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A bump in the road

What does the future hold for the fourth largest securities lending market in Asia?

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REGIS-TR and Market FinReg offer SFTR training

REGIS-TR has collaborated with Market FinReg to provide a comprehensive training solution for the Securities Financing Transactions Regulation (SFTR).

Following consultation with the European Commission and European Securities and Markets Authority (ESMA), Market FinReg developed the SFTR transaction reporting training programme which was subsequently accredited in April 2018.

The training solution comprises an end-to-end solution allowing delegates to understand the backdrop of SFTR.

The training solution is live and can be offered both in person at REGIS-TR's premises in London, Luxembourg, Madrid and Frankfurt. It is also available online allowing delegates from across Europe and the world to receive high-quality training from the convenience of their office.

John Kernan, head of product management and business development, at REGIS-TR, said: "We have received significant demand from participants for training and insight into SFTR and its reporting regime."

He added: "With Market FinReg having taken an industry lead in advocating and liaising directly with the European Commission and ESMA, and with our pedigree as a leading pan-European trade repository, participants now have access to one of the most advanced SFTR training programmes."

"We're delighted to be working with Market FinReg on this initiative."

Seb Malik, managing director at Market FinReg, commented: "There is a real thirst for granular knowledge in the industry; by collaborating with a leading trade repository, we can ensure that our joint expertise is presented to firms far and wide."

He added: "2019 will be all hands on deck for SFTR implementation for thousands of firms; I am, of course, delighted to be working with REGIS-TR—the specialist pan-European trade repository whose name speaks for itself.

"This collaboration empowers thousands of UCITS, Alternative Investment Funds, Markets in Financial Instruments Directive firms, banks, insurance companies and other affected parties to understand the granular details of precisely what SFTR entails and how to transaction report. I look forward to working with REGIS-TR in delivering SFTR training."

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ISLA pre-launches new GMSLA

The International Securities Lending Association (ISLA) has pre-launched the new Global Master Securities Lending Agreement (GMSLA) security interest over collateral 2018 version.

ISLA in partnership with Clifford Chance and industry stakeholders has developed a pledge collateral version of its existing GMSLA.

Based on the existing GMSLA 2010, the new agreement provides ISLA members with an alternative to the title transfer framework.

ISLA has developed a security agreement that creates a security interest over the relevant collateral accounts. In order to do this, the association worked with tri-party service providers to develop tri-party collateral agreements that serve as a control document between the borrower, lender and tri-party agent.

The additional documents are available for business undertaken using BNY Mellon, Deutsche Borse, Euroclear and J.P. Morgan in their capacity as tri-party agent, and have been reviewed by Clifford Chance to work alongside the GMSLA security interest over collateral 2018 version.

In addition, ISLA will make a legal opinion available from Clifford Chance and will inform members accordingly.

The GMSLA provides an important alternative to the existing title transfer legal frameworks and allows market participants to potentially optimise the consumption of binding capital constraints such as risk-weighted assets. It also helps to manage collatral obligations more effectively.

The agreements are available on the ISLA website for member firms.

Delta Capita acquires Pall Mall Risk Reduction

Delta Capita has acquired Pall Mall Risk Reduction, a consultancy specialising in non-financial and conduct risk management for banks and investment firms.

The timing of the acquisition will be welcomed by the industry as it braces itself for major transformational change and regulation such as Brexit readiness and an increased focus on non-financial risk management, which will have a very significant impact on industry participants.

Pall Mall Risk Reduction was founded by David Long who held various senior positions at Credit Suisse during his 30 years at the bank.

Most recently, he served as head of strategic initiatives at Credit Suisse, a role that included planning for its business model after the Brexit referendum.

The other co-founders of Pall Mall Risk Reduction include Nick Wilcock and Charanpal Matharu. Wilcock served as deputy Europe, the Middle East and Africa COO for Credit Suisse and formerly president of its Moscow bank during his 25 years at the bank. Matharu spent 13 years at Credit Suisse and pioneered its front office supervisory practices.

Commenting on the acquisition, Long said: "We are very excited to be joining Delta Capita, our clients will benefit from the significantly increased capability and as skilled practitioners, we are very much aligned to the DNA of Delta Capita. Combining Pall Mall Risk Reduction's advisory business with Delta Capita's proven technology and managed service capabilities will allow us to bring to market new innovative products and services that will greatly reduce the cost of control and compliance for our clients."

