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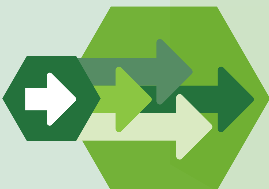

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ISLA responds to BMF's draft circular

The International Securities Lending Association (ISLA) has sent a letter to the German Ministry of Finance (BMF) responding to the BMF's draft circular released on 25 January 2018 on the subject of a manufactured dividend rule.

In the letter, written under the name of Mark Hutchings, ISLA's London-based COO, ISLA said that it remains committed to working with the BMF to ensure compliance with the provisions of the Investment Tax Act, whilst also trying to find possible solutions to the anticipated liquidity problems that it believes will arise for stock lending and repo transactions performed by investment funds.

At one point, it warned that non-German investment funds may simply stop lending their German equity securities around income date periods, thereby potentially compromising the liquidity of the German market. In evidence, ISLA explained that a poll it undertook amongst the major securities lenders shows that approximately 70 percent of available German equities will be recalled over income dates.

Steve Raddon, securities lending tax specialist at BNY Mellon and the chair of ISLA's Tax working group, provided a brief summary on the ISLA website explaining what the response intends to do.

In that summary, ISLA said that the main point it makes in this submission is to ensure the maximum amount of available liquidity is retained, there should be optionality around withholding of the tax rather than the enforcement of a lender to file a corporation tax return.

Raddon highlighted the principal aims of the communication.

These included, to demonstrate and explain that enforcing lenders to file a German corporation tax return may have a significant and negative impact on liquidity, and ask the BMF to consider whether a German or foreign agent can be appointed to withhold tax; explain that funds may need to change their year-end to tie in with the accounting requirements of the corporate tax return; request clarity on the dates around in-scope transactions; ask whether offshore branches of German banks can/are required to be a withholding agent; and finally, request details of the tax office to whom a non-resident fund should file a return.

According to ISLA, this is a direct response to the January draft circular. Further issues will be raised during the next phase of its engagement with Ernst & Young.

ISLA explained it has stressed the urgency of the formal publication of this circular, given the significant change to the tax base it makes.

Hutchings ended the letter by thanking the BMF for its ongoing engagement on this matter.

He said: "There are a number of other, more detailed points, which we would like to raise with you. For instance the possibility of more detailed guidance as to which types of lender are in scope of the Investment Tax Act and which are not—which we will send to you in due course."

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Next step for NEX and MKP

Financial technology company NEX has expanded its agreement with MKP Capital Management (MKP), a New York-based hedge fund.

NEX will provide MKP with its ENSO Core and Exposure Management capabilities, as well as triResolve Margin, its web-based portfolio reconciliation and collateral management service.

ENSO Core's Exposure Management tool will be improved by over-the-counter (OTC) data directly from triResolve and triResolve Margin.

NEX suggested that the combination leverages the capabilities of two services to create a consolidated view of exposure, margin and treasury activity across PB, cleared and OTC portfolios, facilitating next-generation analytics and process efficiency.

The expanded service will enable MKP to make more informed investment decisions and realise efficiencies across the trade lifecycle.

Ken Pigaga, CEO of NEX Optimisation, said: "NEX has seen a significant uptick in the adoption of its services that help clients manage the increase in margin call volume and complexity new regulations have generated."

"The suite of services we are now providing to MKP showcases NEX's broad range of capabilities available to the buy-side looking for customised workflows to make their processes more effective in this new regulatory era."

"We look forward to bringing those critical efficiencies to MKP's treasury management function."

Lendingblock reveals ICO pre-sale date

Lendingblock, a cryptocurrency and crypto-asset lending platform, has revealed that its initial coin offering (ICO) pre-sale will go live at 15:00 GMT on 9 March, ending at 15:00 GMT on 30 March.

During the pre-sale, 450 million LND tokens will be allocated, 45 percent of the total available, including the 20 percent bonus.

The pre-sale comes after the successful private sale, which closed on the 27 January, raising $500,000, and ahead of the main sale of the ICO, scheduled for the 23 March.

The pre-sale has been capped at $7.5 million worth of tokens.

Lendingblock's primary target users are securities lending participants interested in trading with crypto assets.

Steve Swain, co-founder of Lendingblock, described blockchain as "the answer to flaws in today's securities lending market that motivated several US pensions funds to sue their agent lenders for malpractice".

Swain has argued that innovations such as Lendingblock "creates a parallel where those problems can't arise".

Vermeg completes Lombard Risk deal

Vermeg has acquired Lombard Risk to create a "leading force in financial services solutions".

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Zhongtai leads move for Quali-Smart

Zhongtai International Investment Group is set to acquire Hong Kong-listed Quali-Smart.

Quali-Smart, through its subsidiary Crosby Group, is engaged in securities brokerage, securities margin financing and asset management services.

Zhongtai International Investment Group, along with Taifu Capital Investments Limited and Great Boom Group Limited have entered into an agreement to subscribe for an aggregate of 2.2 billion shares.

The agreement is free from all encumbrances for an aggregate consideration of HK $799.3 million in cash at the subscription price of HK $0.35 per share.

Zhongtai International Investment Group Limited will subscribe for 1.7 billion shares, representing approximately 116.84 percent of the issued share capital of the company, for a consideration of HK $602.8 million.

Taifu will subscribe for 186,356,000 shares, representing approximately 12.64 percent of the issued share capital of the company, for a consideration of HK $65.2 million.

Lastly, Great Boom Group will subscribe for 375 million shares, representing approximately 25.44 percent of the issued share capital of the company, for a consideration of HK $131.2 million.

These figures represent share prices as of 23 February.

According to a joint statement from Zhongtai and Quali-Smart, the subscription price was decided after negotiations between the company and the subscribers, which had taken into account, among other things, the recent financial performance of the group, in particular the continued loss-making position of the group and the unaudited consolidated net asset value of the company as at 30 September last year.

Total consideration will be payable in cash upon completion.

Lombard Risk will expand Vermeg Group's geographical footprint and product lines in growing areas, including collateral management and regulatory risk solutions.

