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Adnan Hussain of BNP Paribas looks at the European securities lending market

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DTCC expands into Ireland

Ahead of the UK's planned withdrawal from the EU, The Depository Trust & Clearing Corporation (DTCC) plans to extend its presence in Europe by adding a new location in Dublin.

According to DTCC, they will continue to provide an authorised regulatory reporting service for clients in the EU27 and the UK.

Simon Farrington, managing director of Europe, the Middle East and Africa (EMEA) at DTCC, said: "DTCC has had a strong presence in Europe for over two decades, including in London, Wrexham, Brussels, Frankfurt and Stockholm."

He continued: "Our continued growth and desire to get ahead of new regulatory obligations, because of Brexit, now takes us across the Irish Sea to Dublin."

"We look forward to hiring and developing a local team, and working with lawmakers, regulators, trade associations and other key industry stakeholders to ensure the success of our new operations in Ireland."

Andrew Douglas, CEO of DTCC's European global trade repository (GTR) and managing director for government relations across EMEA, commented: "DTCC's GTR serves approximately 80 percent of the global financial market, and, according to European Securities Markets Authority (ESMA) figures, is operating as the largest trade repository in Europe."

"Regardless of the outcome of the final negotiations between the EU and the UK, DTCC's GTR will maintain a presence in the UK as well as aim to establish a new trade repository entity in Ireland, ensuring ongoing compliance with both ESMA and the Financial Conduct Authority's (FCA) requirements under the relevant legislation in both jurisdictions."

Heather Humphreys, minister for business, enterprise and innovation, said: "I was delighted to see that DTCC will be opening an office in Dublin. This once again shows that Ireland is now a major player and a very attractive location for financial services companies from all over the world."

Michael D'Arcy, minister of state for financial services and insurance, noted: "The government will continue to work closely with the industry to implement the IFS2020 Strategy in its aim to promote Ireland as the European location of choice for specialisation and innovation in financial services."

Mary Buckley, executive director at IDA Ireland, added: "Having one of the world's leading post-trade market infrastructure providers establish in Ireland will add to our growing capabilities and reputation as an international financial services location of choice."

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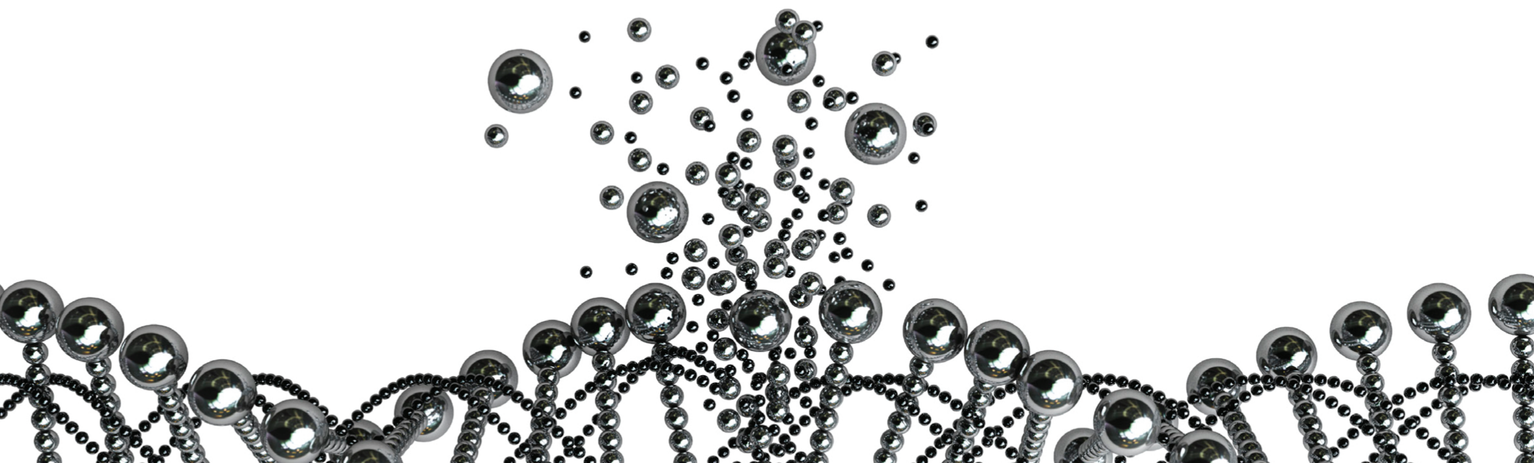

AcadiaSoft launches new hub service

AcadiaSoft, a provider of margin automation solutions for counterparties engaged in collateral management worldwide, has launched a new hub service, Agreement Manager.

The service will create an industry-wide, authoritative data store of legal and operational collateral agreement information for over-the-counter derivatives.

Agreement Manager will match, store and exchange new and existing International Swaps and Derivatives Association variation margin and initial margin details as well as the account control agreements between trading parties and custodians. The hub will also standardise the legal agreement data shared between parties.

The aim is to reduce integration points and ensure interoperability of trading partners, custodians, document management providers and online negotiating vendors.

Creating a golden source copy of the agreement data and facilitating the transfer of the data via a standard model, has the potential to create a frictionless onboarding process.

