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ISSUE195 06 February 2018

DISCOVER ARGENTINA

Argentina's securities lending activity is about to pull itself together

Lending power

Brian Barnes, founder and CEO of M1 Finance, discusses his start-up's securities lending revenue model

SFTR

Forget the noise, it's about reporting. A view of the forthcoming regulation by Dean Bruyns of Broadridge

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EquiLend entices lenders with free SFTR UTI service

Early adopters of EquiLend's securities financing product suite can receive a free unique trade identifier (UTI) generation service for the first year of trading for all loans under the Securities Financing Transactions Regulation (SFTR).

Market participants who sign up before 31 March will receive the incentive for all loans, which extends to a 50 percent discount for the second year and 25 percent discount for the third year of trading from when SFTR is expected to go live in Q2 2019.

EquiLend's UTI service will typically cost $1 per trade.

A $1 per UTI charge will apply for all borrows processed across EquiLend, capped at $250,000 annually. EquiLend expects many large market participants to hit the cap.

The cap will be fixed for two years for those early adopters.

As part of its SFTR solution, EquiLend partnered with Trax in September 2017 to tackle the reporting requirements with a full front-to-back solution for mutual clients.

EquiLend will link its trading and post-trade platform to the Trax system to provide client trading and life cycle event information, while Trax will provide EquiLend clients with data enrichment, reporting services and access to multiple trade repositories.

Trax's cross-asset class regulatory reporting technology and repo trade confirmation capabilities promises to enable firms to enrich, validate and report eligible SFTR transactions in near real-time.

Meanwhile, EquiLend captures many key elements required for SFTR reporting at point of trade, including UTIs, transaction timestamps and lifecycle events.

SFTR's final standards are widely expected to be verified by the European Commission in the second quarter this year, meaning the requirements will likely come into effect 12 months after that date.

Commenting on the new fee policy, an EquiLend spokesperson said: "We have drawn on experiences under previous regulatory requirements, notably the European Market Infrastructure Regulation."

"We recognised the need for a robust, consistent, scalable process for the provision and communication of UTIs as the foundation of a successful SFTR implementation."

On the importance of managing regulatory compliance fees, the spokesperson said: "Furthermore, firms are looking to maximise the ancillary benefits of whatever SFTR solution they opt for, including leveraging the increased availability of data to inform trading decisions and through the maximisation of operational efficiency."

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eSecLending updates best practice guide

eSecLending has updated its securities lending best practice guide to reflect the rise of US non-cash collateral, term trading, and peer-to-peer lending, along with the rising costs of indemnification.

The financial services provider's third edition, available from today, aims to help market stay current on developments in order to optimise their programmes for both risk and return in the modern market landscape.

The guide outlines the fact that non-cash collateral is becoming more prevalent for US-domiciled lenders as some borrowers prefer to offer non-cash for balance sheet reasons.

Term transactions are becoming more prevalent globally due to the benefits to borrower balance sheets.

At the same time, according to eSec, indemnification, costs are rising for agent lenders based on Dodd Frank and Basel III requirements, leading to potentially revised pricing for lenders and/or changes to programme trading patterns.

The guide also acknowledges that it is more important than ever for lenders to continue to evaluate their securities lending programmes and establish whether or not changes should be made, based on the evolving landscape.

eSecLending's guide was first published in 2012, and then updated in 2015.

Commenting on the new guide's launch, eSecLending said: "This paper will provide both education and guidance, but it is not intended to be a lengthy or highly technical publication."

"Rather, it is a basic explanation, with practical guidance notes incorporated, of the market mechanics, programme structures, associated risks and risk mitigation and the lending programme approval process, including how programmes are overseen by those responsible for securities lending at institutional investors."

Oxygen to launch repo platform

Oxygen, a blockchain-based marketplace, is to launch a decentralised repo trading platform for cryptocurrencies.

According to Oxygen, the new platform will provide holders of crypto assets opportunities to earn income, raise liquidity and make investment decisions across cryptocurrencies, coins and tokens.

The platform will be powered by OXG, which will be used as an internal currency to cover commission fees.

Oxygen will use an Ethereum-based smart contract as a custodian, clearing and settlement system.

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Wematch smashes trading record

Wematch.SecuritiesFinancing achieved a record-breaking trading week with more than $1 billion worth of trades confirmed by the close of play last week.

The platform booked in the equivalent of a month's worth of trades in a single week thanks to a series of successful onboardings and the fact that the platform caters for the regulatory requirements of the second Markets in Financial Instruments Directive, among others, according to Wematch CEO David Raccat.

The digital broker now boasts 32 onboarded legal entities and close to 150 users.

Wematch receives 2,500 daily interests for a notional of $40 billion to $45 billion.

Interest was split evenly between securities financing transactions and total return swaps.

Commenting on the record-breaking figures, Raccat, said: "We are very happy to see the momentum and the regular increase of users and communities joining the platform."

"Liquidity is picking up on all aspects, and the multi-product approach gives to our clients an exhaustive view of their market's dynamics, which is greatly appreciated."

The platform first launched in September 2017 and has expanded its scope to include new trades, including securities lending, and collateral types.

More recently, Wematch expanded into Asia and completed its first trade with Hong Kong users involving Japanese equities in November last year.

The smart contract locks the collateral, sends the loan asset to the borrower's Ethereum address, tracking all ongoing transactions.

The counterparties will be able to settle collateral and loan assets by transferring them to the smart contract address. The platform will not have access to user assets.

The repo platform, comprises an artificial management-based risk management toolkit, community-driven order book, an order processing engine, a user-rating system based on repayment history, and an application programming interface.

Oxygen was created by the founders of Changelly, a cryptocurrency exchange service, and a team headed by Alex Grebnev as CEO. It will offer repo to the existing client base of Changelly and then integrate the platform into financial market infrastructure.

The platform will offer repo to the 1.6 million client base of Changelly and then integrate the platform into financial market infrastructure to connect with other potential business-to-business repo users.

Citi adds ETFs to collateral pool

Citi has added exchange-traded funds (ETFs) to the list of instruments it accepts as collateral in agency securities lending transactions.

The decision came after the latest regulatory developments, including the second Markets

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Asian hedge fund top Q4 industry growth chart

Asia Pacific (APAC) has recorded a strong performance for its hedge funds in Q4 2017, according to Preqin.

Funds focused on the APAC region were the top performers of 2017, with the region delivering its strongest annual performance this decade, 18.66 percent up from the 2.37 percent generated in 2016.

Overall, the Preqin All-Strategies Hedge Fund Benchmark for the global hedge fund market generated 1.15 percent in December.

In addition to pushing the benchmark's annual return to its highest level since 2013, Preqin found that the positive end to the year also marked the first time the Preqin All-Strategies Hedge Fund benchmark recorded a positive return during every month of a calendar year.

Funds of hedge funds bounced back from a negative November to record a positive end to 2017, up 6.59 percent for the year.

Preqin found liquid alternatives produced a better full-year performance than they did in 2016, with alternative mutual funds, up 7.03 percent.

UCITS funds were up to 6.68 percent compared to 2016 where UCITS revenue stood at 1.27 percent.

Though equity strategies annual performance saw quite a drop compared to 2016 when it decreased from 7.4 percent to 1.45 year-on-year.

in Financial Instruments, which took effect on 3 January.

The investment bank aims to diversify its pool of collateral to meet mounting margin requirements.

According to Citi, the ETF market is still a relatively untapped source of collateral that can enable investors to access further liquidity and improve collateral efficiency, while minimising counterparty risk through index diversification.

The bank highlighted that more than $4.9 trillion in global assets under management currently held in ETFs, along with the roughly $630 billion of inflows in 2017 alone.

Citi utilises the IHS Markit's collateral lists to identify eligible ETF instruments in equities and fixed income.

The bank plans to launch an integrated fund administration for ETFs in Europe this year, following the buildout of its ETF services business in the US, Latin America and Asia.

As part of its expansion into the ETF space, Citi brought on former iShares global head of relationships Andrew Jamieson as global head of ETF product, as well as Gareth Myburgh as Europe, the Middle East and Africa (EMEA) ETF product manager, late last year.

David Martocci, global head of agency securities lending at Citi for EMEA, said: "As the ETF industry continues to mature with increased levels of supply, coupled

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HazelTree to offer collateral services to Ovata Capital

HazelTree has partnered with Ovata Capital Management to deliver financing, collateral and custody services to the Hong Kong-based hedge fund manager.

The treasury solutions provider will assist Ovata in centralising the fund's cash management function.

Under the mandate, the hedge fund manager gains access to HazelTree Cash Manager, which is integrated with BNY Mellon's multi-currency platform, know as Liquidity Direct.