The acquisition also adds compliance products for banks and buy-side firms to its customer base of insurers, institutional investors, asset managers, depositories and central banks.

Vermeg currently has offices in France, Belgium, Luxembourg, Spain, the Netherlands and Tunisia.

Lombard Risk's presence in the UK, North America and the Asia Pacific provides Vermeg with a platform for further expansion and growth.

Badreddine Ouali, chairman and founder of Vermeg, said: "Through our acquisition of Lombard Risk, we will reach a turnover of €100 million. Moving forward we will further develop our offering so that clients can benefit from a team, expertise and proposition that are more established than the newer financial technology, and much smarter and more responsive than the incumbent larger software houses."

Alastair Brown, CEO of Lombard Risk, added: "We believe that the combination of Lombard Risk and Vermeg will create a powerful, global financial services software champion, and we strongly believe that the new group will be well positioned to generate and seize exciting opportunities in the future."

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"Our dedicated focus on the collateral management and regulatory reporting industries will continue, whilst opening access across the group to the markets in the UK, North America and the Asia Pacific."

ESMA gives SSR technical advice

Verena Ross, executive director at the European Securities and Markets Authority (ESMA), addressed the Economic and Monetary Affairs Committee of the European Parliament to discuss elements of the short selling regulation that came into effect on 1 November 2012 and in respect of which the European Commission requested technical advice in January 2017.

Ross said that in preparing its technical advice, ESMA's focus has been to achieve more transparency and to promote a more effective supervision of the short selling regulation requirements while limiting—if not avoiding—the risk of circumvention.

ESMA's technical advice focuses on three main topics related to the short selling regulation. These include the exemption for market-making activities and the definition of market-making activities; the procedure for imposing short-term restrictions on short-selling; and the method of notification and disclosure of net short positions.

ESMA conducted a survey amongst competent authorities and received 20 responses to the public consultation it launched.

Given this limited feedback and the potential effect that the recent application of Second Markets in Financial Instruments Directive (MiFID II) might have on some of the recommendations included in the technical advice, Ross highlighted that ESMA could revise some elements of its advice at a later stage.

In particular, the technical advice could not benefit from a number of elements that became available as of the MiFID II/Markets in Financial Instruments Regulation (MiFIR) application date.

Those elements include the additional information to be provided by the new transaction reporting and record-keeping obligations under MiFIR; the number of firms that will become systematic internalisers; and the number of firms that will be engaged in a market-making agreement under MiFID II.

Ross also discusses the technical advice recommendations for the exemption of market-making activities, short-term restrictions on short selling and transparency of net short positions and reporting requirements.

Hedge funds continue to attract inflows

Hedge funds continue to attract inflows, according to a J.P. Morgan 2018 Institutional Investor Survey.

Alessandra Tocco, global head of the capital advisory group at J.P. Morgan, in her review of the year, said that last year saw net capital inflows of $9.8 billion to hedge funds, bringing the total industry assets to $3.21 trillion.

Not all fund managers have benefited equally, though. Tocco points out that data from hedge fund research show managers with assets below $500 million have taken the vast majority of the net inflows. Those with over $1 billion in assets saw the most outflows.

The survey showed the hedge fund industry is undergoing both structural and cyclical changes, according to Tocco.

She said: "Fund managers will continue to evolve as a result of the ever-changing market environment, technologies and regulations."

"Luckily, most investors are still committed to their hedge fund investments and will continue to rebalance and upgrade their portfolios, more prudently and selectively."

The survey covers a range of ways investors look at hedge funds including investor sentiment on hedge funds, concerns about their hedge fund investments, capital allocation to new launches and views on hedge fund fee structure.

Responses from 251 institutional investors were collected with aggregate assets invested in hedge funds close to $600 billion at the end of 2017. The key findings include the following.

Investor sentiment towards hedge funds has turned more positive than in years past. The percentage of respondents who are

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bullish on hedge funds in 2018 has increased, while the percentage of those who are bearish has fallen.

Crowding has been the primary concern for investors when allocating to hedge funds, while performance has continued to be the dominant reason for hedge fund redemptions. Around 60 percent of respondents believe there are too many hedge funds chasing limited opportunities to generate alpha.

Investors seem to be more opportunistic towards investing in new launches, though the bar is still very high for new launches to get into investors' portfolios. For investors who did make allocations to new launches in 2017, the majority only added one or two managers; 27 percent of respondents said they expect allocations to new launches to increase in 2018.

Investors have been lowering their return target for hedge fund investments. Given improved performance in 2017, 70 percent of respondents indicated their hedge fund investments achieved the return they were expecting for the year.

While the majority of investors expect to maintain their hedge fund exposure in 2018, capital invested in hedge funds will be recycled and reallocated across different strategies and managers. Investors are more likely to add exposure to emerging markets, event-driven, quantitative equity, options/volatility arbitrage and market neutral strategies.

Traditional "two and 20" hedge fund fee structures continued to be challenged in 2017.

Alpha will and should continue to be rewarded, comments Tocco, but investors are reluctant to pay full fees on more commoditised beta, which they believe was often disguised as alpha. But the overwhelming majority of investors are paying less than 2 percent and 20 percent for their hedge fund investments.

An increasing number of investors, especially those with large allocations, have negotiated or plan to negotiate fees with their hedge fund managers. In 2017, 45 percent of respondents said they were able to receive fee reductions based on the size of their investments (size discount), while 38 percent received a fee discount given the length of their investments (loyalty discount).

Saxo Bank sees positive growth

Saxo Bank has reported a net profit of DKK 401 million (€53.8 million) for 2017, an increase of 33 percent compared to 2016.

Client collateral deposits rose to DKK 103.6 billion (€13.9 billion) while the operating income for the group was DKK 3 billion (€402.8 million), a three percent increase compared to 2016.

Saxo Bank Group also reported that its total capital ratio reached 22.7 percent as of the end of 2017, compared to 19.5 percent at the end of 2016.

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The results come after Saxo Bank announced the sale of its subsidiary Saxo Privatbank to Danish financial services group, Alm. Brand Bank earlier this month.

