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A MODERN DAY HORROR STORY

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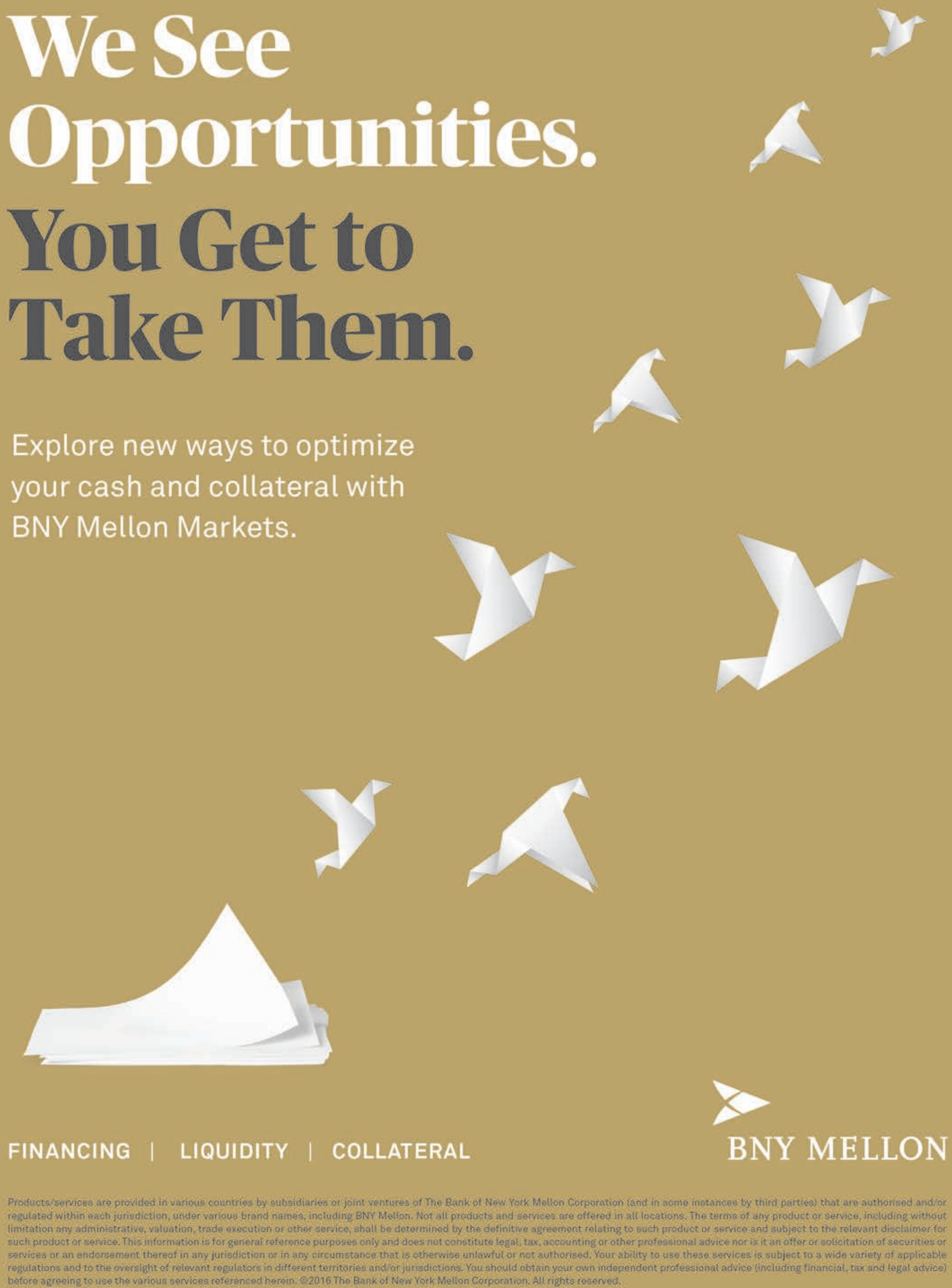
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Malaysia to liberalise short selling

Plans to liberalise short selling arrangements in Malaysia will be rolled out over the next few weeks, according to Tan Sri Ranjit Ajit Singh, executive chairman of the country's securities commission.

Speaking at the fifth World Capital Markets Symposium held in Kuala Lumpur on 6 February, Singh said: "Short selling arrangements have been in place locally for a number of years, and more recently we allowed intraday short selling by proprietary traders.Other market players have said they want to do it and we feel comfortable that there are now sufficient safeguards in place to allow it."

"But there must be a borrowing arrangement in place so that positions are covered by the end of the day. We do not allow naked short selling at all."

Singh hosted a press conference in the wake of his introductory speech to the symposium, which he described as a milestone event in attempts to nurture sustainable capitalism. In particular, he referred to a specially composed video address by His Royal Highness the Prince of Wales.

Other announcements unveiled in the course of the week, included the news that the Securities Commission and the Monetary Authority of Singapore will work together to facilitate the establishment of a stock market trading link between Bursa Malaysia and Singapore Exchange by the end of this year.

Singh described this as an important step towards encouraging the Association of Southeast Asian Nation (ASEAN) investors to invest in the region.

He explained: "The ease of accessibility for investors will contribute towards greater vibrancy in our markets. It can form the basis for future connectivity among ASEAN markets."

Prime Minister Najib Razak, keynote speaker at the symposium, explained that "after extensive discussions with the Securities Commission, I'm delighted to announce that intraday short selling will be allowed to all investors", among other measures.

He added that the introduction of intraday short selling to Malaysia is just one of the steps that have been taken "to ensure that [Malaysia does] indeed participate in a renaissance of capitalism and that [its] growth is shared by all".

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Cecabank becomes EquityClear's first spanish member

LCH's EquityClear has welcomed Cecabank as its first Spanish clearing member.

As part of the membership, Cecabank will benefit from EquityClear's access to 13 European equities trading venue, offering risk management across Spain and Europe.

According to LCH, the Spanish equities market has undergone significant change in recent years, with the Spanish Market Reform and Target2-Securities initiatives offering market participants opportunity to access secondary markets and clearing services across Europe.

Bruce Kellaway, global head of RepoClear, EquityClear and Collateral at LCH, said: "We're delighted to welcome Cecabank as our first Spanish member of EquityClear. Since launch, the service has seen significant growth in volumes, a trend that we anticipate to continue into 2018."

José Luis Rebollo, head of securities services at Cecabank, said: "The second Markets in Financial Instruments Directive has a wide reaching impact for market participants in Spain and across Europe."

"Joining LCH Limited as an EquityClear clearing member is an important step that enables us to clear for clients to assist them in complying with the regulations and allow them to trade on a variety of trading venues, while achieving the risk management and efficiency benefits associated with clearing."

NEX launches ISCI service

NEX Regulatory Reporting has launched its short code identifier service, the Industry Standard Common Identifier (ISCI).

The new ISCI will help market participants comply with the requirements of the second Markets in Financial Instruments Directive (MiFID II) while protecting the data of individuals.

As part of the MiFID II regulation, industry participants are to include the personal data of the decision maker and the client responsible for the execution of the transaction in their reports so they can be identified by the regulator.

It will also help meet future General Data Protection Regulation requirements, which come into effect from 25 May.

These require personal data to be kept in an identifiable format for no longer than necessary and anonymised if retained.

Collin Coleman, head of NEX Regulatory Reporting, said: "Providing a secure data repository for personal information that can be used by the entire market will reduce the data management and storage costs for all involved and ensure that the data has been validated to meet all regulatory standards. We're also enhancing data protection by investing in highly sophisticated data security."

DFM admits Al Ramz Capital as the first regulated short-selling provider

Al Ramz Capital has become the first member of the Dubai Financial Market (DFM) to be given a DFM accreditation to provide a regulated short selling (RSS) service to its client base.

The DFM launched the RSS service back in December after it was given approval by the Securities and Commodities Authority.

The RSS service enables investors to short-sell securities listed on DFM through selling borrowed shares with a commitment to return to the lender-based on the mutually signed agreement. Investors will be allowed to sell stocks that are not theirs to gain surplus if prices have dropped when trades are settled.

To implement RSS, the brokerage firm has to ensure that the borrowed securities are located on the client's account prior to placing a short selling order.

According to DFM, the move is part of DFM's efforts to provide market participants with new tools to strengthen their trading activities, better utilise their resources, and further enhance market liquidity.

The DFM has recently released a list of 19 securities eligible for trading as part of the RSS Service, based on the semi-annual review of January 2018.

Every six months, a list of potential DFM-listed securities will be reviewed in compliance with international recommendations—the list will also include exchange-traded funds.

Hassan Al Serkal, COO and head of operations division at DFM, said: "We are delighted to announce that Al Ramz Capital received the first of its kind license to provide the RSS service. The company is amongst the leading brokerage firms that rapidly embrace DFM's development initiatives providing diversified and advanced services to our market participants."

Ayman Ghoneim, COO of Al-Ramz Capital, commented: "Short selling aims to increase the level of liquidity and will contribute to increasing volumes and trading values. This mechanism will create a buyer at each point, which will result in enhancing investment opportunities and creating better risk management environment and the possibility of making profits from stock markets in the event of a downturn."

Family Bank introduces AcumenNet for its treasury operations

Family Bank in Kenya has implemented Profile Software's AcumenNet solution for its treasury and risk management operations.

The solution covers financial products, such as middle market, foreign exchange

(FX), securities, repos, customer loans and deposits. AcumenNet's capabilities include straight through processing (STP) with real time interfaces.

AcumenNet also has a complete view of the exact FX position, making sure intraday and overnight limits are under control.

According to Family Bank, these capabilities will keep customers updated with the latest developments and trends in the local and global financial markets.

It will also support the treasury department's growing operations, as well as safeguarding the business from counterparty risk, by utilising the tools available to manage deriving risks.

The AcumenNet treasury solution was developed by Login SA.

Roseanne Wanjiru Ndungu, head of treasury, said: "Our treasury department requirements are pretty demanding. Our key reason for selecting AcumenNet was the flexibility, automation and easy integration it provides to our operations to manage a huge number of transactions in real-time and with ease."