The investment platform enables clients to use BNY Mellon's full suite of cash, treasury, collateral, financing, trading and custody services.

The combined BNY Mellon-Hazeltree solution is promised to assist the hedge fund's streamline cash management processes and reduce counterparty and operational risks.

Nicholas Bloom, Ovata Capital COO, said: "Hazeltree provides us with an efficient centralised systematic approach to optimise our treasury function across cash and margin and eliminates the need to use multiple counterparty portals."

Jonathan Spirgel, head of global liquidity and segregation services at BNY Mellon Markets, added: "The combined solution will help Ovata streamline their cash management processes as well as enable state-of-the-art robust investment capabilities and controls around managing balances."

Sameer Shalaby, president and CEO of Hazeltree, said: "We are excited to be providing Ovata with an effective treasury solution to centralise its cash management function."

with greater transparency enabled by recent regulatory requirements, beneficial owners and borrowers can benefit from the liquidity and portfolio diversification offered by ETFs while retaining sufficient levels of transparency and efficiency required to maintain high-quality collateral."

Patrick Mattar, head of BlackRock's iShares EMEA capital markets added: "Having a major custodian such as Citi accepting ETFs as collateral, is further proof that investors are increasingly seeing ETFs as a valuable instrument in securities finance."

"As more people discover the utility and flexibility that ETFs can bring to portfolio management, we expect to see a further acceleration in the growth and maturity of the European industry."

ISLA hails GITA 2018 amendments

The German Federal Ministry of Finance has re-drafted its guidance on the application of the new provisions of the German Investment Tax Act 2018 (GITA 2018), following an outpouring of concern from the securities lending industry over threats to market stability.

As of 1 January, GITA 2018 included a taxation of income from securities lending and repos relating to an investment fund under the Manufactured Dividend Rule.

The new taxation drew criticism from the securities financing market, including the

International Securities Lending Association (ISLA), which accused it of being unclear and a threat to German market liquidity.

Commenting on the recent amendments, ISLA CEO, Andy Dyson, said: "We believe it's important for the market to get clarity around these new rules and we believe the latest statement from the German tax authorities is a major step in that direction."

"We will of course continue to work with regulators and other stakeholders on this issue over the coming months."

The Ministry of Finance's latest draft responds to the four key areas first raised by ISLA and Eurex, as an acutely affected party, in a letter sent to the German Federal Ministry of Finance in early December 2017.

The four areas related to the transactions in scope; the tax base; the collection of tax; and double tax treaties.

In the letter ISLA stated: "Due to a lack of clear understanding across the industry, lenders may determine that the risk of lending securities is no longer low and therefore will withdraw from the market, rather than accept a higher level of risk or uncertainty."

According to EY spokespersons acting on behalf of ISLA in the negotiations with the German ministry, in terms of the transactions in scope, only the income from securities lending and real repo transactions between a lending investment fund and any counterparty conducted over the relevant dividend record date are in scope.

Transactions completed before, or entered into after the dividend record date, in absence of a real dividend payment and therefore consequently in absence of the manufactured dividend payment, will be treated as out of scope.

For the tax base in accordance with the purpose of the manufactured dividend rule of preventing the potential for a tax arbitrage through substituting the 'genuine' dividends with manufactured dividends, the guidance 'caps' the tax base to the gross dividend the lender would have received if it had not lent the securities.

This ruling aims to ensure that lending fees and other income due to the lender from the transaction are subject to tax only insofar as the agreed-upon manufactured dividend is lower than the 'genuine' dividend.

For the collection of tax, the guidance states that the tax be collected by way of withholding, unless the borrower is a non-German resident, due to the fact that the German tax authorities cannot enforce the withholding obligation.

In such a case, the lender is required to file a German corporate tax return and declare the relevant income received before it is assessed by the responsible tax office.

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The new guidance highlights that, even though the German borrower is required to withhold, the lender still has a filing obligation, if the borrower has not withheld. EY noted in its analysis that the guidance statements regarding the mechanisms for the collection of the tax obviously take into consideration the concerns regarding the authority of the German tax legislator to impose a withholding obligation on a non-German borrower and the predictable deficits in enforcing and monitoring the compliance of such withholding obligations.

Regarding the issues of double tax treaties (DTT), ISLA and EY highlight that "the guidance remains silent on the question".

The guidance does clarify that the German borrower must withhold at the applicable statutory withholding tax rate, leaving it to the lender to file a tax refund request, if it wishes to claim benefits under the applicable DTT.

When central counterparties (CCPs) are involved in the transactions by the way of contract novation interposed between the original borrower and lender, the guidance follows from an economic approach, that the interposition of the central counterparty between the original lender and borrower should be ignored.

The tax consequences of CCP-transactions should be the same as before the novation, meaning if there was still a direct legal contractual relationship between the original lender and borrower.

The German Federal Ministry of Finance is accepting comment on the new draft until 15 February.

Eurex revamps corporate structure

Eurex, the Frankfurt-based derivatives marketplaces, has pledged to adapt its global structure with a halt to operational trading in Switzerland and expansion plans in Asia in favour of extended trading times.

As part of the restructure, Eurex will not file for a separate authorisation as multilateral trading facility under the new Swiss Financial Market Infrastructure Act and will discontinue its operational trading activities by 31 March 2018.

With the subsequent lapse of their admission to Eurex Zürich, trading members will be relieved from their respective statutory duties under FMIA, and fees due for the transaction reporting related to Eurex Zürich will no longer apply.

Going forward, Eurex will serve all its European and global clients through its existing German exchange and rulebook in Frankfurt, which now operates under the second Markets in Financial Instruments Directive.

In a statement on the pull back from Switzerland, Eurex stated the move

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"allows room to reduce legal and operational complexity as well as costs as participants no longer need memberships at two exchanges".

At the same time, Eurex has discontinued the establishment of separate regulated entities in Singapore while strengthening its business and presence in market as the operational hub for Deutsche Boerse Group in Asia.

The scrapping of plans for separate regulated entities in Singapore aims to reduce complexity and effort for its members, according to Eurex.

As part of its operational overhaul, Eurex is set to extend its trading hours to include the Asian time zone.

The extended trading window aims to provide the market with additional hedging opportunities for selected benchmark products.

Thomas Book, CEO of Eurex, said: "Our focus in a fast changing environment is to maximise agility and efficiency."

"We are very pleased to implement changes that will reduce regulatory complexity and cost for our clients. In addition, expanding our distribution creates new and exciting trading opportunities."

GLMX injects $20 million in its repo marketplace

Electronic repo marketplace GLMX has raised $20 million in a bid to address the market's growing efficiency and regulatory reporting concerns.

The investment will help the technology solutions provider expand its operations into major European markets and bolster its engineering team following a year in which its client base doubled, and weekly trading volumes exceeded $68 billion.

GLMX's request-for-quote-based trading platform, which launched February 2016, has been revamped as a buy-side-to-dealer trading platform as of 9 January.

The platform promises to enhance the relationship between buy- and sell-side counterparties and addresses the need for an efficient repo trading infrastructure.

According to GLMX, the improved platform offers highly scalable backend, rapid feature development, comprehensive data tools and direct connectivity to multiple portfolio management systems.

US venture capital firm Sutter Hill Ventures led the funding, alongside Otter Capital and Tippet Venture Partners.

Glenn Havlicek, CEO and co-founder of GLMX, said: "Global repo markets are in the midst of significant change, driven by evolving capital needs and regulatory requirements."

"We've rolled out a fully redesigned, state-of-the-art solution that is specifically intended to streamline workflows between the buy and sell sides and to automate their trade reporting obligations."

Andrew Sheehan, managing director at Sutter Hill Ventures, said: "GLMX is seamlessly upgrading the way the buy and sell-side interact across the complex and heavily-regulated money markets."

SBL represents structural vulnerability, says IOSCO

The board of the International Organisation of Securities Commission (IOSCO) has cited securities lending as a systemic risk to the industry in 2017 report on the liquidity risk management.

The 2018 Liquidy Recommendations report has been introduced for the "constantly changing market environment for which those responsible for managing CIS must be prepared".

In association with the Financial Stability Board (FSB), IOSCO issued 14 recommendations for the its 2018 report to emphasise the importance of ensuring the quality of day-to-day liquidity management where CIS' are designed to have frequent dealing arrangements.

IOSCO states this updated approach "acknowledges that there is no 'one size fits-all' solution".

Among the recommendations, IOSCO, stated: "The responsible entity should draw up an effective liquidity risk management process, compliant with local jurisdictional liquidity requirements."