Saxo is also entering into a white label partnership with Alm, enabling its clients to trade and invest in stocks, bonds, exchange traded funds and mutual funds through Saxo's platform, SaxoTraderGO.

In October 2017, Geely Financials Denmark, a subsidiary of Zhejiang Geely Holding Group, offered to buy 51.5 percent of the shares in Saxo Bank, with Sampo Group, a Nordic financial services group, taking 19.9 percent.

The transactions are pending regulatory approvals and are expected to be finalised in H1 2018.

Commenting on Saxo Bank's results, Kim Fournais, CEO and co-founder of Saxo Bank, said: "The 2017 results are further evidence of the strength of Saxo Bank's scalable business model as a financial technology and regulatory technology specialist focused on multi-asset trading and investment for direct clients as well as delivering 'banking-as-a-service' to wholesale clients."

Fournais added: "Despite low market volatility, Saxo has attracted record numbers of new direct and wholesale clients."

"A new high in client collateral deposits is a further testament to Saxo Bank's multi asset offering which enables clients to trade in all market cycles."

He said: "The results confirm that Saxo Bank is on the right path and we will continue to prioritise the ongoing development of best in class technology to ensure our clients and partners benefit from the best trading experience with regards to product, platform, price and service."

ROBO appoints BNY Mellon as custodian and sec lending agent

ROBO Global, creator of the world's first exchange-traded fund (ETF) to track the global robotics, automation and artificial intelligence (RAAI) sector, has selected BNY Mellon to provide the firm with custody and transfer agency services.

The ROBO Global Robotics & Automation Index ETF has more than doubled its assets in the last five months and recently crossed the $2 billion assets under management threshold.

According to BNY Mellon, the services were transitioned from a previous provider without business interruption.

ROBO Global defines and delivers an index to target robotics and automation. The index is comprised of over 80 stocks focused on the entire robotics and automation value chain. The stocks include companies in the global robotics

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SEC votes to extend compliance date

The Securities and Exchange Commission (SEC) has voted to extend its deadline on open-end funds complying with certain elements of the its liquidity risk management programme rule.

According to the SEC, the deadline, which will be extended by six months, will provide funds additional time to complete implementation of the final rule's classification requirement.

Other provisions of the rule, including the requirements to adopt a liquidity risk management programme and to limit illiquid investments to 15 percent of the fund's portfolio, will go into effect as originally scheduled.

The SEC adopted the open-end fund liquidity rule in October 2016.

The rule is intended to promote more effective liquidity risk management programmes in the fund industry.

The compliance date for implementation of the classification and classification-related elements of the liquidity rule is 1 June 2019 for larger fund groups, and 1 December 2019 for smaller fund groups.

The other requirements will go into effect as originally scheduled as 1 December 2018 for larger fund groups, and 1 June 2019 for smaller fund groups.

The SEC has also issued an additional set of FAQs related to the liquidity rule, focusing on questions relating to the liquidity classification process.

It said that these FAQs should provide additional clarity to funds as they implement the final rule during the additional time that the SEC has provided.

Chairman of the SEC Jay Clayton commented: "[The] commission action is a measured step designed to help preserve key market oversight and investor protection benefits of the commission's liquidity rule, while addressing certain concerns that have been raised since adoption."

He added: "I expect that our action will promote a smoother and more effective implementation process for the rule. I appreciate the valuable engagement with stakeholders we have received thus far, and welcome further engagement, particularly from fund investors, as the implementation process continues."

and automation industry, covering over 15 countries across 12 sub-sectors.

Travis Briggs, CEO of ROBO Global US, said: "Investors across the world are embracing robotics and artificial intelligence investment. By appointing BNY Mellon as our asset servicing provider, we have now established a robust foundation to meet the needs of our investors throughout their investment lifecycle."

Jeff McCarthy, CEO of exchange-traded products, BNY Mellon, added: "We pride ourselves on our ability to deliver a technology platform, services, and depth of expertise that scales to the needs of fast-growing ETF issuers. This new appointment speaks to the power of our holistic approach."

FCA launches call for input on use of technology for regulation

The Financial Conduct Authority (FCA) is seeking views on how technology can make it easier for firms to meet their regulatory reporting requirements and improve the quality of the information they provide.

In a recently released call for input, the FCA outlined the technical steps that developed this proof of concept and asked for views on how it can improve this process.

The FCA is also looking for feedback on some of the broader issues surrounding the role technology can play in regulatory reporting.

Questions asked whether there are more efficient ways to achieve machine executable reporting, if there are any specific regulatory rules or policies that could act as a barrier to implementing machine executable reporting, and how the FCA can ensure that the potential benefits and costs are appropriately shared across the industry.

The FCA said: "All regulators need to ensure that those they regulate are complying with the rules, public confidence in regulation depends on it."

However, it said it understood "the resulting collective burden on firms is significant."

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ISDA releases best practice for margin calls

The International Swaps and Derivatives Association (ISDA) Collateral Infrastructure Committee (CIC) has released a best practice document to develop a standard form for margin call issuance and response.

According to the CIC it had in its remit to monitor issues and challenges related to the over-the-counter (OTC) collateral process, it had "identified a gap as it pertains to the current margin call process".

The CIC stated that, as many counterparties continue to move towards an electronic form of margin call matching and processing, there are still many counterparties who do not subscribe to an electronic form of margin call messaging.

This, according to the CIC, means a prevention of true straight-through processing (STP) in the overall collateral process.

For its best practice, the CIC examined the minimum set of fields which is required to communicate the issuance of a margin call, as well as the expected response of a margin call.

The process to reach the agreement on the templates was developed through committee analysis, discussion and debates in order to reach an industry consensus.

The margin call templates presented in the best practice document include a standard form for an outgoing call and call response which consist of fields that are categorised as either required as part of the template or optional.

The document also includes definitions of each field as well as examples of different call data.

ISDA said: "It should be noted that this best practice serves a segment of the OTC market which do not utilise any form of electronic automated margin call processing to further promote efficiency and an STP model."

It added: "ISDA CIC recommends this best practice to be used not as a replacement for current best practices but as an enhancement of them."