She added: "The risk management functionality will also allow the bank to monitor and manage possible scenarios that will ensure compliance and proactive control to the business."

GLEIF and SWIFT launch open source BIC-to-LEI relationship file

The Global Legal Entity Identifier Foundation (GLEIF) has published the first monthly relationship file that matches a business identifier code (BIC) assigned to an organisation against its legal entity identifier (LEI).

As part of the launch, GLEIF and SWIFT have pioneered a cooperation model, which enables market participants to link and cross-reference these key entity identifiers free of charge for the first time.

Stephan Wolf, GLEIF CEO, said: "Entity identification can be a time-consuming, costly and complex task. Relevant information is often stored in disparate internal and external systems and tagged under different client ID numbers."

"The open source BIC-to-LEI relationship file is an important step towards consolidating information. This will significantly reduce the cost associated with entity verification to date."

The BIC-to-LEI relationship file is built upon a mapping process established by SWIFT and certified by GLEIF. It is published on the GLEIF website in CSV format and will be updated on a monthly basis. GLEIF explained that as of February this year, more than one million LEIs have been issued to legal entities globally.

Of the approximate 130,000 BICs assigned to date, currently, some 45,000 pertain to organisations that are legal entities or foreign

ESMA to increase transparency of trades in 2018

The European Securities Markets Authority (ESMA) aims to implement its new direct supervisory mandate this year, in line with the Securities Financing Transactions Regulation (SFTR), to increase the transparency of securities lending, among other securities financing transactions.

In its 2017 Annual Report and 2018 Work Programme, ESMA outlined rules for common issues across trade repositories (TRs) and credit rating agency (CRAs), as well as its plan to monitor the impact of Brexit and central counterparties (CCPs).

ESMA also aims to increase clarity of repurchase agreements, sell- and buy-back transactions and margin lending. This meets the compliance of SFTR, which requires both financial and non-financial market participants to report details of securities financing transactions to a trade repository registered or recognised by ESMA.

ESMA stated: "These details will include the relevant terms of the securities financing transactions (SFTs), the composition and characteristics of the collateral, the information on margins for cleared SFTs as well as the information on the reuse of collateral, cash reinvestment and funding sources."

The SFTR implementing measures are expected to come into force during H1 2018.

ESMA also concentrated on third-country (TC) (non-European) CCPs and explained that in 2018, it would monitor the potential risks TC-CCPs might introduce in the EU, and the impacts of Brexit on the TC-CCP regime.

Elsewhere in the report, ESMA said it will examine the common issues across TRs and CRAs, including issues relating to their internal control framework, cloud computing and guidelines for periodic information. It will also examine how CRA's and TR's will be affected by Brexit.

ESMA stated it has "continued the work that it started in 2016 on the implications of Brexit [and] made it clear to the supervised entities that the post-Brexit structure of TRs and CRAs must be as strong as the pre-Brexit structure".

The authority also ensured that during 2018, ESMA will "continue to monitor the implementation of the Brexit plans of the supervised entities".

It added: "ESMA expects to dedicate significant resources to Brexit, which includes the assessment of contingency plans and proposed material changes to supervised entities' structures."

branches and therefore qualify for mapping against LEIs.

GLEIF suggested that the availability of the relationship file will ease the process of gathering, aggregating and reconciling counterparty information based on interoperability across parallel ID platforms.

It said that this is particularly relevant to service providers active in the payments and over-the-counter (OTC) derivatives markets concerned with client relationship management, or due diligence relevant to know-your-customer and know-your-supplier requirements.

The BIC (ISO 9362) is an international standard developed by the International Organization for Standardization (ISO) for the identification of institutions within the financial services industry. SWIFT is the registration authority for the BIC standard appointed by the ISO. It receives BIC registration requests, assigns a BIC and publishes the related BIC data record.

The LEI is a 20-digit, alpha-numeric code-based on the ISO 17442 standard. It enables clear and unique identification of legal entities engaging in financial transactions. Each LEI contains information about an entity's ownership structure to answer the questions of 'who is who' and 'who owns whom' among market participants.

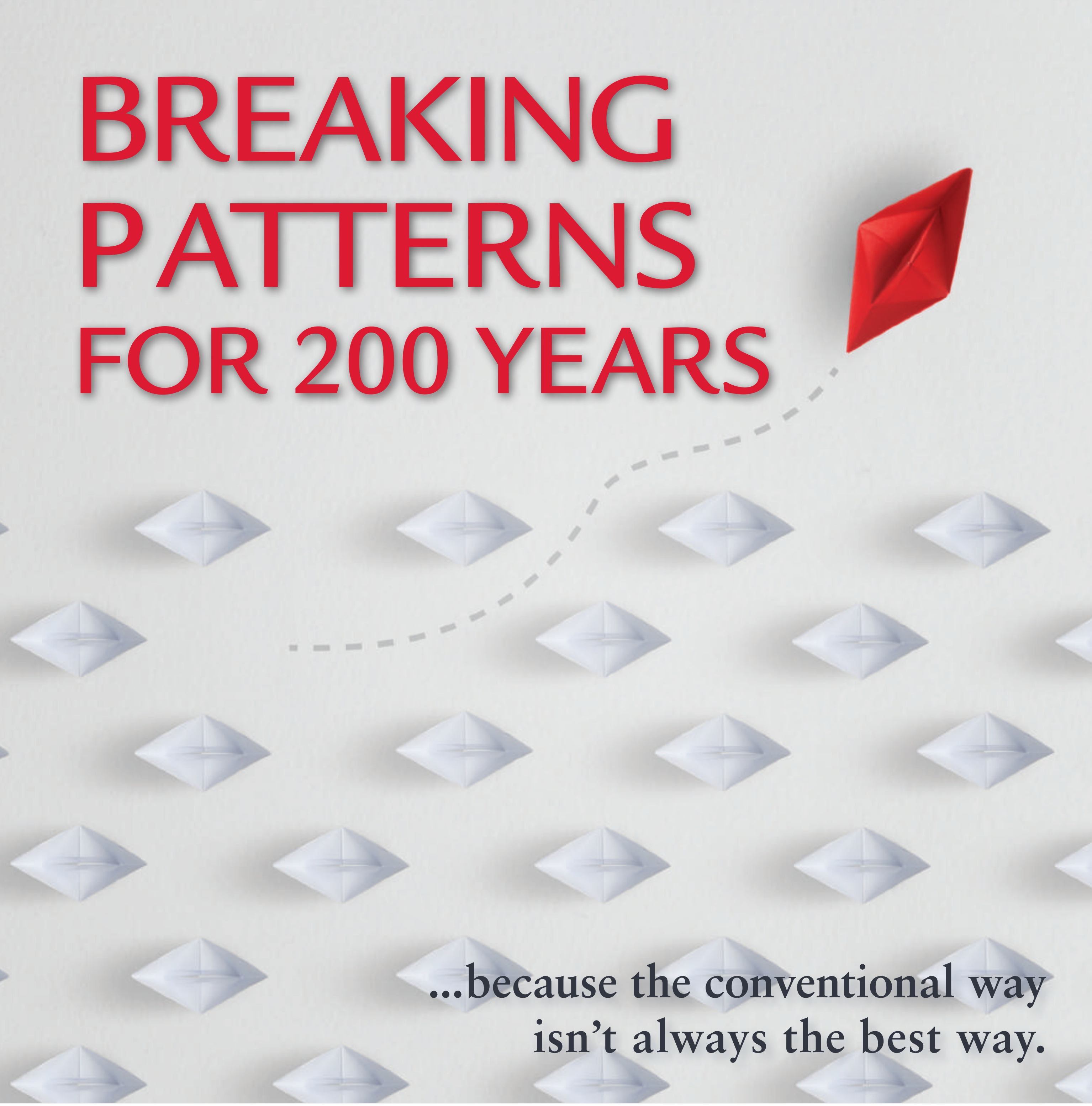
GLEIF explained it ensures free access to the complete LEI data pool with the Global LEI Index.

It added that this is the only global online source that provides open, standardised and high-quality legal entity reference data.

In addition, offers its certification of LEI mapping service to interested data vendors and other organisations to ensure that the LEI is appropriately matched to the applicable identifier.

NGT sees record number of securities finance trades in one day

EquiLend has found that 45,469 securities finance trades were made through its Next Generation Trading (NGT) service on the 7 February 2018.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...because the conventional way
isn't always the best way.

As of 7 February, there was $43.9 billion notional in total.

According to EquiLend, this was due to widespread industry adoption and recent market volatility.

NGT, which is a trading platform for the securities finance marketplace, leverages EquiLend's existing trading venues and messaging capabilities.

ESMA releases new answers on CSDR

The European Securities and Markets Authority (ESMA) has updated its Q&A on the implementation of Central Securities Depository Regulation (CSDR).

CSDR, which entered into force on 17 September 2014, will soon pose particular challenges to the securities financing market as it includes fines for settlement failure on transactions and mandatory buy-ins.

The International Securities Lending Association and other industry bodies are working with regulators to minimise the potential damage such a rule could cause to market liquidity and trading volumes.

Among the new questions was: "Should a central securities depository (CSD) intending to provide data reporting services ...as ancillary services comply with the relevant requirements set out in the second Markets in Financial Instruments Directive (MIFID II)?"

ESMA stated that the general comment regarding this was: "Yes, a CSD intending to provide data reporting services (listed in Section D of Annex I to MIFID II) should comply with the relevant requirements set out in MIFID II."

In terms of organisational requirements, ESMA asked respondents: "Could a CSD share its risk monitoring committees with other entities of the same group?"

The general consensus to this was that each CSD should have its own risk monitoring committees.

ESMA also asked correspondents: "Does Target2-Securities (T2S) qualify as a critical service provider within the meaning of Article 68 of the regulatory technical standards on CSD requirements?" To which the general feeling was "no. When [T2S firms] outsource some of their services or activities to a public entity, the framework has been jointly agreed and formalised by the public entity and the relevant CSD".