IOSCO explained that the liquidity risk management process, and its operation, is the fundamental basis of liquidity control within CIS'.

Another recommendation was that the responsible entity should conduct ongoing liquidity assessments in different scenarios, which IOSCO said should include fund level stress testing, in line with regulatory guidance.

IOSCO explained: "Stress testing can assess how the liquidity profile of, or redemption levels of, a CIS can change when faced with various stressed events and market situations. It is an important component of a responsible entity's liquidity risk management process."

It added: "Stress testing should support and strengthen the ability of the responsible entities in managing liquidity risk appropriately in the best interests of investors."

Building on its 2017 Consultation on Collective Investment Schemes (CIS), and its 2013 Liquidity Report, IOSCO sent out a consultation with a closing date of 18 September 2017, to establish its 2018 Liquidity Recommendations. It received 25 formal responses.

The 2013 Liquidity Report, which took into account the lessons learned from the financial crisis of 2007-10, reflected the approach taken by member jurisdictions having responded to those events.

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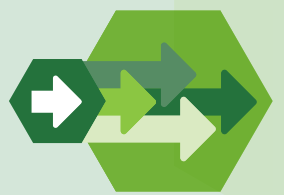

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Lending power

Brian Barnes, founder and CEO of Chicago-based M1 Finance, discusses his online brokerage firm's new securities lending revenue model

Jenna Lomax reports

What is your securities financing revenue-based model and how does it work?

M1 Finance is an online brokerage firm. We allow users to buy and sell stocks, TKS, and pretty much anything that trades on the New York Stock Exchange (NYSE), Nasdaq or BATS. We do sell in a little bit of a different way. Instead of placing trades, you build a portfolio and specify what you want to own on a percentage basis. Then, you deposit money and buy that.

We have a lot of retail customers in the US who own a wide array of securities. We trade the entire universe of NYSE, Nasdaq and BATS securities, so we own a portion of the majority. With the securities lending, we're able to put up cash in lieu of user securities and lend them out behind the scenes.

The primary reason you need to borrow is because of short selling. We take an opportunistic approach. When there is a big demand for a specific security, interest rates will go up on that security. Then, we'll look to our user base, see who owns that security, and lend it out. We make interest on the securities that we lend out at any given time.

How did your clients react to the securities lending model? Were there concerns about allowing their portfolios to be available for lending?

They're thrilled. We made the announcement on 13 December, and we've doubled the number of users since then. People are signing up in droves. The people who have been on the platform for a long time are moving over their money that is currently held by other brokerage firms, so this is a big boon for M1.

In terms of people's concerns, when you're entrusting a company with your money, you just need to know that they are making enough to support themselves and that they are going to be around for a long time. There is a trust and credibility factor in M1, in terms of lending out their securities.

So long as people understand what the mechanics are, they are pretty comfortable with it. The only thing that does change is that some of that income could be reclassified, but we have means to protect against that. For example, dividends could be reclassified, but we take steps to make sure that doesn't happen for our client base.

We're an automated investing platform, but we will function in a manner similar to that of banks. We believe this is the future of investing platforms: they will offer their services for free and, in exchange, lend out the assets on the platform.

What is your background and what gave you the idea to focus on revenue generated from back-end services such as securities lending?

M1 Finance is about two-and-a-half years old, and we've been available to the public for the past year. Previously, we did charge an asset-based fee. We were free for the first $1,000, then 0.25 percent up to the first $100,000, and if an account exceeded $100,000, the fee dropped down to 0.15 percent.

As people were signing up and building assets, we were actually making more money on the securities lending side of the equation.

This is not to say that securities lending is our only stream of revenue, but we were making more on the securities lending than on fees. So if we dropped the fee to nothing and more people signed up and put money on the platform, it increased the opportunity for securities lending to more than compensate for the fee we were charging.

It's the classic win-win. The user gets a significantly better investing platform than what exists on the market for free.

M1 Finance is a very young company. We've been live almost exactly a year, and in that time we've gone from zero dollars in assets to around $100 million in assets. We're adding about a million dollars a day in net new assets and many hundreds of customers a day. We hope to be in the billions of dollars in assets in the coming years.

What other options did you consider before settling on securities lending?

We always planned on having securities lending as a revenue stream. It wasn't a new thing that we tacked on. We just realised how significant of a revenue stream it could be for us, and that it could support dropping our fee to zero.

In terms of other revenue streams, we earn interest on tax held on the M1 platform, and we get paid to transact on various exchanges. In the next couple of months, we will begin offering margin lending, which will allow people to borrow money using their portfolio as collateral. We will charge an interest rate on that, as well.

What is M1 Finance expecting in 2018?

We expect to grow in a pretty dramatic fashion. In the first year, we're up to about 30,000 accounts, but we're looking to have a many-fold increase of that in 2018. We also have some very exciting product features coming out that will bolster M1's capabilities. **SLT**

“As people were signing up and building assets, we were actually making more money on the securities lending side of the equation”

Brian Barnes
Founder and CEO
M1 Finance

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Bringing down the wall

After a decade-long isolation under the interventionist Fernandez's administration, Argentina's securities lending activity almost here at last

Zsuzsanna Szabo reports

Under the current Macri presidency, drastic capital market boosting initiatives are being pushed through, including the long-awaited launch of a securities lending and short selling infrastructure. The service is expected to get the green light from the local National Securities Commission any time now, says Alejandro Berney, CEO of Caja de Valores, and there is a lot more to come.

As part of an ambitious reform package, designed to revamp the underutilised Argentinian capital market, the country's current cabinet is determined to push through a reform package at the beginning of this year. One of its key elements is the withdrawal of the levy on closed mutual investments funds.

Hopes are high

Argentinian investors cannot only be upbeat about the planned elimination of the fund tax but there is a series of pro-market reforms to come in the Latin American country. PwC's Argentina report, published in December 2017, outlines the further reforms that are set to modernise the capital market of the South-American country.

If the Argentinian Congress bows to the will of the cabinet, whose confidence was boosted by the electoral victory in November last year, private and international investments banks will be allowed to operate in Argentina from abroad. At the same time, in an attempt to overcome the interventionist approach of the former government and regulatory bodies, such as the National Securities Commission (CNV), their powers will be cut back.

According to Berney, the securities commission is set to have a limited power to "intervene in the affairs of publicly traded companies, including its veto power", CNV will also have less authority in separating "the administrative bodies of publicly traded companies". Barriers are also set to come down "on the issue of negotiable bonds by the board of directors of companies".

The head of Argentina's central securities depository (CSD) says: "Regarding regulatory activity, there is a bill in Congress, it has the approval of the lower house and we are waiting for the approval of the Congress. This new bill removes the authority of the local regulator to intervene the board of a listed company, this is important for the companies that want to raise capital through the capital market."

Lending in Argentina

Berney notes that Argentina's "securities lending programme has not been launched yet". The framework of the programme has already gained the approval of the local regulator, Comisión Nacional de Valores (CNV). But the National Securities Commission has not given its consent to the Argentina stock exchange's (BYMA) regulation on securities lending and short selling yet. Berney expects the CNV's final blessing to the programme will be given in the last days of January or in the first days of February.

Argentina's CSD head revealed that despite the pro-market moves, the National Securities Commission remained cautious on short selling and it intends to limit its negative impact. The local regulator "preferred an on-exchange programme with higher visibility and limits to on-loan amounts".

Giving further insights into Argentina's lending programme, Berney explains the country's securities lending framework is based on the Brazilian model. "It is an on-exchange programme where the exchange as a central counterparty (CCP), by law in Argentina all the exchanges are obligated to have a CCP that guarantees all the loans". This means "all the loans have to be traded in the exchange and BYMA is going to be the CCP to these loans. Every participant will be able either to bid or offer in BYMA´s trading platform".

Further, each party "will have the opportunity to be a lender of their own securities and the investor who want to short sell is also going to be able to do it with a loan associated to the sale".

Berney added: "This is important because no short selling is going to be allowed if it does not have a loan associated. The investor asking for the loan is going to be required to put collateral for 105 percent of the total amount of the operation."

"This is going to be monitored by the exchange at all times so the short is always going to be covered. The guarantees will be provided by the broker-dealer, and will be deposited with the CCP, commingled with the collateral necessary for all of the activity that the broker has with the exchange."

Moving on up

Main changes announced by the government are aimed to attract foreign investors into the isolated market and to gain the long-awaited MSCI benchmark equity index upgrade. According to the MSCI latest quarterly equity index, Argentina is still relegated to the less prestigious group of frontier markets, by sharing the status with countries like Bangladesh, Kenya, Romania and Vietnam.