"The harmonisation of practice between practitioners serves to mitigate risks inherent in the collateral management process and also sets expectations and standards for new entrants to the OTC derivative market."

In November 2017, the FCA held a two-week TechSprint with the Bank of England (BoE).

TechSprint brings together financial services providers, technology companies and subject matter experts to develop solutions to regulatory challenges.

It explored the potential for a fully automated process that firms could use to provide their regulatory returns.

Commenting on the role technology can play in helping firms to meet their regulatory requirements, the FCA said: "The TechSprint has proven that technologies exist and can be effectively combined to make machine-readable and machine executable regulatory reporting a reality."

"We believe that introducing this technology to our regulatory reporting process could [...] increase clarity, increase efficiency, result in more responsive regulation and help produce a higher quality data."

It added: "Technology now plays an increasingly fundamental role in financial services and is also a catalyst for change and innovation."

Christopher Woolard, FCA's executive director of strategy and competition, commented: "Technology is a powerful shaper of financial regulation, able to make compliance simpler and more efficient."

He said: "Our TechSprints bring people from across the financial services world together to share their collective knowledge to solve common problems."

"We look forward to working with industry participants in the coming months to drive these ideas forward."

The call for input has been sent to regulated firms, technology and software providers as well as regulatory technology and financial technology firms, among others.

The deadline for comments on the call for input is 20 June 2018, after which the FCA will publish a feedback statement.

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A moveable feast

As the implementation of CSDR in the EU introduces new challenges for investors, more clients are becoming aware of the issues involved

Brian Bollen reports

The Central Securities Depository Regulation (CSDR), currently creeping into institutional consciousness throughout the EU, throws up a range of challenges.

Pierre Colladon, senior adviser in strategy for Markets Infrastructures at Societe Generale Securities Services (SGSS), ticks off a list of other items covered by CSDR, including the freedom around choosing a central securities depository (CSD) for issuers, harmonisation of settlement cycles and the immobilisation or dematerialisation of securities.

All pose a challenge of one kind or another, he stresses. Potentially all stakeholders from the investor to the issuer will feel some impact, through all the intermediaries and market infrastructures affected by the regulation. He believes that competition should increase, especially due to the conjunction of both CSDR and Target2 Securities (T2S), the latter being a strong catalyst for harmonisation.

He explains: "The new context, characterised by increased harmonisation and standardisation, but also weight of implementation costs and increased competition should foster consolidation among CSDs. Let's remind ourselves that there are about 42 CSDs and securities settlement systems in Europe, while there is only one in the US."

He views the opportunities that this situation presents for consolidation as a positive.

While consolidation in itself would be a positive regarding economies of scale and increased efficiencies, some market participants question whether it will ever happen. In all cases, it is up to individual local regulators to regulate their relevant local entity and rather than see consolidation, fragmentation is more likely to occur as local regulators insist that the destiny of its local CSD should remain in the CSD's own hands. As with airlines, there is a lot of flag-waving national pride involved for countries in having their own CSD.

Not all challenges are equal, as Marc Robert-Nicoud, CEO of Clearstream Holding, explains. He characterises the objectives and impact of CSDR as either fundamental or marginal, depending on the nature of the entities involved.

"For CSDs it is big," he says, "it touches everything we do from governance to reconciliation, so it has massive implications regarding management time and the scale of investment needed."

According to Robert-Nicoud, clients, too, are becoming more aware of the issues involved.

He adds: "If, for example, you are an issuer and you want to be part of the system, you will need a legal entity identifier. If you are a transfer agent, you'll need to do daily reconciliation. And if you are a client using a CSD's banking services, you will see changes in the way your CSD is providing the services regarding credit, collateral and haircuts on that collateral. I don't think it is a piece of legislation that will create significant new costs for clients, but they will certainly see change."

The provision for a CSD to acquire a banking licence remains controversial, as Colladon, makes clear.

He suggests: "CSDR, unfortunately, has opened the possibility for CSDs to provide custodial services and apply for a banking license, and become what is called "Investor CSDs" aside from their traditional status of 'issuer CSDs'. We, as do other global custodians, consider this situation as potentially damaging for the industry. It distorts both the risk profile of financial market infrastructures (FMIs) that are at the same time designated as systemic and the level playing field as it allows CSDs to compete with their participants, without having to always comply with the same constraints."

Robert-Nicoud points out that a detailed, comprehensive summary of the main elements of CSDR can be found in a Clearstream customer briefing brochure, produced in May last year as a guide to what it sees as the key features of CSDR.

Ina Budh-Raja, head of regulatory affairs for securities finance Europe, the Middle East and Africa (EMEA), State Street, directs the attention towards the impact of CSDR on participants in the securities lending and repo markets, including agent lenders and possibly broker-dealers. The impact on securities lending is broadly twofold, she says.

Budh-Raja explains: "Firstly the proposed settlement regime imposes penalties on fails and a mandatory buy-in regime. We are of course supportive of the objectives of this regulation, seeking to streamline settlement processes and reduce the number of fails in the market, thereby improving market efficiency.

She adds: "But what is potentially concerning is how the impact of the new settlement regime will play out in practical terms and whether certain unintended consequences of the regulation could obstruct the intended objectives aiming to reduce fail rates. By way

of example, if the penalty regime is implemented as proposed, the cost of failing imposed by the regulation may well be significantly lower than the cost of buying in. Commercially it may, therefore, appear more attractive to face a penalty for a failed trade, rather than execute a buy-in, by factoring in penalty costs into the price of loans at the outset."

"Ironically, rather than increasing market efficiency, the regulation could be rendered ineffective in this space, resulting in no decrease in failed trade rates and potentially an increase, where participants seek to incorporate fail penalties into the cost of doing business."

"This is only a potential outcome, however, and the commercial choices need to be balanced with the realities of regulatory expectations, reputational risk and the standards of conduct expected of the market. In December 2017, State Street's securities finance business in EMEA adhered to the Bank of England's Money Market Code of Conduct, which sets out an ethical and conduct based framework for UK market participants in the securities lending and repo markets."

