatives such as collateral highways that enable the more rapid mobilisation of collateral across jurisdictions with minimal operational risk, and friction costs are one solution to these problems. Peer-to-peer networks are another area that could supplement traditional intermediaries as a way to transform collateral.

We are also seeing the emergence of a number of collateral exchanges and these platforms could help to match available collateral supply with collateral demand more effectively. Finally, a number of firms are engaging in proof of concepts around Blockchain platforms for mobilising collateral. It is still early days, but there may be benefits to employing a blockchain solution that increases settlement efficiency.

As regulatory demands call for more margin to be posted, is the industry opening itself up to new risks by looking at less traditional sources of fixed income?

Grimonpont: This is not necessarily new for the industry and the implementation of the new regulatory requirements has been ongoing for some times now. This is definitely a place where third-party collateral management service providers like ourselves or through our joint venture with DTCC can help to reduce the risks for the industry. We can do this by ensuring proper asset classification, thorough management of thresholds and concentrations, proper and frequent valuation, and so on, and automatic substitutions when a given security falls outside of the pre-agreed eligibility profile. This allows parties to a trade to properly assess their risks and price it properly.

Kadikar: As long as the new collateral is being valued correctly with proper haircuts and operational support, and so forth. I wouldn't say this means there is more risk in the system. Rather, it seems that by increasing available collateral the system would be more flexible and efficient and by extension liquid. Complexity shouldn't necessarily be confused with risk.

Verrillo: The Elixium solution uses traditional and standard legal (global master repurchase agreement) and operating/settlement procedures. Anti-money laundering/know-your-customer checks are conducted on each counterparty with whom you are introduced and credit allocated, as you would now.

The only difference is that the range and type of potential counterparties and execution methodology is different — this gives you additional liquidity, better pricing, transparency and optionality, to the standard market in the form of capacity/connectivity and pre-trade anonymity via the platform. Counterparties retain full control of with whom, how and on what terms they wish to trade.

Are beneficial owners, such as corporate pension funds, at a disadvantage by not being able to leverage equities as collateral in the US?

Emily Kalbag: Yes, I believe so. The misalignment affecting beneficial owners in US securities financing is creating a disadvantage, especially considering that the US has the largest securities lending market and so is fundamentally long in equities. Not being able to leverage equities as collateral increases funding cost to the affected organisation due to the need to source alternative assets to use as collateral and scaling down choice. It has also been raised by industry bodies that the acceptance of correlated collateral, particularly equities against equity collateral, allows beneficial owners to optimise balance sheet usage and benefit from increased spreads. As equities have a determined price at any point and can be sold quickly, they are highly effective as collateral.

Which side of the transaction chain is driving the collateral trend towards non-cash?

Frei: From a credit risk perspective the major advantage of non-cash collateral is the segregation. Buy-side clients especially face issues with non-segregated cash collateral as they usually don't have a direct central bank access and limited ability to reinvest cash. Furthermore, new regulatory requirements like mandatory variation margin will lead to an increase in non-cash collateral as many buy-side clients were not a part of the collateral market before.

However, I will not expect a big move to non-cash for the collateral requirements between banks, if rates are not increasing substantially. Still, a major benefit of cash collateral is the good ability to automate the entire collateral process, which is currently much less automated and therefore more time consuming for non-cash collateral.

Kalbag: This is driven by the buy-side. The buy-side typically aren't long in cash- their models work around being fully invested so they need to go to market to obtain cash to respond to margin calls—either by selling or repurchasing assets or using a collateral transformation service. This incurs transaction costs, transformation fees, creates counterparty credit risk (for repo), takes time and detracts from investment strategy to deliver maximum returns. It would therefore be optimal for such organisations to use assets held in their inventory, assuming they are eligible and haircuts are not too restrictive. This would also prevent cash heavy portfolios, which may exceed mandated limits and prevent high returns, and avoid operational costs associated with interest processing. Banks are increasingly allowing the buy-side to collateralise with non-cash due to competitive advantage over their counterparts.

Verrillo: There are various forces converging on secured funding markets: regulatory, in the form of the liquidity coverage ratio, net stable funding ratio, and mandatory margining of over-the-counter product; and structural, ie, quantitative easing, the move towards collateralised lending and ring-fencing etc.

The combination of some and/or all of the above, can create dysfunctional and illiquid markets as traditional intermediaries no longer have the capacity necessary to provide the balance sheet for increasing demand.

The potential for more serious market dislocations, where collateral provision/transformation can be severely affected in stressed environments, is set out more comprehensively in a Bank of England staff working paper (No.609).

How can technology solutions help solve collateral challenges on both sides of the trade?

Kalbag: The increased complexity of managing collateral on a timely basis makes working through spreadsheets and siloed systems to calculate risk exposures and collateral requirements no longer practical, for buy- as well as sell-side businesses. The ability to streamline these activities while proactively managing asset values and margining processes can deliver greater efficiency and competitive advantage to the business.

Pre-trade analytics have become increasingly important with solutions to assist with the potential margin impacts of trading venues enabling IM efficiency, while taking into account existing portfolios and offset benefits resulting in a decrease in sourcing costs of eligible collateral. With an automated cross-product collateral management solution, what was traditionally a labour-intensive process can now be one of exception management-driving down costs and increasing efficiency.

Kadikar: There are still fundamental data gaps being experienced across business lines, operational functions and counterparties when it comes to understanding collateral. These gaps can include reference data, the real time physical location of collateral, traceability to the governing legal agreements and liquidity value of collateral. All of these gaps and more, can contribute to not only sub-optimal allocation decisions but also a lack of understanding between counterparties as to each other's economic considerations when it comes to trading and subsequently collateral decisions.

Technology solutions that can harmonise data across these collateral silos and then validate the efficiency of collateral usage decisions will not only add significant value to the whole trade lifecycle (for both parties) it will empower collateral decision makers to work together more effectively. For example, on the collateral receiver side this may mean lower operational costs, lower error rates and engender more confidence that credit exposures are properly accounted for and arguably generate higher risk adjusted fees. On the giver side, enhanced technology also translates to lower operating costs but also means more flexibility around what is available to pledge to maximise regulatory as well as liquidity and operational efficiencies.

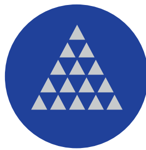
Seagroatt: First and foremost, technology solutions can provide major benefits around reducing risk. In a period of market disruption, firms have more control over counterparty credit risk, collateral quality and concentration risk when using a modern real time collateral system vs legacy systems or spreadsheets.