ESMA added that it has also been "agreed by the competent authorities on the basis of the requirements established in the CSDR".

ESMA stated the purpose of the Q&A, and it's recent additions, is to "promote common supervisory approaches and practices in the application of CSDR".

It provides responses to questions posed by the general public, market participants and national competent authorities in relation to the practical application of CSDR to ensure that their supervisory activities and actions meet ESMA requirements.

Central banks returning to securities lending, says BNY Mellon survey

Growing interest in securities financing from traditionally 'buy-and-hold' investment institutions is being driven by a more thorough search for yield in a low-rate, low-returns investment climate encourages, along with regulatory demands for liquidity, according to a BNY Mellon survey.

Currently, a third of central banks are involved in securities lending activity, with an additional small percentage expressing interest or acknowledging pressure to start or increase programmes. Of the central banks that engage in lending, the majority do so on a bilateral basis in the repo market with a preference for a conservative collateral set.

Some 61 percent of the central banks' respondents confirmed that they actively participate in the repo markets, while 39 percent of them invest in time deposits.There is also some overlap between the two groups.

In its report on the industry survey, BNY Mellon stated: "Although some central banks can be regarded as champions of securities lending, particularly among those with a large pool of lendable securities, approaches to the market are as varied as the central banking sector itself."

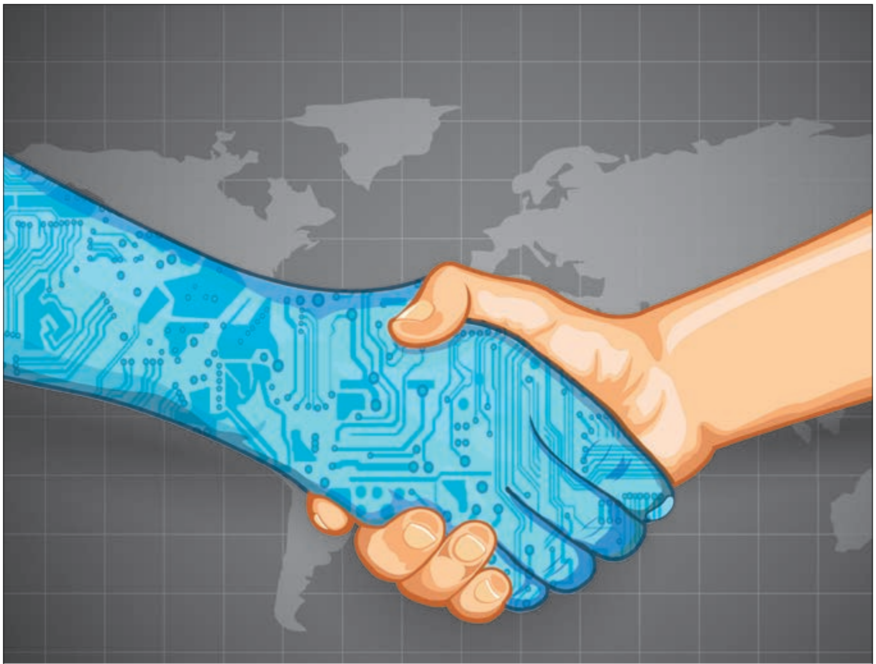
BNY Mellon explained that central banks' quantitative easing programmes may be a primary factor in their return to the securities lending space.

The programmes have seen European and other central banks support asset prices by purchasing debt securities, including investment-grade bonds, then recycling them to the market through securities lending programmes.

Revenues available from lending securities are also becoming more attractive as other earnings decline, according to the report, which was conducted in the collaboration of University of Cambridge, Judge Business School.

The report highlighted that central banks, alongside other long-term investors, limited their activity levels in the aftermath of the financial crisis, first due to the impact of restrictions on short-selling and then in response to reduced demand from borrowers.

Post-crisis regulatory demands for collateral and margin requirements are also playing a part in the renewed interest in securities lending, according to BNY Mellon's survey.



NEX partners with Delta Capita

NEX Regulatory Reporting has partnered with Delta Capita, a business and technology consulting provider, to offer specialist advice to clients ahead of the Securities Financing Transactions Regulation (SFTR) implementation.

Delta Capita's securities finance and collateral management practice will work alongside the NEX solution to advise clients on the specific data requirements for securities finance transactions.

According to NEX, the partnership will combine Delta Capita and NEX 's compliance, technology and industry knowledge to meet the specific needs of the securities lending and repo markets in preparation for the SFTR implementation.

The partnership comes after NEX Regulatory Reporting announced its intention to become an SFTR trade repository and launch a reporting solution, pending the issuance of the final technical standards from The European Securities Markets Authority.

The trade depository will also leverage the existing regulatory reporting technology for the European Market Infrastructure Regulation, the second Markets in Financial Instruments Directive and other international regimes to meet the complex requirements of SFTR.

Collin Coleman, head of NEX, said: "SFTR will require clients to report an unprecedented level of data given that many securities and finance transactions have significant durations, complex lifecycle events and diverse collateral options."

He added: "Delta Capita is the ideal partner for NEX as their deep understanding of securities finance and collateral management processes and technology will support the development of our cloud-based reporting solution and aid client onboarding."

Jonathan Adams, head of securities finance and collateral management practice at Delta Capita, commented: "A natural extension of the regulatory support we currently provide to our clients, we're pleased to partner with NEX Regulatory Reporting to help clients comply with the impending regulation but also to explore how SFTR data can be utilised for business advantage."

ESMA updates short selling rulebook

The European Securities and Markets Authority (ESMA) has updated its rulebook on short selling regulation.

Initially, ESMA stated that claims to shares, such as subscription rights and convertible bonds may only cover a short sale if the availability of the new shares for settlement by the arrangement is ensured when settlement is due.

Essentially meaning the concerned rights or convertible bonds can be converted into shares that would be available in time for ensuring the settlement.

As of 5 February, ESMA requires that those same rights to subscribe for new shares cannot be used to cover a short sale.

This is in accordance with the European Commission's Article 5(1)(e) which states, "at the time of entering into the short sale, there is uncertainty as to whether the new shares subscribed for will be available for settlement in due time".

ESMA stated that these rules would apply where there may be capital increase variations across each EU member state, or whether it is not ascertained that the new shares resulting from the capital increase are fungible with the existing shares sold short.

The European authority also clarified that other concessions would be made where there is uncertainty as to whether a sufficient number of new shares will be allocated to the subscriber that undertakes the short sale of the existing shares.

ESMA also dictated that the delivery of the new shares in accordance with the applicable national law in the context of the concerned capital increase cannot be effective before or on the date of settlement of the short sale of the existing shares.

Got a story we should cover? Get in contact: beckybutcher@blackknightmedialtd.com

Wematch goes live in Asia

Wematch.SecuritiesFinancing has expanded into Asia and completed its first trade with Hong Kong users involving Japanese equities.

The trade, which involved Bank of America Merrill Lynch and an undisclosed counterparty, was a total return swap and completed on the platform's first day of trading in the new region.

The digital broker has gone from strength to strength since it first launched in February, with the inclusion of its first two lenders in October last year.

Wematch initially launched 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 list of available asset classes.

David Raccat, CEO of Wematch, said: "We are very eager in supporting our clients' needs in Asia and quite impressed with the immediate traction in this exciting region."

"Our credentials keep on increasing, as we have broken the threshold of 1,000 interests in the platform on 9 November."

"We are still working on multiple initiatives to cope with the specificities of the securities financing industry and with the permanent objective to increase liquidity and transparency."

Shenzhen Stock Exchange expands shorting lists

The Shenzhen Stock Exchange (SZSE) has increased the number of underlying stocks available for margin trading and short selling.

Two China Connect securities have been added to the list of eligible SZSE securities for margin trading and short selling, while one China Connect security exits the lists.

As of 8 January, the total number of available stocks went up to 389.

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.

Eurex revamps corporate structure

Eurex, the Frankfurt-based derivatives marketplace, 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

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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 "allows 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 at the same time, 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."

Asian banks systemic risk on the rise

The systemic importance of Asian banks on the global stage has increased for the second consecutive year, according to the Office of Financial Research (OFR).

The OFR indicated with its latest data report on global systemically important banks (G-SIBs) that the scores of Bank of China and China Construction Bank in particular, "rose enough to put them in a higher capital bucket because of their increased interconnectedness and complexity".

According to the OFR, the systemic importance scores for three Japanese G-SIBs increased even more than the score of the Bank of China.

The OFR noted that these banks will not see their capital requirements change, because they did not move to different 'buckets'.

National authorities, such as the US Federal Reserve, use these groupings to determine how much more capital each bank must hold.

The report utilised data updated Basel Committee on Banking Supervision (BCBS) last November, which showed that US banks' systemic footprint still dominated the global totals.

The OFR used the BCBS's data to update its G-SIBs scores interactive chart.

For North America, JPMorgan Chase had the strongest G-SIB scores from 2014 to 2016.

OFR reported that shifts in most G-SIBs' systemic importance scores "did not see much change, though Citigroup's score and capital requirement decreased from 2016 because the bank rated as less interconnected and complex".

The three largest US bank holding companies by total assets and exposures are JPMorgan Chase, Bank of America and Wells Fargo, respectfully.

OFR stated: "For US non-G-SIB banks, the data continues to support the use of systemic importance metrics rather than asset size alone to set thresholds for heightened regulation."

Elsewhere, Royal Bank of Canada was added; it is the first Canadian bank to be designated as a G-SIB, France's Groupe BPCE was dropped from the list.

OFR said that its analysis "further highlights the value of considering multiple systemic indicators, not just size."

The OFR explained that though JPMorgan Chase ranked first or second in most comparative data, its SRISK, a market-based systemic risk measure, "was negligible".

Hong Kong's SFC revamps securities lending safeguards

The Securities and Futures Commission (SFC) of Hong Kong has proposed additional safeguards on the use of securities lending, repo and derivatives transactions in a new consultation.