Budh-Raja says: "The code is principles-based and provides practical examples of the standards to be maintained by UK participants, of these, it stipulates that the market should be seeking to minimise and avoid fails. It would be hard to argue in practice that a commercial strategy pricing fails into the business would viably fall within the cultural and market conduct expectations on market participants operative in the securities market today."

"Furthermore, agent lenders have a duty to act in the best interests of their clients, so from a regulatory and conduct perspective, adherence to the Bank of England Code and other relevant regulations is paramount; therefore a mandatory buy-in process may be more costly than failing and could appear in the short term to generate lower revenue for clients, but compliance will lead ultimately to the more regulatory-robust outcome, enhancing market stability and creating longer-term benefits to clients."

The mandatory buy-in regime has also given rise to market concerns around liquidity, according to Budh-Raja. While intending to improve settlement efficiencies and harmonise settlement discipline across the EU, she says it is feared that the mandatory buy-in regime may inadvertently result in a material shortage on liquidity in the market, leading ultimately to potential market strain and a reduction in securities lending, if indeed participants choose to withdraw from the market.

Mark Jones, the new head of EMEA securities lending at Northern Trust, broadly agrees: "The primary challenge [of CSDR] probably comes from the proposed settlement discipline regime including mandatory buy-ins and settlement penalties."

"While settlement efficiency and minimising impact to our client's investment activity is already a key aspect of the way we manage our lending programme; there will need to be an increased focus on this. One potential unintended consequence could be a decrease in liquidity in the lending space as agents take a more conservative view and hold larger 'buffer' positions to protect against sales, or in a worst case, beneficial owners regard the increased risk as significant enough to withdraw their assets from lending programmes. This could be to the detriment of the settlement efficiency that is one of the aims of the regulation."

Budh-Raja also suggests that the settlement internalisation regime, as proposed under the draft regulation, could present significant challenges for securities lending. She points out that the scope of this regime is not yet confirmed and publication of the final guidelines by ESMA is expected imminently.

She explains: "At present, the draft regulation includes lending transaction reallocations and collateral reallocation within the scope of the reporting regime. While we support the enhanced transparency which this reporting will bring, it is not yet clear where the delineation with the forthcoming Securities Financing Transactions Regulation (SFTR) lies."

"Given that SFTR article 4 transaction reporting requirements will be active in 2019, the same proposed timeline as CSDR implementation, the securities lending and repo market are undergoing significant transformation as firms now invest large amounts of resources to address the technology build required to meet very extensive SFTR transaction reporting criteria. Amongst the 150 plus data fields, which make up SFTR reporting, all collateral and lifecycle events will be reported on a T+1 basis, and therefore, competent authorities would have detailed visibility of these transactions."

"Capturing this data in the CSDR regime could result in duplicative reporting requirements, with firms having to increase spend on building systems which provide essentially the same information to the same competent authority as will be provided for SFTR purposes, but in a different reporting format. In an already resource-stretched market, duplication of this nature may have a material impact on the cost of doing business going forward," she says.

Robert-Nicoud brings the current conversation to a close with his own words of caution: "There are a lot of moving pieces within CSDR, and if we become more efficient, this will take cost and risk out of the market. But there are certain elements yet to be decided. Like every European regulation it has to be turned into technical standards and a few points of interpretation remain open for discussion. Regulators are currently aligning their views, and it is important that we do not introduce conflicting requirements during that process."

Implementation is a moveable feast, and Clearstream says its CSDs have submitted their applications for the relevant CSDR operating licences. The process involved each of the Clearstream CSDs applying for authorisation to the relevant National Competent Authorities in Germany or Luxembourg. It expects to receive its authorisation in early 2019, says Robert-Nicoud. **SLT**

I bless the trades down in Africa

The launch of Kenya's short selling infrastructure in January could be part of the capital markets master plan to deepen the Kenyan markets through increased liquidity, if industry commentators are to be believed

Jenna Lomax reports

It was only in January that Kenya received the green light on short selling after the Capital Market Authority of Kenya gave the Nairobi Stock Exchange (NSE) the go-ahead.

Although progress was made to develop a securities lending and short selling infrastructure in 2017, no specific timeline was offered on when trading would be available, but in 2018 the blueprints are forming.

Kenya's new short selling and supporting securities lending facility is expected to significantly increase the number of investors and as Terry Adembesa, derivatives market director at NSE, states: "This is part of the capital markets master plan to deepen the Kenyan markets through increased liquidity."

The move was driven by a 2015 World Bank study, which analysed the state of liquidity in Kenya and proposed measures to improve liquidity, including the introduction of securities lending.

At the Global Custody Forum in London in 2016, one delegate from a global bank with significant African exposure, explained that the emergence of domestic institutional investors has been a big driver of growth. They said that out of the 54 African nations, Kenya is going to be the fastest developing economy, aside from South Africa.

But, before we start presuming he or she was a time traveller or a fortune teller, here's why Kenya's securities lending horizon looks so sunny.

There's nothing that a hundred people or more could ever do

Since SGSS picked up a South African mandate in 2013, Kenya has been going from strength to strength in the securities lending space—especially since the NSE first launched its securities lending facility in September 2015, introducing same-day trading and settlement of government securities.

At that time, only 4 percent of the population was involved in the markets, however, the NSE and the country's capital market authority wanted to entice domestic retail investors through investing in long-term growth initiatives and, in the same year, the NSE launched an exchange-traded fund (ETF), as well as derivative add-ons.

Barely six months later, a first-of-its-kind East African cross-currency repo transaction between Commercial Bank of Africa (CBA) and Standard Bank of Southern Africa (SBSA), worth $25 million, was completed, which saw CBA provide Kenyan government bonds as collateral.

Reggie Mlangeni, regional head of client solutions for East Africa at SBSA, said this would significantly "develop Kenya's domestic financial markets".

He added: "We see this type of transaction as key to developing deep and liquid financial markets in Kenya and across Africa as a whole."

In the same month, securities lending was again highlighted as an area of Kenya's capital markets that should be developed to improve overall market liquidity and continue the forward momentum enjoyed in recent years.