A good technology solution can also make it easier to source eligible collateral quickly when required and can significantly reduce operational and settlement risk.

As demand for high-quality collateral increases, a solution that allows collateral managers to gain a clear view of available

Lombard Risk
Collateral Management Solutions

Manage assets effectively and reduce risk by automating manual processes with Lombard Risk's collateral management solutions.

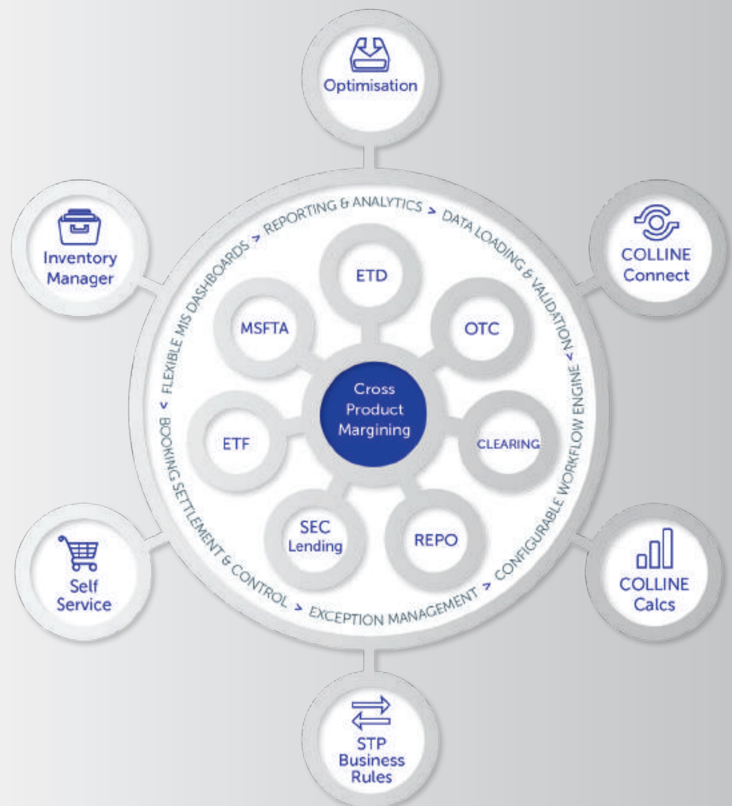


COLLINE

Enterprise-wise, end-to-end, cross-product collateral management and clearing.

AgileCOLLATERAL

'Out of the box' collateral management in the cloud. Light touch, but not light weight.



Full functionality, yet totally flexible.

Lombard Risk
Agility | Advantage

Ask how Lombard Risk solutions can bring agility and competitive advantage to your business.
Contact us at info@lombardrisk.com

inventory and exposures across business lines can help to match collateral supply with collateral demand at low cost, especially when employing collateral optimisation techniques.

Regulation is also resulting in an increase in operational workload due to a higher volume of margin calls to more demanding settlement cut-offs. Automation and straight through processing are key to adapting to these challenges while minimising increases in headcount. Improved connectivity between collateral management systems with a wide range of market infrastructure including triparty agents, central counterparties (CCPs)/clearing brokers, custodians, peer-to-peer platforms, reconciliation services, margin messaging tools and data benchmarking services also provides benefits around data aggregation, automation and straight-through processing.

From a regulatory reporting perspective, vendors that can offer reporting on collateral for the Securities Financing Transactions Regulation and the European Market Infrastructure Regulation/ Dodd Frank will also help to ease the burden of compliance. Finally, the centralisation of collateral management and improvements in data management from using a state of the art system allow the ability to employ pre- and post-trade analytics to improve strategic decision making around collateral usage.

Verrillo: Innovation, both in the cleared and uncleared environment via CCPs (sponsored clearing) and CSD's (using the collateral highway for example), can help to provide additional routes to mobilising both cash and collateral.

Frei: Collateral is usually held at different locations. Even within a single bank you could face problems to have a centralised view about all collateral available. A centralised near-time view about available positions and current exposures is key for an efficient collateral management. Without technology support there will be increased costs for the operational doing, sourcing additional collateral, and missing opportunities.

Furthermore, margin call matching services can lead to less manual communication and reconciliation effort. Important here is to have enough counterparties available on those services in order to achieve economies of scale while operating such a setup.

Grimonpont: Without surprise, I would mention the safe and efficient technical, operational and legal framework provided by the triparty collateral management service providers. But they can solve only part of the problems in the whole post-trade processing chain and new service providers are popping up that ease the process upstream. Peer-to-peer or all-to-all platforms are offering easier and transparent trading venues. Acadiasoft provides an efficient tool that enables, among others, portfolio and margins reconciliation in a scalable way. EasyWay contract management, a Euroclear service, brings collateral contracts and their administration into the digital age. Global Custodian are teaming up with triparty agents to give access to triparty solutions that were previously not reachable for some buy-side firms, etc. Additionally, the emergence of distributed ledger technology and other innovative solutions are equally interesting as a way to solve some of the problems encountered by the industry.

What part can all-to-all trading platforms play in improving collateral liquidity?

Frei: Operational efficiency is important but even more it is key to have access to all available positions. On centralised all to all platforms the problem of holding positions on distributed locations with limited re-use possibilities would be reduced. With that effect the market can gain accessible collateral liquidity.

Verrillo: By facilitating the flow of cash to collateral, and vice-versa, Elixium seeks to 'release' liquidity from counterparties that previously may or may not have been engaged in secured financing activity. We are facing a democratisation in financial markets, a sort of anti-big-bang if you like—the opportunity to re-engineer and create a better marketplace for all, is now.

Grimonpont: The key word here is 'transparency', meaning capacity provided to non-banks to compare prices from bilateral repo, triparty repo, securities lending (with or without an agent) on several asset class, with different trading protocols, such as fixed/floating/open rates, evergreen, and with or without right of substitution, haircut etc.

Seagroatt: All-to-all platforms can provide one mechanism for sourcing liquidity and there is growing interest in them as an alternative for traditional intermediaries. The key will be to gain enough volume to attract a wider user base through network effects. It seems unlikely that all-to-all networks will completely disintermediate sell-side providers but will become simply another route to market.

What implications could Brexit have on collateral use in the EU?