The UT Code also introduced new chapters for exchange-traded funds to facilitate the development of new products.

The SFC said its three-month consultation, which began in December and runs until 19 March, on its code for unit trusts and mutual funds (UT Code), was launched to "ensure that regulations in Hong Kong are aligned with international requirements and those of major overseas markets".

In terms of securities lending and investments, an additional SFC safeguard looks to promote an overall limit of 50 percent on the use of derivatives for investment purposes by public funds, if approved by those questioned.

The SFC said: "This is an effort to allow flexibility in the deployment of investment objectives and strategies to deliver value to investors."

Unit trusts and mutual funds account for a large portion of the financial products authorised by the SFC for offerings to the Hong Kong public as collective investment schemes.

The proposals aim to ensure that the regulatory regime for SFC-authorised funds is up-to-date, by appropriately addressing the opportunities and risks presented by financial innovation and market development.

The consultation also included the proposal to increase the minimum capital requirement for management companies to HKD 10 million in an effort to provide more flexibility and strengthen requirements for management companies, trustees and custodians.

The SFC has proposed to provide more flexibility to allow management companies with multinational presence to leverage group resources in meeting the five-year public fund investment management experience requirement. **SLT**

Embracing the future

Dane Fannin and Thomas Poppey, PASLA/RMA conference co-chairs, talk developments in Asia and what to expect from this year's conference

Becky Butcher reports

What was the biggest development in your region in 2017?

Dane Fannin: Given the plethora of active markets we have in Asia, no one item stands out on its own. What 2017 did show us was that each market continues to evolve. A few developments that caught the attention of the Pan Asia Securities Lending Association's (PASLA) members and the executive committee were:

- The Philippine Stock Exchange looked to the market for input into their pending introduction of short-selling and may consider revisiting their securities borrowing and lending (SBL) framework
- Korea made changes to their short-selling rules, specifically focusing on tighter controls over 'overheated' securities
- The Securities and Exchange Board of India is revising its Indian SBL framework as their ongoing initiatives look to encourage more onshore liquidity to its marketplace
- The Hong Kong Exchanges and Clearing continues to look at their delisting framework, which PASLA has taken an active interest in
- Taiwan amended criteria for eligible securities that can participate in SBL, certain other rules governing SBL rollovers and short-sell daily controls were positively eased
- Malaysia added infrastructure for Shariah-compliant sell and buying for domestic managers, as well as amending uptick rules and adding a fails coverage facilitation model, which was encouraging
- We have also seen the planning for shortening settlement cycles by Japan and Thailand, which will have certain unintended consequences for the onshore and offshore participants who lend/borrow in those respective markets

What effect did this have on Asia last year?

Fannin: We are seeing more regulators and exchanges re-visiting and tweaking their current regulations to make them more viable and commercial. PASLA has visited several regional regulators and exchanges in ongoing discussions to either clarify certain rules and regulations or suggesting amendments to existing frameworks.

None of the 2017 developments in themselves necessarily had a direct impact on flows around the region. However, large factors for Asian equities were mixed-market volumes and lower spreads, seen similarly in other regions.

The speed of execution is becoming more important than ever, as global regulations impact participants in different ways and for similar reasons, fixed income had positive trends in terms of volume of activity—especially if global high-quality liquid assets (HQLA) could be sourced in the Asia Pacific time-zone that could facilitate balance sheet efficiencies or provide additional pools of collateral.

Also, education of evolving rules is important to understand the intended and unintended consequences of any change to a local markets' rules/regulations.

Of all the global forces affecting Asia, which are the most pertinent this year?

Thomas Poppey: Asia continues to present a great opportunity for growth due to the steady expansion of locally-domiciled investment products and the continued emergence of securities lending as an important element of strong capital markets. The desire to unlock new areas of revenue is particularly present in Asia and will continue to be so in 2018. Another trend will be a focus on greater business transparency, both in terms of the regulatory mandate as well as a growing demand by beneficial owners. The need for more information is only increasing as the ease by which investors can consume data and produce insightful analytics grows.

How are these factors represented in this year's agenda? And what topics are you looking forward to hearing about at the conference?

Poppey: The conference planning committee has focused on ensuring the business programme reflects both global themes as well as regional considerations. Many of the panels in fact focus on driving new commercial opportunities such as the future of China and its impact on Hong Kong along with a discussion on the key attributes that contribute towards a successful lending market. Of course, no discussion on lending is complete without considering the real impacts of changing regulation or balancing the need to manage return within acceptable risk parameters, both of which I anticipate will be spirited discussions.

Like many capital market businesses, the potential for change in light of innovative technologies is ever present in our industry. I particularly look forward to the panel discussion on the disruptive path of financial technology, or 'fintech'. There are many examples where technology has reduced risk and improved the scale of our industry, such as post-trade comparison services and the growth of automated trade execution, but the potential introduction of artificial intelligence and machine learning represent unexplored areas of

impact. The planning committee has also identified two great, and very different, keynote speakers that should offer unique insights.

Why did you decide to organise the conference in Hong Kong? And how has its securities lending market developed in the past 12 months?

Poppey: Hong Kong is a natural choice of venue given its high concentration of industry participants from beneficial owners to agent lenders, borrowers and ultimately end users of borrowed securities. The country enjoys standing as a vibrant and key lending market in the region. And of course, Hong Kong is an important capital market with a view into the second largest economy in the world.

What were PASLA's biggest challenges last year and how did the association face them?

Fannin: One of our primary goals is the continuation of education to remove any evolving or remaining misunderstandings surrounding securities lending, especially as market sentiment changes. I think it's fair to say that market participants in this region are not as well informed across the region given the number of nuances that exist across the nine open, two restricted and two actively developing markets that exist in Asia today.

It is key for regulators, authorities and exchanges to strike a balance between their desire to protect and serve local investors and the need for additional liquidity that can be provided by international participants.

In early 2017, PASLA introduced market groups for which different executive committee members took responsibility. Where appropriate, members outside of the executive committee have added their expertise.

This has widened the resources available to PASLA and contributed to a more active association. This will be discussed in more detail at the 15th Annual PASLA/RMA conference.

Can you name a market driver in Asia that industry players must be aware of this year?

Fannin: In addition to the obvious regulatory drivers, including the second Markets in Financial Instruments Directive (MiFID II) and Securities Financing Transactions Regulation (SFTR) that many are positioning themselves for, one of the really positive announcements that came in 2017 was the fact that the Morgan Stanley Capital International Emerging Markets Index began adding China A shares to its constituent weightings from last June. While this has no direct consequence for lending Chinese securities, the additional wave of investment into local securities will naturally add pressure to the capital markets to look for ways to deploy products around the additional liquidity. One thing is certain: China will continue to develop as demonstrated by the progress of Hong Kong Connect. Investors need to be patient and watchful.

What will be the top securities lending trend this year?

Fannin: Fixed income flows are set to continue especially with 10-year US Treasury yield climbing to the highest level in more than nine months, a looming glut of bond supply from the US, the UK, Japan and Germany coincided with a surprise cut in purchases of long-dated Japanese government bonds by the Bank of Japan. Facilitating such flows from Asia (the start of the global day) will continue to be important.

Technology just cannot be ignored this year given institutions' insatiable pursuit for greater efficiencies. Whether it is by automating certain aspects of trading, the speed of execution, middle-office outsourcing or via the aggregation of data—technology will no doubt take this business to many new states of evolution in 2018 and beyond.

Poppey: The Asian securities lending market has experienced notable growth in recent years, and we should see the trend of increasing returns from the region continue this year, providing additional alpha for investors globally. I would also expect the growth of Asia-domiciled investment products to increase due to positive capital flows, particularly from the US, and demand from local, regional investors to achieve greater returns. **SLT**

Dane Fannin
PASLA 2018
Conference co-chair

Thomas Poppey
PASLA 2018
Conference co-chair

SFTR: the real looming effect

Although MiFID II has had no immediate effects on the securities lending market, industry participants suggest that the real looming effect of MiFID II will come in the form of SFTR

Brian Bollen reports

The second Markets in Financial Instruments Directive (MiFID II) has had no immediate overwhelming effect upon the securities lending market. However, the effect is looming in H1 2019, when the Securities Finance Transaction Reporting (SFTR) kicks in, under the auspices of the European Securities and Markets Authority (ESMA).

This is evident from conversations undertaken with a range of market players. A spokesperson for Societe Generale prime brokerage, for example, points out in some detail that under MiFID II/Markets in Financial Instruments Regulation, Securities Financing Transactions (SFTs) are subject only to some of the MiFID II provisions. Transaction reporting does not apply to SFTs except when traded with a bank from the European System of Central Banks (ESCB) and from the day SFTR starts—currently scheduled around Q2 2019.

SFTs are excluded from requirements relating to pre- and post-trade transparency under article 1.5a of MiFIR: 5a. Title II and Title III, shall not apply to securities financing transactions as defined in point (11) of Article 3 of Regulation (EU) 2015/2365 of the European Parliament and the Council (1).

The spokesperson from Societe Generale adds: "As far as market prices are concerned, we have seen nothing significant. It is best described as a non-event."

Andy Dyson, CEO at the International Securities Lending Association (ISLA), suggests that there is no doubt that SFTR is a bigger deal than MiFID II, even if its exact details on transparency and reporting obligations are taking longer than expected to materialise.

Agreeing with Dyson, Jamila Jeffcoate, head of securities lending agency at State Street Global Markets Europe, the Middle East and Africa, explains that there has been little impact on day-to-day trading or relationship management services post-MiFID II implementation. The impact has been on what she describes as the significant amount of working hours dedicated to the regulation.

Firstly, interpreting the guidelines and their relevance for securities lending, and then providing clients with necessary information and disclosures. Secondly, establishing controls and procedures to meet the 3 January deadline resulted in an end-of-year push that consumed resources across the business.

Jeffcoate suggests: "It has taken enormous time and energy but of-course we had no option but to be compliant."

