securities lending times

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Basel III will represent major improvement

The revised market risk framework drawn up by the Basel Committee on Banking Supervision (BCBS) for Basel III will represent a major improvement to the pre-crisis regulatory framework when it is finally completed and implemented, according to the authority.

The comments were made in a keynote speech by William Coen, secretary general of the BCBS at the 33rd annual meeting of International Swaps and Derivatives Association (ISDA) in Miami, Florida.

Coen discussed the set of the new framework firmly in the context of the quarter of a century that it has taken to develop, in particular the past decade since the global financial crisis.

He said: “The main elements of the revised framework finalised in December 2016 are in a stable shape, and the committee is focused on finalising the few remaining outstanding issues in a timely manner this year.”

He further added that an important consideration for the committee is whether the framework adequately balances simplicity, comparability and risk sensitivity. He asked if the committee will need to consider whether simpler and more robust approaches should be included in the revised market risk framework.

He noted: “This includes the 1 January 2022 implementation date of the market risk framework, as reaffirmed last month by the G20 Finance Ministers and Central Bank Governors. So the committee will increasingly be focused on meeting this expectation.”

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SSGA completes migration of its SPDR ETFs to Euroclear Bank

State Street Global Advisors (SSGA) has completed the migration of all of its Standard and Poor's depositary receipt (SPDR) Irish-domiciled exchange-traded funds (ETFs) to Euroclear's international central securities depository (ICSD) model.

SSGA has transitioned the remaining 62 ETFs under the SSGA SPDR ETFs Europe I & II classification to Euroclear's ICSD model.

The related transactions will settle directly in Euroclear Bank. The first portion of SSGA's SPDR ETFs migrated into Euroclear's international issuance structure in December 2014.

According to Euroclear Bank, its international structure for ETFs brings increased efficiency to a process that had previously only been supported by fragmented domestic market practices across Europe.

Mark Harris, a capital markets strategist for SPDR ETFs, said: "The international ETF model provides a centralised issuance and post-trade environment that removes much of the fragmentation seen under the domestic model for our multi-listed products."

He said: "We believe the model will, over time, deliver a number of key benefits for our market participants whilst providing a solid platform for the continued growth of our European ETF business. We are pleased to be at the forefront of this infrastructure evolution and we look forward to continuing our partnership with Euroclear Bank and driving further efficiencies for our end investors."

Mohamed M'Rabti, deputy head of FundsPlace at Euroclear, commented: "SPDR were the first to migrate to our international ETF structure and we are proud they have continued the journey with us to this final migration."

He added: "Having all SPDR ETFs on the ICSD platform will allow SSGA's clients to benefit from all the features of the model, such as securities lending, multi-currency settlement and longer settlement windows."

SIA closed 2017 with revenues of €44.5 million

SIA closed 2017 with revenues of €403.4 million and a net profit of €63.4 million.

The group's revenues rose to €567.2 million and saw an increase of 34.6 percent in dividend compared to the ordinary dividend distributed in 2017, equal to €59.9 million.

According to SIA, the achievement of these results was made possible due to the quality of the solutions offered and the absolute reliability in the management of 'mission-critical' infrastructures.

Last year, the shareholders received ordinary dividends of €44.5 million, equal to €0.26 for each of the 171,343,227 shares.

In 2017, SIA Group handled the clearing of 13.1 billion payments, an increase of 7 percent compared to 2016.

On the financial markets, the number of trading and post-trading transactions rose to 56.2 billion from 47.4 billion in 2016, an increase of 18.8 percent.

SIA has also appointed Roberto Giacchi as a member of the board of directors, replacing Marco Siracusano who tended his resignation. In addition, SIA also confirmed the appointment of Giacomo Riccitelli as another board member.

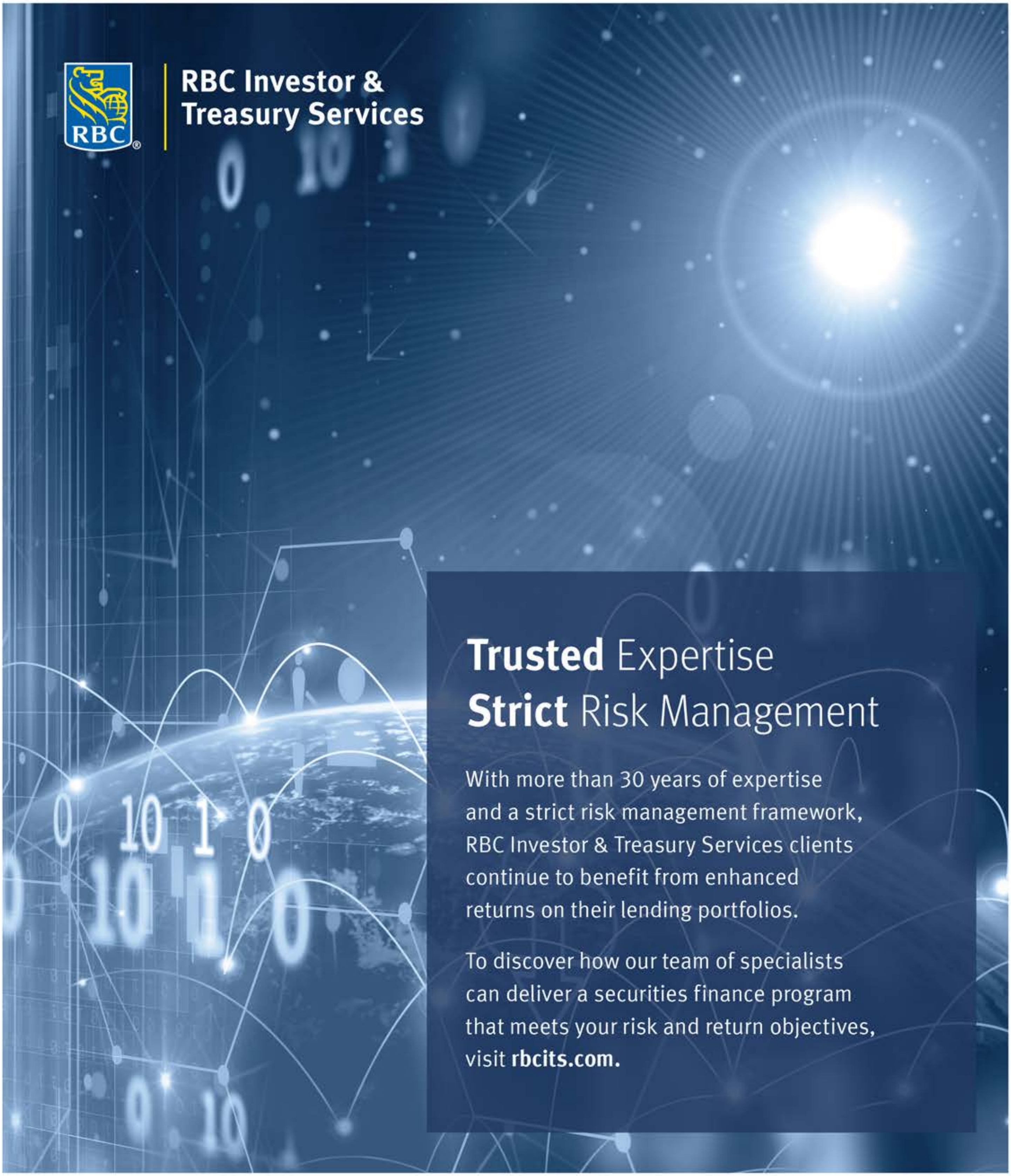
New York attorney general launches cryptocurrency 'exchanges' inquiry