Grimonpont: It's probably too early to tell but one could fear a further segmentation of existing collateral pool and collateral demand. Hopefully not to a point of major disruptions but in Euroclear, we are looking at all possible scenarios and we are developing new services to ensure we continue to support efficiently the mobilisation and allocation of all assets, whether held in the ICSD (Euroclear Bank), the UK CSD (Euroclear UK and Ireland) and the various Target2-Securities markets while integrating into the bigger picture which includes Asia and the US.

Seagroatt: There are a number of factors at play and it depends how things pan out but it could result in higher costs. The degree to which EU clearing can still take place in the UK could have a major impact for example.

Verrillo: It is very difficult to envisage an environment through which Brexit could give advantages to secured funding markets from a global perspective.

Fragmentation and disruption of liquidity, in any form, will take time and careful thought to recover from and protect against.

Elixium S.A. was recently launched in Paris to drive our European initiative and we remain committed to unlocking liquidity, creating efficiencies and improving returns in the secured financing markets in all jurisdictions.

Kalbag: It is difficult to tell what implications are likely until the UK decides how much of the EU law it wishes to keep. However, it has been made clear by the EU that only members who pay into the EU budget have access to EU's financial services single market. As a result, London being the location of choice for global organisations to operate their European business out of, it is likely to change. In September, Moody's downgraded the UK's credit rating an additional notch, with Moody's stating the weight of Brexit on the economy as one of the primary reasons. The UK was initially stripped of its AAA rating in 2016 and now holds an Aa2 rating with the agency. This affects the creditworthiness of counterparties with exposure to the UK, which increases the cost of credit and could lead to increased collateral requirements or even trigger default events depending on the individual agreements. **SLT**

BROADEN YOUR HORIZONS WITH AN ALTERNATIVE SOLUTION

SOCIETE GENERALE PRIME SERVICES

PROVIDING CROSS ASSET SOLUTIONS IN EXECUTION, CLEARING AND FINANCING ACROSS EQUITIES, FIXED INCOME, FOREIGN EXCHANGE AND COMMODITIES VIA PHYSICAL OR SYNTHETIC INSTRUMENTS.

CIB.SOCIETEGENERALE.COM/PRIMESERVICES

BUILDING TEAM SPIRIT
TOGETHER

Societe Generale is a French credit institution (bank) authorised and supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) (the French Prudential Control and Resolution Authority) and regulated by the Autorité des marchés financiers (the French financial markets regulator) (AMF). Societe Generale, London Branch is authorised by the ECB, the ACPR and the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and the PRA. Details about the extent of our authorisation, supervision and regulation by the above mentioned authorities are available from us on request.

Societe Generale International Limited («SGIL») is a wholly owned subsidiary of Société Générale. SGIL is authorised and regulated by the Financial Conduct Authority. SGIL is a Swap Dealer registered with the CFTC and NFA.

© Getty Images - FF GROUP

Sec lending key to overcoming margin test

Forthcoming collateral rules will require the buy-side to find trillions of dollars in additional margin, and securities financing is at the heart of many of the solutions being explored, writes BNY Mellon's Peter Madigan

A decade has passed since the opening act of the financial crisis. It was in June 2007 that the first unsettling harbinger of the storm to come manifested itself in the bailout of two subprime mortgage-laden hedge funds by their sponsor, the now long-defunct Bear Stearns.

Perhaps surprisingly, 10 years later some core elements of the regulatory reforms enacted in the wake of the crisis are still in the process of being implemented. For the securities financing community, the most pertinent of these reforms is the ongoing introduction of margin requirements on non-cleared over-the-counter (OTC) derivatives trades across the G20 economies.

These requirements oblige counterparties to bilateral derivatives trades to post collateral against swaps, forwards and other OTC contracts limiting the risk exposure of both parties by pledging initial margin (IM) at trade inception and daily variation margin (VM) in response to mark-to-market moves in the value of the underlying reference entity.

The rules are being introduced sequentially, with the largest international derivatives dealer banks becoming the first group subject to the requirements for posting IM in September 2016.

March 2017 saw VM posting requirements introduced for all market participants while September 2017 saw the IM rules expanded to capture approximately six additional banks with notional derivatives balances of over $2.25 trillion.

September 2018, 2019 and 2020 will see the thresholds for mandatory compliance with the non-cleared margin rules progressively drop until notional OTC exposures of just $8 billion will be sufficient to capture counterparties under the requirements.

A multi-trillion dollar commitment

As larger and larger swathes of the global buy-side community are captured by the requirements, the international demand for cash and eligible securities to post as margin is almost certain to skyrocket.

Quantifying the extent of this global demand is not easy. In 2012, the International Swaps and Derivatives Association estimated the number could be as high as $10.2 trillion.

In a 2011 piece of research, the US Office of the Comptroller of the Currency estimated that the IM bill alone for a single year could be as much as $2.5 trillion.

Whatever the true aggregate number is, the sheer volume of cash and securities, highly-rated government securities, in particular, that will be needed to meet these mandates in the coming years represents an unprecedented challenge for global funding markets.

It's a challenge that is only being compounded by the heightened capital and liquidity standards banks are being required to meet under the Basel III framework.

The interaction of Basel standards with the expansion of the non-cleared margin rules means that the international buy-side will find itself asking banks for trillions of dollars in supplemental funding at the very same time that dealers are stockpiling cash and securities in order to meet their own capital and liquidity commitments.

New research study

In order to ascertain the extent of the margin challenges facing the global buy-side community, BNY Mellon partnered with PwC in the first quarter of 2017 to conduct in-depth research into the situation on the ground for financial end users.

The resulting study, Collateral: The New Performance Driver, draws upon more than 140 interviews with senior executives from 121 buy-side entities located in North America, Europe and Asia Pacific. We discovered that although the non-cleared margin obligations are yet to affect buy-side firms, the liquidity and funding situation globally is already becoming tenuous. An overwhelming 93 percent of study respondents reported that they are already experiencing an increase in margin calls and demand for high-quality liquid assets (HQLA) as a result of the uncleared margin regulations.

The research also revealed that assets under management will likely be a key differentiator in determining which entities are able to readily access liquidity and which are not. Of medium and small asset managers, 29 percent expect to face challenges around short-term liquidity but that number virtually halves to just 15 percent for the largest tier-one fund managers.

Perhaps the most eye-opening concern—expressed by fund managers of all sizes and all types—was that the next market stress event will occur not because of a lack of collateral in the financial system, but rather due to the inaccessibility of this collateral.