Securities lending fits into the MiFID II environment in the way that a square peg fits into a round hole, according to Jeffcoate. Regarding the rules around trade confirmations, for lenders and borrowers alike, MiFID II has generated paper in great volume but to little or no real effect.

She adds that the real looming effects of MiFID II for the securities lending industry will come in the form of SFTR.

Jeffcoate says: "Under SFTR all securities lending transactions are required to be reported on trade day plus one to a trade repository, all within a new framework of transparency and disclosure."

"This is a significant undertaking for both sides of the trade with both lender and borrower required to report."

Dyson also emphasises that the cost of compliance is not cheap.

The new arrangements will inevitably increase costs, and those costs will have to be covered one way or another. This could be achieved by increasing fees or reducing fee rebates (two sides of the same coin), by changing the locus of lending and borrowing activity, or by client withdrawal from the product. If the cost of compliance renders securities lending uneconomic, marginal players could in effect find themselves being pushed out of the market. If this happens, it will have implications for liquidity. Dyson explains: "That worries us a bit."

Jeffcoate adds: "This is a European directive that impacts European legal entities or EU branches of non-EU entities."

"Where one side of the SFT meets this criteria, that transaction must be reported with a subsequent cost. In response, borrowers will be forced to be more selective in their choice of the lending counterparty."

Dyson calculates that around 60 percent of outstanding loans in Europe come from lenders not in Europe. If institutions in Asia and North America are required to comply with legislation outside their domicile they might decide not to lend to Europe, he adds.

He explains: "We support transparency 100 percent and believe there should be full and appropriate regulation, but we need to create value for institutional investors."

"The North American regime has a lighter touch in terms of regulation and we see a potential change in the strategic thinking of institutional investors. European securities lending could go elsewhere or just stop. I don't want to be over-alarmist, but that is a possibility."

This is one of the contributory factors to development that Jeffcoate describes as 'smart bucketing'. The concept of 'smart bucketing' could enable borrowers to source stock from groups of beneficial owners that share the same profile or characteristics, such as legal entity structure, domicile, collateral flexibility and tenor.

"If lenders can segment availability in this way it enables borrowers to make more informed decisions about pricing based on capital and credit exposure, as well as SFTR impact," according to Jeffcoate.

"There is no doubt that SFTR will lead to a change in the traditional agency lender operating model. Although some agent lenders can offer this level of transparency today, the majority of US lenders operate under a 'queue' system that bulks beneficial owner supply into the loan transaction based on a fairness algorithm. A move to smart bucketing throws the queue principal on its head as it would introduce a new allocation methodology."

Mark Jones, head of international product management, securities lending at Northern Trust, also weighed in. Some of his musings echo those of his peer group; some do not. Jones suggests: "From our perspective as an agent lender MiFID II has had an impact, although not to the same level of magnitude as for other product lines."

He adds: "Our main challenge has been interpreting the regulation as it pertains to our product and in particular an agent securities lending programme. While the requirements are fairly obvious when applied to products such as brokerage or foreign exchange (FX), for example best execution, applying them to an agency programme and the way they are structured has been slightly more problematic and required more interpretation in a number of 'grey' areas."

"The exemption of the majority of SFTs from transaction reporting under MiFID II is the main difference between our product and others, though it is worth noting that the SFTR regime, which will capture the majority of our activity is edging ever closer."

"We have not seen any major impacts in market activity since MiFID II came into force. The main areas of impact in the securities lending market have been between service providers and their underlying clients. With one of the focus points of the directive being to increase transparency and to provide a clearer representation of costs and charges to clients, there has been a flurry of communication between providers and their client base including various consents and disclosures being exchanged."

"Additionally, there are new ongoing reporting obligations that must be met such as the disclosure of trading venues. While we haven't seen any impacts to aspects such as supply or pricing, we are only a month in and other impacts may filter through in time. That said, we are not expecting a wholesale change in market activity."

"Beneficial owners may be seeing more information from their agents, although I think that historically we have been strong in this area and MiFID II has not required significant change," he continues. "I don't necessarily expect MiFID II to be a driving factor in whether investors choose to lend or not, if anything, the focus on transparency could encourage beneficial owners as they gain a better understanding of the service from the information made available to them."

Mixed up in all of the above is, inevitably, Brexit. Which brings us to the kind of irony that has long characterised Britain's membership of the EU. While the UK's attitude to the EU has often been one of deep suspicion since accession in 1973, the country is paradoxically renowned for its practice of 'gold plating' EU-inspired legislation, going further in the implementation of directives than the non-elected bureaucrats who dreamed them up could ever have hoped for. Compare the near-Arctic temperature in any UK supermarkets chilled food section with that in any EU counterpart for easy reference.

Dyson explains: "The UK's is possibly the best-prepared regime for MiFID II. And we are leaving." **SLT**

The future of securities lending in Hong Kong

Roy Zimmerhansl of HSBC discusses how the future is looking for securities lending in Hong Kong and what lies in store for 2018

Jenna Lomax reports

As head of securities lending for HSBC, what does your role involve?

I run securities lending for the agency side of the business for clients of HSBC Securities Services. That's custody clients that are lending and clients that we're lending for that are not using HSBC as a custodian. I am responsible for the delivery, product enhancement, trading, sales and relationship management.

The Securities and Futures Commission (SFC) of Hong Kong proposed additional safeguards on the use of securities lending, repo and derivatives transactions in January. What will this mean for Hong Kong's securities lending programmes going forward?

They're in a consultation period. HSBC, as a securities services provider, and the Pan Asia Securities Lending Association (PASLA) as the industry association, are both looking at what the SFC has asked and proposed. They're trying to promote increased transparency.

In terms of questions, they just want to make certain that they have best practice aligned with other markets, whether it's collateralisation processes or the right assessment to check whether securities lending is an appropriate activity for each potential lender. They've also asked for general feedback regarding indemnifications which has been a hot topic.

They are essentially trying to put an infrastructure in place that will help continue to promote the growth of investment management activity because Hong Kong is such a big hub. We want to make certain that everything is fit for purpose and there's an infrastructure here that allows the business to grow, while maintaining prudent safeguards.

Hong Kong has been a key financial hub in Asia for a long time, but other markets are beginning to develop their own bases. Does this threaten Hong Kong's status as the primary base for international entities or do you welcome the diversity?

From a securities lending point of view, irrespective of where people are located, you always have a global approach anyway. Actual desk locations don't influence the international impact of it. Most market participants have representation in Hong Kong and that is likely to continue irrespective of whether firms make moves in other locations.

What may have a larger impact in the coming years is whether any of the banks relocate their legal entity for booking transactions. Right now, US loans get booked in to the legal entities in the US and non-US loans typically get booked to the European entity of the firm, whether that's London, Dublin, Paris, Frankfurt and Zurich.

We expect to see some firms add locations as legal booking entities based on the cost of capital, balance sheet usage and regulatory requirements. That's more likely to influence change in terms of the location of trading desks. But that's not a trend as such, rather it's something that's on everyone's radar. For most firms it isn't top of the list at the moment.

Business in Asia is growing anyway across the board, if by migrating to a new market it encourages more participants then that actually reinforces growth in the industry as a whole for the region. If a new location adds activity that's not necessarily at the expense of Hong Kong, it's incremental to it.

What are the biggest securities lending challenges the industry will face in 2018?

The biggest determinant of the success of the industry is what's happening in the market. Securities lending in itself is, in a way, a secondary transaction—you can't just create securities loans in the same way you can create a trading strategy. Something else occurs which requires an entity to borrow.

The demand from borrowing securities follows on from what's happening in the marketplace as a whole. What we've seen over the last year, was that as stock markets rose, we saw a lot more hedging activity in main index securities. As the indexes themselves were rising, it actually meant any short sells were concentrated in to main index names. That's why you saw balances grow, and the shift to the securities was actually shifted to the main indexes, so that will continue.

We saw a lot of hedge funds cover their short positions in 'special' securities that were being borrowed. As stock prices went up, a lot of funds closed short positions in names where they had conviction the securities were overpriced, but the market continually moved against their view. Now that the prices have come off a little bit, we are possibly starting to see the first signs of people coming after those names again.

Usually when you're in a volatile period, like now, people tend to wait before taking positions until they get a sense for the direction of the market, so market is the biggest factor, as well as market participation, technology and of course regulations are always going to influence how we do our business.

What are your views on regulation in the financial services industry?

From a securities lending point of view, not a lot of the regulations actually directly impact securities lending. We're impacted by regulations that are applied to other activities. After Lehman defaulted for example, Basel III and the Volker Rule restricted proprietary trading which lead to less short selling activity by banks for their own trading accounts. So therefore, there was less borrowing demand from that group.

The Financial Transaction Tax (FTT) is another example. FTT required taxes to be collected for regular cash market transactions in France and Italy. Securities finance transactions were exempted from FTT so that created a requirement to report the securities that were done in order to ensure that you got the exemption.

Two new regulations combined to create what is referred to as the 'collateral transformation trade'. Liquidity coverage ratio incentivised borrowers to fund some inventory types for fixed terms. New regulations for over-the-counter (OTC) derivatives (for example, European Market Infrastructure Regulation) required central clearing increasing the need for high-quality liquid asset collateral to be given to central counterparties.

In the collateral transformation trade, borrowers get improved values for term funded collateral they give out while receiving other securities that can be used for central clearing and other collateral obligations. Securities lenders whose government bonds lay unutilised in the zero/negative interest rate environment suddenly found there was demand for their assets. In this case, securities lenders were the beneficiaries of new regulations.

These are all examples of regulations that aren't directly regulating, but influence behaviour in the business. **SLT**

Reviewing the Asia market

Zubair Nizami, head of Asian securities lending trading at BBH, gives his view on regulatory challenges, potential opportunities and his outlook on 2018

What effects will new EU regulations, such as MiFID II, have on the Asia Pacific region?

Securities financing transactions (SFTs) were not a significant focus of the second Markets in Financial Instruments Directive (MiFID II) as they were not in scope for transaction reporting requirements. However, there were some specific impacts to securities lending. Most notably was the definitive clarification that best execution requirements should be adhered to in respect of SFTs, with lenders required to take all sufficient steps to obtain the best possible results on a consistent basis, rather than on an individual transaction level. As a result, agent lenders have largely adopted or updated best execution policies and made these available to clients.