The failure in November to win back its status as an emerging market could be the main driver for Argentina to keep its financial market's doors wide open to global investors and to take extra efforts, including introducing short selling.

Argentina found itself under the spotlight when news first appeared on the country's upcoming securities lending rollout. After functioning in a decade-long isolation and under the strict control of the local regulatory authority, the country's financial market is gradually getting freed and its regulator is on the verge of granting permission for short selling.

Commenting on the regulatory overhaul, the Berney says: "The local regulator understood that securities lending and short selling were those issues that would help to develop the local capital market, it was also one of the recommendations of MSCI for Argentina to be included in the emerging markets index."

Berney explains: "Short selling will provide the market more transparency, allowing to incorporate bearish expectation to the prices. Subsequently, the price discovery of the securities will be more accurate."

The grass is always greener

Berney also disclosed, besides the framework of securities lending and short selling, that Argentina has also used their neighbours' established model on "incorporating market makers for their products". Currently, the Argentinian exchange BYMA is also working on the introduction of "a new segment for companies with higher corporate governance standards".

The initiative is similar to Novo Mercado in Brazil that was released in 2000. The listing segment of the Brazilian stock exchange, B3, formerly known as BM&F Bovespa, is required by investors to new initial public offerings. The Novo Mercado lays down, among other things, that listed companies in this segment can issue only common voting shares.

Argentina's securities lending programme is not only based on the Brazilian model, but also the expectations around the lending volume is similar. Berney estimates that the Argentinian market can achieve 3 percent of the market cap, which is the lending programme in Brazil. Nevertheless, he warns against the temptation to "think no less than three years" into the future. "Since this is a new programme, we cannot be certain of the volume we can reach," he adds.

Any time now, the short-selling ban will be the past in Argentina and the barriers stretch all the way around the Argentinian financial market border are about to come down. **SLT**

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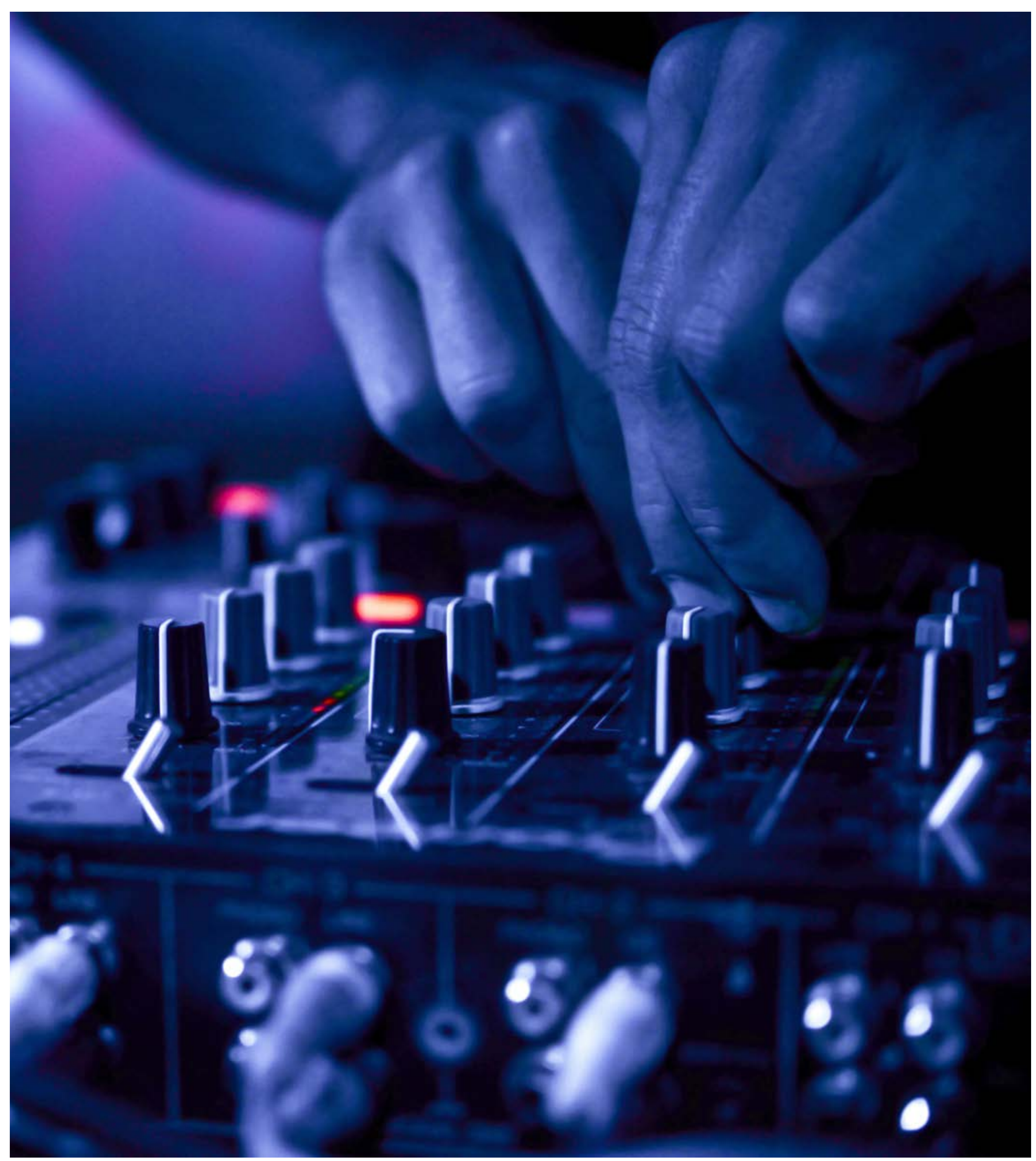

SFTR: forget the noise - its about reporting

A view of the forthcoming regulation by Dean Bruyns of Broadridge

First and foremost, the Securities Financing Transactions Regulation (SFTR) is a reporting obligation. The consequences for non-reporting are very real and should be ignored at your peril. Significant fines imposed under the second Markets in Financial Instruments Directive (MiFID II) and more recently with the European Markets Infrastructure Regulation, have brought this into razor-sharp focus. Be very sure that your SFTR reporting team has the experience and tools to deliver.

Now this is not about scaremongering. It's about considering individual responsibilities, leveraging opportunities and adopting a sensible approach to balancing the books while achieving regulatory compliance.

The International Securities Lending Association, the International Capital Markets Association and other industry bodies are taking the lead by establishing working groups to deal with SFTR. Within this context, market players have assumed their collective responsibilities and contributed admirably in supporting these initiatives and helping flesh out the issues.

One of the strengths of the securities finance industry is the collegiate-style sense of camaraderie and the market has certainly rallied together to get to grips with the new regulation. The danger however lies when the will of the most vocal prevails and some players get side-tracked by factors which are actually unrelated to compliance with the regulation.

Focus on the fundamentals

The concept of business as usual when new regulations intrude can provide a real challenge. The default settings tend to lie at both ends of the spectrum depending on the nature of the personnel within the business.

Some parties adopt a "wait and see" approach. Others may even take on more than their mandated responsibility and end up duplicating other participants' obligations at their own expense, only to find themselves over-committed and under-resourced.

The ongoing costs of meeting regulatory compliance are not insignificant and the balance between your mandated responsibilities within SFTR and establishing what is surplus to your requirements must be carefully considered.

Reap the associated benefits

There are, however, benefits which can be leveraged from a regulatory project and these must be realised to partially offset the costs of SFTR to businesses.

An example is concisely summarised in 'The Cost Benefit Analysis' conducted by Economics Europe, annexed to the European and Securities Markets Authority's final regulatory technical standards on the trade repositories's (TR) mandatory obligations.

One such TR obligation, which provides a powerful benefit to counterparties, is in respect of their mandated reconciliation feedback:

"TRs should provide to the reporting counterparties (or other authorised counterparties) feedback messages as to whether the securities financing transactions is reconciled or not. If it is not reconciled, then TRs should detail the relevant data elements where reconciliation breaks take place and provide both parties' values reported."

This clearly represents an enormous benefit for counterparties. The TR essentially does the heavy lifting and reconciles loan and collateral data, comparing submissions in the first instance, pointing out discrepancies, providing both values and allowing counterparties the opportunity to reconcile the exceptions and then re-submit their reports.

Reconciling exceptions rather than the entire dataset provides obvious benefits from an operational resource perspective and essentially gets you a strong return on investment with respect to your unavoidable TR fees. Leverage this.

Oversight and data lineage

The UK's Financial Conduct Authority recently highlighted the importance of oversight in its assessment of a regulatory reporting fine for another jurisdiction, flagging the lack of it, as a contributing factor to the severity of the fine.