Solving the liquidity conundrum

Given these mounting concerns, participants in our research study identified six distinct tools and services that they intend to utilise in the coming months and years to ameliorate these collateral pressures. These services run the gamut from the very simplistic, to the highly sophisticated.

- Deepening and expanding relationships with dealers: Unsurprisingly, by far the most popular solution favoured by the global buy side to meet their future collateral and funding needs is to simply consolidate existing bank relationships. Some 71 percent of respondents plan to increase the volume of business transacted with a handful of bank counterparties in the hopes of receiving preferential access and pricing as a highly-valued client. Also, 48 percent intend to expand their number of dealer relationships.

- Make increasing use of securities financing: The economics of borrowing assets to meet margin requirements have become increasingly attractive in 2017 as low yields and strong investor demand for HQLA has driven up the cost of highly-rated government securities. In the face of high prices to own sovereign debt outright, the securities lending and repo markets offer the buy-side a cost-effective way to post HQLA as margin without the painful price tag.

- Centrally clear securities financing trades: Clearing repo and securities lending trades at central counterparties (CCPs) such as the Fixed Income Clearing Corporation can deliver further cost efficiencies. Dealer positions facing a CCP attract a lower counterparty risk capital charge than bilateral exposures, and offsetting positions can be netted out against one another. Both of these efficiencies can be passed through to clients in the form of cheaper funding.

- Utilise collateral transformation and upgrade services: Insurance companies and pension funds generally maintain very small cash balances—as little as 1 percent of assets in the case of some pension companies. Both types of entity typically hold very large portfolios of investment-grade corporate bonds, but these securities are generally ineligible to be posted as margin. Collateral upgrade and transformation services offered by banks let buy-side firms exchange ineligible corporate paper or cash equities for government securities or cash that can be pledged as margin, allowing them to meet collateral requirements without having to hold non-yielding cash reserves that represent a drag on investment performance.

- Engaging non-dealer counterparties: With traditional market making dealers facing liquidity constraints arising from Basel III and other post-financial crisis reform initiatives, buy-side firms are exploring the feasibility of sourcing and exchanging funding and collateral directly with fellow non-dealers. This cohort of potential counterparties includes corporates, sovereign wealth funds, cash-rich market utilities as well as fellow buy-side entities such as hedge funds and asset managers. The major obstacle holding these relationships back are the operational, connectivity and credit assessment hurdles that need to be overcome.

- Participate in peer-to-peer networks: Perhaps the most promising of all the solutions being considered are electronic networks that allow peers to trade with each other. The basic concept is to enable dealers and non-dealer counterparties to transact with each other on a single platform. Such a solution would overcome the impediments to non-dealer trading by having a single onboarding process for each participant on the platform that allows them to face every other counterparty in the network. All of the necessary connectivity and documentation to permit a private equity fund to trade with a corporate is provided by the platform, opening up the entire universe of non-dealer liquidity through a single portal.

A prominent example of such a peer-to-peer platform is BNY Mellon's electronic cash and collateral marketplace DBVX. Utilising a single interface, DBVX users enjoy all the usual benefits of electronic trading—such as real-time live prices, a variety of execution methods and pre-trade anonymity—with the ease of a single legal construct that opens the door to a global network of liquidity.

DBVX users can also define their own trading parameters, determining which counterparties they want to trade with and which counterparties are able to see and bid on the liquidity that users themselves are extending. For large buy-side institutions with numerous affiliates, the platform can be configured so that liquidity offered by subsidiaries within that firm's own corporate group is given seniority in matching, promoting internalisation of trade flows.

Tools like DBVX reflect the dynamism the financial services industry is demonstrating in developing imaginative and innovative solutions to overcome the collateral and liquidity challenges that lie ahead. Although the scale and extent of that challenge remains unclear, it seems certain that securities financing will be at the heart of many of the service offerings that the market develops in response. **SLT**

Some 93 percent of study respondents reported that they are already experiencing an increase in margin calls and demand for high-quality liquid assets

Peter Madigan
Editor at large
BNY Mellon

Working hard to discover hidden specials

LAGO
KAPITAL
Leading Finnish Securities Finance Boutique

- Securities Lending
- Single Stock Futures
- REPO
- Financing
- Emerging Markets

Lago Kapital Ltd
info@lagokapital.fi

www.lagokapital.com
tel. +358 10 320 8950

© Lago Kapital Ltd

Pirum introduces CollateralConnect

Pirum Systems CEO Rajen Sheth discusses the evolution of Pirum's new CollateralConnect service, and plans to move towards an enterprise-wide, end-to-end margin and collateral management solution

Pirum continues to advance to the forefront of repo and securities lending trade lifecycle management. New product releases and increased connectivity are strengthening its global product offering in the exposure and margin processing space, allowing clients to efficiently extend their trading relationships across both bilateral and triparty venues.

Collateral challenges and opportunities

The drive for efficient use of inventory and how to achieve it continues to be a hot topic across the industry. Solving the problem is relevant to financial institutions across the spectrum of both sell-side and buy-side entities to corporates and central banks.

The past few years saw a clear shift to firms focusing on better management of balance sheet and other financial resources to enable business growth, rather than welcoming all new business as positive. Increasingly, firms want to ensure businesses provide sufficient return on resource as well as being a good match to their strategic goals.

Regulatory pressures have added further complexity to the task with a requirement to show assets are sufficiently liquid and have the requisite long-term funding profile. The issues surrounding best use of assets and the collateral management process clearly affect securities financing, but are also are relevant across all collateralised products residing in an institution's ecosystem. For example, recent changes to the over-the-counter (OTC) derivative processes, as a result of the European Markets Infrastructure Regulation's initial margin segregation rules, have already made a significant impact on behaviour. Concerns have also been raised around potential collateral shortfalls in the industry. Although the consensus now seems to suggest that there is enough collateral in the system, it is the collateral's mobilisation, efficient use, timely agreement and exchange that are now the key challenges.

In transactional discourse, collateral providers have always desired the flexibility to deliver a broader diversity of collateral to the receivers. In some cases (and where legally possible) collateral receivers have responded to this demand by becoming more flexible in terms of their margin eligibility rules and transfer mechanisms, improving returns and positively differentiating themselves in the market. The breadth of collateral is now therefore a key determinant in assessing the full and true cost of a trade.

From a collateral provider perspective, this is also a major driver globally where an increasingly non-cash collateral preference has become a priority for most trading desks. This is underlined by progressively rising levels of both international and US domestic non-cash collateral, both in response to regulation and to dealers who continue to reposition and deleverage their balance sheets. Current estimates place the percentage split at roughly 60/40, up from 45/55 only a year ago.