Joe Channer, founder and CEO of Delta Capita, commented: "This is a strategically important acquisition for Delta Capita, as we look to complement our financial risk practice with a non-financial risk capability to establish a complete advisory and managed services offering in the risk domain."

He added: "The breaking up of the banking value chain is establishing new eco-systems that are being occupied by fintechs, service providers and industry collaboration initiatives, all powered by the adoption of modern technology and infrastructure. We believe non-financial and conduct risk management will dramatically benefit from this market evolution."

Tradeweb connects to Eurex for direct clearing

Tradeweb Markets and Eurex Clearing have established a direct connection for the clearing of over-the-counter (OTC) interest products as part of their efforts to enhance clients' trading and clearing workflows.

According to Tradeweb, the connection will create significant workflow and execution

Oak Hill implements Hazeltree's cash and collateral management suite

Oak Hill Advisors has implemented Hazeltree's cash and collateral management suite to better manage operational risks, strengthen its controls, drive efficiencies and increase yields on excess cash.

Hazeltree's cash manager product will help enable centralised aggregation and monitoring of Oak Hill's cash balances across brokers, banks and other counterparties, as well as the executive of cash movements and payments via a wire solution.

The collateral manager product will streamline and aggregate Oak Hill's over-the-counter (OTC) collateral management activity. It will also compare and reconcile internal, independently-valued OTC positions with credit support annex terms applied against each counterparty's view. Finally, it will respond to, issue, or dispute daily margin calls to optimise capital and collateral usage.

John Mack, Oak Hill's managing director of operations and client accounting, commented: "Oak Hill wanted to further strengthen its controls and operational efficiencies surrounding cash movements, payments and collateral management. Hazeltree provided an integrated, scalable solution that fully supports our expanding business requirements."

He added: "Hazeltree has helped our treasury management function deliver leading-edge capabilities to further minimise operational risks and identify opportunities to capture incremental yield."

efficiencies for buy- and sell-side firms using the services of both Tradeweb and Eurex. This will achieve straight-through processing (STP) benefits and an improvement on market infrastructure, Tradeweb revealed.

Meanwhile, Eurex Clearing uses the functionality of approved trade sources (ATS) for trade registration of OTC interest rate products.

The addition of Tradeweb to the Eurex ATS infrastructure enables Tradeweb clients and liquidity providers to directly submit their interest rate swap (IRS) trades for clearing Eurex Clearing's OTC CCP. The first trade on the Tradeweb IRS platform to be successfully cleared using this direct connectivity was executed between Union Investment and Citigroup Global Markets.

Matthias Graulich, member of the Eurex Clearing executive board, commented: "For Eurex Clearing, the connection with Tradeweb is another building block in its efforts to offer an attractive EU27 solution for clearing OTC IRS products."

Enrico Bruni, head of Europe and Asia business at Tradeweb, said: "As a leading IRS marketplace, Tradeweb is focused on delivering streamlined, lower latency workflows, while simultaneously offering clients flexibility and choice in their clearing counterparty selection in any environment."

Christoph Hock, head of multi-asset trading at Union Investment, added: "The direct connectivity between Tradeweb and Eurex provides us with a