It could also improve the quality of information available for collateral optimisation, risk and collateral management, as well as trade valuation and novation services.

A pilot of Agreement Manager will begin later this month. Participants will include buy-side firms, custodians and a number of global derivatives banks including, J.P. Morgan and Goldman Sachs.

In time, Agreement Manager will also support repos, master securities forward transaction agreements, securities lending, clearing and other agreement types.

Richard Barton, product manager for AcadiaSoft Agreement Manager, commented: "By storing data in the hub and sharing it in a standardised manner, AcadiaSoft will support client optionality, vendor choice and market-wide adoption of automated solutions."

Natalie Clareburt, executive director in the Strategic Market Infrastructure Group at J.P. Morgan, said: "Standards and interoperability are critical for the industry to adopt and maximise benefit from all service providers. It is great to see so much industry focus and innovation in contract digitisation and negotiation."

SGX seeks feedback on clearing rules of SGX-DC and CDP

The Singapore Exchange (SGX) is seeking public feedback on proposed amendments to the clearing rules of Singapore Exchange Derivatives Clearing Limited (SGX-DC) and the Central Depository Limited (CDP).

According to SGX, the information given through this feedback aims to enhance clearinghouses' default management capabilities. SGX is proposing to amend the SGX-DC Clearing Rules to introduce an auction protocol for liquidating a defaulted SGX-DC clearing member's positions in exchange-traded derivatives contracts and over-the-counter commodities contracts.

This will include a loss distribution mechanism to address losses arising from such an auction.

According to SGX, it will also allow SGX-DC to unilaterally terminate positions of non-defaulting SGX-DC clearing members that offset those of the defaulted clearing member for all classes of contracts SGX-DC clears.

In addition, it aims to revise the existing loss distribution mechanism for auctions for over-the-counter financial derivatives contracts and modify the SGX-DC Clearing Fund "waterfall", which allocates losses arising from a clearing member default.

SGX is proposing to amend the CDP clearing rules to give CDP the power to write off, as a loss to CDP, a defaulted CDP clearing member's unsettled buy trades if those securities are not force-sold by the seventh day after the clearing member is declared to be in default.

The proposed changes to the SGX-DC Clearing Rules and the CDP Clearing Rules will reinforce the robustness of SGX-DC's and CDP's risk management, and are consistent with international best practices, said SGX.

The public consultation is open until 16 August and SGX expects to implement the

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NEX Data and JBOND launch repo index rate

NEX Data and JBOND, the electronic platform for trading in Japanese repo agreements, have launched the JBOND NEX Repo Index, which will measure the cost of funding for Japanese government bonds.

The index provides an insight in to the overall cost of funding in the dealer to dealer market by taking a volume-weighted average of repo rates from trades, which use Japanese government bonds as collateral.

Launched on 18 June, the JBOND NEX Repo Index is calculated daily by NEX Data as the benchmark administrator, using eligible one day repo transactions traded on JBOND and centrally cleared through the Japan Securities Clearing Corporation.

JBOND is the primary venue for the trading of Japanese government repo agreements.

These benchmarks will reflect accurate and existing prices in the marketplace, said NEX. The methodology used is consistent with International Organization of Securities Commissions Principles for Financial Benchmarks.

The Japanese Yen (JPY) repo market has been very active of late with the average month-end outstanding for 2017 reaching 160 trillion Yen, according to NEX.

Kevin Taylor, managing director of NEX Data, said: “By combining NEX Data’s index calculation expertise and transparent methodology with transaction-backed data from the JBOND platform, we are bringing additional transparency to the Japanese government bond markets and helping the market better assess the cost of funding.”

amendments in Q4 this year, subject to regulatory approval.

Agnes Koh, chief risk officer at SGX, said: “SGX’s primary remit of upholding the health and efficiency of Singapore’s financial market means we have a duty to ensure the continuity of the broader market in the event of a clearing member defaulting.”

She added: “We are constantly reviewing and enhancing our risk management practices. We have sought to do so with this consultation by balancing global best practices, commercial practicalities and operational feasibility.”

BlackRock reports Securities lending revenues up and down

BlackRock increased securities lending revenue in Q2 2018, according to its most recent set of results.

Securities lending revenue rose to $183 million in the quarter, compared with $156 million in Q2 2017.

BlackRock reported that in the broader category that includes investment advisory, administration fees and securities lending, revenue increased by $277 million from Q2 last year.

This reflected the impact of higher markets and organic growth on average assets under management (AUM), partially offset by previously announced pricing changes to select investment products.

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Revenue in this category, however, of $2.9 billion in Q2, compared with $2.95 billion in Q1 of this year.

BlackRock said this fall reflected lower average AUM, including the impact of foreign exchange movements, partially offset by the effect of one additional day in the current quarter and seasonally higher securities lending revenue.

Performance fees increased $43 million from Q2 2017, primarily reflecting improved performance in long-only equity and single strategy hedge fund products.

It added that performance fees were up $21 million on Q1 2018. This primarily reflected improved performance in long-only equity products.

Laurence Fink, chairman and CEO of BlackRock, said of the overall results: "BlackRock delivered strong financial results in the second quarter, as revenue increased 11 percent, operating income increased 16 percent and earnings per share increased 28 percent year-over-year."