New York Attorney General Eric Schneiderman has launched a fact-finding inquiry into the policies and practices of major US and non-US cryptocurrency platforms named the 'Virtual Markets Integrity Initiative'.

As part of the initiative, the New York State Office of the Attorney General has sent a letter and questionnaire to 13 exchanges specialising in cryptocurrencies.

The questionnaires inquire about six major topic areas, including ownership and control, basic operation and fees, trading policies and procedures, outages and other suspensions of trading, internal controls and privacy and money laundering.

Among other areas of interest, the recipients are asked to describe their approach to combating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NSD conducts first federal Treasury repo auction with floating rate

Russia's Federal Treasury successfully conducted its first repo auction with a floating rate via National Settlement Depository's (NSDs) collateral management system on 12 April.

The amount of concluded transactions reached RUB 60.7 billion ($98.8 billion).

Federal Treasury repos with a floating rate is a new product in NSD's collateral management system product range.

The floating rate product will enable long-term repos to be performed at favourable market terms where interest rates are declining.

Transactions are performed using the basic floating interest rate to place funds and the interest rate spread.

The Federal Treasury plans to conduct regular auctions with the floating rate alongside repo auctions with the fixed rate.

suspicious trading and market manipulation, their policies on the operation of bots, their limitations on the use of and access to non-public trading information, and the safeguards they have in place to protect customer funds from theft, fraud, and other risks.

Attorney general Schneiderman said: "With cryptocurrency on the rise, consumers in New York and across the country have a right to transparency and accountability when they invest their money. Yet too often, consumers don't have the basic facts they need to assess the fairness, integrity, and security of these trading platforms."

"Our Virtual Markets Integrity Initiative sets out to change that, promoting the accountability and transparency in the virtual currency marketplace that investors and consumers deserve."

Early market reaction comes from Mati Greenspan, senior market analyst at social trading platform eToro.

He added: "The Attorney General is looking for general information about crypto exchanges. This isn't necessarily good news or bad news for crypto. It just means the government is doing some more homework."

European Commission publishes draft regulation on CCP transitional period

The European Commission has published a draft implementing regulation to extend

EBA publishes risk guidelines paper

The European Banking Association (EBA) has published a consultation paper setting out draft guidelines to financial institutions on the specification of types of exposures to be associated with high risk under Article 128(3) of Regulation (EU) No 575/2013.

This will affect minimum capital requirements. The EBA highlighted the investments in certain kinds of venture capital firms and/or private equity as being high risk.

Other high risk categories include the financing of speculative investments in both financial and non-financial assets (other than real estate), and any exposure for which an issue specific external rating is not available and which can be considered as specialised lending exposure.

The EBA explained that the issue addressed by the guidelines is the lack of common institutions' and supervisory practices regarding the types of exposures, which are associated with particularly high risk and under which circumstances.

The policy objective of the guidelines is to establish convergence of institutions' assessment of whether an exposure constitutes a particularly high risk in the sense of Article 128 (3) CRR.

The EBA has requested responses to the paper by 17 July 2018. It says that comments submitted after this deadline may not be processed.

the transitional period for own funds requirements for exposures to central counterparties (CCPs).

If the regulation is adopted, the transitional period will be extended by an additional six months until 15 December 2018.

According to the draft, the implementing regulation will help avoid disruption to international financial markets, and prevent penalising institutions by subjecting them to higher own funds requirements during the processes of recognition of existing third-country CCPs.

Previous EU regulation requires certain third country CCPs to report, for a limited period of time, the total amount of initial margin they have received from their clearing members.

Of the CCPs established in third countries that have applied for recognition, 32 have been recognised by the European Securities and Markets Authority.

The remaining third-country CCPs are still awaiting recognition, which will not be completed by the time the current transitional period ends on 15 June 2018.

If the transitional period is not extended, institutions established in the EU with exposures to those remaining third country CCPs will be required to increase their own funds for those exposures significantly, potentially resulting in the withdrawal of

those institutions as direct participants to those CCPs, according to the draft.

Top of hot stocks: Melrose Industries and Tesla Inc

Melrose Industries (MRON) led the FIS Astec Analytics hot stocks list for Europe, the Middle East, and Africa for the week begining 16 April.

Short sellers have continued to ramp up their positions with the manufacturing group, adding 10 percent by volume over the past three weeks, as of the 16 April.

Utilisation increased adding 5 percent to close the week at 83.5 percent as institutional funds have bought into the stock expecting a successful outcome.

Following MRON was TechnipFMC (FTI), the oil services company formed by the merger of Technip and FMC.

According to FIS, short sellers chose a good time to reduce their exposure to any price rises as news of a deal with Saudi Aramco to produce polymers from ethane as part of a major new refinery installation in Texas, pushed FTI's share price up some 12 percent.

Featuring again as top of the Americas hot stocks list, was Tesla Inc.

Short sellers have been pushing their exposures upward consistently since mid-March, adding 48 percent by volume to a new 12-month peak, before falling back to an advance of 41 percent by last week's close. Over the same period, utilisation grew from 78 to 81 percent.

Following Tesla was Roku Inc the US-based television streaming platform.

FIS found that on 12 March, short interest volume hit a 12-month high, and has since been falling, dropping 19 percent by the end of March, before dropping more sharply and extending that reduction to 74 percent by the close of last week.

DTCC: Turning headwinds in to tailwinds

The Depository Trust & Clearing Corporation (DTCC) will look to create momentum and capture tailwinds in 2018 and beyond, according to its 2017 annual report.

Michael Bodson, president and CEO of the DTCC, explained: "The headwinds facing the industry today may be strong, but we firmly believe we have the experience, knowledge and skills to turn them into tailwinds."

"And tailwinds have a way of swelling, increasing in strength and intensity and gaining force over time."

Further reducing friction and fragmentation in the post-trade environment will be key to this process, he added.