Martela Oyj and Lago sign liquidity agreement

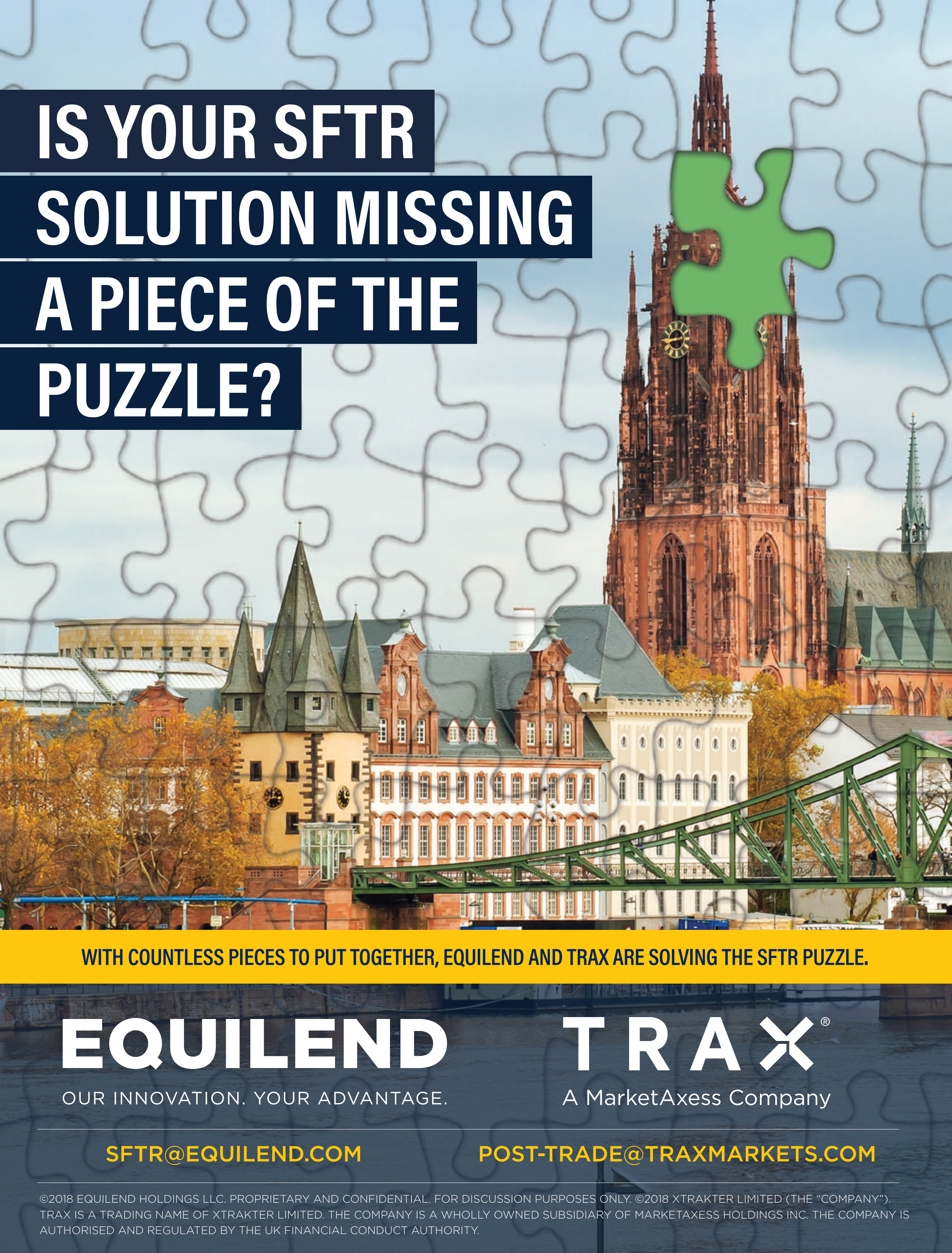
Martela Oyj and Lago Kapital have signed a liquidity supporting agreement, effective 3 December.

As part of the agreement, Lago Kapital will quote bids and offers for Matela Oyj's share. The bid and offer prices are a maximum of 5 percent calculated on the bid price.

The bids and offers quoted by the liquidity provider must be at least €2,000 worth of shares.

Lago Kapital will quote bids and offers for Martela Oyj's share in the trading system of NASDAQ Helsinki Finland on each trading day—for at least 85 percent of the continuous trading period—and in the auction procedures applicable to the share.

The liquidity support programme is to increase Martela Oyj's shares liquidity and to decrease the price volatility of the share. Martela said that the programme will especially help the trading of small investors.


IS YOUR SFTR SOLUTION MISSING A PIECE OF THE PUZZLE?
WITH COUNTLESS PIECES TO PUT TOGETHER, EQUILEND AND TRAX ARE SOLVING THE SFTR PUZZLE.
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more robust and cost-effective way to submit IRS transactions for clearing, thus helping us achieve better results for our clients."

Spain to introduce Financial Transaction Tax

Spain will be the next European country to introduce the Financial Transaction Tax (FTT).

The decision is estimated to raise €8.45 billion ($9.57 billion) in 2019, according to its Government's forecasts.

FTT requires taxes to be collected for regular cash market transactions. It is currently utilised in France and Italy and is charged only on the specific transactions that are designated as taxable.

The main objective of the FTT is to introduce the tax system into the financial sector and to increase the tax collection of the states.

In this case, however, it also responds to the need to justify the budget plan presented by Madrid in Brussels last October, where the Spanish Government proposed a deficit reduction of 0.4 percent for next year instead of the 0.65 percent suggested by the European Commission.

Back in 2014, asset managers, pension funds, banks and insurers expected to spend more on tax and regulations in 2015 as well as the following years, according to a poll by BNY Mellon at its annual Tax and Regulatory Forum.