He added: "Our diverse global platform generated $20 billion of total net inflows in the quarter and $276 billion over the last twelve months. Secular trends supportive of BlackRock's future growth continue, especially in technology, including Aladdin [an operating system for investment managers] and digital wealth, alternatives and iShares."

"We have seen markets like these before, and BlackRock's product breadth, unparalleled portfolio construction capabilities, digital tools and technology uniquely position us to deliver long- term value to clients and shareholders."

LCH clears first US interest rate swap referencing SOFR

LCH has cleared the first US dollar interest rate swaps referencing the Secured Overnight Financing Rate (SOFR).

Credit Suisse, Goldman Sachs and J.P. Morgan were among the first participants to clear swaps using the new rate.

This follows the announcement by the Alternative Reference Rates Committee in June, identifying SOFR as an alternative US dollar reference rate.

According to LCH, this initiative represents best practice for use in certain new US dollar derivatives and other financial contracts.

SOFR was first published by the Federal Reserve Bank of New York in April 2018.

Michael Davie, global head of rates at LCH, said: "The US dollar interest rate derivatives market is the largest in the world by many measures, and the introduction of SOFR as a new alternative reference rate marks a seminal moment for the industry. LCH is committed to continuing our work with customers and regulators to help facilitate a smooth transition to new reference rates."

Akash Agrawal, part of the USD swaps trading team at Credit Suisse, commented: "The transition to SOFR is an important element in the global rates reform effort, which we are pleased to support. Being among the first participants to clear SOFR swaps is significant for us, as we look to work with the market to develop liquidity and support a seamless move to alternative reference rates."

Scott Rofey, co-head of interest rate products trading at Goldman Sachs, said: "We are pleased to see the market for SOFR-based derivatives continue to take hold as an alternative reference rate market. We welcome LCH offering a cleared solution for the nascent SOFR swaps market."

Thomas Pluta, co-head of global rates at J.P. Morgan, said: "We're pleased to be among the first participants to clear SOFR swaps. The transition to using SOFR is hugely significant both for the US and the global derivatives markets, as clearing SOFR swaps will be a key component in developing a liquid market for this product."

OFR requests comment on proposed data collection rule

The US Treasury Department's Office of Financial Research (OFR) has requested comment on a proposed rule to establish a data collection covering centrally cleared funding transactions in the US repo market.

According to the OFR, the proposed data collection would enhance the ability of the Financial Stability Oversight Council to identify and monitor potential risks to US

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J.P. Morgan sees rise in revenue for Q2

J.P. Morgan's securities services revenue totalled US $1.1 billion in Q2, an increase of 12 percent from Q1, according to its Q2 results.

The bank said this was predominantly driven by higher interest rates and deposit growth, as well as higher asset-based fees driven by new client activity and higher market levels.

Total markets and investor services revenue was $6.5 billion in the second quarter, also up 12 percent, as markets revenue rose 13 percent to $5.4 billion. Equity markets revenue was $2.0 billion, up 24 percent, driven by strength across products, predominantly in derivatives and prime.

Total net income was $3.2 billion, an increase of 18 percent.

financial stability, by closing the data gap on centrally cleared repo transactions.

The proposed rule would require the submission of information by central counterparties with average daily total open repo commitments of at least $50 billion.

However, the Fixed Income Clearing Corporation would be the only market participant required to report if the rule went into effect, the OFR stated other firms could meet the eligibility criteria for reporting in the future.

It also said the proposed collection would support the calculation of certain reference rates, particularly alternatives to the US dollar London Interbank Offered Rate (LIBOR).

LIBOR has been used as a benchmark to set interest rates on trillions of dollars of retail mortgages, private student loans, corporate loans, derivatives, and other financial products.

The OFR said: "In the wake of LIBOR-related misconduct, LIBOR participation has declined, leaving a need by industry and regulators for an alternative reference rate."

In response, the Federal Reserve convened the Alternative Reference Rates Committee, which selected the Secured Overnight Financing Rate (SOFR) as the preferred LIBOR alternative. Cleared repo data from the proposed collection will be used to enhance the production of the SOFR.

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"IMN's 2017 Beneficial Owners' Securities Finance Conference was a tremendous success. We are currently considering returning to the securities lending space, and all of the panels were extremely relevant. The issues that we needed to hear about were all discussed and I walked away with the knowledge we needed to move forward. The conference was oriented towards beneficial owners' and I was able to discuss current market conditions with my peers. I would highly recommend the conference to anyone considering attending next year."

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The Federal Reserve Board is expected to act as the OFR's data collection agent, with required data to be submitted directly to the Federal Reserve Bank of New York.

Ken Phelan, acting OFR director, commented: "The proposed rule is important to inform US financial regulators and market participants and will strengthen financial markets with minimal regulatory burden."

"A well-functioning repo market is critical to US financial markets and financial stability."

LIBOR transition is 'not fast enough' says FCA exec

The "pace of change" when it comes to transitioning from the London Interbank Offered Rate (LIBOR) is "not fast enough", according to Andrew Bailey, chief executive of the Financial Conduct Authority (FCA).

In a recent speech, Bailey said that the industry ought to be well prepared for LIBOR's discontinuance and discussed the reasons for transitioning from LIBOR to alternative interest rate benchmarks.