At BBH, the provisions of our policy are adhered to globally, so SFT execution for Asian clients is subject to the same standards as those executed for MiFID II regulated/European clients.

Regarding other regulations, Securities Financing Transaction Regulation (SFTR) continues to receive a significant amount of the industry's attention. The effects of the initiative will be felt more broadly than just Europe, especially for market participants who transact with European counterparties. For example, a loan by a Japanese pension to a German borrower will be impacted by the reporting obligations. Lending agents are actively engaged with clients and borrowers to develop solutions to comply with this far-reaching regulation. At BBH, we have taken the lead in partnering with IHS Markit and Pirum to provide a delegated reporting service for our impacted clients.

Which Asian markets were the headliners of 2017, and which will capture market interest this year?

Hong Kong and Japan led the way from a demand perspective, resulting in robust returns in 2017. Increased focus on corporate governance, particularly from several activist hedge funds, was a significant theme for the year. This was highlighted by a wave of scandals in a wide spectrum of Japanese companies in the automobile and manufacturing sectors due to lax quality controls or falsification of data. Also, many Hong Kong-listed Chinese firms were targeted by activist hedge funds for their alleged poor accounting and disclosure practices. These themes helped drive particularly strong specials activity in these markets.

We expect securities lending opportunities in Hong Kong to continue to remain robust in 2018. Given the current low market volatility, high equity valuations and increased confidence in both the Hong Kong and mainland Chinese economies there is likely to be an increase in the initial public offering (IPO) and secondary capital activity in Hong Kong this year. Additionally, recent changes by the Hong Kong stock exchange operator to permit a dual-class shareholding structure (despite historically being firmly against the idea) will further drive new listings, particularly in the mainland Chinese tech/startup space. All of this should act as a catalyst for driving securities lending demand this year.

South Korea has been one of the most lucrative markets for securities lending for years. How did the hardening of short selling rules in the country affect business?

While South Korea has been one of the strongest drivers of revenue for us in the past few years, we did witness some softening in demand and fees in 2017 compared to previous years. This was largely due to significantly reduced activity in some key specials, which had driven much of this revenue growth for the past few years. In our opinion, the imposition of additional short selling regulations early in 2017, whereby securities that are deemed to be 'overheated' can be restricted from trading for a day, has had a negligible impact for market demand as a whole.

We expect to see a healthy level of demand in South Korea this year. In recent months, there has been an uptick in deal activity which has boosted specials trading opportunities.

Additionally, we are witnessing a renewed interest in the heavy industry and shipbuilding sectors which have come into focus again as they continue to struggle with declining orders as a result of overcapacity in the industry.

Shenzhen-Hong Kong Connect and Shanghai-Hong Kong Connect gave international investors access to China's two main bourses. Are we any closer to this contributing to a Chinese lending market?

Little has changed in the past year regarding the development of the Chinese offshore securities lending market. Technically speaking, there is a model for offshore holders of A-Shares to lend their securities via the Stock Connect scheme. However, due to various restrictions that curb both lending supply and end-user demand, the level of activity has been almost non-existent. In the short term, we are not optimistic that much will change given other priorities for regulators at present. In the longer term, given that China has signalled that it intends to further liberalise its capital markets, we expect the relevant authorities will gradually introduce reforms that will enable a more scalable offshore lending platform to emerge over time. **SLT**

The convergence of securities finance and collateral: one business, two systems?

Coming off the back of a record year in 2015 in terms of revenues, the last two years have been more restrained in the Hong Kong securities lending market. Madalin Prout of FIS Global explains more

Hong Kong has long been one of the Asia Pacific's most established lending and borrowing markets. As the region's second-largest market by volume, after Japan, expectations are often high for desks here. Coming off the back of a record year in 2015 in terms of revenues, the last two years have been more restrained in the Hong Kong market, with a lack of market volatility curbing demand to borrow securities combined with uncertainty over the impact of new regulatory requirements and an unstable political environment, globally, all taking their toll. But in the last three months, Hong Kong has been bucking this trend. On loan balances are rising at a rate that surpasses all the other Asian markets and many in Hong Kong have had a very busy start to 2018. Some of that rise can, of course, be attributed to the rise in share prices generally, but the 51 percent rise in lending in Hong Kong (see figure 1) far outstrips the 22 percent rise in the Hang Seng over the same period.

With increased activity comes an increased demand for collateral. Firms in Asia are not immune to today's margin pressures and regulatory requirements—including second Markets in Financial Instruments Directive (MiFID II)—which means that firms need to be smarter about the assets allocated to securities lending and collateral programmes in order to reduce the impact on their balance sheets. Doing so requires some fundamental changes to internal organisations and workflows. The historical separation of securities lending, repo and synthetics desks is already disappearing in many organisations, but this now needs to be extended to incorporate the collateral and even treasury functions. To be as efficient as possible in the use of the inventory for funding, yield enhancement, and compliance with regulatory capital requirements and collateral management, firms need to bring together all their asset pools for the securities finance business and collateral requirements across business lines, and, indeed, across the whole enterprise.

Optimising collateral management across the enterprise can reduce the capital requirements on the balance sheet. In fact, by some estimates, the savings can be between five and 15 basis points. And that's not the only benefit of converging the business units.

Firms that make this move can increase yields by making smarter decisions around what assets they allocate to their lending programme and collateral requirements. Second, with global optimisation, they can use their assets to cover exposures in one jurisdiction with excess balances from elsewhere. Third, they can mobilise assets across functions, transforming them into higher quality assets when needed to meet the ever-increasing regulatory demands for collateral.

For many established market participants, the restructuring of their business is undoubtedly a daunting prospect, but the benefits of doing so are clear. Technology providers are responding to the requirements of integrating collateral systems with the multitude of platforms used within the organisation in order to provide a truly enterprise-wide view of assets and how to optimise their use across all business functions. Integration and efficiency are key. What is becoming clear is that in both the business and technology worlds, the days of segregation and disparate, siloed functions are over for efficient organisations.

One interesting paradox emerging within Asia, and the Hong Kong market, in particular, is the advantage that new market entrants have in this area. Whether setting up an entirely new business, or restructuring desks following a merger or acquisition, many of the domestic firms find themselves in a position to take a more holistic view of securities lending and borrowing, repo, synthetics, collateral and treasury functions from the outset. They are able to define and structure their businesses and technology platforms based on the new requirements, rather than retrofit the existing pieces together. Of course, these firms also face their own challenges; not least being that budgets often only grow in proportion to the size of a business and hence face limitations around what is and isn't feasible on day one.

Again, technology providers are adapting their offerings to these new models, with integrated solution packages that cater for these firms' requirements with innovative new models aimed at minimising operational costs and reducing barriers to entry. Hosted and managed solutions that are scalable to meet a growing firm's demands are increasingly popular among new entrants, eliminating the need for upfront investment that has previously been prohibitive for these firms investing in technology platforms.

Figure 1: Lending Balances Asia and Hong Kong, indexed to 100 from February 2017

Source: FIS' Astec Analytics

Whatever stage a firm is at in terms of building, expanding or optimising its securities lending and collateral business, the challenge is on to ensure the most efficient operating model is deployed. The mindset has changed, securities finance and collateral are no longer viewed as separate, unrelated functions but as two facets of a single, unified business. The alignment of technology and seamless integration with core systems is key. Firms require an efficient, enterprise-level view of their positions, available assets and the best way to utilise inventories.

The complexity of achieving this is now outweighed by the significant benefits of substantial savings on capital requirements, increased yields and the more efficient use of assets across the entire enterprise.

Even in the profitable markets of Asia, the benefits of convergence cannot be ignored any longer. **SLT**

Technology providers are responding to the requirements of integrating collateral systems

Madalin Prout
Vice president, head of relationship management APJ, securities finance
FIS Global

No such thing as ‘one size fits all’

As the introduction of regulation continues to affect how each firm manages their capital, financing and liquidity decisions, the need for control remains paramount. Stephen Michael and O’Delle Burke of J.P. Morgan explain

The view from Asia Pacific

When it comes to collateral, control is paramount, but how you define control depends upon your role. For example, borrowers want to be able to define optimal collateral allocation to address specific binding constraints, while lenders want access to more real-time reconciliation and automated processing of collateral schedules.

These were some of the takeaways from a series of client roundtables hosted recently by J.P. Morgan in Hong Kong and Sydney, where collateral counterparts came together to discuss the local, regional and global factors influencing their financing and collateral decisions.

For broker dealers, these factors include the potential for more balance sheet decentralisation, which could result in more financing being done directly by Asia Pacific entities. Lenders, meanwhile, saw the value of on-loan assets (and related collateral) rise during 2017, driven by underlying market strength. While noting that significant work has been done to manage against capital requirements and deploy assets more efficiently, participants agree there’s still more opportunity as markets continue to evolve.

Our discussions converged on three key themes.

A flexible toolkit to meet individual firm requirements

Each institution is managing to its own unique mix of legal entities, regulatory oversight and binding constraints related to capital. Broker dealers continue to focus on optimising balance sheet, and most are looking to define collateral allocation parameters and develop their own internal algorithms. Being able to make optimisation recommendations to a collateral agent is a critical factor in adhering to capital requirements.

Borrowers and lenders also seek flexibility and agility in managing collateral schedules. For them, online tools support speed of execution and provide welcome transparency: collateral providers can employ instant queries to learn which counterparties can accept their collateral, while collateral receivers can monitor and adjust their eligibility criteria at a granular level based on their firm's parameters.

Access to markets and structures to manage financing and liquidity

For institutions operating in Asia, regulatory change has heightened the focus on being able to fund their activities locally and efficiently. In Taiwan and Korea, a successful framework has been developed that lets broker dealers mobilise once 'trapped' assets, using tri-party structures to deploy them onshore. Options such as total return swaps, for example, the use of derivative trades for securities financing, could be used to derive additional balance sheet and capital benefits. Other markets such as the Philippines and Indonesia are exploring the use of tri-party structures to unlock liquidity.