Daniel Carpenter, head of regulation at regtech firm, Meritsoft, said: "Spain is not the first, and certainly will not be the last country to enforce a tax on financial transactions, they're merely following the French and Italian authorities lead."

He added: "As global financial drivers and political pressure mounts, financial institutions can ill afford to be unprepared for the implementation of new taxes on the buying and selling of securities."

"This is why an increasing number of firms are reviewing manual/spreadsheet tactical solutions and need new ways to minimise tax obligations improve efficiency and remain compliant."

Tesla shares declined by 6.9 million since start of November

The number of Tesla shares borrowed has declined by 6.9 million shares since the start of November, to a year-to-date low of 22.4 million.

The exchange short interest number pertaining the 15 November totalled 28.8 million shares, showing a decrease of 1.1 million shares during the first two weeks of the month. According to IHS Markit's short interest forecast model, the total short interest fell a further 1.5 million over the last two weeks of November to 27.9 million, the lowest level since March.

IHS Markit suggested that lenders are reporting 16 million shares as currently available to borrow, equating to $5.4 billion—both figures are a post-initial public offering high for the stock.

The total size of the lendable pool, including shares already lent out, has been consistently in the range of 30 to 31 million shares since the start of November. IHS Markit explained that the recent increase in securities lending availability is purely the result of existing borrows being returned.

The pricing for short exposure to Tesla credits has also declined.

IHS Markit revealed that after peaking above 500 basis points ahead of Q2 earnings in August, the cost to borrow the 5.3 percent 2025 bond has declined by more than 50 percent.

It noted that the further reduction in borrow fee since then has been driven by increasing supply from beneficial owners, who have added $85 million par value to lending programmes since the low point observed in mid-February.

IHS Markit said: "Taken together the reduction in equity demand combined with increased supply on the credit side has driven a reduction in the cost of placing bets against the future of the electric automaker across the capital structure."

Given the Q3 earnings results, and the market reaction to them, IHS Markit explained that "it's no surprise" that bears have reduced the position on the margin and that some investors have positioned themselves to benefit from further short covering and continued enthusiasm from the firm's investor base.

IHS Markit noted that while the share price has bounced 39 percent off the year-to-date low, and is only 15 percent below the all-time-high observed in June last year, bears can at least enjoy a lower cost of admission to the short trade, for the time being.

It concluded: "With a current short balance of $9.9 billion the bearish sentiment is still significant and the lower carrying cost makes the position easier to manage for short sellers heading into 2019."

Top of hot stocks: Elringklinger AG, Mimedx Group and Li & Fung Limited

Elringklinger AG topped the FIS Astec Analytics hot stocks list for Europe, the Middle East, and Africa last week. Elringklinger, a Germany-based automotive parts supplier, last appeared on the hot stocks list in April as the shares bounced back from near 12-month lows.

Short sellers had been holding 98 percent of the shares available in March, when volumes peaked, and still held 95 percent in April, despite a 26 percent drop in volume, suggesting a sell-off by large institutional investors as the shares began their decline.

Since April, that trend has reversed as volume dropped some 17 percent, but utilisation fell by 53 percent, closing last week at 44 percent.

Following Elringklinger was TechnipFMC plc (FTI), an oil services company formed by the merger of Technip and FMC. Over the last two weeks, the share price has dropped some 12 percent, a new 12-month low. FIS said this suggests those buying in may have been a little premature.

Topping the Americas hot stocks list was Mimedx Group Inc. (MDXG), a developer and processor of regenerative biomaterial products. The prior week saw a collapse in its short interest volume, down almost 40 percent, and this week has seen even more change. Volume fell a further 45 percent last week, but utilisation fell only six points to close the week at 62 percent.

Topping the Asia-Pacific hot stocks was Li & Fung Limited, a China-based wholesaler and distributor. By October, its share had collapsed by 65 percent.

FIS said: "The shares have recovered a little, closing last week, but short sellers have not been put off, and continue to build their positions in expectation of further issues for Li & Fung."

Lendingblock gains in-principle licence as DLT provider

Gibraltar Financial Services Commission (GFSC) has made an in-principle decision to grant Lendingblock authorisation as a distributed ledger technology (DLT) provider.

According to Lendingblock, the in-principle authorisation comes simultaneously with the firm's successful completion of its platform testing period, which was conducted over 30 institutions worldwide. This puts the firm well on track to launch the world's first institutional digital assets lending exchange as a fully regulated DLT provider early in the new year.