This validates the emphasis that the regulator is placing on operational and compliance oversight in relation to reporting, so counterparties must take note if they want to stay on the right side of the regulator. Mitigating fragmentation risk by consolidating reporting into a single, centralised hub, will go a long way in simplifying oversight for more secure control.

In addition, the ability to reconcile reports from the TR back to source, justifying the reporting or non-reporting of trades, the reasons therefore and any amendments thereto throughout the lifecycle must be understood and evidenced to the regulators if called upon.

Operational visibility within a dashboard or graphical user interface should be easy to interpret and include powerful data lineage functionality, in order to be considered fully fit for purpose. Counterparties should consider this as a priority if building in-house, or demand it from their specialist reporting supplier.

Bear in mind, the ultimate responsibility for reporting lies with the counterparties involved in the trade. Understanding your data lineage internally holds the key to controlling this.

Data control

The Economist: “The world’s most valuable resource is no longer oil, but data.”

There are several variations of that headline so it’s clearly big news and with new regulations like the General Data Protection Regulation (GDPR) coming into play, all counterparties are well-advised to consider how they treat their data confidentiality.

Data sharing is obviously unavoidable when it comes to reporting but this access is strictly controlled at the TR. Beyond your mandatory obligations you should carefully consider whom you share your data with and also how you realise the benefits from your new SFTR data resource.

Clearly data control is retained when reporting in-house or via an installed on-premise reporting solution. Similarly, CSDs provide a trusted and natural data depository. Before relinquishing control to any hosted solution provider, ensure that you have complete confidence that your data will be properly respected and controlled within its environments. In short, data control must always be given thorough due diligence in the SFTR decision making process.

Business edge – reporting certainty

Responsible reporting businesses will be the winners post-SFTR go-live. There will be little patience extended to counterparties who are inefficient and slow to cooperate with timely reporting requirements.

Successful implementation demands a team performance from all market participants and any weak links will soon be relegated to the bench and leak market share. There will no doubt be challenges that will take time to iron out. However, beyond any initial grace period, should there be one, players will have to step up and perform.

Performance requires prudent decision making. Choosing your reporting team wisely. Are they experts in their field? Is your in-house knowledge base sufficient? Have you given due consideration to improving agency lending disclosure and bilateral legal negotiations if you decide to trigger step one?

Beyond go-live, performance requires booking trades quickly and accurately, sharing trade details efficiently, submitting reports on time, acting on TR rejections promptly and reconciling feedback for resubmission.

Everybody has their function, which must be fulfilled for the regulation to work. CCPs, trading venues, matching and confirmation platforms alike must follow their regulatory mandates in respect of factors like unique trade identifier code generation and the timely sharing thereof. Firms ignoring this should expect a robust response from the regulators and risk reputational damage from within the securities finance community. So report responsibly, fulfil your function, avoid duplication and gain an edge.

Commercial flexibility, agility and independence

Albert Einstein: “The measure of intelligence is the ability to change.”

Retaining agility in the face of future SFTR revisions and the addition of new jurisdictions is a massive consideration. The ability to change, whether out of necessity or to embrace opportunity, is a major factor for market players to consider.

Change becomes easier when solutions are abstraction layers within the businesses infrastructure, allowing for seamless integration and business continuity with minimal disruption and flexibility when it’s time to adapt. Reaching that status and embracing change requires bold decision making, stepping out of a comfort zone and opting for quality over familiarity.

Choosing best-of-breed solutions for their unique specialities is key to building a strong team around the core business, in whatever capacity they contribute. It also allows for easy extrication if the relationship sours, or if new and improved opportunities arise. Retaining that agility and independence keeps the power base where it belongs. **SLT**

Responsible reporting businesses will be the winners post-SFTR go-live

Dean Bruyns
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Staying the course

MiFID II is behind us, but SFTR and CSDR lie ahead. The message from the Deutsche Boerse Global Funding and Financing Summit is that not the time to take your eye off the ball

Drew Nicol reports

The mood at last week's Deutsche Boerse Global Funding and Financing Summit in a very rainy Luxembourg was a mixture of relief and apprehension. Despite weathering a slew of regulatory deadlines in 2017 and the beginning of this year, the securities financing industry was warned that it must keep both eyes on the horizon as the worst is yet to come. Several conference panels assessed the leaps and bounds that the European market has made since the financial crash, with Target2-Securities (T2S) and the second Markets in Financial Instruments Directive (MiFID II) both successfully bedding down in recent months, to name just a few of the successes. Efficiency is up, liquidity, for now at least, is acceptable and other technological innovations are jostling to improve the lives of market participants. However, commentators warned that dark clouds are forming on the horizon.

Challenges big and small, new and old, persist in the market, and multiple conference speakers stressed the importance of not getting swept up in the hype around the development of ubiquitous speculation around blockchain, or distracted by the likes of Brexit. Throughout the two-day event, speakers were not overtly concerned about the significant threat that blockchain could pose to the status quo of the market, largely relegating it to be "a good topic for a panel next year," as one speaker put it.

Instead, panellists called for solutions to well-established kinks in the market structure that should be addressed before investing in new, potentially disruptive technology.

At the same time, the Securities Financing Transactions Regulation (SFTR) is an ever-present feature on the horizon, along with the lesser known challenges around the Central Securities Depositories Regulation (CSDR), and a host of other regulations coming down the pipeline. A poignant graphic offered by The Field Effect, provided a visual on what many described as the "spiderweb" of regulations that touched multiple areas of the securities lending industry, from best execution, to clearing to transaction reporting—and much more in between.

Storm's a brewing

When asked what the next big wave of evolution will be in the market, an increase in automation and centralisation was repeatedly highlighted as the most likely feature of tomorrow's trading landscape, with all the obvious consequences that such a development would bring. Primarily, the headcount of securities lending market will shrink as automation takes over the heavy lifting of the back office, stated one panellist.

Speakers explained that the regulatory drive for standardisation in all aspects of the market will inevitably open the door to automation, as legal documents no longer require negotiation or physical signing and collateral management is the responsibility of formidable algorithms instead of teams of traders.

Another panellist agreed that standardisation was the likely big trend of the future, and added that it "means plucking the human out of the equation".

"Technology is becoming increasingly disruptive and it's coming faster," explained another speaker representing a large US agent lender.

Speakers noted that the challenges of onboarding and know-your-customer obligations, which are particularly acute for those trying to connect to Eurex's Lending CCP, could also benefit from automation innovation in the near future. It was noted that the cleared space offered the perfect sandbox for standardisation and automation to develop a greater role that could then filter out into the wider market.

Two panellists agreed that UCITS funds, which are currently bursting at the seams with capital but are hamstrung by strict lending and collateral requirement rules when it comes to securities lending programmes, may benefit from standardisation and automation as a way to manage risk and compliance hurdles more efficiently.

The UCITS conundrum fed into a wider discussion around the fragmentation of collateral in Europe that even T2S has not managed to solve, which is as bad today as it was 10 years ago, according to one speaker. An audience poll suggested that collateral management had become more of a "business critical" issue today than it was a year ago for more than 77 percent of attendees, meaning this issue is not going to go away, and the solution isn't clear.

CCPs: resisting dilution

European central counterparties (CCPs) were warned against undermining their fundamental security principles to allow more buy-side participants to become members, according to conference panellists. Despite a dearth of buy-side members engaging with

central clearing currently, the nature of the challenges that the buy side face in joining mean that CCPs cannot lower the bar to allow them in, explained panellists.

One speaker, representing an EU-based clearinghouse, outlined the main hurdles sitting between the buy side and participation in the clearing space, namely: day to day trading costs, resource constraints connected to contributing to the default pools, and risk management. From the CCP's point of view, according to the speaker, there are significant challenges involved in allowing non-EU based, non-bank entities into central clearing due to the inherent risk that such counterparties bring.

Panellists discussed the trade off of offering bespoke memberships for resource-challenged buy- and sell-side participants, that could not, or would not, contribute to the various default defences CCPs must employ. At the same time, another panellists highlighted that non-EU counterparties could also offer a major boost to market liquidity if a viable solution was found and the issue warranted further discussion.

A speaker representing a European CCP concluded the panel by reminding audience members that, at their core, CCPs offer protection against the risk of a defaulting member and the moment you start deconstructing the core pay-in requirements of members that security is undermined.

Brexit bad

Taking on the thorny subject of Brexit, keynote speaker Pierre Gramegna, minister of finance for Luxembourg, commented: "We must be realistic on our future with London, but there are many possibilities for positive future bilateral relations."