According to DTCC, its ability to serve the industry is continuing to improve its financial performance, including growing its net income margin, which the report stated will ensure it has the resources to make strategic investments to benefit the industry and the ability to weather swings in market activity or tough economic times.

Bodson said: "In 2017, our revenues remained strong at $1.7 billion despite fee reductions of $75 million, and our net income margin rose to 9.7 percent, an improvement of 30 percent over the previous year."

In the report, Robert Druskin, non-executive chairman of the DTCC, explained the importance of continued financial strength and flexibility.

He said this will enable the DTCC to make the investments needed to strengthen its core processes as well as develop new capabilities.

He said: "The flawless execution of our clearance and settlement responsibilities, which are essential to mitigating risk and providing stability, is our foremost priority."

Bodson also commented on DTCC's achievements in 2017, which included leading the move to T+2 settlement in the US and completing the industry-wide business resilience exercise under the US Securities and Exchange Commission's (SEC) regulation Systems Compliance and Integrity (SCI).

Developments in financial technology also featured in the CEO's missive. In 2017, for example, the DTCC also began re-

platforming its trade information warehouse for credit derivatives using distributed ledger technology and the cloud.

Commenting on this, Bodson said: “We expect to begin testing the next generation of the service later this year.”

Canada’s 2018 Budget was a sigh of relief

Canada’s 2018 budget brought a sigh of relief, according to Samantha Prasad, a tax partner with Toronto-based law firm, Minden Gross.

In a company newsletter, Prasad said the respite came after the anticipated changes of Canada’s tax rules “were not as onerous” as once thought.

Prasad continued: “The 2018 Federal Budget was highly anticipated, or perhaps, dreaded, in light of the flurry of announcements in 2017. Most of the drama surrounding the budget release centered on one item—the passive income rules for private corporations.”

The Department of Finance had warned that in relation to the passive income rules, the 2018 budget would contain legislation on how they would be applied.

Prasad commented that she was surprised at the corporate tax measures introduced this year.

These rules stated that “any past and current investments (and future income earned thereon) in a corporation as at the date the new rules are announced will be grandfathered, and so will not be subject to the new rules”.

In addition, the first CAD $50,000 of passive income will not be taxed at the top rates and the Department of Finance said they “will allow for contingency funds or reserves to allow for the purchase of equipment, business expansion or hiring and training of staff”, and “incentives will be in place for venture capital and angel investors to allow them to continue to invest in Canadian innovation.”

Commenting on these rules, Prasad said: “Happily, the 2018 budget proposal substantially scaled back the previously announced measures, so much so that they seemed to be completely new rules.”

“Essentially, the budget proposed a clawback of the small business deduction instead of the application of the top tax rate.”

Prasad explained that the new rules will “work in tandem” with the taxable capital rules where the small business deduction is reduced and eventually eliminated for companies that have taxable capital between $10 million and $15 million.

She said: “For Canadian-controlled private corporations, the access to refundable dividend tax on hand on the payment of

taxable dividends to its shareholders is a true cornerstone of tax integration for corporations and their shareholders."

Although there were no new changes proposed to the corporate tax rates, the budget confirmed the previously announced reduction in the federal small business deduction—a reduction to 10 percent for 2018, and a further reduction to 9 percent for 2019.

The budget also introduced new ruling about personal tax measures, tax credits and deductions, personal tax measures, international tax measures and controlled foreign affiliate status.

S&P: Islamic finance industry will expand slowly

The global Islamic finance industry will expand slowly in 2018 and 2019, according to a report published by Standard and Poor's (S&P) Global Ratings.

In its report, the financial services company said that the Islamic finance industry would only grow by about 5 percent on average over the next two years.

This slow growth is owed to tepid economic conditions in certain core markets.

However, S&P added that standardisation and financial technology could help accelerate the industry's growth in the short to medium term.

In particular, standard Sharia interpretation and legal documentation could simplify sukuk issuance, while making room for innovation.

Sukuk, or Islamic bonds, are bonds that are structured in such a way as to generate returns to investors without infringing Islamic law on the charging and payment of interest.

Said Mohamed Damak, S&P global head of Islamic finance, said: "In the medium term, we envisage some disruption in the payment services sector, an increase in the number of people using financial services, as well as greater use of regulatory technology for Sharia compliance, and blockchain to support transaction traceability and identity protection."

"We foresee only a marginal influence of fintech on our Islamic bank ratings over that period. We consider that Islamic banks will be able to adapt to their changing operating environment through a combination of collaboration with fintech companies and cost-reduction measures."

Damak concluded: "We also believe that regulators across the wider Islamic finance landscape will continue to protect the financial stability of their banking systems."

Securities services revenue boost at JP Morgan Chase

Securities services revenues at JP Morgan Chase rose 16 percent in Q1 2018, according to the bank's Q1 results.

The bank also reported that assets under management of $2 trillion rose by 10 percent in the period.

Jamie Dimon, chairman and chief executive officer said: “Our multi-year investments in treasury services and securities services are paying off, with revenue up 14 percent and 16 percent in those businesses.”

He added: “We have been outpacing the industry on consumer deposit growth while attracting significant net new money and growing client investment assets 13 percent. Card sales and merchant processing volume both grew double digits, reflecting our investments in new products and innovation focused on our customers’ needs.”

“Our asset and wealth management business delivered strong results, with long-term net inflows this quarter across all regions, even as volatility returned to the market.”

Citi establishes new service ahead of SEC ruling implementation

Citi has established a service for clients facing the US Securities and Exchange Commission’s (SEC) rule changes affecting the US mutual fund industry later this year.

Compliance with the rule changes, SEC Rule 22e-4, requires additional market data, analytics and new reporting infrastructure.

According to Citi, the upcoming rule changes will have a dramatic impact on mutual funds as they will substantially increase automation, data collection and reporting requirements.

In response, Citi has partnered with MSCI and Confluence to help clients satisfy the SEC’s reporting modernisation and liquidity risk management rules.

MSCI will optimise the delivery of its data and risk and liquidity analytics to create easier integration into Confluence’s Unity NXT regulatory reporting solution.

The analytics include the calculation of market risk sensitivities at a portfolio and position level, and the classification of funds’ investments into liquidity buckets, as outlined in SEC’s new ruling.

Jay Martin, head of North American custody and fund services, at Citi, said: “We look forward to helping our clients meet the rigorous demands of the SEC’s new mutual fund regulations. Together with MSCI and Confluence, we will create a set of user-friendly services that will help mutual fund managers navigate this complexity with transparency and control.”