Following this in-principle decision and the successful testing period, the Lendingblock platform is open for institutional onboarding in preparation for launch. Market participants are now able to sign up for access and will be able to commence borrowing and lending BTC, ETC, BCH and LTC across various maturities from early next year.

Lendingblock will continue to collaborate closely with GFSC as it works towards being granted the full DLT licence. Additionally, the firm is also in discussion with several other regulators globally to ensure that the exchange meets its strategic aim to operate on a duly licenced basis for all territories in which it operates.

Steve Swain, CEO and co-founder of Lendingblock, commented: "As a true believer in the importance of getting our industry into regulatory shape, seeking authorisation from a leading regulator was always a priority for us. The GFSC has developed one of the most advanced DLT regulatory frameworks in the world and this in-principle decision is a tremendous achievement." **SLT**

SFTR: the clock is ticking

Delegates gathered at the SimCorp seminar in London to discuss the looming deadline of SFTR

Jenna Lomax reports

While many are packing up for the festive break, and listening to Jingle Bells on repeat, some within the securities finance industry can only hear alarm bells as the Securities Financing Transactions Regulation (SFTR) deadline approaches.

Some of these alarm bells and fears were put to bed by a group of industry panellists at a SFTR seminar hosted by SimCorp in London.

The panellists, Gernot Schmidt of SimCorp, Sandra Castro Lopez of Regis-TR, Patrick Middelkoop of PGGM and David Field of The Field Effect, discussed SFTR's expected impact on the buy-side industry, the significance of a firms' target operating model, and gave a step-by-step guide to prepare for the regulation.

SFTR threatens to affect firms across the board, including banks, investment firms, central counterparties (CCPs), central securities depositories (CSDs), insurance, reinsurance, undertakings, pension funds, UCITS, alternative investment funds (AIFs), and non-financial counterparties (NFCs).

Firms must prepare for SFTR before it closes in—which is expected to be as early as Q1 2020—to keep up with the regulation's reporting requirements and avoid being left behind. It is the latest in a long raft of regulations, that happens to coincide with Brexit, creating a risk for firms, who may get caught short whilst focusing on the former issue. As a result, these firms may find themselves rushing this through as an IT project rather than a long-term business strategy.

SFTR will require financial counterparties and NFCs to report their SFTs to an approved registered EU trade repository. Structurally, it is the same as reporting under the European Market Infrastructure Regulation (EMIR), requiring two-sided T+1 reporting. However, SFTR also asks that firms disclose requirements to investors and collateral reuse obligations.

Two of SFTR's three pillars are already live. The first being disclosure requirement, which means funds must disclose the usage of SFTs and total return swaps. The second pillar mandates collateral reuse with the permission of the collateral provider.

The third pillar is the SFT transaction reporting requirement. This covers repos, buy-sell backs, margin lending, and securities and commodities lending.

There are more than 150 reporting fields, spread across four tables, 80 of which apply to repo, marking a sharp shakeup for the repo market. A key challenge presented by the regulation is the availability of data, for example, trade details and collateral information. Timeliness of data is also a top concern. Much of this is down to the data being in disparate, fragmented systems, making this regulatory task harder than it should be. With many buy-side firms reliant on several parties, and systems, the larger issue is of data access and transparency.

David Field, managing director of The Field Effect, got the conversation going by stating the sell-side is way ahead of the buy-side for SFTR, though stated the buy-side would still be accountable under the regulation. However, he affirmed, "the buy-side is getting itself in order".

The floor was then handed to Sandra Castro Lopez, relationship manager at Regis-TR, who asked the audience how many of them had started their SFTR programme, with around 60 delegates, about half raised their hands. This resonated with a recent straw poll at a SimCorp client conference, which saw the average rating for firms' SFTR's readiness at a low 39 percent. Out of the buy-side participants present, 41 percent had not yet defined their operating model.

According to SimCorp, when coupled with the margin squeeze many firms are feeling, the high costs associated with addressing regulations through tactical IT projects are now becoming difficult to justify or sustain. A change in approach is necessary, and the operational transparency offered by an investment book of record (IBOR) may just be the antidote needed to counteract this continually complex investment management landscape.

Castro Lopez stated that SFTR is broadly drawn on EMIR and, in fact, we see many references to EMIR in the specifications themselves. However, under SFTR there are going to be many more lifecycle events that will have to be reported compared to those under EMIR.

She added that because the timeframe is yet to be confirmed, though it the reporting start date is expected to begin as early as Q1 2020, some institutions are having difficulties in assigning budget and resources to their SFTR projects.