"Financial markets have changed, and LIBOR has not been able to keep up with that change", Bailey explained.

"The international interbank marked has dwindled substantially, and one of the reasons for this is eurocurrency markets no longer exist as a distinct entity. Banks do not lend to each other much these days on an unsecured basis, and the market is not returning."

According to Bailey, since the system for quoting rates and thus constructing LIBOR is fragile, it is more vulnerable for misconduct.

Bailey added: "But let me be clear, I do not believe there is misconduct today. My point is that the system is more vulnerable to it. This is the case for acting to replace LIBOR."

In terms of progress, across all the LIBOR currencies, important and encouraging progress has been made, Bailey noted.

But it is still early days, he warned, as the Bank of England's Financial Policy Committee has noted, the amount of contracts referencing LIBOR, but maturing beyond end-2021 continues to grow. The next step for the transition will explore the potential to create forward-looking term rates based on the risk free rates (RFRs).

Bailey said: "The sterling RFR Working Group will next week launch a landmark consultation on this. Switzerland's National Working Group is also discussing options for term rates based on SARON. And the ARRC in the US has included the production of this kind of term rate as the final step in its paced transition plan."

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Commenting on how transitioning to a world without LIBOR may pan out, Bailey said: "Fall back language to support contract continuity or enable conversion of contracts if LIBOR ceases is an essential safety net–a 'seat belt' in case of a crash when LIBOR reaches the end of the road."

"But fallbacks are not designed as, and should not be relied upon, as the primary mechanism for transition. The wise driver steers a course to avoid a crash rather than relying on a seatbelt. That means moving to contracts, which do not rely on LIBOR and will not switch reference rates at an unpredictable time."

Bailey advised: "The smoothest and best means for this transition is to start moving away from LIBOR in new contracts. The absence of ways to remedy the current underlying weakness in LIBOR—the lack of transactions, the unattractive prospect of LIBOR limping on with fewer panel banks, and the significant problems associated with a synthetic LIBOR, all lead to the same conclusion. The best option is actively to transition to alternative benchmarks. The most effective way to avoid LIBOR-related risk is not to write LIBOR-referencing business."

LIBOR transition is 'not fast enough'

The Goldman Sachs Group has experienced its strongest first half returns in nine years.

Net revenues were $19.44 billion and net earnings were $5.4 billion for Q1 2018. Net revenues of $9.4 billion and net earnings of $2.57 billion for Q2, ending 30 June 2018.

Investment banking produced net revenues of $2.05 billion (the firm added that this is its third-highest quarterly figure), reflecting strong net revenues in both financial advisory and underwriting. Net revenues in securities services inched ahead in Q2, reaching $437 million compared with $432 million in Q1.

The term securities services at Goldman Sachs includes securities lending, prime brokerage, and financing services, as well as the firm's matched book businesses.

The firm said it also ranked first in worldwide equity and equity-related offerings, common stock offerings and initial public offerings for the year-to-date.

Net revenues in institutional client services were $3.57 billion for Q2 2018. That is 17 percent higher than Q2 2017 and 19 percent lower than Q1 2018. Net revenues in fixed income, currency and commodities client execution were $1.68 billion, 45 percent higher than Q2 2017.

Net revenues in equities were $1.89 billion, essentially unchanged compared with Q2 2017. Net revenues in equities client execution were essentially unchanged, as higher net revenues in cash products were offset by lower net revenues in derivatives.

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Shifting approaches

Adnan Hussain, global head of agency securities lending and head of MFS UK, BNP Paribas Securities Services, discusses current trends in the European securities lending market as well as the biggest threats in the industry right now

Becky Butcher reports

What trends are you currently seeing in the European securities lending market?

Across the BNP Paribas Securities Services global lending platform we continue to experience higher levels of engagement from our beneficial owner clients. Asset owners and asset managers have increased their willingness to analyse proposals, which directly correlate to higher revenues, increased utilisation rates and greater risk protections. Non-cash collateral lending, a broader collateral policy and non-traditional counterparties and trade structures are all prime examples of this shift in their approach to lending.

Beneficial owners currently not involved in lending are also shifting their approach as the realisation of opportunity cost is becoming a reality. As such, prospects are requiring a deeper breadth of education on the current market. The result recently has been the recognition that the securities finance industry has indeed changed. We are seeing elevated participation rates of new participants coming into the market. Most of this new supply is generated from asset owners with large pools of high-quality liquid assets (HQLA) seeking a return who previously were adamantly opposed to lending or unaware that there was robust demand for their supply of assets.

Aside from revenue generation strategies, current participants are analysing their programme from an efficiency perspective. Part

of the increased levels of engagement from beneficial owners focuses on the commitment of an agent to implement technology into a lending programme. The ability of an agent to identify lending opportunities, maximise distribution and implement a combination of machine learning, automation and robotics are all areas which clients have expressed interest in learning. Fortunately, BNP Paribas Securities Services has been dedicated to implementing several layers of automation to increase efficiency in the distribution of client assets.

What have European revenue sources shown in the past 12 months?