Jorge Mina, head of MSCI Analytics, commented: “Asset managers are making their final decision on what solutions to implement as the SEC compliance deadline approaches.” **SLT**

Securities Finance Technology Symposium 26th April 2018

Forever adapting

The Securities Financing Transaction Regulation, data and blockchain were all hot topics at the first Securities Finance Technology Symposium in London

Becky Butcher reports

Securities Lending Times hosted the first of its kind Securities Finance Technology Symposium, welcoming over 200 delegates to the Grange Hotel St Paul's to discuss current market issues, how technology can help, what solutions are available and the future direction of the market.

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

The event provided the industry 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.

Some of the big talking points of the day included data, which come as no surprise since most, if not every, topic revolves around data.

Meanwhile, no securities finance conference would be complete during this climate without a discussion around the Securities Financing Transactions Regulation (SFTR). Blockchain also featured in the discussion of various panels, even if it did receive a mixed reception.

Andy Dyson, CEO of the International Securities Lending Association (ISLA) kicked off the first panel 'Data—The fuel for Automation'.

Dyson, who moderated a panel including Pierre Khemdoudi of IHS Markit, James Palmer of DataLend and David Lewis of FIS Securities Finance, discussed how the world of data is becoming more complex and demanding with the rise of automation and the introduction of new regulation, such as SFTR.

It was also revealed that a substantial increase of data transactions, 31 percent over the last three years, has led to an increase in demand.

One panellist said: "The securities finance industry and the quantity of transactions are enormous. It is getting broader, faster, deeper and more valuable. People are building up this data to become the best."

He noted that the expansion of data itself and the way in which people consume that data has changed, adding that data is not new it's digitalisation and the volume of it that has changed.

Another suggested that data also has a major impact on automation, while another explained that machines are consuming data, not people.

According to one panellist, who works at a technology provider, 90 percent of his company's transactions are now untouched by the human hand.

Not only has the demand for data increased, but firms are now demanding specific parts of data and information instead of the whole data sheet.

It was suggested that the speed of technology is allowing firms in the industry to do thinking they couldn't do before.

SFTR was also included in the discussion. Panellists explained that the introduction of the regulation would alter the securities finance landscape, as firms will have to do a "huge amount of work around data".

A panellist noted: "What people are looking for now is not cost-benefit but return on investment. The thought process has changed."

Another panellist added that data sits at the heart of SFTR implementation, with the next few years revealing the most complex and detailed market regime ever seen in Europe.

On a separate panel, David Field of The Field Effect, Mark Byrne of EquiLend, Dean Bruyns of Broadridge, Adrian Dale of IHS Markit, John Kernan of Regis-TR and Steve Holland of the London Stock Exchange Group, talked about the concerns around data fields for SFTR compliance.

It was revealed that around 40 percent of fields are not readily available as it stands.

One panellist explained that customers are currently doing a gap analysis and are becoming worried about those fields.

However, there was some reassurance, one speaker said: “I know the industry is working to establish those fields and that the International Securities Lending Association is also doing a lot of work on that.”

There was also a lot of discussion around the technology implications of SFTR. Panellists debated whether a buy or build solution is best for clients.

According to one of the speakers, it can depend on a number of factors, one being the amount of data fields the firm currently has in its system. He explained that people need to consider how data is going to be extracted, and if you do delegate there still needs to be a reporting solution in place.

One industry participant suggested that companies can use existing systems from other regulations such as European Market Infrastructure Regulation (EMIR), and the second Markets in Financial Instruments Directive (MiFID II).

The panel advised firms to “spend wisely” whether that be building on an existing system or buying into a new one.

He said: “You can overcome a lot of complexity if you’re careful with what you build and what you buy. Also, choosing the right company to deal with is critical to get right. There is an incentive to spend wisely.”

The conference also featured a panel discussion focusing on collateral management and optimisation. Panellists, which included Jonathan Adams of Delta Capita, Martin Walker of Broadridge, Ted Allen of FIS Securities Finance, Richard Gomm of Lombard Risk and Phil Morgan of Pirum Systems, agreed that regulation is driving change, especially in the collateral management space.

According to the panel, “we [the industry] shouldn’t underestimate the regulatory change that is happening”, citing the 2008 financial crisis as a major catalyst for that change.

It was suggested that a lot of firms are creating innovative services because of underlying drivers.

One speaker explained that there has been an increase in demand for cross-product systems.

He said: “The behaviour has changed significantly in the last decade, in terms of the net result of reduction in financial resources—the sell side especially have to do more with less, regulatory adherence is a number one priority—the bottom line is cost.”

Another added: “[The securities lending industry] have, I believe, now decided on the whole what their business model is.” He also noted that the buy-side has, in recent times, been impacted by a wave of regulations, but in terms of asset requirements, he said

"it's not just one particular area, several were impacted by the recent wave of regulations".

Although the industry has been severely affected by this level of regulation, there has been a lot more collaboration with vendors over the last few years, he explained.

Another panellist cited that from a securities lending perspective, there is a lack of investment in the over-the-counter environment. However, he noted that attitudes are changing because of regulations surrounding collateral and the need to reduce the cost is changing. He explained: "There's not a weakness in changing."

Collaboration, which has been a big topic of conversation in recent times, was also mentioned. It was suggested that if companies collaborate together, they are likely to become better solution providers, who cover all areas.

One speaker predicted an increase in companies investigating and exploring blockchain, while another said: "I'm sitting on the fence with blockchain, it could be over used as a solution looking for a problem."

There was also another prediction, suggesting that machine learning will also have a part to play in the future of collateral optimisation. The panellist explained that with an ever-changing regulatory environment you never know what might happen next.

During another panel, which featured Armeet Sandu of StoneWain, Boaz Yaari of Shargain, Matthew Harrison of Trading Apps and Tammy Phillips of SBL Network, distributed ledger technology (DLT) was also discussed.

It was agreed that in one way or another, DLT will help to transform the industry over the next three to five years.

According to the speakers, firms are trying to find their own way into such technologies.

However, one panellist explained that the industry should hold back until it becomes standardised in the industry.

He said: "Securities lending can do a lot to innovate without using blockchain in the next three to five years."

Another panellist agreed with an earlier panellist, again suggesting that blockchain is a solution looking for a problem.

The speaker commented: "As these technologies are rolled out, people will experiment with them to see how they can be used within the business."

However, another industry participant disagreed with the statement, suggesting that blockchain can be used to create something new in the industry—one example included cost savings.

The panellist explained: "Everything we talk about is simplistic, transparent and secure, so why couldn't blockchain help with that."

With regulatory changes, there will be more transparency, more automation and an increase in the reliance on technology firms. One panellist said that the winners in this new world would be the ones who develop platforms that slot easily into legacy systems and take advantage of what is already there.

The panellist said that his company, a technology provider, has spoken to many institutions and, "by and large, their technology is terrible", while another added that technology companies are using cutting-edge technology, while participants are using legacy systems.

To adapt, changes will have to be made to these systems. It was noted that these are not small changes, but larger, wider reaching ones. A panellist said that the current market infrastructure has "been there for decades".