What's more, with many buy-side firms operating on an outsourced/delegated model for securities lending, the ultimate responsibility for complete reporting lies with the firm itself. It is also not guaranteed that all custodians or lending agents will offer delegated reporting services, because of the high cost and additional legal responsibility involved. According to SimCorp, this will force buy-side firms to gain an understanding of their SFT data and onboard their transactions. Without a single source of data, for example, IBOR this onboarding will be difficult.

Field then went on to explain the four areas of reporting to consider, as well as the 153 data attributes under in the published RTS, though there is a proposal to move this to 155, in which he explained the importance of Legal Entity Identifiers (LEIs) and unique trade identifiers (UTIs), which at this stage should not be underestimated and are key.

He also discussed that reporting collateral reuse will be challenging. What's more, the new regime could reduce liquidity from some sources of collateral supply, if some beneficial owners re-direct lending activity to non-European markets.

Delegates were then taken through a diagram summarizing key SFTR requirements which indicated what will be reconciled in terms of trade repository reconciliation. The graph indicated that 96 fields will be phased in for reconciliation both intra- and inter-TR.

The graph also highlighted how the industry must carry out timely and accurate reporting, indicating this should be T+1 for transactions and for collateral known at the point of the trade.

Transaction-level reporting is to be used for repo, securities lending and buy-sell back. Position level reporting should be used for margin lending.

It isn't all doom and gloom though, and some on the panel believe SFTR can trigger productive and constructive change, including competitive advantage with the right target operating model. This may well create further interest in the market.

For those firms consolidating their operations, rather than taking a patchwork approach to regulations, it can make all the difference. For one it enables firms to pool data and cut costs by using a centralised source of data for both for processing and reporting.

The panel went on to discuss SFTR's data impact and the areas of data that could be difficult to source.

In terms of counterparty data, Field explained many data attributes are likely to be difficult to source. For example, UTIs from other counterparties, the country of the other counterparty, beneficiaries, the value of reused collateral, and estimated reused of collateral, could be difficult to source.

In fact, he said, around 40 percent of SFTR related data could be difficult to source, which "would be problematic".

In addition, Field explained the current challenges around booking models and that it is not just the new trade in question that must be reported under new SFTR ruling, but all lifecycle events.

Field communicated to delegates that though regulators are not expecting everything to match on the first day of SFTR's implementation, NCAs will analyse information from TRs and firms must aim for their books and records to match.

But he added: "NCA's will examine your matching rates, and they will be shining a spotlight on firms that fall below the average."

Patrick Middelkoop, the application consultant for PGGM, highlights this is not only a compliance concern but a business concern, commenting: "Everyone in your organisation should be ready for compliance."

Middelkoop added the most industry impact will be felt in clearing and trading venues, though he said that the SFTR regulation will create an entrance burden for new participants on the market.

For the time being, Field noted SFTR would remain within the borders of Europe but Asian markets are expected to follow, though the US position is not clear. Ultimately, the FSB and regulators want SFTR implemented globally.

The subject of Brexit came into the conversation as discussions turned to what delegate's priorities should be moving into Q1 2019.

Gernot Schmidt, product manager at SimCorp said the main priority between now and March (when the UK is expected to leave the EU) should be planning for a post-Brexit world. He said after Brexit, SFTR should be the second priority.

Field then discussed how resources can be used toward the expected live date of SFTR, which could be as early as Q1 2020. To this, he said: "It is high risk to wait until 2020. Firms must plan for 2019 build and test."

To which, Castro-Lopez added, "the implementation timeline hasn't been confirmed which makes planning more complex".

Schmidt stated: "More testing time is needed for staff, but you cannot assume you will be given that. We believe the distinct operational elements of an IBOR, can achieve reporting quality close to 100 percent. These include the automation of day to day report processes, validation of trade data against the regulatory rule set, as part of post-trade processing and a consistent view and source for reporting data across the business."

Field concluded: "You'll have to start resourcing your delivery plan pretty quickly in 2019, and you need to start now. Allow as much time as you can— build a 2019 roadmap very quickly if you haven't already." **SLT**

Pursuing the potential

Israel's securities lending market is reasonably developed but it is not fulfilling its full potential, now the Tel Aviv Stock Exchange looks to improve and advance it further with its new blockchain platform

Maddie Saghir reports

While Israel's securities lending market has coped surprisingly well over the last few years, the potential in Israel's securities lending market has not yet been fulfilled. However, technologies such as blockchain aims to enable direct lending among major financial instruments in the country to improve the securities lending status. Earlier this year, the Tel Aviv Stock Exchange (TASE) announced the development of a blockchain-powered securities lending platform, which is set to enable direct lending among all major financial instruments in the country.