In the US market, which has historically preferred cash collateral, recent regulatory developments will further encourage the acceptance and uptake of equities as collateral.

While the efficiency of equity-for-equity trading on the dealer side has recently become more entrenched, the effect of the proposed regulation changes, including Rule 15c3-3, will also add the institutional buy side as collateral providers seeking to do more direct margining using their equity inventories. It is clear that this evolution will require equally significant changes in collateral management capabilities including compliance, operational infrastructure and processing capabilities including the likelihood of greater take up of services from external providers such as triparty agents.

The challenges the industry are facing are numerous, but the benefits of solving these are substantial. We have recently seen the industry directing a significant amount of resource towards enterprise-wide collateral management, with varying degrees of success. As a result of these observations, coupled with wide-ranging and consistent discussions with our clients, Pirum has come to the conclusion that there is an industry-wide opportunity to improve collateral visibility, efficiency and process. Pirum is ready to assist its clients by providing easily-deployable solutions in order to help clients better their collateral management capabilities.

Operational solutions for exposure management

Pirum's existing product suite calculates all your triparty and bilateral margin requirements, provides a centralised view of real-time exposures and enables the automatic posting, monitoring and resolution across multiple venues. Through these services, clients have benefited from scale, efficiencies and better control.

In addition, this post-trade suite offers seamless integration to all four main triparty agents: BNY Mellon, J.P. Morgan, Euroclear and Clearstream. Pirum's triparty RQV reconciliation service has revolutionised intraday, real-time margin management for collateral moved via triparty agents. Under this service, Pirum currently processes $900 billion of non-cash collateral.

The service advantages of ExposureConnect are:

- A centralised platform to calculate, communicate, agree and record exposures for all counterparties across all collateral venues (bilateral, triparty, central counterparty)
- Full, real-time exposure calculation and agreement workflow
- Full audit and MIS of exposure
- All collateral methods supported including bilateral non-cash, cash pool, cash rebate and intercompany exposure across all types of securities financing trades
- A multi-product capability across equity, fixed income, financing, repo and collateral trades all in one environment
- Live, real-time updates from client systems, counterparties, triparty agents, trading venues and central counterparties (CCP), ensuring breaks can be identified and resolved quickly and efficiently leading to faster, more efficient collateralisation
- A management dashboard to identify key risks and alert users to significant exposure changes
- Combined with Pirum loan release service, exposure management becomes an exception-based model with straight-through processing capabilities

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.

The service advantages of ExposureConnect are:

- Reduced operational risk as Pirum manages key trade lifecycle events
- Improved control and transparency ensuring enhanced supervision and audit trail
- More efficient and timely resolution of exposures, helping to minimise financial resource usage
- Reduced manual processing, key staff dependencies and improved scalability
- Easy and flexible integration with minimal build

From a more holistic view, our clients will continue to benefit from our increasingly broad connectivity for no additional IT build cost. Pirum continually drives to partner with more firms in order to act as a post-trade hub for the full trade lifecycle. As already discussed, in addition to having established connectivity with triparty agents, Pirum has extended this connectivity to central securities depositories (BNY Mellon, J.P. Morgan, Euroclear, Clearstream, and so on), CCPs (Eurex Clearing), market data vendors (IHS Markit) and trading venues (Elixium Collex, Wematch).

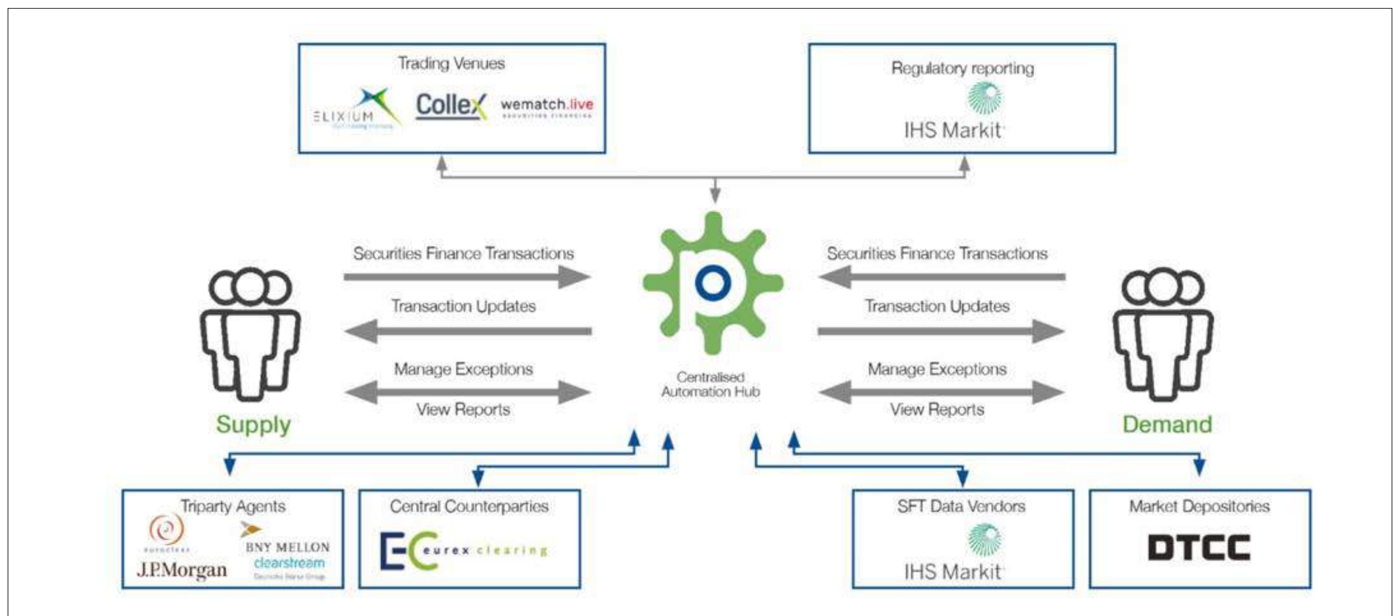
We have also recently gone live with connectivity to DTCC as we increase our focus on the US market.

There have been a plethora of technical challenges to overcome in reaching the goal of a single, centralised collateral view. Institutions typically have a number of disparate internal systems across equity and fixed income businesses. Further considerations come into play when considering the varied execution options, such as whether the product is collateralised bilaterally, via a triparty agent, centrally cleared or exchange traded. CollateralConnect looks to synthesise these disparate inputs together in one platform and in near-real time.