One speaker was suprised at how the participants' ability to evolve has been hampered in recent years, by regulation and other challenges. He commented: "Something that used to take months can now take years."

"They don't have the ability to evolve fast enough. If you look at other industries—every bank is investing in technology—in other industries, people would say why are you investing in technology? Instead get it from a technology vendor."

"The current state of technology is not where it needs to be. It's not going to get us to the market structures we want."

DLT also featured in the collateral liquidity platforms session. The panel, which included Bill Foley of SecFin Hub, David Raccat or WeMatch.SecuritiesFinancing, Gabriele Frediani of Elixium and Guido Stroemer of HQLAx, suggested that DLT could be a solution to manage challenges around regulation.

It was suggested that DLT can help with implementing the latest regulatory changes, as well as offering great benefits to those involved in collateral trades.

One panellist explained that while DLT is often seen as overhyped and criticised for having solutions to problems that have yet to exist, it can be a useful tool in benefiting and working through new regulation.

For the regulatory community in the securities lending space, technology can provide a better overview on collateral change, while regulators can access to a network that lets them see more, according to one speaker.

However, there are still challenges to be had when building a new platform with new technology, and there are lots of boxes to tick.

During the post-trade panel, which included Dan Barnes of The Desk, Iain Mackay of EquiLend, James Hollands of DTCC, Rajen Sheth of Pirum Systems and David Morris of RegTek Solutions, it was suggested that firms must look to improve efficiency after implementing new regulatory measures.

The panel explained that following the implementation of regulatory initiatives, firms should look to take efficiency measures and make "holistic" changes to their operating models. One panellist said: "The mantra, from a post-trade perspective, is that you need to do more with less—how do you keep it efficient and get increased volume while using fewer resources?"

Another panellist added: "This is the kind of challenge that firms have to sit down and think about—the tactical issues, the more strategic benefits."

Panellists discussed how most firms have to keep their heads down and deal with regulatory deadlines to ensure compliance. Often, this doesn't leave a lot of room to create efficient operating models.

The implementation of these regulations may impact operations as it is. One panellist said that he is very focused on the trade repositories (TRs) that are involved in regulatory implementation. He said that

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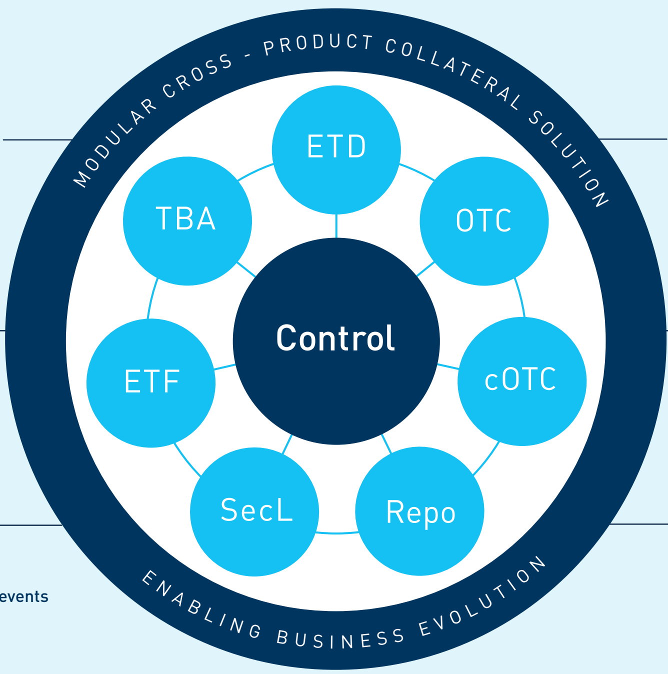

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- What if scenarios
- Pre-funding examination
- SPAN/VaR analysis

Optimisation
- Cost benefit across multiple attributes
- Minimizing the cost of collateral allocation

Self Service
- Configuration dashboard
- Immediate on-line access to portfolios
- Quick identification of 'critical' events

Connectivity
- CCP5 (Message Automation)
- MarginSphere
- Settlements/Payments

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- Forward funding
- Real time reporting/MIS

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firms have to understand the requirements, what the fields represent and what they have to be.

The panellist added that, if firms don't get it right, they could be seeing a fallout that will ultimately sit with the operating models. He said: "Firms should not be wasting any moment, because we only have about 12 months to get this right. If they do get it right, there will be great benefits."

The panellist concluded that having a dialogue with TRs is important. He explained: "The dialect with trade repositories needs to be more obvious, we need to know exactly what they're doing in terms of solutions already being discussed. Firms needs to understand what TRs are doing. They need to sit down, find out what these regulations mean and figure out a solution."

Finally, panellists said firm's should not delay when implementing reporting requirements. They agreed that the industry should not delay, as there's "so much to do".

"Start early, think strategically", said another panelist.

Dyson concluded the day with a few closing remarks. Referencing the discussions around SFTR, he said that SFTR casts a very long shadow over the industry, but it will not disappear so firms should think about how they will have to comply with it. He advised firms: "Don't delay, the clock is ticking."

A special thank you to all the sponsors for supporting SLT's first technology conference, and to all those who attended and made the day a great success. Be sure to look out for our next event in the near future. **SLT**

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These are the good times

Now is an exciting time for the Malaysia securities lending market. With a loosening of the reins on it's securities lending market, and an allowance of corporate bond short selling, what does the future entail for the country?

Jenna Lomax reports

Leave your cares behind

During the last 30 years, Malaysia has become a major centre for Islamic banking, it's also highly regarded as an environment for international investors. In addition, the country currently has 234 Malaysian assets on loan (as of 24 April) and has also provided significant returns for overseas funds. As with other countries in the region, it suffered during the Asian crisis, but managed a relatively quick recovery.

Recent times have been good times, on the whole. DataLend reported in April that average daily on loan balance for this year so far is just under $800 million per day, while equities currently make up $636 million of the total (79.5 percent). In addition, average daily lendable balance for 2018 currently stands at $20.23 billion.

According to the Malaysian Securities Commission (MSC), the Malaysian capital market grew 12.6 percent to RM 3.2 trillion ($820 billion) in 2017, while equity market capitalisation expanded 14.4 percent to RM 1.9 trillion ($490 billion), with positive performance across all key indices.

The capital markets saw the growth across all segments due to "better economic fundamentals, corporate earnings recovery, growth in private investments, strong foreign investment inflows and higher investor participation", according to the MSC.

In addition, total bonds and sukuk outstanding stood at RM 1.3 trillion ($330 billion), an increase of 10.1 percent. But all this positivity has taken a little while.