Commenting on the current state of Israel's securities lending industry, Orly Grinfeld, executive vice president and head of clearing at TASE, said: "Currently, the securities lending market in Israel is managed by the largest four global custodian's banks and the system is working in silo mechanism, which means that each custodian operates securities lending transactions inside the banks—between its clients."

"As a result, there are four securities lending desks, which are not working with each other. Therefore, the market is pretty big but it is not sophisticated and efficient enough. Our purpose is to find a way to open the market and enable each custodian to work with the other custodian's clients, which would make the whole market bigger and more efficient."

Grinfeld noted that a much more sophisticated securities lending market in Israel could be gained if they were able to create one centralised automated and transparent system, which was open to the whole market.

She added: "This would enable every participant direct access to the securities lending market. We call this new product 'central securities lending'. This new product will generate an automated, transparent and efficient lending market and that's the way we hope to increase the volumes of this market."

Grinfeld explained that TASE has been exploring the blockchain technology lately, and they believe it may be one of the leading technologies of the financial world in the future.

"Right now, we only see the blockchain technology in distributed products such as cryptocurrencies. We haven't seen it working in financial institutions like exchanges, banks and depositories, and this product means to demonstrate how we can use blockchain technology in centralised entities such as exchanges", Grinfeld added.

Blockchain bolstering growth

In May this year, TASE chief executive Ittai Ben-Zeev stated: "The blockchain technology will present a new level of safety for securities lending and will support growth for transactions based on this new platform". In regards to this, Grinfeld said that this project has successfully completed its proof of concept phase.

She added: "We are now in the development phase with our partners—Accenture and Intel with one of the most advanced technologies. Right now the project has been quite successful and has fulfilled our expectations."

Reflecting on Ben-Zeev's statement, Ofer Abarbanel, CEO of State Funds, commented: "Yes, I agree, blockchain is a great technology but when it comes to changes you must have all TASE members and regulators devote time and effort into upgrading the market. If we see the start of a recession in 2019 then all of the upgrades will be pushed back indefinitely."

Meanwhile, Martin Seagroatt, marketing director, securities finance and collateral management, Broadridge, said: "Blockchain platforms can help to mobilise assets more rapidly, with reductions in settlement risk, operational risk and credit risk."

Seagroatt added: "Broadridge recently conducted a blockchain pilot with three sell-side firms and one buy-side firm to transact bilateral repo, and found the solution resulted in operational efficiencies and a more streamlined process. We expect to see more blockchain based platforms emerge as market participants become more comfortable with the technology and operational hurdles are overcome."

Turning to technology

The impact of technology seems to be ever increasing, and Seagrott noted that technology is impacting the industry in a number of ways.

He stated: "Automation of certain aspects of trading, especially around general collateral (GC) business, frees up time for traders to focus their attention on intrinsic value trades."

"Effective trading now requires a higher degree of connectivity and straight through processing between a firm's systems, electronic markets and benchmarking data vendors, and a strong global inventory management function."

In terms of growth, Seagrott noted that collateral optimisation continues to grow in importance and now involves more complex decisions around balance sheet usage, capital consumption and liquidity management, and all of which are supported by state of the art technology solutions.

"As time goes on, we expect to see the evolution of more sophisticated trade and collateral pricing. This could see machine learning algorithms that process large volumes of data to price lending fees or optimise collateral allocations more effectively for example", he explained.

Seagrott added: "In addition, we are seeing increasing automation of manually intensive tasks such as corporate actions processing while improving settlement efficiency is also becoming more critical. In this environment, technology solutions that can help to track and reduce settlement failures can provide significant benefits."

Abarbanel said: "Technology helps level the playing field, you can get great computing power and cybersecurity just like the biggest banks in the world by moving everything into the cloud and paying for only what you use without incurring heavy infrastructure expenditures."

Trends, concerns and challenges

In terms of trends and referring to TASE's new platform, Grinfeld said this new securities lending is going to be a game changer in the securities market in Israel. She explained: "The new product will open the market and enable direct participation for each player in the market—even the smaller players. The market will be much more efficient and transparent, and the costs will be lower and the volumes will grow higher. We believe it is going to double and triple the volumes of the current securities lending market in Israel."