Current market participants continue to engage in lending to derive incremental income on their idle assets. The limited number of specials in the market has provided opportunities for beneficial owners to seek new strategies to increase revenues. Specifically, clients with an intrinsic-only programme have started examining alternative lending strategies to increase revenues. Collateral transformation and the demand for HQLA is a prime example of lenders adopting new strategies. The focus of monetising the demand and utilising the high-quality collateral in their portfolios adds immediate value to both lenders and borrowers.

While the above strategies are consistent with a majority of market participants, we find that revenues continue to be driven by a combination of specials, general collateral lending and corporate actions trading. The ability of lenders and agents to incorporate a combination of the above, along with opening new markets and examining new trade structures, all assist in generating enhanced programme revenues.

We've seen the implementation of MiFID II this year and SFTR is looming. Although they obviously differ, what can members of the European securities lending market learn from MiFID II that they can apply to help them prepare for SFTR?

The common lesson BNP Paribas Securities Services has gained as an institution as we prepared for the second Markets in Financial Instruments Directive (MiFID II) and the approaching Securities Financing Transactions Regulation (SFTR) deadline, is one of transparency and flexibility. The regulatory framework has shifted in some sense in terms of our operating and client service model but not our approach in the management of the business. We continue to place clients at the forefront of our business management ensuring clients are kept abreast of the impacts and ramifications associated with regulatory change. There is certainly a greater emphasis on client communication and transparency as a result of the both SFTR and MiFID II which we view as a requirement of being a service provider to our clients. This is nothing new for BNP Paribas Securities Services as we have always been client centric to our approach in servicing programme participants.

Last year, was a big year for Target2-Securities (T2S). How has the transition to T2S affected securities lending so far?

The impact of a shortened settlement cycle on the securities lending market was virtually non-existent. The advanced preparation of the shortened settlement cycle was relatively seamless with only minor disruptions to the standard market settlement cycle. While increased securities lending volumes followed the transition due to fail coverage, the increased volumes were short-lived as markets adjusted quickly to the new settlement standards.

We find that revenues continue to be driven by a combination of specials, general collateral lending and corporate actions trading

As the world's fifth largest custodian, BNP Paribas Securities Services leveraged our global custody footprint to facilitate settlement on behalf of our clients resulting in minimal settlement issues associated with the T+2 implementation. As additional markets globally transition towards a shorter settlement cycle, we will continue to utilise our global presence and leading custodial offering to support clients.

What should beneficial owners be doing going forward to adapt their lending programmes as we look towards the future?

The BNP Paribas Securities Services lending programme services a variety of clients each with varying risk profiles and objectives. As the industry continues to digest the impact of the regulatory environment, lenders would be well positioned to consider adopting new lending parameters to maximise their opportunities.

Certainly the shift towards capital efficiency has led to alternative lending structures along with new counterparty entities. Examining these new types of developments would position beneficial owners to monetise the demand under these new structures. Participating in these new transactions is attractive from the borrower's perspective and can lead to a first mover advantage resulting in increased demand for portfolio assets.

Aside from capital efficiency transactions, beneficial owners willing to examine their permitted collateral policy and required margin collateralisation can maximise their revenue opportunities. Further, implementing a portion of longer tenor transactions into a lending programme will also assist in generating substantially increased revenues.

Finally, BNP Paribas Securities Services would like to highlight the value of lending general collateral, which is a strategy that is often overlooked by beneficial owners. General collateral lending provides a stable revenue stream and under the proper structure of non-cash collateral, many of the risks associated with securities lending can be mitigated. Beneficial owners would be well served to examine the impact of implementing a layer of general collateral lending to their lending strategy.

How does the European securities lending market compare to the US and Canada?

The general trend of limited specials is universal across the European, US and Canadian markets. Revenues continue to be generated through a combination of general collateral lending, specials trading and corporate actions trading. Certainly the demand for collateral transformation is insatiable across these locations as well, generating substantial revenues for participant's owning HQLA.

Positive interest rates are one unique differentiator between the US and the other lending markets. The rising interest rate environment and widening of the London Interbank Offered Rate (LIBOR) as well as the Overnight Indexed Swap (OIS) spread has presented opportunities for cash collateral programme participants utilising a credit sensitive short term reinvestment strategy. The ability of clients to engage in such a strategy currently presents substantial opportunity for beneficial owners to monetise the current market dislocations.

What is the biggest threat the industry faces right now?

We remain encouraged by the level of engagement demonstrated from our clients globally as they examine their lending programme and seek strategies to increase revenue. Equally exciting, is the elevated level of interest received from beneficial owners seeking information about our global programme. BNP Paribas has committed substantial resources to the global lending business and beneficial owners have expressed an interest in learning more about our approach to lending. All of this is exciting and we remain optimistic.

While the increased level of engagement is positive, a general sense of cautious optimism is necessary. Beneficial owners must remain cognisant of the risks associated with implementing a credit sensitive reinvestment strategy and agents must be diligent in managing a lending philosophy aligned with an institution's risk tolerance.

The impact of SFTR and MiFID II combined with SEC Modernization remain high hurdles for beneficial owners to overcome. Fortunately, the industry has opted, for the most part, to conduct this reporting on behalf of clients and absorb any cost associated with meeting such reporting. However, participants should be prepared to participate in sharing this cost as the burden becomes more prevalent.