Our new state of mind

In 2007 the Bursa securities borrowing and lending (SBL) system was introduced. Bursa Malaysia Securities Clearing offered SBL specified shares which were, at that time, currently eligible for borrowing and lending. The system stated that SBL activities in Malaysia must have either been made through an approved clearing house acting as a central lending agency, or entered directly over-the-counter between the eligible participants and facilitated by the approved clearing house under the SBL—negotiated transactions model. Skip forward to 2017, and the model is fully implemented.

In recent times, Malaysia has further loosened the reins of its securities lending market in a bid to boost price discovery and market liquidity.

From last year, investors in the Malaysian exchange's securities lending market were allowed to borrow securities for the settlement of potential failed trades rather than be subjected to the buying-in process.

The reforms came under the exchange's regulated short selling (RSS) and the SBL-NT, aforementioned.

At that time (February 2017), the exchange valued the total size of its securities lending market at MYR 4.9 billion ($1.1 billion).

Suffice to say then, that the securities lending market is showing growth. Speaking at the 15th Annual Pan Asian Securities Lending Association (PASLA) conference, Dane Fannin, head of capital markets for Asia Pacific at Northern Trust, said Asia's significant growth profile is unlikely to change anytime soon.

Fannin claimed that conversations in this region are now markedly "more optimistic and focused more towards growth and opportunity, which is exciting, and it's not hard to understand why".

Fannin further noted not to forget about Asia's fixed income and repo markets as they continue to develop. He suggested that this

space is becoming a lot more relevant as firms pursue strategies of optimisation.

However, more recently, in April this year, a report published by Standard and Poor's (S&P) Global Ratings suggested that the global Islamic finance industry will "expand slowly" in 2018 and 2019.

In its report, the financial services company said that the Islamic finance industry would only grow by about 5 percent on average over the next two years. This slow growth is owed to tepid economic conditions in certain core markets.

However, S&P added that standardisation and financial technology (fintech) could help accelerate the industry's growth in the short to medium term.

Though Mohamed Damak, S&P global head of Islamic finance, says: "We foresee only a marginal influence of fintech on our Islamic bank ratings over that period. We consider that Islamic banks will be able to adapt to their changing operating environment through a combination of collaboration with fintech companies and cost-reduction measures."

Perhaps the introduction of a digitisation acceleration working group could help achieve that anticipated industry growth, the MSC and Bank Negara Malaysia (BNM) seem to be going in the right direction in that respect with the establishment of the Brokerage Industry Digitisation Group (BRIDGe).

BRIDGe aims to accelerate the digitisation of the brokerage industry to enhance operational efficiencies and service standards.

The working group will encompass the MSC, BNM, and industry participants including brokers and banking institutions.

Away from the technological sphere, but a move that could still enhance securities lending growth further, is the introduction of corporate bond selling, which happened early last year. The MSC has authorised the short selling of corporate bonds in a bid to boost market liquidity.

"The further development of onshore hedging will complement the liquidity in the secondary market, particularly on the longer end of the yield curve," the Central Bank of Malaysia said at the time.

The MSC said this initiative was part of continuous efforts towards enhancing the liquidity of the secondary bond market, while ensuring a comprehensive and facilitative infrastructure and regulatory framework.

The time is right for makin' friends

Malaysia has seen sufficient growth but what about its neighbours in Asia?

Taiwan, for one, is set to make further updates to its SBL model this year, according to a panellist at the 15th Annual Pan Asia Securities Lending Association Conference.

According to a panellist, the Taiwan SBL market has remained stable for the last six years showing growth year-on-year since 2012.

During the panel, delegates were asked which market requires the most work to develop to full lender participation via an interactive voting system.

Taiwan was joint top with Malaysia at 37 percent. Thailand was in third place with 27 percent of the votes.

There are currently nine active lending markets in Asia, which continue to yield better returns than Europe and the US on a normalised basis, according to Fannin.

In addition, there are a range of emerging markets such as the Philippines, India, Indonesia and China, which present "significant opportunity" for industry participants in the long term.

But are these really the good times?

DataLend reports that average utilisation for the Malaysia market has been pretty low thus far in 2018 at slightly under 4 percent. Utilisation has been trending lower in 2018, from 4.4 percent in early January down to 3.6 percent (as of 24 April).

In addition, PASLA has warned that Malaysia's neighbour, the Philippines, short selling framework still needs work.

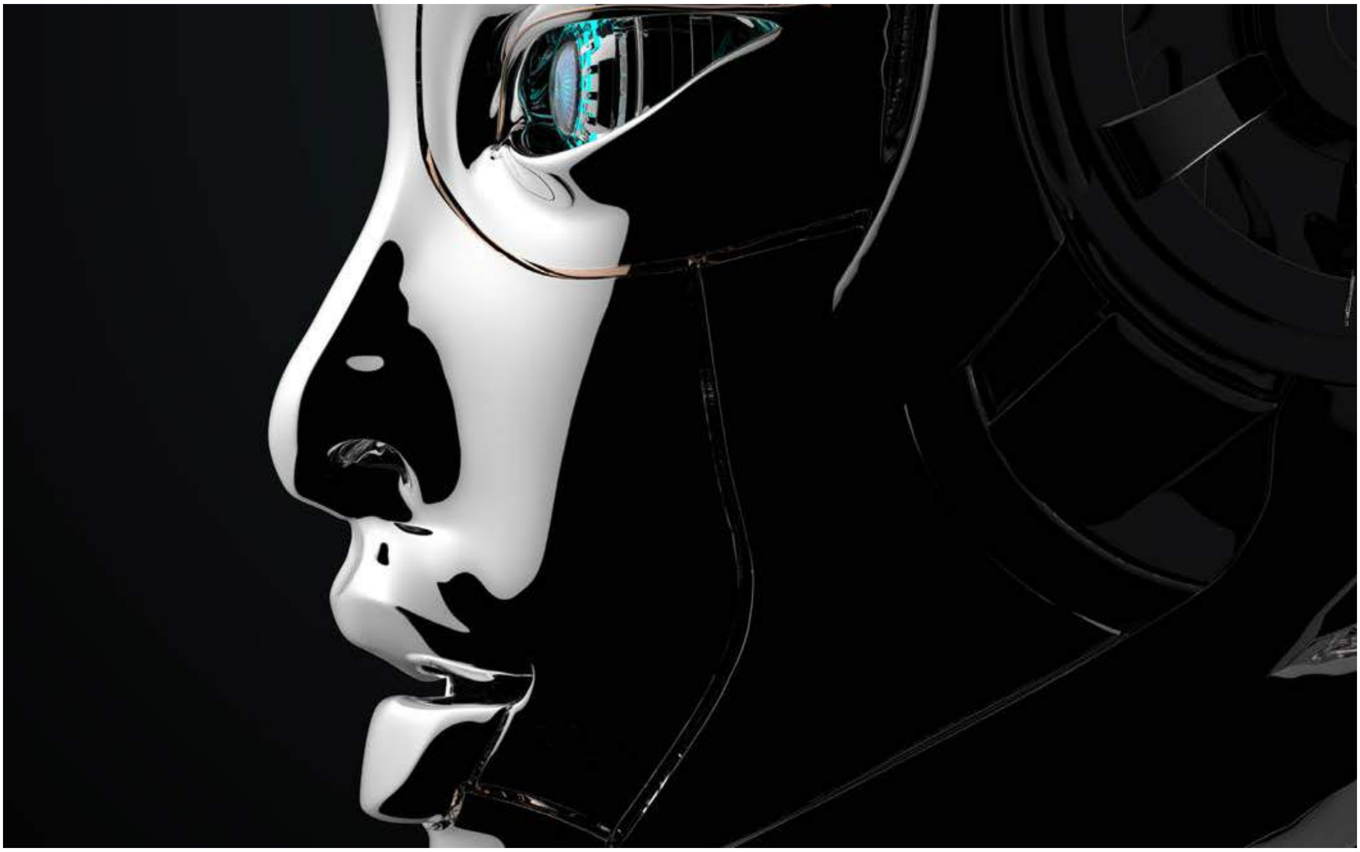
The Philippines short selling infrastructure is due to launch this year, however, a Pan Asia Securities Lending Association (PASLA) board member suggested in March that this year might not be a "realistic launch date".