Looking to the continent, Gramegna declared that "Europe is back". After what could have been a troublesome year for the EU, both politically and economically, the union has begun 2018 on a much surer footing. Growth is up, unemployment is down, and major projects such as the Capital Markets Union are beginning to gather pace again, he stated.

Despite being more than a year into the negotiations very little light has been shed on what the final deal will look like. The current political climate points towards a hard Brexit option being pursued, which for UK-based securities lending participants primarily means liquidity issues are ahead, along with and a lack of MiFID II passporting. However, Gramegna was optimistic that when 2019 rolls around solutions will be found to keep the markets ticking over.

Gramegna closed by calling for a "de-dramatisation" of the Brexit negotiations in order to ensure a cordial and mutually agreeable solution. "If we build walls around London, then we will only punish ourselves," he concluded.

Regulation overload

Although many in the industry may not remember a time before the ominous shadow of SFTR was looming overhead, there is still some time ahead before it joins the ranks of implemented post-crisis rulesets, which is good news for some. Of those in attendance 17 percent admitted to not having started to develop an SFTR compliance solution, with roughly 18 months to go before it's expected to go live. A further 22 percent had only just started, according to an audience poll. Andy Dyson, CEO of the International Securities Lending Association (ISLA) put this down to the "MiFID II-effect", meaning that resource-constrained firms were, until recently, devoting everything to hitting the January deadline, with nothing to spare for something as far of as 2019. Of the remaining voters, only 10 percent claimed to possess a defined solution and a further 17 percent were able to define and understand the business impact SFTR posed to their business.

However, although much of the event was dedicated to assessing the next hurdle in the path of the securities financing industry, an earlier threat lurks down the road that also requires the industry's attention—CSDR.

The European Securities and Markets Authority claims CSDR will play a "pivotal role for post-trade harmonisation efforts in Europe, as it will enhance the legal and operational conditions for cross-border settlement in the EU". However, for the securities lending community, CSDR represents new fines and mandatory buy-ins for settlement failure, which could wipe out the incremental gains offered from a lending programme. ISLA, among other industry bodies, is working to highlight the risks that such a penalty would mean for market liquidity as, according to ISLA, many participants would cease to trade in such an environment.

"Most of you are blissfully unaware this regulation [CSDR] is coming," commented one speaker.

In his concluding remarks, Philip Brown, co-CEO of Clearstream Banking, said: "Don't get overwhelmed by the waves of regulation but instead ride the wave of change."

Despite the challenges such a framework represent, Brown added: "CSDR is another important piece in the puzzle to further bolster safety and stability across European capital markets in the post-financial-crisis world."

According to Brown, the solution to CSDR was a renewed focus on data, as a way to discover the cause of fails and eliminate them from the marketplace. The buzzword of the past was "big data" explained Brown, going forward the industry needs "smart data" to solve tomorrow's challenges.

Brown also used the final session to call on the industry to work together to enhance interoperability within the market as a way to reduce fragmentation. He noted that regulation had helped bring the the industry together and improve standardisation but that a market-driven solution to its own problems would be the optimal way for everyone to benefit. **SLT**

Driving the industry

Collateral trends, risk management and central counterparties were debated at the 24th Annual Beneficial Owners' International Securities Finance & Collateral Management conference

Zsuzsanna Szabo reports

This year's IMN conference discussion began with scrutinising the role of agent lenders. Panellists put traditioanal agent/owner relationship under microscope and offered advice to beneficial owners on how to manage a securities lending programme without risking asset safety and accessibility.

The most important factor for beneficial owners to consider before lending is who the borrower is. This can be done by looking into the borrower's credit rating, obtaining information about their balance sheet or conducting its own analysis.

Indemnity is also critical to consider before starting the securities lending programme, according to Sudha Datta, president of SL&C Consulting, who noted that agent lenders sometimes didn't specify what was covered in the indemnity policy. Another important element to deal with is whether cash or non-cash will be accepted as collateral. Setting the duration of lending is another issue not to neglect, according to Datta. He also recommended that beneficial owners should make sure they have a strong legal and service level agreement with the lending agent in which all the conditions are clearly set.

Choose wisely

Beneficial owners in attendance had the chance to receive a running list on how to keep their assets safe, or at least manage the risk that lending them out exposes them too. To be able to insulate yourself from counterparty risk, it is necessary to consider all the possible aspects that can go wrong in a securities lending programme, according to a panellist. Speakers unanimously agreed on the significance of conducting risk and return analysis.

When it comes to engaging in emerging markets especially, agent lenders and their beneficial owners must be be very clear on their required risk profile.

Emerging markets can be very lucrative, but without knowing all the relevant regulations, investors could easily face penalties. If industry participants fail to comply with the expectations of the local regulators in these markets, it can result in some mandatory buy-ins and fines. This is not something European investors will be used to, although the Central Securities Depository Regulation is on its way.

Another panellist suggested that it is a safe path to "hold back a certain percentage of the assets". This means a certain amount of yield will be sacrificed to preserve the portfolio's safety. During this panel, the major fallout that a default could cause was discussed with speculative costs running into the billions of dollars. The best preparations for this scenario are the constant monitoring of the counterparties and understanding all the exposures you have got through your counterparty, according to a panellist.

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However, before anyone would turn their back on the emeging markets, in on other panel discussion, it was outlined that "there was plenty of business out there", referring to South East Asia, China, and Japan, where funds continue to grow.

Collateral preferences

Audience members heard that the trend for beneficial owners globally moving towards accepting non-cash collateral is continuing unabated, according to DataLend. The data provider's representative, Nancy Allen, outlined that mixed collateral constituted the greatest part among collateral types accepted. Beneficial owners accepted 41 percent mixed collateral last year, while some 35 percent only accepted non-cash. Cash only collateral made the smallest part of the collateral breakdown last year, with 24 percent.

DataLend highlighted the global revenue earned by beneficial owners stood at roughly $9.22 billion globally for 2017. North American revenue was more than $ 4.85 billion last year.

DataLend's annual beneficial owners survey, conducted in December 2017, showed that their purpose for engaging securities lending was shifting in line with rising revenues, from merely covering costs to actively seeking alpha. Of those surveyed, 66 percent cited alpha generating as their primary reason for lending assets, while only 35 percent were looking to simply cover costs.

The average lendable in 2017 was valued at $16.6 trillion, according to DataLend. US-based beneficial owners account for 51 percent of global lendable balance. Collective investments vehicles constitute 42.1 percent of all US-based lendable balance. Pension funds come second as the largest group with 26.3 percent lendable. Government/sovereign entities make 16.2 percent, while insurance companies embody 8.3 percent lendable balance.

The million-dollar question

Recent years have seen traditional beneficial owner risk profiles challenged by the buy-side's growing issues with offering too much cash collateral and suggestions that opening up collateral profiles would invite more revenue from choosy borrowers. The vast majority of IMN panellists agreed on that taking non-cash as collateral is increasingly significant. While some 15 years ago, cash collateral dominated the market, nowadays non-cash is coming up. One panellist suggested that taking equities as a non-cash is a real opportunity.

There were strong opinions on the collateral issue voiced on both on the beneficial owner and agent lender side. One speaker representing a major US pension fund stated he was consistently only taking cash as a collateral. Since the financial crisis, he prefers to follow a conservative strategy. "Just because we can go out a little further, we don't necessarily do that," he explained.

However, a panellist representing an agent lender side was convinced that "if you don't start taking non-cash, you will lose business soon". There was also panellist from another agent lender side who tried to find the middle ground through the heated debate. "We have to find the balance between cash versus non-cash," he suggested. However, the optimal solution to managing the risk/reward balance remains unclear.

CCPs on the rise

The ever-raging debate around the use of central counterparties (CCPs) continued for another IMN gathering. The majority of speakers were convinced that CCPs "would come and increase". It was widely argued that in the near future, central clearing will not only impact the lending agent side, but also the borrower side. However, there are still challenges around the use of CCPs, warned one panellist. First and foremost, the necessity of educating investors on what are the obligation and responsibilities by joining the CCP. A special panel was dedicated to CCPs, where leading North American investment banks, a clearing house and the regulatory body attempted to debunk insecurities around the CCPs. All the attendees received a brief tutorial about what CCPs are and how they have evolved in the past couple of years. In short, there are two CCP participants in the US market. One clears repo, and one clears securities lending transactions.

According to a panellist representing an investment bank, clearing is not new. It has been around for a long time. The panellist said: "The trend is that both the activity and the number of members are growing at the central clearing space. It can also be seen as a product extension at clearing houses."

The same panellist also noted that there is also a shifting trend among the client base where the discussion and education turned to execution. But more panellists outlined that a CCP is not ideal and not a "silver bullet to solve all problems" but it can be used as "a tool from the tool kit". In the toughening regulatory environment, CCP may be the tool that is better suited to the upcoming regulations.