Efficient deployment of inventory requires consideration of a firm's specific constraints at that time and includes factors such as capital position, counterparty credit limits and balance sheet. Working in collaboration with our five pilot clients we discovered a huge amount of value can been ascribed to CollateralConnect as it bridges and aggregates data from diverse internal trading and collateral data sources, triarty agents and collateral schedule data.

The main benefits reported for our pilot partners include:

Visibility
The ability to view all sources and uses of inventory across the enterprise in real time. CollateralConnect leverages data residing in our widely adopted post-trade Core, Live and Live+ services and harnesses



Pirum's connectivity:

Historically, Pirum has focused on operations and post-trade automation, however, as requested by clients, the product is now being developed to extend into the front office. And, given Pirum's connectivity, data and know-how, it is clear that this new focus to provide pre-trade analytics for the collateral management process will simply be a natural extension of the existing platform.

Introducing CollateralConnect
CollateralConnect is a collateral management solution that provides a single view of all deployed and available assets and incorporates future collateral requirements.

Initially covering securities financing, CollateralConnect supports bilateral and triparty business for stock loan and repo and is a natural front-office oriented extension to Pirum's post-trade ExposureConnect solution for automated exposure and margin operational processing.

the power of our broad connectivity to many industry infrastructures and service providers making the transition experience seamless for our clients. Globally, Pirum is currently processing $2 trillion of securities financing transactions and $850 billion of triparty collateral on a daily basis.

Clarity
Eligibility and exposure coverage to determine whether and where assets can be used as collateral. Asset class eligibility transparency at an asset class, sub-class, market and security level to see if pledged assets are utilised efficiently and that the margin requirements are met.

Instant visibility is provided to the security level for assets used as trade and/or collateral. The platform's main aim is to provide instant collateral clarity from a very high level, through various levels of customer determined granularity right down to a specific security. A user can easily navigate to counterparty and venue breakdowns to quickly determine where collateral requirements reside or where blockages in the chain exist, as well as which assets could be eligible to meet margin calls.

Transcend
Street Solutions

CoSMOS: The future of collateral and liquidity management

AGREEMENTS INSIGHT
Innovative way to harmonize, analyze and simulate key terms embedded across diverse agreement types.

COLLATERAL OPTIMIZATION
Sophisticated algorithms and flexible workflows to optimally allocate collateral across Derivatives, Financing, Triparty or CCPs.

INVENTORY MANAGEMENT
Real-time inventory of securities and cash settlement ladders with projected and actual values across the enterprise.

LIQUIDITY ANALYTICS
Flexible yet robust analytics for Sources and Uses allocation engine coupled with sophisticated Transfer Pricing functionality.

MARGIN DASHBOARD
Aggregated margin calls and balances across Derivatives and other margin centers that can be optimized along with enterprise wide demands.

REGULATORY SUPPORT
Address increasing regulatory complexities through integrated data and analytics tuned for major rule regimes.

www.transcendstreet.com

info@transcendstreet.com +1-646-820-7221

Data integrity with information that is correct, current and comprehensive. Post-trade lifecycle ensures reconciled, timely, validated data from triparty agents and other infrastructure providers.

CollateralConnect also utilises the dataset already residing within the existing Pirum Live services, enabling overlay of key data points including fails, exposure mismatches, mark-to-markets and returns to be incorporated into analytics and projections with no additional integration required.

Insight
Front-office supervision and oversight with metrics to help manage risk, return and performance. CollateralConnect's trend analytics help to monitor current and past performance relative to key business and risk identifiers, as well as managing costs and regulatory capital drivers.

The ability to have oversight of frequently changing collateral allocations provides collateral receivers with the information they need to ensure that their collateral asset make-up is of the intended quality and diversity to mitigate counterparty and market risk.

Results
Direct effects on profit and loss through an instant view of inefficient collateral, both deployed and long. CollateralConnect helps identify collateral inefficiencies across counterparties and venues and therefore aids their choice of assets that are also eligible, but that would be more efficient from a cost or risk perspective.

Client innovation
Pirum has a proven track record of working with clients to deliver innovative, quickly-implementable solutions to complex problems. Positioned at the heart of the market, our central connectivity and automation hub brings together these disparate data sources and connects trading counterparties and industry-wide systems and infrastructure.

These type of high-cost yet non-differentiating technology solutions, require much external connectivity. This makes it an ideal opportunity for a trusted, well positioned and independent service provider such as Pirum to deliver a solution for all market participants, which aids overall efficiency.

Regardless of whether firms have decided to centralise the collateral management function or have chosen to continue to handle it departmentally, Pirum's product suite provides the visibility, data, connectivity and automation required to make the process efficient, controlled, cost-effective and brings value add directly to a client's business. **SLT**

NATIXIS
BEYOND BANKING

Through innovation,
the **Equity Finance** team
is always one step ahead.

NATIXIS AWARDED 2016

Most Innovative Equity Borrower*

Best Equity Borrower Globally,
in EMEA, Asia and Americas**

Global Investor/ISF - Equity Lending Survey 2016
*group 2 **group 2 rated by group 2

For more information, please contact
Ian Beattie, Head of Client Development Equity Finance - Europe & UK
Tel.: +33 1 58 55 83 08 - ian.beattie@natixis.com

www.cib.natixis.com

GROUPE BPCE

Data and the need for interoperability

The modern securities financing industry revolves around collecting and processing vast quantities of data, and providers are looking to help. David Lewis of FIS explains

Data is everywhere, at present. It is the subject of most client meetings and a fundamental part of strategies employed by every market participant. It can come in many forms, of course, such as market data to assist traders in making not only the best decisions pre-trade, but also post-trade as transactions are managed, processed and maintained. However, the data issues that are at the forefront of every securities finance market professional's mind right now are regulatory.

Two major pieces of legislation are looming in our calendars, neither of which are news, of course. The second Markets in Financial Instruments Directive (MiFID II) comes into force on 3 January 2018 and those that are not ready to meet some of its stringent data requirements, such as using legal entity identifiers (LEI) as part of their data exchanges, will simply not be allowed to trade. Other, arguably draconian, conditions demand that any trades that are currently open but do not comply with the new rules will have to be closed out before the legislation comes into force. Regarding the effect on securities finance, MiFID II is arguably more about the fair treatment of clients, which brings its own data challenges.