After a consultation paper was released by the Philippines Stock Exchange in November last year on the launch of the Philippines short selling infrastructure, a PASLA executive committee member suggested that there is still work to be done in certain areas. **SLT**

Malaysia's top five hottest securities:

- Sapura Energy
- Serba Dinamik Holdings BHD
- Yong Tai BHD
- Pos Malaysia Berhad
- YTL Power International BHD

(Source: DataLend as of 24 April 2018)



Robo-finance: The rise of the machines

David Lewis of FIS discusses how artificial intelligence is driving innovation in the securities finance industry

When we are in a market that has yet to fully adopt innovations such as central counterparties, such days seem very far off indeed. But, keep in mind, it has taken significantly less than a generation to move almost every aspect of our personal and professional lives online and into an automated or at the very least, a semi-automated environment, so to believe securities finance won't move in a similar direction is folly. The challenge for the future is about determining where the human element can provide best value in the transaction chain, in conjunction with the machines, rather than resist their introduction.

Those who will have spent a similar number of years in work as I have, may well also remember the training courses run by their employers to introduce email, a fantastic new invention that was set to revolutionise communications. If you are of that vintage, you will probably also remember the fanfare made by Fiat about the fact that the cars they produce were largely built by robots. At the time, it was a desperate attempt to turn around people's poor perception of their product quality by very publicly removing the fallible human from the production line. Jump forward 20 years or more, and only very special, and very expensive vehicles have any significant level of human interaction as part of their construction. With the advent of driverless vehicles, the car industry has now moved on to replacing the driver in the process, but can robots or artificial intelligence always outperform humans?

When looking at driverless cars compared with humans at the controls, a simple observation of the traffic on our roads would suggest that robots will outperform humans every time. There have been a small number of tragic accidents that have occurred involving self-driving vehicles, but compared to how a human would have reacted to those same situations, the result may well have been the same or worse. What is missing from the equation is the human element, the experience that is hard to teach a microprocessor. The computer, which got its name, in fact, from a human role, is perfect at following rules such as those characterised by physics and mathematics. So, if they are so good at math, are we to expect robots on securities finance desks any time soon?

Looking back to the 1990s and my time at ABN Amro, the then managing director was interviewed on television, as part of a work in the city documentary, making what were quite controversial statements at the time. He was stating that, in his opinion, the day of the “barrow boy” was over and that key personnel would need vastly improved data and a math or physics degree to cope with the way the market, including securities finance, was heading. This was, of course, some time before the arrival of FIS Astec Analytics, and others, bringing transparency of market data to the securities finance arena; but, just as the car industry has moved on, so has data and automation in our businesses.

Over the past 10 years, intraday data has become much more valuable to the market as more of the general collateral, or lower value trades, have become more automated. The advent of new trading venues, plus automation options for low margin, low fee trades, has freed up the human element of the market to concentrate on the higher value trades requiring more individual attention. With increasing constraints being placed on the securities finance market by new regulations demanding greater settlement certainty (CSDR) and heavier balance sheet costs (for example, BASEL), the market has had to become more efficient to continue to produce returns. Regulatory compliance is also a key factor in the automation of services and the increasing reliance on not only data itself but also on the ability to process it and make sense of it. That’s something the European Securities and Markets Authority (ESMA) will have to think a great deal about when it comes to launch Securities Finance Transaction Regulation (SFTR).

FIS clients are using our data like never before; moving away from screens of analytics to greater reliance on superfast application programming interface (API) responses, bringing data directly into the trading process, helping to automate the matching of supply and demand at the right rate, while gathering and delivering the evidence required by regulators to support and validate the best execution. Doing more with less has become a mantra of our business of late, along with many other financial and indeed, non-financial industries. To achieve this and advance, or, as some would argue, just to stay still in increasingly complex and fast-moving markets, more processes need to be automated—as complexities move beyond even the math and science graduates who were envisioned by forward-thinking banks back in the 1990s. Marking a loan transaction, while optimising the returns to beneficial owners, executing a risk-adjusted collateral mix all while complying with settlement and liquidity regulations in the timeframes needed to steal a march on the competition, requires timely, deep, broad and accurate data. The quality of the artificial intelligence is also a fundamental factor. As those experimental, driverless vehicles have shown that computers don’t always get it right.

Last week saw some hedge funds, driven by automated trading, get on the wrong side of a short position as the Automobile Association reported a recovery in its profits and earnings. Those funds that had already banked their gains, following a profits warning in February, and moved from short to long positions ahead of the announcement on 18 April, made some handsome returns. Four of the six funds that publicly reported net short positions (more than 0.5 percent, as dictated by Financial Conduct Authority disclosure thresholds) were computer-driven, algorithmic funds, left at the mercy of a stock that has advanced over 23 percent since the announcement and doubled since the lows of £0.70 a share, seen in March.

It would take a great deal more statistical evidence to prove whether, overall, computer-driven funds were better than the human-managed counterparts, or indeed, whether the next share you lend or borrow will be better value if transacted by a robot. But what is quite likely, is that there will come a time when collateral will be moved by instantaneous transactions recorded in a distributed ledger, servicing lending transactions that settle just as fast and all, probably, before the human in the chain even knew those assets were required at that moment by the underlying algorithmic fund that has created the demand.