> ***The shift towards capital efficiency has led to alternative lending structures along with new counterparty entities***

Finally, where do you see the biggest opportunity?

As an institution, we are optimistic about our growth prospects. We remain committed to serving our clients around the globe and that commitment extends to our global agency lending business. We have deployed assets to grow our global presence through new locations while committing substantial resources to enhance our lending platform. Beneficial owners are recognising this commitment along with our lending philosophy which continues to lead to the growth of our programme.

Flexibility in a lending programme will lead to the largest opportunity for beneficial owners. The flexibility and commitment of clients to examine new structures, strategies and counterparties will ultimately lead to the greatest opportunities for the remainder of this year. **SLT**

We can go our own way

In the 1990's, Mexico's securities lending market was in its infancy, now it's one of the largest in Latin America. Amidst the election of Andrés Manuel Lopez Obrador and Trump's renegotiation of NAFTA, what does the future entail?

Jenna Lomax reports

For the first time in over four decades, Mexican voters have elected a left-wing president. This political anomaly, coupled with US President Donald Trump's choice to rewrite the North American Free Trade Agreement (NAFTA), have made Mexico's market uncertain and volatile.

As Rich Marquis, regional head of equity finance for the Americas at BNY Mellon Markets, explains: "Mexican shares are being weighed down by concerns around NAFTA, as well as Mexico's presidential election this year, which could usher in a less business friendly government, offsetting the positive earnings momentum."

The exchange rate of the peso has gone down with the dollar and the stock market has seen gains. But to a certain extent, there is still a 'wait and see' attitude in terms of confidence in the markets, and this may not change for a while, until Andrés Manuel Lopez Obrador releases a confirmed mandate, at least.

Mexico has had a securities lending market since the 1990s. Regulation in the jurisdiction meets international standards. You can access—local bilateral agreements and electronic platforms with authorisation from the Comisión Nacional Bancaria y de Valores—an independent agency. In addition, there are two authorised platforms for securities lending—VALPRE and MEIPresval.

Over the last 18 months, Nacional Financiera, a development bank, wholly owned by the Mexican government, has utilised a working group, in association with the Risk Management Association (RMA) to promote foreign participation within the securities lending market in Mexico. The market has now also been opened up to anyone that has a trading platform that facilitates securities lending.

However, there is currently a significant demand to borrow securities that isn't currently being met. More than 60 percent of the outstanding amount is held by foreigners, which could provide liquidity to the Mexican market.

But moves are being made to improve this. Bolsa Institucional de Valores (BIVA), for one, is due to launch on 25 July. BIVA, authorised by the Financial Authorities last year, will be the second stock market in Mexico.

Once it begins operation, BIVA will trade the same instruments as the other exchange in Mexico (Bolsa Mexicana de Valores), covering equities, debts and warrants.

As Federico Ortega Gilly of Mexico's Nacional Financiera, states: "We are actively looking for global participants that want to take advantage of new opportunities and we are keen to improve the Mexican market's liquidity by adding more securities to the pool."

Nacional Financiera is the country's main government-owned bank and supports the financial market through re-stimulating securities lending.

Ortega adds: "It's in everyone's interest to see the securities lending market grow in an efficient way that draws in more market participants. Some large market participants have tried for several years to encourage securities lending but it hasn't yet fully realised its potential. The Mexican market still has a lot to offer in this regard."

"In the past 18 months, we have been working with the RMA and the central bank to design a new model to see foreign entities to do more in local markets."

Don't stop thinking about tomorrow

LCH's recognition as a foreign central counterparty (CCP) by Banco de México is a catalyst for enabling Mexican domiciles to benefit from a greater choice of CCPs.

The recognition means LCH can now expand clearing to Mexican-domiciled market participants to support their interest rate derivatives trading activity.

The clearinghouse will continue to offer clearing to global participants for Mexican peso-denominated interest rate derivatives as one of the 21 currencies offered by SwapClear.

LCH clears for members and their clients based in 55 countries.

Marquis says: "In LCH's capacity as a CCP, it could provide benefits for the Mexican securities lending market from the perspective of aligning the domestic Mexican and non-domestic Mexican lending markets."

However, he warns: "For an agent lender the current disconnect between the onshore and offshore markets is palpable."

"The nuances regarding collateral requirements, restrictions for certain fund types regarding lendable assets, counterparty and country risk can all impact an agent's ability to deal onshore."

Martin Pluves, CEO of LCH, says: "Mexico and the Americas are important markets for us, and we are pleased to obtain recognition from the Banco de México."

In addition, LCH's recognition as a foreign CCP by Banco de México, marks the first time that a Mexican participant has used LCH SwapClear.

This decision has come at the end of a long and winding road for Mexico's securities lending as it first announced its determination of CCP equivalence back in October 2014.

Chain, keep us together

As it stands, Mexico is the second largest market in Latin America, with Brazil being the largest.

Mexico and Brazil are the only markets in Latin America to count for equity finance at the moment. Brazil's first securities lending association was launched in August 2013.

It is charged with improving communication between international players, local participants and the exchange, which oversees transactions through a CCP model.

As Marquis states: "Mexico is a fairly straightforward market to lend into from an offshore securities lending perspective. Brazil is still a challenge for broad-based agent lenders to lend into, given its central counterparty construct and, with the vehicle of choice being a swap."