Fair allocation has long been a fundamental part of the agent lenders' process, filling borrowers' orders using an algorithm designed to ensure incomes are spread as fairly as possible among a homogenous group of lenders. Changing client requirements, specifically around collateral requirements post the financial crisis, have made such allocations all the more problematic. As a result, agent lenders are having to devote more time and attention to both monitoring the allocation of borrower demand pre-trade, as well as providing evidential proof that they have both treated their clients fairly and delivered results in line with their best execution policies. At FIS Astec, we are working with multiple lending clients, looking at ways to deliver evidential market data solutions and benchmarking services to underpin their best execution policies.

Demands from borrowers, constrained by capital requirements, are also likely to place additional data burdens on agent lenders. Smart buckets are one solution being discussed across the market and a development FIS is looking at. By allocating each beneficial owner a category, or bucket, to belong to, borrowers can specify which categories would be acceptable to them from a risk-weighted capital point of view, for a given type of trade and level of fee paid, with the implication being that counterparties that are more expensive to deal with, on a measure of capital allocation required, might attract a lower fee.

Developing this from a data and systems perspective is multi-layered as borrower participants are unlikely to have the same smart buckets allocations in mind, indicating that each agent will have to manage and maintain a set of independent smart buckets for each of their borrower counterparts. Overlaying that with the requirement to prove that each market participant is treating its clients fairly in accordance with its best execution policy, adds an additional layer of complexity and need for evidential data analytics.

The other piece of legislation that is occupying a significant amount of market participants' time and energy, as well as that of multiple types of service providers to the industry, including consultants, data services and, of course, systems partners such as FIS, is the Securities Financing Transactions Regulation (SFTR). While the deadline for compliance is significantly further into the future than MiFID II, significant efforts are already being made toward compliance with this important piece of legislation. There are few, if any, service providers to the securities finance industry that are not working toward delivering their part of a solution to this complex data requirement, whether it be as a consultant or technology provider.

At FIS, we are building data gathering, management and reporting capabilities to deliver a range of solutions for our clients, varying on their specific needs and subject to their overall compliance strategy. These solutions, delivering the data required by the European Securities and Markets Authority under SFTR, are, of course, just the first step toward global compliance with the Financial Stability Board's transparency directive. As different jurisdictions around the globe introduce their interpretations of the transparency directive, data extracts and delivery mechanisms will have to be introduced to ensure compliance with each new regulation.

The data requirements under SFTR are certainly complex, if not very difficult to comply with, but they do rely on the gathering of extensive data points previously not considered by the industry. Working with the International Securities Lending Association's vendors working group and with our own clients, certain pinch points are becoming clear, one notable example being the efficient exchange of unique transaction identifiers (UTIs), where trades are completed bilaterally without the aid of a trading venue or matching service. Producing UTIs is not the issue as they can be simply generated by trading systems as part of the trade entry mechanism; it is the transmission and exchange of these vital pieces of data between counterparties that is problematic. At a client event this month, FIS clients discussed this issue at length, looking at various options for data exchange between counterparties. While a number of possible solutions were mooted and are under investigation, the interoperability of the various providers to our market has become more evident. Loanet, as part of the FIS family of solutions, will be playing its part delivering UTIs for transactions in US assets, both for SFTR and future North American legislation. In meetings, FIS is holding with other similar service providers, the consensus appears to be that they will be doing the same.

Successfully delivering the data required to comply with SFTR is going to require a great deal of collaboration across the service providers, and each service will need to play its part, putting the needs of our mutual clients first. This is entirely analogous to the data sharing and interoperability that market participants will need to undertake, committing to deliver to each other data of sufficient quality and depth within the required timescales. At FIS, we are increasingly working with clients outside Europe who are, technically, out of scope in regard to SFTR, but who will need to deliver potentially significant amounts of data to their counterparties, if they wish to continue to trade with entities that are in scope under SFTR.

Looking forward, the European Commission has, perhaps surprisingly early, declared SFTR a success in relation to meeting the needs of the FSB's Transparency Directive, suggesting that further data-gathering regulations may not be needed. While this may yet be proven right, what is certain is that effectively and efficiently meeting the requirements of the FSB's Transparency Directive will require unprecedented levels of collaboration across market participants and the service provider community. **SLT**

Helix Financial Systems

Flexible Solutions to Navigate a Complex Marketplace

HelixSL to Simplify Stock Loan Processing

HelixREPO for Collateral Management

HelixMBS to Automate Pool Allocations

HelixALARM for Balance Sheet and Capital Optimization

www.helixfs.com

More Information | Eric Brandt | Director of Sales
212-294-7752 | ebrandt@helixfs.com

Don’t miss the next printed issue

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

6th Annual Collateral Management
New York City, US

November 2017

9-10

collateral-management-usa-forum

ICMA European Repo and Collateral Council General Meeting

Brussels

November 2017

14

www.icmagroup.org/events/

WELLS FARGO SECURITIES

The power of partnership

Prime Finance

Choose a partner who can help you succeed today and grow for tomorrow

At Wells Fargo Securities, we recognize that a partnership is an investment from both parties. That's why we are committed to developing a long-lasting relationship to support your current financing and operational needs, as well as your growth strategies for the future.

Our Institutional Investor Services group supports a broad range of alternative asset managers, from emerging to large institutional funds, and provides the financial, operational, and technical resources needed for success in a rapidly evolving marketplace.

- Prime brokerage, margin finance, and securities lending
- Custody and clearing services
- Fund administration
- Middle- and back-office services
- Capital introductions
- Futures execution
- Exchange-traded and OTC derivatives
- Business consulting

Discover what a partnership can really be.

Contact us to learn more at **wellsfargo.com/prime**.

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, and Wells Fargo Bank, N.A. Wells Fargo Securities, LLC and Wells Fargo Prime Services, LLC are distinct entities from affiliated banks and thrifts. © 2016 Wells Fargo Securities, LLC. All rights reserved. WCS-2676797

LCH gains a COO, SIFMA votes in 2018 board, and NEX signs its next CEO

John Horkan has been named COO of LCH, effective immediately.

Horkan, who will based in New York, will take up his new role alongside his current responsibilities as head of North America at LCH.

As COO, Horkan will work in partnership with the CEOs of LCH's regulated CCPs to help develop and execute LCH's integrated global strategy.

Prior to joining LCH in 2012, Horkan worked at Bank of America, first as COO of global markets sales and institutional sales, and then as managing director of its regulatory reform programme across markets, investment and corporate banking divisions.