When we are in a market that has yet to fully adopt innovations such as central counterparties, such days seem very far off indeed. But, keep in mind, it has taken significantly less than a generation to move almost every aspect of our personal and professional lives online and into an automated or at the very least, a semi-automated environment, so to believe securities finance won’t move in a similar direction is folly. The challenge for the future is about determining where the human element can provide best value in the transaction chain, in conjunction with the machines, rather than resist their introduction. **SLT**

> ***Intraday data has become much more valuable to the market as more of the general collateral, or lower value trades, have become more automated***

David Lewis
Senior director
FIS

Lawson's  view

Securities Finance Technology Symposium, London

What a success. So many people to thank. As people know I am a modest, shy and retiring chap hence me securing a body double for the Securities Finance Technology Symposium. Standing in for me as a compere was Richard Colvill, managing partner of Consolo, who did a fantastic job even if he believes I have a face for radio, something I do not entirely disagree with.

Throughout the event, we learnt the world of data is becoming more complex, and demanding with the rise of automation and introduction of new regulation. We heard how firms should start now on planning their Securities Financing Transactions Regulation solutions, while another panel suggested that industry attitudes are changing because of regulations surrounding collateral.

In a session on collateral liquidity platforms, one panellist said that regulation and compliance are good for such platforms, as they push for more transparency and reporting. This was followed by us learning the mantra, from a post-trade perspective, is that you need to do more with less.

The final panel, which looked at the future market structure and was superbly moderated, brought us to the conclusion that "the current state of technology is not where it needs to be and it's not going to get us to the market structures we want".

This leaves me with no other option than to put on another technology symposium until we get the market to a position where we are all happy!

Coming soon

A trip to one of my favourite cities. One of the favourite things about my job is the travel, and next month I will be in Toronto. The 8th Annual CASLA Conference on Securities Lending takes place on the 7 June at the Ritz-Carlton. As one of the largest securities lending markets, this is an important event for the industry and always manages to cover so much in one day and incorporate hedge funds into the mix nicely.

Last year the highlight was the keynote, Thurman Lee Thomas, Pro Football Hall of Famer. At the end of his presentation when asked a question on concussion by Brian Lamb, CEO of EquiLend, Thomas gave an honest and emotional recount on how quite recently when driving to work he had to pull to the side of the road because he could not remember where he was going. It brought home how fragile life is and how lucky we can be. Even with the concussion, he said he would not have changed his career.

Securities Finance Technology Symposium New York

After the success of our recent technology symposium in London, we are planning to bring the one-day event to New York. If you have any suggestions on topics for discussion, then please get in touch at:
justinlawson@securitieslendingtimes.com.

Don't miss the next printed issue

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

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ISLA's 27th Annual Securities Finance and Collateral Management Conference

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London

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Comings and goings at Pirum, Schroders, SIX Group and more

Pirum has expanded its UK team with the appointment of Rossella Landy to its business development team in London.

Landy will assist the Pirum team to continue to develop its product offering and client engagement.

Prior to Pirum, Landy previously worked in front office roles at HSBC and Goldman Sachs.

Last week, Pirum announced it had expanded its US operations with the addition of Kristen Dove, Dominique Rose and Edward Sharpe to its New York team.

Dove will be responsible for business development for the Americas. She has previously worked at ABN, RBS and Itau BBA.

Rose, who has worked in operations and middle office roles at Morgan Stanley and BNP Paribas, will be responsible for Pirum's client services function in the region.

Sharpe will run the product development function, focused on developing Pirum's product suite for the American market.

Commenting on Landy's appointment, Rajen Sheth Pirum's, CEO at Pirum, said: "At Pirum we strive to be a flexible employer and are continually looking for opportunities to attract and encourage high calibre professionals back into the workplace, we are very happy that Rossella Landy has chosen to join the team."

Schroders has appointed Robbie Boukhoufane and Alan Wilson as portfolio managers within the global multi-sector fixed income team.

In his new role, Boukhoufane will focus on building and expressing the team's macro views in rates and currency markets.

Boukhoufane has been at Schroders for over six years and has over 20 years of experience working in fixed income and foreign exchange (FX) trading, having been global head of fixed income and FX trading at Schroders since 2016.

In this role, Boukhoufane managed the firm's fixed income execution with a team of 20 specialist traders across four regional desks.

Prior to Schroders, Boukhoufane was head of FX Trading from 2012 to 2016, which involved working across a number of FX desks.

Alan Wilson joined from State Street Global Advisors where he was a senior portfolio manager focusing on global rates and FX.

Prior to this, Wilson worked within the global macro team at Aberdeen, where he started his career in 2010.

Wilson will be focusing on global macro strategies and working with the team to add alpha across the full range of multi-sector fixed income portfolios.

Paul Grainger, head of global multi-sector fixed income, said: "We're delighted with the addition of two highly experienced and talented individuals to the team. Robbie Boukhoufane has exceptional experience in the field. He has been working alongside and adding value to the team for over six years and he is already well embedded within the team's investment process and philosophy, so this will be a natural transition."

He added: "We are constantly on the lookout for talented individuals that will be additive to the team and investment process. In line with this, we recently hired Alan Wilson who has strong experience in global rates and FX."

SIX Group has promoted Nerin Demir to head of securities finance and market data. He will be based in Zurich.

Demir was previously head of SIX repo and securities finance from 2014 to 2018.

He was also head of securities finance at Leonteq Securities from 2010 to 2014.

Securities borrowing and lending broker Lago Kapital has appointed Heidi Roitto as its new business developer.

Roitto joined the Finnish firm on 24 April, leaving her current position as middle and back office specialist at United Bankers Securities after four years with the company.

According to Lago founding partner, Jani Koskell, Roitto will be responsible for supporting the firm's middle and back office automation processes.

Koskell commented: "Heidi Roitto comes with a wealth of experience in back- and middle office operations."

"We look forward to having her as part of our team and we are certain she will be successful in this role."

Curtis Ishii will retire from California Public Employees' Retirement System (CalPERS), after a 40 year tenure with the agency.

Ishii will continue as managing investment director of fixed income and a portfolio official in charge of the firm's fixed income programme until July 2018.

Senior portfolio manager for fixed income at the agency, Arnie Phillips, will replace Ishii in the interim until a permanent replacement is chosen.

Commenting on Ishii's departure, Theodore Elipoulous, CIO of CalPERS, said: "Over the span of Ishii's investment career, CalPERS has weathered a number of storms, and he's been at the centre of guiding and steering the ship during this, to tick off a few of the major ones, in 1989, the cash of the high yield bond market, the so-called great bond market massacre of 1994, the Asian financial crisis and Russian default crisis of 1998 and 1997."

Elipolous added: "Ishii has always been centre of advice for the asset team."

"His advice and counsel and recommendations are respected and have provided great leadership to CalPers over the years." **SLT**