New markets continue to spark interest, particularly China (with A-shares due to join the MSCI) by mid-2018). Banks' underlying clients, particularly hedge funds, are eager to hedge and want access to single stock swaps. Given the level of interest in China, borrowers agreed that having a China strategy now is essential, even though activity is likely to ramp up over a period of time given the structural challenges that will need to be addressed.

Innovative uses for tri-party, in particular pledge structures for collateral, were an active topic of discussion. Originally intended to manage haircuts or margin, pledge structures could be used for the entire loan exposure amount following the successful use of pledge models in tri-party for segregated initial margin. Pledge structure, which leverages the existing market infrastructure, could be quicker to market than other emerging options, such as central counterparty (CCP) structures.

Broker dealers believe that pledge structures offer the potential for a reduction in the cost of capital, while lenders also see possible benefits that could include increases in spread, haircut and simplified reporting. However, one challenge for lenders will be explaining the impact of moving to a pledge structure and obtaining the consent of underlying beneficial owners. A standardised principal relationship agreement (the Global Master Securities Lending Agreement) and security agreement supporting pledge structures is expected soon from the International Securities Lending Association (ISLA).

The ability to support potential changes in booking models

Previously mentioned regulatory and funding requirements, are also driving structural changes for broker dealers. Most have seen better integration across desks over the last few years, as financing is viewed more holistically than in the past. And, while many decisions related to capital allocation, financing or trading are still made centrally from New York or London, some of the firms represented at the roundtables are evaluating their booking models. Roundtable participants discussed a 'hub and spokes' model that could create greater regional autonomy, and noted that local support for increased collateral or financing activities would become ever more important. However, a 'one size fits all' model is unlikely, particularly given impending geopolitical changes such as Brexit.

Generally, participants seemed optimistic about 2018 although some broker dealers noted that the recent growth seen in collateral balances does not necessarily equate with balance sheet growth. In some cases, regional desks are benefitting from additional allocation of relatively flat balance sheets globally, due to higher yielding markets in Asia Pacific. Lenders feel that balance growth has been underpinned by market strength, but expect to see more borrows to hedge long positions in case of market turbulence.

We expect these themes to be important for some time to come, as the ongoing introduction of regulation in different markets is likely to have a continuing impact on how each firm manages their capital, financing and liquidity decisions. Given that, the need for control, with access to a variety of button and levers that can be pushed to create bespoke solutions, remains paramount. **SLT**

Stephen Michael
Vice president of sales
J.P. Morgan

O'Delle Burke
Executive director of
collateral management
J.P. Morgan

A modern-day horror story

As regulatory demands for data sharing begin to mount, the securities lending industry is sleepwalking into a nightmare of cyber exposures—as one agent lender has already discovered

Drew Nicol reports

How much do you actually know about the cyber security system protecting your financial assets and highly-sensitive client data? Little to none, am I right? Today's securities lending market is chock-a-block with technology providers and innovators offering increasingly extensive solutions to turn the industry into a purely digital and, recently, automated marketplace, for general collateral at least. At the same time, market regulators are busying themselves creating new acronyms that usually represent ever more technology requirements to create vast quantities of trading data on yourself and your counterparts. For securities financing market participants, the primary consequence of modern technology age is an infinitely bigger, faster, more efficient and, most importantly, interconnected marketplace than anyone has ever known. When the Wall Street couriers hung up their bicycle helmets for the last time in the late 1990s, the industry was also waving goodbye to a time when the average trader actually understood how data and assets were transferred and stored—and that's a problem for everyone.

Gone are the days of a good-old-fashioned bank heist. Riding into town, pistols drawn, throwing a lasso round the bank's safe and riding off into the sunset before the sheriff knows what's happened. When banking went digital, the criminals followed. The modern day Bonnie and Clyde need nothing more than a laptop, a good wifi connection, and bit of IT know-how to have a crack at your most valuable assets.

Today, the majority of the world's money is nothing more than blips on a screen, capable of being sent halfway around the world at the push of a button. The advent of the internet allowed the world's financial markets to truly interact for first time, but it also offered cyber criminals the opportunity to access more money than their outlaw predecessors could have ever dreamed of. Worst of all, today's cybercrime challenges do not simply involve protecting the cash in people's accounts; the real prize is often the highly sensitive personal data that firms now store on their clients. This data can be used to access accounts and siphon off assets secretly or held to ransomed back to firms eager to avoid losing the public backlash that revelations of data loss always bring.

Unfortunately, the risks that such situations pose are far from purely theoretical, as one securities lending participant discovered last year.

Aditya Sood, security expert and author of Targeted Cyber Attacks at Elastica, was able to access highly-sensitive data from cloud-based data handling servers of securities lending firms without any security systems being activated.

"There's a lot of stories in the media about cyber attacks and threats to cybersecurity but I wanted to see if some of these firms that were compromised actually had exposed systems on the internet that were available to anyone," Sood explains.

"I came across a few hosted web systems on the Amazon Web Services (AWS), which is a cloud infrastructure, that were running data handling services connected to the credit bureau and including credit bureau-related data."

"It was not clear if these systems explicitly belonged to credit bureau or some other third-party entity."

Sood contacted credit bureau and confirmed the systems did not belong to it directly, meaning its data was being shared through third-party providers. Further research revealed that the system belonged to a Chicago-based securities lending firm that was inadvertently revealing internal data through its testing and verification processes.
"What was surprising in all of this was that they [the securities lending firm] were disclosing the complete data structure, and how it was being stored on the credit bureau's internal database system."

Sood was able to access the complete data structures from the exposed systems managed by the securities lending firm. The data dumps revealed how the credit bureau stored the highly sensitive customer information such as social security numbers, credit card numbers and salary information unencrypted and determine the systems were sub-par from robust security practices. Sood clarifies that no hacking skills were required to access the data. Sood simply knew what to look for and had the patients to sift through large quantities of raw information.

In the case of the US securities lending firm, Sood's investigation revealed significant details of data shared between the exposed firm and a large Canadian bank it had been dealing with. Large quantities of the bank's data that was sent to its counterparty was left open to view by anyone who was interested. He says bluntly: "If I can find it, attackers can find it."

"The application programming interface's were blatantly broken, with no security, and anyone on the internet could access the data from the exposed systems of the securities lending firms for example, and the real question is: who is responsible?"

Plugging the gaps

But surely Sood's discovery is just a one-off case? How widespread could this exposed cyber network actually be? According to Matt Bernard, CEO of ENSO, most of the major and frequently used messaging services for securities lending transactions rest entirely on the cloud already. However, Bernard notes that rates, quantities and counterparts change so frequently that any type of potential risk from a hacker would need to go undetected for a long period of time before obtaining information.

"If you look at historical breaches, they tend to be from larger static data sets and not data that is updated daily. To protect against security breaches, information is encrypted as best practice and therefore protected at all times," Bernard adds.

As well as unencrypted data transfers, securities lending firms are also guilty of improper system testing processes that once again leave high-value data open to anyone with internet access.

To test a system you create a replica of the same environment and test each and every control in a private environment to make sure it's working well. The first thing Sood did was look into how the APIs were being used. There was no authentication, no authorisation or controlling systems because the two-way systems were not validating these controls and that means you're simply using a basic data extraction application programming interface (API) that connects the two systems and dumps that data at the back of your system. This is very bad practice.

"Some of the securities lending firms we've now looked at will allow these systems to be exposed and that allows you to get a complete picture of how the data is structured in the internal databases of the credit bureaus' systems."

This highlights a potentially ruinous flaw in the cyber networks that increasingly dominate financial markets: any network is only as strong as its weakest link.

Sood warns that cyber attackers may be going after the credit bureaus but actually target small securities lending firms that work with credit bureaus and big banks to gain access to the data in an indirect way.

Commenting on the need to maintain a vigilant cyber defence, Bill Graves, chief technology and data officer at CIBC Mellon, said: "CIBC Mellon recognises the importance of protecting the information, systems and technology under its control. CIBC Mellon's approach to information security is built on a detailed and synchronised programme that is updated and tested in order to support responses to an ever- changing risk landscape. Our program is designed to protect the confidentiality, integrity, and availability of the information under our control."

"With the pace of change in the information security space, CIBC Mellon has adopted an approach of near-continuous strategy validation and updates. Inputs to strategy include business priorities, the evolving threat landscape, regulatory trends, technology developments and internal security posture assessment as informed by risk assessments, audit, compliance and regulatory gaps, incidents and benchmarking exercises."

"CIBC Mellon and its parent companies monitor and assess the IT environment for potential vulnerabilities and threats on a regular basis, and invest in and implement protections as deemed necessary."

Know your enemy

No one in the wider financial market is looking at securities lending as a major cyber security risk, but there is a chain reaction that can take place and all the players involved must be aware of the whole scenario.

Sood explains: "Nobody knows the whole system because it's really complex, but if you connect the dots it's really amazing and shocking. Why learn to exploit a system and achieve an advanced level of hacking when you can just get the same data the easy way."

When asked what more those that handle sensitive data of third parties could do, Sood says simply that compliance with today's data protection regulations does not mean you're safe from attack, or that you're even hidden from basic snooping tactics.

Under the responsible disclosure guidelines, the security flaw was reported to the concerned parties and has been fixed as exposure to the vulnerable systems have been restricted.

The introduction of the General Data Protection Regulation (GDPR) across Europe in May will intensify cyber risk scrutiny further, bringing the prospect of more, and larger, fines for businesses who do not comply. "Compared to the US where privacy laws have been strict for decades and cyber security and privacy regulation is continuously evolving, firms in Europe now also have to prepare for tougher liabilities and notification requirements. Many businesses will quickly realise that privacy issues can create hard costs once the GDPR is fully implemented," says AGCS's global head of cyber, Emy Donavan.