As of 2017, Chile's securities lending model only utilised to cover fails or facilitate short selling of equities, and while short selling is permitted, this is only via an authorised local broker dealer.

Fail coverage can be executed by the Bolsa de Comercio de Santiago—Chile's dominant stock exchange.

In Colombia, securities lending is utilised to cover fails or facilitate short selling legal framework, which is regulated by Bolsa de Valores de Colombia, The Office of the Financial Superintendent of Colombia and The Securities Market Self Regulator.

Argentina's securities lending framework is largely based on the Brazilian model.

Having spent the last few decades under strict control of the local regulatory authority, the country's financial market is gradually getting freed and its regulator is on the verge of granting permission for short selling.

However, Argentina's National Securities Commission still remains cautious on short selling and it intends to limit this negative impact.

With the aforementioned models in mind, Gilly Ortega, says: "Our efforts as a region should be towards creating a Latin American association for securities lending, similar to the Pan Asian Securities Lending Association."

He adds: "Independently, other South American countries are starting to dig in to securities lending markets, they want to settle—the cards are in place to make things good in Mexico." **SLT**

Mexico round-up: crunching the numbers

- According to DataLend, Mexico's average daily on-loan balance thus far for 2018 (as of 16 July) is $5.29 billion on loan per day, equities stand at $1.32 billion, and fixed income stands at $3.97 billion
- Average daily lendable balance thus far for 2018 is $67.8 billion in lendable per day
- Equities are $30 billion, and fixed income stands at $37.8 billion
- Some 63.1 percent of the on-loan balance for Mexican assets is booked versus cash collateral

Big data, or big brother?

David Lewis of FIS suggests there is little doubt that big data and the analysis of it can help society prosper, but like any tool, it has to be used in the right way

A wise man once told me that profit is not where other people are. The comment was made about data highlighting where the best rates could be found, for what asset to be lent against what collateral and under what terms. The point was that the trade structure in question was becoming crowded and that margins would clearly contract as too many people climbed aboard that bandwagon. When looking at trading signals and data, it can often be seen that the real gains are made by those that are early to the trade, with those joining later collecting the crumbs, relatively speaking. Carillion PLC, the UK construction giant that began to implode one year ago this month is a prime example. Before the 'shock' profit warning hit on 7 July, more than 70 percent of the shares available in the market had already been borrowed, and at remarkably low fee rates. Those that joined the deal later still made substantial gains, but paid a heavier price for the privilege.

Big data and the advancing capabilities of data analytics have certainly brought benefits to financial markets and the wider society in general. From intraday transparency in our own securities finance markets to the huge power of social media and the way it affects our lives—the pace and impact of the change we are experiencing would have been unthinkable only 10 years ago, let alone looking back a generation. At FIS, we are putting a great deal of effort into predictive analytics. Our new software is going beyond informing users what trades have been undertaken in the last few minutes. Now, it can also indicate where rates and volumes are likely be later in the day and going forward. Based on hundreds of millions of trades and over 13 years of historical data online, using past behaviours and results, our systems are predicting—within degrees of statistical confidence—where the rates will go next.

Looking at our trading systems, we are monitoring usage patterns, in both the front and back office, identifying repeated patterns to shorten work flows, suggesting corrections and improving accuracy. This kind of predictive analytics is not too far from the 'if you bought that, you will like this' features familiar to users of online music streaming sites or internet retailers. Moore's Law, or, in fact, extensions and variations of the original law, which stated that the number of transistors on a chip roughly doubles every two years, is often quoted as an indicator of the speed at which computing capability is accelerating. Without this, the ability to cheaply and quickly process the vast quantities of data that now shape our lives would not be possible. This processing is going on around us continually, deciding what our best route to our next meeting might be, what credit card deal would be best suited to our financial status, and even who our best life partner might be. But where might the benefit stop, and the gains begin to narrow? When does the data and the algorithms behind it cease to be our servant, and instead become the master?

There are many amusing anecdotes about products and services being offered to people before they even knew they needed them, and much has been written about apps 'listening' to users without their apparent knowledge. But what about real world impacts? For example, debt default is a common outcome of relationship failure. It has been suggested that credit limits have been reduced for clients that exhibit behavioural and spending patterns associated with relationship stress. Many observers have noted that payday loan-style products are targeted at those who are already under financial stress, which is logical assuming those who are more financially stable would not consider them. But is this an example of predictive analytics restricting opportunities, or really helping humans make better decisions?

There is a clear difference between the retail user of financial services and the professional, but both need to be taken care of with regard to their interactions with data and systems. Arguably, the retail investor deserves greater protection to balance out their real or perceived lack of understanding of the financial products that they may be buying.

However, it is reassuring to see that the chair of the Financial Conduct Authority (FCA) and Payment System Regulator, Charles Randall, has been recently quoted reminding the market that the rules under which the FCA operates include the general principle that consumers should take responsibility for their decisions.