The attendees also learnt the scale of the activity of a leading North-American clearing house. The clearing house matched 70.5 trillion government securities transactions for their members, dated from December 2017.

The clearing house representative outlined that buy-side participation in clearing is not new, either. The clearing house expects that the changing regulatory landscape that brings more activity into clearing. In an attempt to get prepared, the central counterparty lifted the restrictions that money and mutual funds had to register with investment companies.

As it stands now, pension funds, for example, can be cash or collateral providers for the clearing house in the future. The move provides a greater pool of beneficial owners. **SLT**

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Advances in collateral

David Lewis, of FIS Astec Analytics, tracks the rise of ETFs and discusses their potential benefits to the securities lending collateral pool

Much has been said and written about the changing nature of the securities financing industry, its transition from the back office to the front, and, more recently, as it morphs into the enterprise-wide collateral management and financing function we increasingly see today. The industry has managed to do this through evolutionary adaptation and that capability is being tested further by a raft of new regulations coming into force.

Adaptation does not always come from reactions to external pressures; the market's participants and their clients all along the transaction chain have repeatedly developed new ways of doing business to help expand and develop the services they delivers. Looking at new markets and products has often helped the market progress, such as, adding new markets as more mature markets decline in terms of revenues and opportunities. New parts of the Middle East, adding securities lending and shorting mechanisms, will bring those markets on line in the coming years.

As far as new product developments go, adding new possibilities for revenue generation and/or costs savings can also help develop the business. Most recently, talk has been about increasing the use of exchange-traded funds (ETFs) as collateral, with announcements from agents, such as Citi, regarding plans to accept ETFs as collateral in their securities lending business.

Falling margins and incomes are driving the business to look for opportunities to improve efficiencies and cut costs, as well as capitalise on new or previously underused pools of assets.

The development of ETFs as collateral potentially delivers on all these fronts. Collateral flexibility and diversity are key to ensuring assets can be lent to borrowers working under their own balance sheet constraints, while maintaining margin requirements, especially as new regulations come into play. As has often been said, lenders cannot create borrowing demand, but they can make themselves attractive lenders. While lenders might be looking for enhanced earnings from collateral flexibility, borrowers may see such developments as ways lenders can avoid further downward pressure on earnings.

From the investors' point of view, ETFs have certainly been on the rise. Almost $5 trillion of global assets under management are now believed to be invested in ETF products, growing by over $650 billion in the past 12 months. Blackrock has stated that it expects

these values to double by 2022. As with equities and bonds, the values in issue are not necessarily available to lend. While the announcement from Citi is certainly welcomed, more momentum will be needed before ETFs become a more widely accepted asset class. This concept not only has to be sold to the underlying lending clients who must get comfortable with accepting the assets as collateral, understanding and accepting that they can bring collateral diversification and counterparty risk mitigation, but also those same investors have to be happy to lend them out. With a growing demand to manage collateral efficiently across the globe, on an enterprise rather than local level, flexibility on acceptability, with the ability to use an extended range of assets, will be a distinct advantage. Those organisations unable to manage their collateral on an enterprise scale will be left behind.

Figure one shows two plot lines, running from January 2014 to the middle of January 2018. The blue plot line shows availability by value, which followed a relatively flat trajectory from 2014 toward the middle of 2015, before rising toward the end of 2016. Over that period, the value of ETF assets globally, broadly speaking, increased by two-thirds. Since January 2017, however, availability of ETFs, by value, jumped by more than 110 percent. Over the past four years, availability in ETF assets grew, in total, by over 250 percent. Asset prices advanced significantly over the same period of course, but as a comparison, the S&P500 ETF Trust advanced only 55 percent.

What is more striking from Figure one is the red plot line, showing ETF balances on loan, by value. While the plot line is clearly not smooth, and indeed, when we look at the lending pattern of individual ETFs, it is often binary rather than graded, the loan balances for ETFs has grown little over the last five years. In January 2014, borrowing volumes were just under $45 billion, with the highest peaks over the period seen in June 2014 and 2015, when balances exceeded $75 billion. This figure was nearly reached again in September 2017, but otherwise has struggled to break $65 billion across much of the last two years. As with availability, this value pattern must also be taken in the context of asset prices across the S&P500 ETF increasing by 55 percent.

With ETF trades now being reportable under the second Markets in Financial Instruments Directive, the perception that ETF liquidity is low may be dispelled. This has been quoted as one of the reasons why certain market participants have been reluctant to be more active in lending ETFs or taking them as collateral. While this may well be a factor, the rising market availability shown in Figure one suggests that there is significant supply and capacity already available that is not yet being put under any real stress. This indicates that while the opportunity appears to be there, it has yet to be taken up. The move from Citi is an important step and, if more follow, expect this to be a growing area in our ever-changing and developing market. **SLT**

ETFs have certainly been on the rise. Almost $5 trillion of global assets under management are now believed to be invested in ETF products

David Lewis
Senior vice president
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Lawson's view

Every silver lining

When I heard the rumour that one of my long-term industry friends had left his role in securities lending I was quite surprised. The story I am referring to is John Arnesen departing BNP Paribas Securities Services from his role as head of agency lending and technical sales, a role he had served in since November last year after a slight shuffle saw him move from head of securities lending agency product.

Although I am sad to see him leave, I look forward to what Arnesen's next move will be. And just for the record, the industry loves a good people move story—the news of Arnesen's departure now holds the record for the most viewed story on the Securities Lending Times website, previously held by Rory Zirpolo after he departed Credit Suisse and resurfaced at Kellner DiLeo and Company in late 2010.

In other news, Calypso Technologies has hired a new chief sales officer, AxiomSL has appointed a head of product operations for SaaS function and Malcolm Poes has left AustralianSuper.

I am currently sitting on another industry exit, coming out soon. If you have one to share email me at: ***justinlawson@securitieslendingtimes.com***

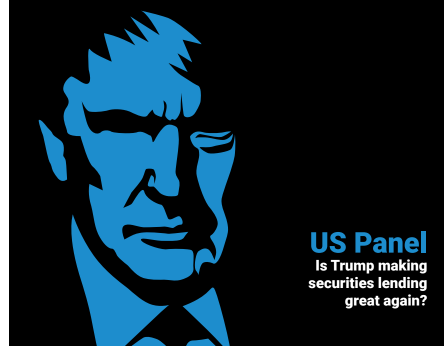
Technology Symposium

Securities finance is an essential part of financial markets. Much has changed in the 10 years since the global financial crisis, which cast a negative light on securities lending and brought the phrase 'shadow banking' to the forefront of regulator's minds.

Going forward, the securities financing industry remains strong and that is in part down to successful technology vendors, who have helped to tackle challenges that regulators and an evolving market landscape are presenting.

The Securities Lending Times Symposium will assess the future shape of the industry's new market infrastructure from distributed ledger technology to peer-to-peer, data to regulation, post-trade to artificial intelligence, and more.

This event offers a chance to consider how technology can assist in every step in the life cycle of a trade, making it a central topic for everyone going forward.



Trump or Ford?

In the last issue of SLT, I chose an image I liked for the front cover and talked the rest of the team into going with it. There was some concern that having US President Donald Trump on the front cover might upset some of our readers from many fine countries around the world, but I convinced them it was ok and it would be on me.

However, the number of people who thought it was Harrison Ford on the front cover has somewhat surprised me.

Recent travels

Last week, I attended IMN's Securities Finance & Collateral Conference, as well as the World Captive Conference, both in Fort Lauderdale. It was one of my more interesting conference trips to say the least.

It was great to be able to go along to World Captive Forum on the Wednesday, as it did not overlap with the IMN event, to update my captive insurance knowledge and take full advantage of the drinks reception, before going out with some securities lending clients later that evening.