"Past experience has shown that a company's response to a cyber crisis, such as a breach, has a direct impact on the cost, as well as on a company's reputation and market value. This will become even more the case under the GDPR."

Where does the buck stop?

The Boston horror story is just one case study of what will come an increasingly important factor in effectively managing a lending programme. The good news is that most firms seem cognisant of the huge dangers that modern digital trading poses. The latest Allianz Risk Barometer, published in January, reinforced the point that cyber security was a top priority. Five years ago it ranked fifteenth. Today it's second.

In its report on the survey, Allianz states: "Multiple threats such as data breaches, network liability, hacker attacks, ensure it is the top business risk in 11 surveyed countries and the Americas region and second in Europe and Asia Pacific. It also ranks as the most underestimated risk and the major long-term peril."

"Recent events such as the WannaCry and Petya ransomware attacks brought significant financial losses to a large number of businesses. Others, such as the Mirai botnet, the largest-ever distributed denial of service attack on major internet platforms and services in Europe and North America, at the end of 2016, demonstrate the interconnectedness of risks and shared reliance on common internet infrastructure and service providers."

Allianz Risk Barometer results show that awareness of the cyber threat is rising among small- and medium-sized businesses, with a significant jump from sixth to second for small companies and from third to first for medium-sized companies.

Sood's opinion on the matter is clear and comes with a simple message: "Security is a shared responsibility. Any entity (or enterprise/organisation) that deals with sensitive customer data is required to follow defense-in-depth strategy to make sure data is secured from adversarial attacks. Not only the credit bureaus are expected to strengthen the security posture of their infrastructure but the securities lending firms have to deploy proactive measures to make sure data stays private and secure." **SLT**

Raising the stakes

Samuel Pierson, director of securities finance at IHS Markit, explains how short sellers are raising the stakes on UK short positions

- Bearish bets on UK equities have increased amidst sell-off
- Outsourcing firms continue to see short demand increase
- Short demand in GBP terms highest post-crisis

With the FTSE 350 index down over 5 percent amid the global correction, it's not surprising that short sellers have increased their positions. Given how far many of the more popular shorts have declined in value, it's a reflection of significantly increasing demand to see the short balance in GBP terms up 2 percent year-to-date. The current 30.8 billion in short balances represents the largest position for short sellers in UK equities since Q1 2009. The largest short balances are concentrated in the materials, energy and food and staples retailing industry groups, which together account for 38 percent of UK short balances.

Short positions in the FTSE 350 have only increased amid the selloff, with the average short demand at 2.3 percent of outstanding shares. This is driven by both a larger number of stocks with high demand, as well as increasing demand for the stocks which were already highly shorted.

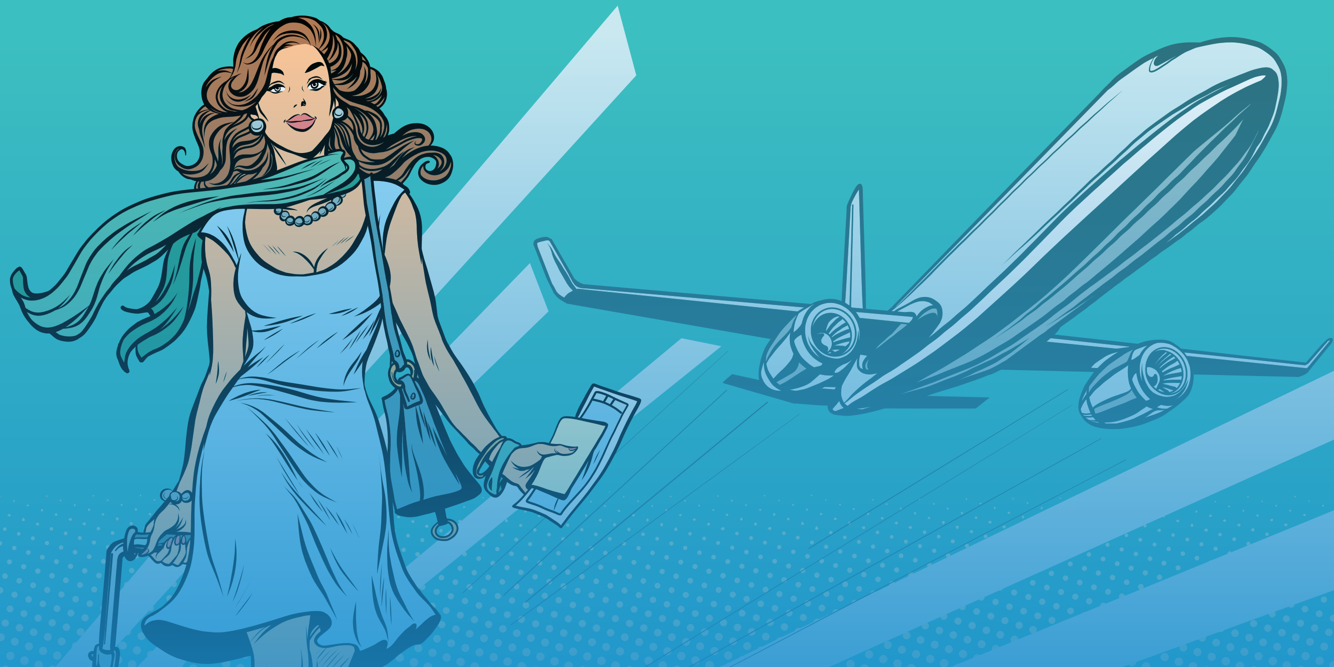
Following the collapse of Carillion, short sellers have added to bets against other outsourcing firms, particularly Interserv (IRV). After initially rallying with the rest of the market in January, IRV shares have tumbled again, now down more than 20 percent year-to-date. During that time, short sellers increased their position by 1.2 percent of shares outstanding, bringing the total to 16.3 percent.

Other outsourcing firms which have seen meaningful increases in short demand year to date include Capita and Serco Group. The exception is Balfour Beatty, where short demand has declined by nearly 1 percent of shares outstanding year to date.

Short sellers have also maintained positions in the two most popular grocery shorts, J Sainsbury and WM Morrison Supermarkets, with both still in the top 10 UK shorts in GBP terms.

Samuel Pierson
Director of securities finance
IHS Markit

The most shorted UK equity by percentage of market cap is Cineworld Group plc, which currently has short balances equal to 24 percent of outstanding shares. It's important to note that this is primarily a bet on the completion of the firm's $3.6 billion acquisition of Regal Entertainment and not an outright short of Cineworld. With that said there were a large number of shorts in Regal, so it's possible the combined firm will come under short seller scrutiny as well. **SLT**



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Industry appointments at Euroclear, BNY Mellon and Calypso and more

Christian Goossens has changed roles at Euroclear and will now serve as director of sales, relationship and account management for Europe.

Prior to his new role, Goossens served as director and head of sales and relationship for Benelux, Nordics, Baltics and Russia.

He started working at Euroclear in 1988 and has also worked as senior credit officer, head of money transfer and manager.

BNY Mellon has hired Rebecca Bridgeman as vice president and relationship manager of collateral management.

In her new role, Bridgeman will be based in London.

Prior to BNY Mellon, Bridgeman served as an associate director of global client coverage at RBC from 2016 to 2018.

Bridgeman also worked in the business development team at BNP Paribas' Securities Services from 2010 to 2016.

Calypso Technology has hired Steve Tucker as chief sales officer and member of the executive committee.

Tucker will be based in the London and will oversee sales, marketing, presales and sales operations activity.

Prior to Calypso, Tucker worked at RELX Group, where he was the global head of sales for ICIS.

Tucker has also held senior positions at S&P Capital IQ, Thomson Reuters and FFastFill, now Future Dynamics, a provider of software as a service to financial markets.

Tom Gavin, executive chair of Calypso Technology, said: "Steve Tucker brings a strong track record of driving sales growth in technology companies serving the financial markets."

He added: Tucker's straight-forward, genuine style, strong people leadership capabilities and vast global experience make him a great fit for Calypso."

Steve Tucker commented: "I'm excited to lead the sales organisation and build on the success of 2017, where Calypso experienced a strong growth for cloud and microservices."

"Regulatory transparency and cost savings are likely to continue driving the demand for technology investments. I'm looking forward to making an impact on Calypso's ambitious growth plans."

AxiomSL has appointed Roger Worthington as head of production operations.

Based in Singapore, Worthington will report to Peter Tierney, Asia Pacific (APAC) CEO.

In his new role, Worthington will be responsible for leading AxiomSL's newly-created production operations team, overseeing the live-service support for the firm's software-as-a-service (SaaS) capability.

With its new SaaS function, AxiomSL is proposing an alternative to its current deployment model for a specific set of regulatory solutions.

The cloud-based approach enables financial institutions to focus on their core business while staying ahead of regulatory compliances.

Worthington's role will also include establishing service-level agreements (SLAs) with AxiomSL's clients that use the SaaS product.

Most recently, Worthington served as the head of APAC operations at Pico.

Worthington has also held leadership roles at Intercontinental Exchange, NYSE Euronext, BT Global Services and Radianz, where he designed, built and oversaw the implementation, operation and support of infrastructure.

Commenting on Worthington's appointment, Tierney said: "[Worthington's] level of world-class expertise and proven track record in the provision, operation and support of global networking and infrastructure solutions, combined with our experts in regulatory, risk and data management, will provide the leadership required to successfully manage AxiomSL's SaaS-enabled regulatory compliance platform, which is a major 2018 priority."

Worthington commented: "I'm looking forward to leading a team of talented individuals and expanding the reach of AxiomSL's critical regulatory solutions by augmenting its SaaS capabilities, allowing it to reach more financial institutions globally."

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 as before we´ll combine financial markets technologies with regulatory environment and advice for our customers."

AustralianSuper's Malcolm Poes, senior manager of treasury and securities lending, has left the firm.

Previously, Poes served at Lloyds Banking Group from 2011 to 2012.

He also worked at Goldman Sachs as executive director of treasury and JBWere as director of treasury.

His replacement as senior manager of the treasury has not yet been disclosed.

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. **SLT**