Horkan has also worked at Merrill Lynch and J.P. Morgan.

The appointment comes just over a week after Daniel Maguire was promoted to CEO of LCH, following Suneel Bakhshi's decision to step down.

Maguire said: "As LCH North America head, John Horkan has played a pivotal role in enhancing relationships with our expanding US-customer base."

"In his new role, Horkan will oversee the execution of our strategy including driving operational efficiency programmes as we continue to grow LCH's global business."

The Securities Industry and Financial Markets Authority (SIFMA) has elected its principal officers for 2018, naming Lisa Kidd Hunt, executive vice president of Charles Schwab & Co, as its chair.

Kidd Hunt replaces Tim Scheve, president and CEO of Janney Montgomery Scott as chair.

William Caccamise replaces James Allen, chairman and CEO of Hilliard Lyons, as vice chair

James Wallin, senior vice president of fixed income at AllianceBernstien, has been elected as SIFMA's new treasurer.

Also joining the board are Sylvain Cartier, head of of global markets for the Americas at Societe Générale; Jim Kerr, CEO of Davidson; Thomas McDonald, CEO of McDonald Partners, and Thierry Roland, CEO of global banking and markets Americas at HSBC.

Charlotte McLaughlin, president and CEO of PNC Capital Markets, and Peter Schneider, president of Primerica have also been elected to the 2018 board. Kenneth Bentsen remains CEO and president of SIFMA.

NEX Optimisation has promoted Ken Pigaga to CEO, following the departure of Jenny Knott.

Ken Pigaga, who was previously global COO at the technology provider, will begin his new role this month. He will remain as a director on the NEX board.

Pigaga will hand over his global COO responsibilities to Sam Wren, group CFO of NEX, while the NEX Transformation programme will be overseen by both Pigaga and Wren.

Prior to NEX, Pigaga was global COO at ICAP and also spent time as managing director at J.P. Morgan.

Michael Spencer, CEO of NEX, said: "In her time with us, Jenny Knott has evolved our client strategy and implemented a simpler and more unified operating model, identifying and adopting new and emerging technologies."

"Her significant contribution will have an enduring impact on the business and we wish her every success for the future."

He added: "Ken Pigaga has worked closely with Jenny Knott as part of the NEX Transformation programme and is ideally placed to assume the role of CEO of NEX Optimisation." **SLT**

securities lending times

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

Deputy Editor
Becky Butcher
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6018

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

Editorial Assistant
Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0)203 750 6018

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

www.securitieslendingtimes.com
Twitter: @SLTimes_

Office fax: +44 (0)20 8711 5985
Published by Black Knight Media Ltd
Copyright © 2017 All rights reserved

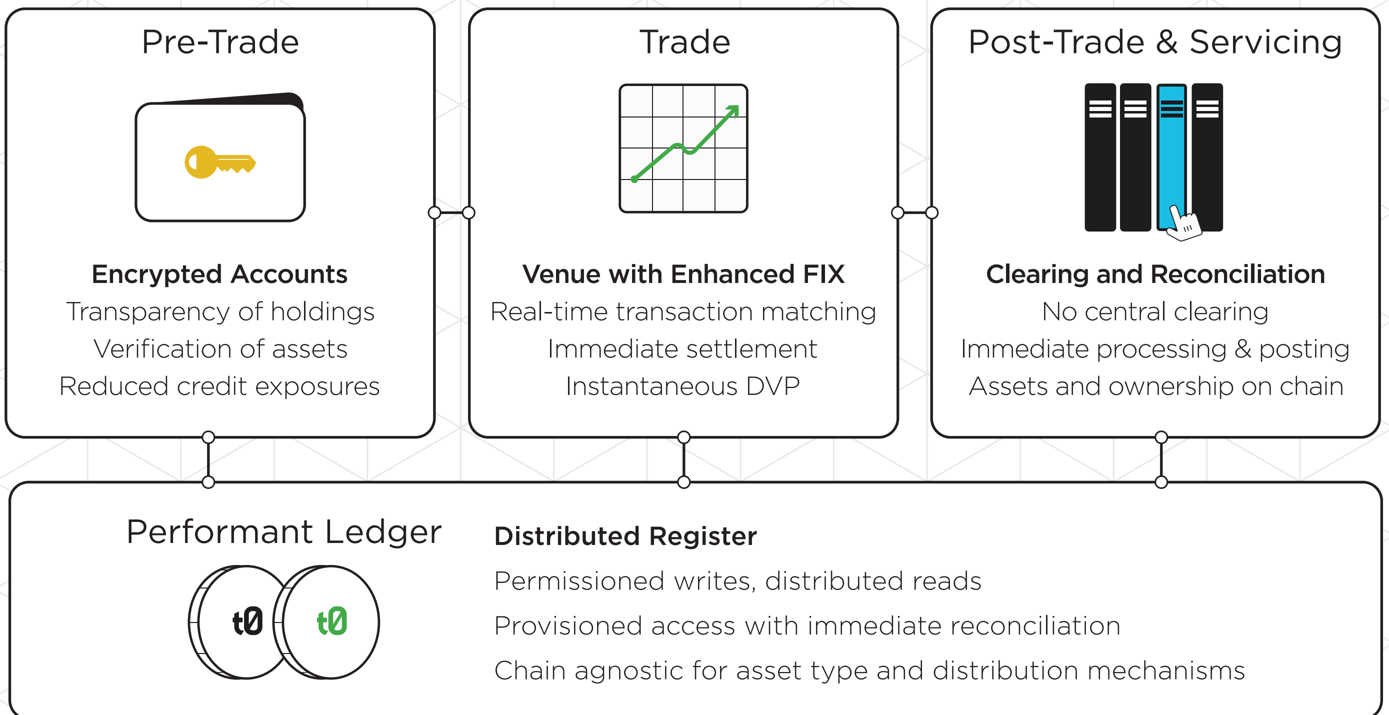
T ZERO

"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.



For more info, contact dtabacco@t0.com

Post-trade made easy

Innovative collateral management solutions that address industry needs

For more information contact

Olivier de Schaetzen
Head of Product Solutions, Collateral Management
olivier.deschaetzen@euroclear.com

Gosta Feige
Director, Product Solutions, Collateral Management
Gosta.feige@euroclear.com

euroclear.com

© 2017 Euroclear SA /NV 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, RPM Brussels number 0423 747 369