Randall made this statement with the associated caveat that fair disclosure is required if this approach is to be supported. Extrapolating that into the world of predictive analytics and big data, we need to be sure that the suggestions made to us, whether it be the quickest route to your next meeting or your best mortgage offer, are done with not only our best interests at the forefront, but also with fair disclosure of the options available to us. Multiple agent lenders in our client base tell us that most of their trades are now completed without being touched by human hand. Indeed,

FIS technology for price indications, as well as best execution benchmarking, is contributing to that progression. Much of this is relatively simple mathematics and engineering, with little opportunity for negative outcomes, financial or otherwise—but when we start to look at the more bilateral space, what potential impacts are on the horizon there?

Capital requirements and regulations are pushing trades toward the more creditworthy organisations, allowing counterparts to make the best use of scarce capital. However, this has the negative effects of creating new single points of failure, or to use the regulatory term, affect globally systemically important banks, while narrowing credit diversity. There is little doubt that big data and the analysis of it for patterns can help society prosper, but like any tool, it has to be used in the right way.

It has the potential to widen horizons, improve efficiency and help us to make better decisions; but it also has the potential to narrow our focus and limit our flexibility, ultimately removing the ability to make responsible choices, which, just sometimes, may not be where everyone else is. **SLT**

Capital requirements and regulations are pushing trades toward the more creditworthy organisations

David Lewis
Senior director
FIS

Comings and goings at Cowen, State Street, CIBC Mellon and more

Douglas Nelson and Michael DeJarnette, the two co-heads of Cowen's US prime brokerage, have left the company.

Nelson and DeJarnette had previously worked as CEO and executive director, respectively, of Convergex Prime Services.

They were appointed co-heads of Cowen's US prime brokerage in 2017 following Cowen's acquisition of Convergex and subsequent integration of its prime brokerage business.

Simon Heath has left his role as head of agency trading for Europe, the Middle East and Africa at State Street.

Heath has been with State Street since July 2016. Prior to State Street, he served at Citi as director of securities finance from August 2005 to July 2016.

Before that, he was an associate vice president at Deutsche Bank from September 2003 to June 2005.

CIBC Mellon has appointed Karen Rowe as CFO.

Rowe will be responsible for financial planning, analysis, accounting, corporate taxation and financial reporting. She joins from Canada Pension Plan Investment Board where she served as managing director, head of investment finance. She led the team responsible for finance, valuation and operations of the global private investment portfolio.

Prior to that, Rowe served at CIBC in various roles such as vice president, finance, global merchant banking, Canadian investment, corporate and commercial banking.

She will replace Duncan Webb, who has retired after serving 35 years in the financial services industry.

Steven Wolff, president and CEO of CIBC Mellon, said: "Karen Rowe is a welcome addition to the company and she brings a deep understanding of the financial services industry, particularly in the area of Canadian pensions and private markets."

He added: "We are excited to have Rowe join CIBC Mellon's strong and dynamic leadership team. She is highly-qualified with the skills and experience to manage our continued financial growth."

Commenting on her appointment, Rowe added: "CIBC Mellon is well-regarded by institutional investors as Canada's leader in asset servicing, and I am proud to join the company and support its financial management."

"I am looking forward to contributing to CIBC Mellon's strong operational execution, service excellence and continuous improvement."

Jayne Forbes has left her role as deputy global head of trading and securities financing (TSF) at AXA Investment Managers (IM).

Forbes, who departed on 30 June, joined the TSF team in 2005 as head of securities financing.

She was appointed deputy to the global head of TSF in July 2015.

Daniel Leon, head of engineering and execution, will take over her responsibilities, effective immediately.

In a statement, AXA IM said: "We would like to thank Jayne Forbes for her commitment in the role, after serving 13 years at the company."

Forbes has also worked in roles at State Street Bank and Deutsche Bank.

Kaizen Reporting, a regulation technology growth company, has hired Jonathan Lee as senior regulatory reporting specialist.

Lee will be responsible for building quality assurance and regulatory testing for Securities Financing Transactions Regulation (SFTR).

He will be tasked with working with the firm's clients to ensure it offers the same service for SFTR as it does for regulations such as the second Markets in Financial Instruments Directive and European Market Infrastructure Regulation.

Lee was previously Europe, the Middle East and Africa fixed income regulatory reporting lead (bonds).

He was also chair of The International Capital Market Association European Repo and Collateral Council SFTR taskforce at J.P. Morgan.

The board of directors at Citi has elected Jay Jacobs as a new independent director.

Jacobs most recently served as president and managing director of Pacific Investment Management Company (PIMCO), a global investment management firm, prior to his retirement in September 2017.

Jacobs was at PIMCO, serving as the firm's president from 2014 to 2017.

As president, Jacobs led the firm's operational, administrative and infrastructure areas and chaired PIMCO's global risk committee and served on its executive, compensation and audit committees.

Prior to PIMCO, Jacobs served as managing director and global head of human resources at PIMCO. He currently serves as an outside consultant to the firm.

Michael O'Neill, chairman at Citi, said: "We are pleased to have Jay Jacobs join Citi's board of directors."

"Not only does he have deep operational, administrative and business experience in the financial services industry, but he also brings to Citi's board insights gained from being an institutional investor and a client."

He added: "I'm confident Jacobs's perspective from these various viewpoints will prove immediately valuable to Citi." **SLT**

Do you have a story you think we should cover? Contact us via: beckybutcher@blackknightmedialtd.com