Now it's ready for the launch, but it will be a slow process.

Gonna take some time to do the things we never had

Of course, the next process for Kenya's securities lending is to implement the securities lending programmes, with the NSE closely following The Capital Markets (Securities Lending, Borrowing and Short Selling) Regulations 2017.

The Capital Markets (Securities Lending, Borrowing and Short Selling) Regulations 2017 were enacted for the introduction of securities lending and covered short selling in the Kenyan capital markets.

However, it restricts the transactions to be carried out by regulated persons or any other person specified by the authority. In effect, this restricts the intermediation of the transactions to institutions that are licensees of the authority.

Specifically, it states that all securities lending and borrowing (SLB) transactions must be collateralised to the extent of 100 percent of the value of the borrowed securities.

While this may be costly to borrowers, Adembesa states, the "resultant obligations to the clearing and settlement entity on the surety and safety of the collateral placed is paramount".

He explains: "Borrowers will have to be satisfied with the safety, investment and valuation pricing data for their collateral."

Also, the regulations prescribe that it is the CMA that will identify the criteria for the selection of securities to be lent and borrowed.

Adembesa suggests: "I believe market players are now positioning themselves to carry out the new business. The Central Depository (CDSC) is currently in the process of upgrading its core engine, which will facilitate the SLB programme. The new system is expected to be rolled out imminently in H1 2018."

Any other type of security has to be prescribed by the regulator. Section 17 of the regulation further provides the operational responsibility for the regulator to preview and impose price controls, in the case of suspended short sales of a security, on a weekly basis.

As Adembesa explains: "The market players will impress on the regulator to be sensitive to timing and pricing of any suspension or imposition of restrictions on any securities as these may cause problems in their own right".

What lending volume is feasible for the Kenya market to reach this early stage is difficult to tell and to place a figure on this at the moment is dependent on how the programme will be operationalised, according to Adembesa.

However, he is adamant that Kenyan capital markets are growing and shortly we should see "the development of a commodities exchange, development of the money markets, development of centrally cleared or reported OTC trades, introduction of primary dealers in the debt markets and the introduction of market makers to drive liquidity".

With new regulatory requirements, such as the second Markets in Financial Instruments Directive (MiFID II), rolling out in Europe and arguably causing some stress and headaches, it's unlikely this will affect the African market, yet, as Adembesa suggests "Kenyan banks are yet to achieve the latest Basel standards".

Although the Kenya short selling infrastructure is in its early stages, Adembesa suggests that the East African regional regulators have been working on common listing requirements especially for debt issues.

He says: "The exchanges in Kenya, BRVM, Mauritius, Nigeria and South Africa have toyed with the idea of linking up their markets to provide for easier trading and settlement of securities across the markets, but these discussions are still ongoing." **SLT**

Kenya's securities lending timeline

September 2015: Kenya looks to boost liquidity with securities lending platform

October 2015: The NSE prepares to launch with exchange-traded fund and derivatives add-ons

March 2016: East African cross-currency repo transaction between Commercial Bank of Africa and Standard Bank of Southern Africa, worth $25 million, is completed

October 2016: Kenya opens itself up to international securities lending and short selling transactions, developing its capital markets regulation

March 2017: CMA looks to diversify available financial products with the help of several international bodies, including The US Securities and Exchange Commission, the Financial Services Volunteer Corps and Bloomberg

January 2018: CMA gives the go-ahead to the Nairobi Stock Exchange to launch a short selling and supporting securities lending facility

A busy year

Sejal Amin, head of membership services at the International Securities Lending Association, explains the association's plans for 2018 and beyond

Becky Butcher reports

You joined the International Securities Lending Association (ISLA) in 2016, tell us about your career?

After graduating with a degree in Economics and French, I joined the City in 2001 as a consultant for FactSet Europe. I spent a period of four years there, initially supporting and then selling into their institutional client base in London. After a short time at Reuters, I joined Data Explorers back in August 2006. The transition to such a small, yet growing business, was extremely rewarding but certainly challenging, having had no previous experience of the securities lending market.

My successful tenure at Data Explorers was primarily spent in account management, overseeing many regions including France, Scandinavia and the Middle East to name a few. In 2014, some 18 months after the acquisition of the company by IHS Markit, I joined Charlotte Wall to run account management at OTAS Technologies.

How has your perspective of the industry changed by going from a data provider to an association?

Having worked for a data provider that serviced many of the core industry protagonists, some of my perspectives haven't really changed all that much. Perhaps what has changed from leaving the industry to returning some three years later however, is the increased regulatory focus and how that has shaped behaviour and the broad landscape. Having said that, and whilst my role at ISLA is largely strategic as opposed to commercial, my previous experience and network has certainly proved invaluable.

As head of membership services, without stating the obvious, what comes under your jobs remit?

Since joining the association just over 18 months ago, my responsibilities have changed considerably.

In terms of the membership, I assume what I would describe as an strategic account management role. Working with Andrew Dyson, Mark Hutchings and the rest of the ISLA team, the main objective here it to identify and maintain good levels of engagement and dialogue across all existing and prospective member firms across Europe, the Middle East and Africa. Tied in with this, is the identification and organisation of ISLA's regional roundtable events.

In terms of other events, I have primary oversight and planning of the main European conference during the summer, as well as the one day post trade conference in the autumn. Finally, I am co-author of ISLA's Semi-Annual Market Report, which is distributed to over 100 regulators and policy makers globally.

ISLA's semi-annual market report, which you co-author, has quickly become a go-to guide for the market and media on the industry's trajectory. Can you outline the work that goes into this report and any plans to develop it further?

From start to finish, the report takes approximately six weeks to produce. Once the files are in from the various commercial providers, I go through a thorough analysis of the data and identify many of the core themes and trends which we hope to expand on.

The evaluation process also includes an element of validation from a cross section of member firms, so that they can provide some further context. Editorial and the finished report can then take anywhere between two to three weeks.

Whilst we haven't moved away from the core structure or objectives set out for the first edition back in 2014, the report has certainly evolved over this time. The most significant change has been the inclusion of topical thought leadership pieces, which have been a popular addition.