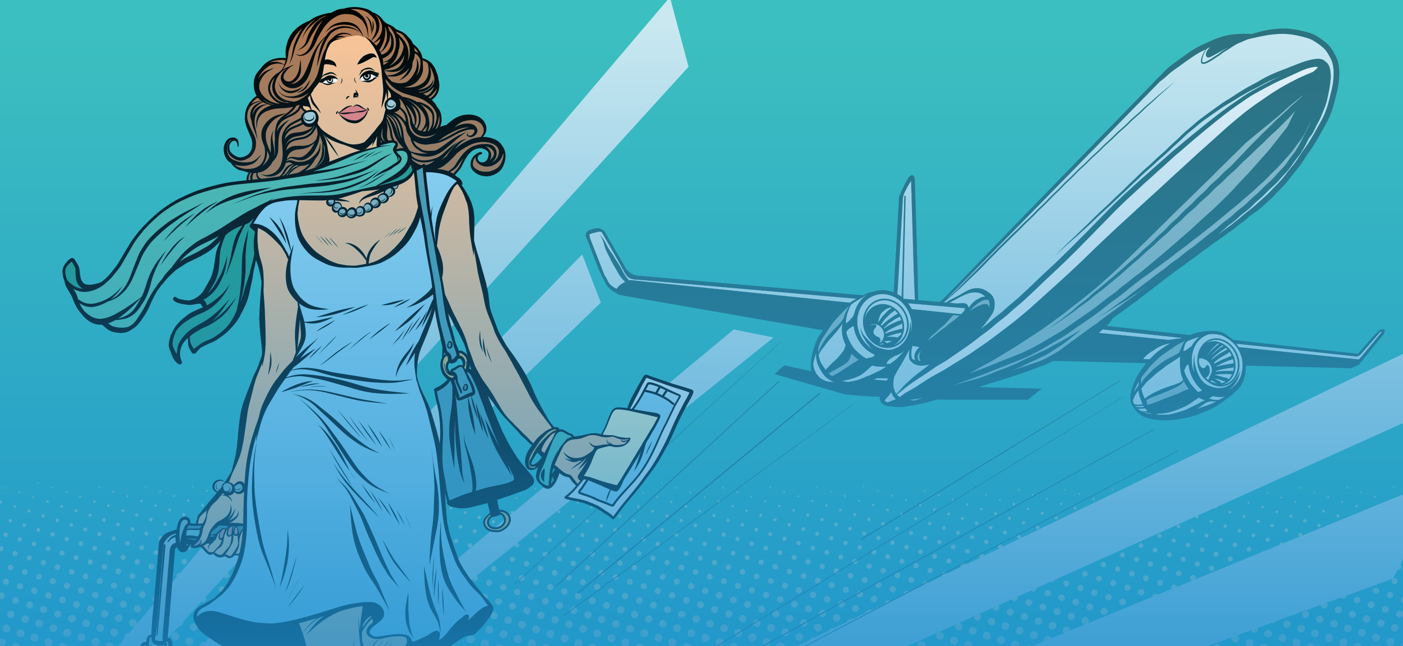
As many of you may know, I like a sensible intake of alcohol and have even been known to dance, albeit badly, but when getting into bed at 3.15 am the last thing I expected was a 6 am wake up call to take a colleague to the hospital. After taking a trip to the nearest hospital emergency room, and my colleague being treated for for Pharyngitis, the inflammation of the back of the throat (basically a sore throat), I was very tired!

However, the view of the fourth floor over the ocean at the IMN conference helped and there was not a single complaint about the choice of venue this year!

After attending this event for years, it has changed a lot, in some ways for the good, some not so. There were comments that it was a long day and that starting as early as 7.15am for the registration and the Women's Networking Roundtable Breakfast was just too early.

Panels such as the Industry Outlook: What to Expect in 2018, Best Practises for Collateral Management, Agent Lenders: Update & Outlook were well attended, while many appreciated that Len Lipton, managing director of GlobeTax, kept the final session on tax to a very succinct 15 minutes instead of the scheduled 45 minutes on the agenda.

However, a common consensus that two balanced days starting a little later would have perhaps been appreciated more. **SLT**



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The Securities Finance Technology Symposium will assess the future shape of the industry's new market infrastructure from DLT to P2P, data to regulation, post-trade to AI, and more.

This event offers a chance to consider how technology can assist in every step in the life cycle of a trade, making it a central topic for everyone going forward. Currently, the panels will focus on:

- **Data – the fuel for automation**
- **Regulation and reporting**
- **Collateral management and optimisation**
- **The collateral platform panel**
- **The post trade panel**
- **Future market structure**

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Comings and goings at BNP Paribas, Cowen, and Comyno

John Arnesen has departed BNP Paribas Securities Services from his role as head of agency lending and technical sales.

Arnesen, who joined BNP Paribas in 2011, focused on developing new business opportunities and client onboarding in Europe, the Middle East, and Africa (EMEA) and the Americas.

In November last year, Arnesen changed roles from head of securities lending agency product to his latest title.

Previously, Arnesen served as senior consultant at Data Explorers, as well as managing director of securities lending EMEA at The Bank of New York.

Comyno, the software and business consultancy, has appointed PwC´s Philipp Rothermich as senior consultant of regulation and strategy.

Rothermich will be responsible for the implementation of regulatory requirements both in Comyno's software and for its customers within its consulting mandates.

As a senior consultant at PwC, he was responsible for national and international regulatory projects.

Prior to PwC, Rothermich worked as an analyst at Merrill Lynch for the European delta one and financing department, where he gained experience in the securities lending and repo market.

Markus Buttner, CEO at Comyno, said of Rothermich's appointment: "Philipp Rothermich´s appointment underlines the growth strategy of Comyno in 2018 to fulfill increasing customer requirements."

Frank Becker, head of business development, commented: "Rothermich fits perfectly in our team, even stronger than before we´ll

combine financial markets technologies with regulatory environment and advice for our customers."

Cowen has appointed Michael Page as COO of its international business units Cowen Execution Services and Cowen International.

Reporting to John Holmes, Cowen's COO, Page will work directly with Cowen's management team to help facilitate the growth of the firm's international businesses.

Page has nearly 30 years of financial services experience. He previously served as managing director of equities at Jefferies where he was COO of its international securities finance business.

Prior to Jefferies, Page worked at Paloma Securities where he was the director of Paloma's London entity, he also held various securities finance operational roles while working at London Global Securities.

Commenting on Page's appointment, Holmes said: "Cowen is continuing to expand its international offerings and operations as the firm remains very strategic in its goal to offer diverse and innovative solutions to our clients."

He added: "Michael Page is a great addition to Cowen's European-based team as his background and experience will further strengthen our ability to provide operational excellence across Cowen's international channels."

Pankaj Gupta will join Synechron Business Consultancy team in the UK as managing director and head of UK-based business consulting.

In his new role, Gupta will be responsible to develop the profile of the business consulting team. He will also help to expand Synechron's market presence with global clients.

Based in London, he will report to Tony Clark, London managing director.

Previously, Gupta worked at Infosys Consulting for more than 10 years.

Prior to Infosys, Gupta held positions at Booz Allen and Arthur Andersen where he gained expertise on transaction advisory services, regulatory compliance, business architecture and operating models, business change enablement and digital/technology industrialisation.

Faisal Husain, co-founder and CEO of Synechron, said: "Pankaj Gupta has an impressive career working with banks to develop regulatory, compliance, and business operations and architectures that I am confident will help compliment that mission."

Gupta added: "Regulatory changes, enhanced digital capabilities and technology innovation are huge drivers for financial services firms, as they transform their business models in search of sustainable revenues and efficient cost structures."

"Synechron is well-positioned to provide inception-to-execution services in these unique times for our clients."

James Burron has left the Alternative Investment Management Association (AIMA) to set up an independent association, the Canadian Association of Alternative Strategies and Assets (CAASA).

Burron will be launching CAASA with Caroline Chow, a former AIMA associate who left the organisation in January with Burron.

Burron was COO at AIMA for more than six years.

Commenting on his new venture, Burron said: "Many contacts encouraged us to found a Canadian alternatives trade association. The response from the industry, both here and abroad, has been very favourable. We have more than 70 companies that are very interested in next steps and about two dozen who have committed to join. Our new organisation will be a Canadian not-for-profit trade association."

He added: "To be active across Canada as well as selectively in global centres, [CAASA's] mandate is to promote the Canadian alternatives — hedge, real estate, private lending— bringing the best of it to the world and vice versa."

"We are now establishing our infrastructure and polling those in industry to design CAASA's offering—we have a blank slate and input and support from those in Canada and elsewhere has been great. We would like to bring together folks in an inclusive framework to promote everyone's interests as well as that of the industry generally."

The financial data and services provider IHS Markit has hired Stuart Cornock as associate sales director.

In his new role, Cornock will direct Securities Financing Transactions Regulation (SFTR) and securities financing solutions.

Cornock will be based in IHS Markit's London headquarters.

Most recently, Cornock worked at Clearstream, where he spent 16 years, until August 2016.

At Clearstream, Cornock spent three years as a sales and relationship manager at the clearing house's Singapore office.

Cornock was responsible for overseeing the lending products in the Asia Pacific and the Middle East regions for three years.

He also oversaw the flow of the London securities lending desk at Clearstream for four years.

Cornock has also held position at HSBC at the beginning of his career. **SLT**