In the 7th edition, Michael Huertas, counsel at Baker McKenzie in Frankfurt provided a piece titled 'How to Brexit-proofs ones documentation in a time of uncertainty'. In this recent edition, we have sourced two independent reviews around Securities Financing Transactions Regulation (SFTR) readiness and exchange-traded fund lending.

On the format, we have already begun a process of improving the look and feel of the publication and will be bringing it further in line with our website and overall branding.

What about ISLA's members?

We currently have 141 members across a variety of firm types; banks, broker dealers, beneficial owners, trade associations and service providers. Although some of our larger member firms sit in the UK, 60 percent of the membership, which consists of many smaller institutions, sits in Europe. Of that, France, Germany and the Netherlands represent the lion's share. I would say we have a good mix of firm types across all locations, and the regional events go some way towards servicing them whilst attracting new members. I would be delighted to see more beneficial owners joining the association as I truly believe there is much value to them in what we do, whilst their voice and insights are key to our messaging.

ISLA represents all demographics of the securities lending industry, but why should beneficial owners join you?

From ISLA's perspective, beneficial owners are an integral part of the supply-side value chain and therefore their voice and input is vital to our work, notably around advocacy. In the same vein, one of ISLA's core objectives is to provide guidance and support to the securities lending industry. By becoming a member, beneficial owners can have unique access via the website and other channels to relevant documentation and working group initiatives.

What are the main benefits to being a member of ISLA?

Whilst there are different tiers of pricing based on firm type and size, benefits are broadly universal. Main benefits include access to the regular standard and topic specific working group discussions and outputs. Through the recently relaunched ISLA website, members can access all regulatory, legal and tax developments as well as industry documentation, surveys, news and updates on ongoing initiatives.

Attendance to the post-trade conference in London each year is free, whilst discounted delegate fees apply for our flagship event.

Finally, full member firms are also entitled to vote during board elections, a process which allows them to influence the priorities and focus of the association going forward.

ISLA has a busy calendar of events and roundtables throughout the year, what are your main dates in the year and are you looking to expand in this area?

ISLA's main conference will be at the Epic Sana in Lisbon between 19 and 21 June. We have moved away from tradition this year in terms of the co-chair format, and instead myself, Dyson and Eventrock have been working with a small conference committee to develop the broad themes and ideas for the three days. This year's tag line is 'Different Perspectives, New Opportunities', as the agenda has been designed to be forward looking. I am really excited about some of the keynote speakers, as well as how the panels and sessions are taking shape. In terms of other confirmed dates this year, the post trade conference will be on 4 October and planning for that will commence in the summer. The regional roundtables of course have become a big focus for me since joining ISLA, and 2018 will be no different.

I am currently planning an event in Frankfurt during April, whilst we will look to return to Paris in the autumn. Other locations under consideration include Scandinavia, Milan, Amsterdam and Zurich.

What are your plans for 2018 and beyond?

There are a number of key deliverables in terms of events for 2018: Lisbon and the post trade conferences are of course the main ones, however Frankfurt and Paris roundtables are also owing to their strategic importance.

If we look at ISLA broadly and some of the ideas which were discussed at our recent board offsite, there will be considerable time and resources allocated to all aspects of communications and messaging in 2018 and beyond. Further work will be done to enhance the website both in terms of navigation and content, as well as ISLA's social media footprint.

Finally, legal services as well as advocacy will continue to be at the heart of many ongoing and new initiatives; SFTR, Pledge, UCITS and the capital markets union to name a few! **SLT**

Transparency is king

David Lewis of FIS discusses how transparency can contribute to bringing efficiency and safety to a financial market

We live in an increasingly transparent world. Few areas of life, whether personal or business, are not exposed in facts that are liberally, and often instantly, distributed across multiple media, worldwide. Data latency is now unrecognisable compared with just a few years ago, let alone a couple of hundred years ago. Then, trading advantages could be gained by having the fastest sailing ship, vessels that not only brought goods but information and news about harvest performance, political regimes and any scrap of information that might affect the value or supply of traded goods.

Now, as we all experience in our daily lives, we can gather news and information on any subject, from pretty much anywhere in the world and almost instantaneously to our pocket devices. But what if it is wrong, or misleading? Much has been covered in the media over the last couple of years under the new phrase of “fake news”. Examples abound of seemingly obvious fake news items being absorbed as real and affecting everything from share prices to (allegedly) major elections. In some cases, it doesn’t even take news to move markets. Witness the effect that a recent tweet of one person’s opinion of the new version of the Snapchat app had on Snap, the company that owns the once ubiquitous app. Kylie Jenner, half-sister of a Kardashian, posted that she was “sooo (sic) over Snapchat” and the company’s shares fell 8 percent to $17, their initial public offering price, bringing the market cap down by $1.3 billion.

It is doubtful, perhaps, that if the same person tweeted her dislike of, say, a global oil company or a steel manufacturer, it would suffer the same fate, but news doesn’t have to be false, or from social influencers, to be misleading. Short interest, a common theme for FIS articles in Securities Lending Times, is rising rapidly as a major component or input into trading decision making systems. At Astec Analytics we have been doing some incredibly interesting work with algorithmic funds, research houses and alternative data aggregators. Our combined research has identified genuine alpha generation using short interest activity as a leading indicator, which is multiplied in strength when combined with other related and, at times, seemingly unrelated data models. Perhaps counterintuitively, some of the strongest correlations with share price performance was related to long funds, rather than short sold positions that might naturally be expected to fit more closely.

Recent articles in the press have highlighted large short exposures held by some hedge funds, partly because the allegedly nefarious behavior of short sellers, and, by extension, securities lenders, rarely fails to get a headline, but also partly because they are pushed into the limelight as indicators of market sentiment. For example, a recent article about the substantial short positions, totaling some $22 billion, held by Bridgewater, one of the world’s largest hedge funds, highlighted the lack of clear understanding available despite the transparency that such public data is supposed to bring.

In several jurisdictions across the world, there are market disclosure rules typically making public the details of positions exceeding 0.5 percent of the issued share capital of given equities. Countries with

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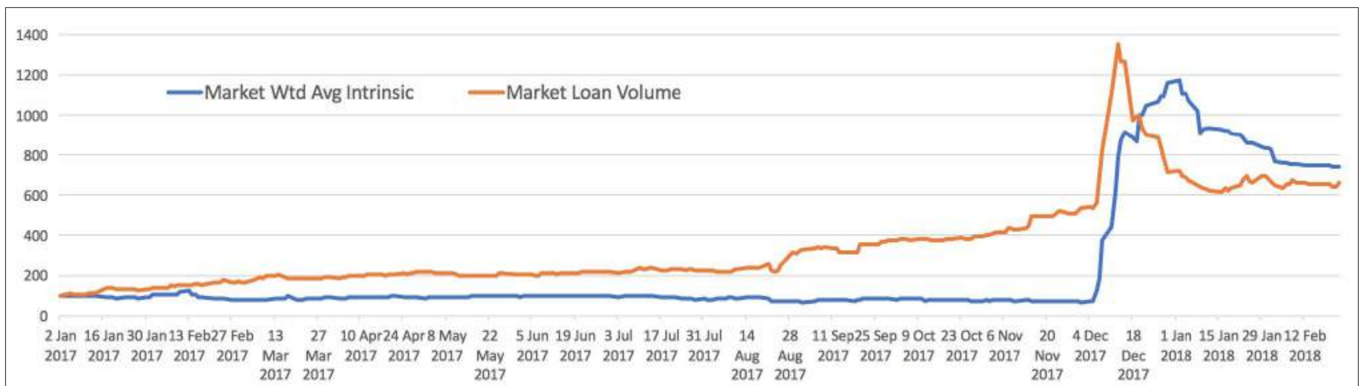
such rules include Korea, Japan, and the UK, while others such as Australia and Canada just report aggregate positions without naming the funds behind them. The practice of naming funds may be behind some of the shortcomings in such disclosures. While there are many instances in the past where a very public and intentional disclosure of short exposures has been made (Muddy Waters and Gotham Research spring to mind), allegedly to further the markets interest and analysis of the target companies, most funds protect their anonymity at all possible, and, of course, legal costs.

In order to limit public disclosure in those jurisdictions where it is mandatory, all that the funds have to do is stay beneath the disclosure minimums. Half of one percent of a company's issued share capital allows for reasonably large positions to be accumulated without them being made public. This can, of course, create misleading data.

Last December, shares in the Germany-based company, Steinhoff International Holdings, (SNHG), which has a range of interests from household goods retailing to logistics and car rental under the Hertz brand, collapsed as it admitted accounting irregularities following a long examination by German tax investigators. The shares fell from around €3.45 to less than €0.60 almost overnight, trending down further to around €0.40, yet not a single public disclosure had been made by the German regulators. Short interest has long been known as the "canary in the coal mine", there to warn investors of potential price changing events, helping ensure that shares do not become overvalued and companies do not benefit from capital that could be better employed elsewhere. Yet, for Steinhoff, no such public warning came.

Securities finance data, however, when used as a proxy for short interest can be very compelling indeed. The graph below shows the level of borrowing in Steinhoff shares and the cost of borrowing those shares, indexed to 100 as of 1 January 2017. The sudden and very clear jump in both lines at the start of December is after the announcement was made and is made up of other short sellers jumping in after the fact. Somewhat diluted by the jump to an indexed rate of 1,350 for the volume borrowed, is the 540-point rise in volume that occurred before the announcement.

The adage that a little knowledge is a dangerous thing is not appropriate in the case of Steinhoff as, for much of the market, there was no knowledge at all. However, it could be used much more accurately when considering the public disclosure of such data, the absence of which may well have led investors to place capital into Steinhoff, when they perhaps should not have. Comprehensive and timely data is what is needed for efficient markets, whether that is the lending and borrowing of securities at the right rate, or the selling and buying of securities at the right price. Transparency can contribute to bringing efficiency and, indeed, safety, to a financial market, but if Steinhoff, and other such examples prove anything, it should be all or nothing. **SLT**



Transparency can contribute to bringing efficiency and, indeed, safety, to a financial market

David Lewis
Senior director of securities finance
FIS

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Alexander Ash

London

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Daswani leaves Northern Trust, Moloney rejoins Eurex and Johns joins FIS

Sunil Daswani has left his role as head of international securities lending at Northern Trust.

Daswani, who has been with Northern Trust since 2002, was head of international securities lending for Europe, the Middle East and Africa (EMEA), as well as Asia Pacific (APAC) from 2015. He was also PASLA Chairman from 2004 to 2008 and previously held positions at Citi and UBS.

It is understood that Mark Jones will replace Daswani as head of securities lending for EMEA, with Dane Fannin reportedly heading up securities lending for Asia Pacific.

George Trapp remains head of client relations for North America.

Ricky Maloney will rejoin Eurex as head of fixed income trading and clearing sales.

He previously worked at Eurex from 2013 to 2016 as head of over-the-counter clearing sales and relationship management.

From 2016 to 2017, Maloney served as front office business manager at Old Mutual Global Investors. He has also held senior positions at Ignis Asset Management and BNP Paribas.

Stewart Cowen has left his role at J.P. Morgan.

Cowan served as executive director and regional head of agent lending for Asia Pacific. In his role, he was based in the firm's Sydney office. He has worked at J.P Morgan since 2000. Cowan's new role is yet to be disclosed.

Brendon Johns has left his role as equity finance manager at Macquarie Group to take on a new role at FIS.

Johns, who served at Macquarie for just over four years, specialised in securities lending, equity finance and funding and liquidity.

Prior to Macquarie, he served at Velocity Trade as head of operations and business development. Johns has also stepped down from his executive committee role at the South African Securities Lending Association. **SLT**

Securities Finance Technology Symposium 2018

26th April

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

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

- **Data – the fuel for automation**
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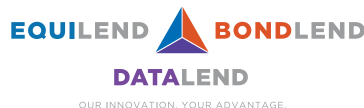

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