Also discussing current trends in Israel, Abarbanel highlighted that there are more players [in the industry] such as foreign banks, securities lending platforms and credit funds are coming into the market using cloud technology to keep it all cost-effective.

Regarding regulation, TASE's new platform is not expected to meet any major burdens. TASE is regulated by the Israel Securities Authority (ISA) and everything that they launch and every new product is coordinated with the ISA and approved by the ISA.

"From our point of view", Grinfeld said, "the product is going to decrease the risks for the participants. TASE is going to be obligated as a central counterparty (CCP) for the new system, which means it gives the full obligation to complete each lending transaction even if the counterparty did not fulfil their part. In terms of regulation, it decreases risks in the market and that is one of the interests of the regulator."

Abarbanel added: "Regulations have not changed since the regulators personally know all participants and how risk-averse we all are."

In terms of challenges and opportunities, Abarbanel stated: "Technology is the challenge and opportunity, with good, cost-effective technology you improve everything, better marketing, better operations and better cybersecurity."

Grinfeld highlighted that bringing demands from outside of Israel and bringing foreign participants and players to use the Israeli capital market in general—but specifically to use the lending opportunities in Israel—is one of the major challenges that TASE sees.

Elaborating on this, she continued: "We hear that the securities market in Israel is gaining lots of interest for foreign investors, but it is not sophisticated and accessible enough for them. We believe that once we complete the system it would be a great opportunity for international entities to take part in the securities lending market in Israel. Most of the usage of the blockchain technology, which enables a more secure environment for securities lending transactions, would give the foreign investor much more convenience in using the new platform." **SLT**

A bump in the road

Just two months ago, South Korea stood on the cusp of a market crash. As it gathers itself, what does the future hold for the fourth largest securities lending market in the Asia region?

Jenna Lomax reports

Asia offers a diverse range of securities lending markets, which all vary in their stages of development. But in recent months, its fourth-largest market, South Korea, has been feeling the struggle.

At last year's PASLA/RMA Conference on Asian Securities Lending, Seoul-based market representatives voiced concerns that the hardening of short selling rules in South Korea through 2016 to 2017 would negatively affect their business—and now it appears their worries were not without merit.

South Korea was one of the most lucrative Asian markets for securities lending from 2015 to 2017. Local investors only accounted for 20 percent back in 2011, but in early 2017, that percentage hovered around 35 percent on average, with local investors increasingly taking on a larger command of the market.

However, recently the walls have come crashing down, as stock loans in South Korea tumbled about 24 percent over this October.

In a Trend Analysis release, published by the Korea Financial Investment Association (KOFIA) in October 2018, KOFIA indicated that the Korea Composite Stock Price Index (KOSPI) had closed at 2,029.69pt before falling to a yearly low of 1,985.95pt as a result of mass selling by foreign investors.

KOFIA said: "This was triggered by concerns of economic recession due to decreasing global trade volume from the prolonged US-China trade war and volatile global stock prices on top of continuing US interest rate hikes."

It added: "Meanwhile, tumbling US stocks weighed down on the stock markets of other major economies, which also negatively impacted Korea's stock prices."

As a result, the net asset value of domestic equity funds dropped by Won (KRW) 6.4 trillion, despite a slight inflow of capital.

KOFIA also found outstanding margin loans came in at 9.04 trillion won (US $8.06 billion) as of the start of November, down 23.8 percent from 2 October.

Margin loans taken to buy stocks traded on the main KOSPI market plunged 21.1 percent to 4.71 trillion won, while those for shares registered with the tech-heavy, secondary KOSDAQ market tumbled 26.4 percent to 4.33 trillion won.

But it's not all doom and gloom, DataLend indicates that South Korea is still the fourth largest market in the Asia region by on-loan and inventory value.

As of 12 November, there were still approximately 2,200 securities on loan on any given day, the vast majority of which (over 90 percent of the total) were equity securities, according to DataLend, the securities finance market data provider.

DataLend also found the average daily on-loan balance so far this year (as of 12 November) stood at $14.80 billion on loan/day, while equities were at $14.36 billion and fixed income stood at $439.85 million.

As Paul Solway, regional head of securities finance, Asia Pacific of BNY Mellon, comments: “Receivers are keen to accept Korean equities as another way to secure loans/repo trades, and Korean Treasury Bonds are emerging in financing desirability among borrowers.”

Broadly speaking, Solway adds: “Institutions are increasingly looking into how to automate their trading functions to simplify workflows and reduce operational risk. There are ample opportunities to drive pre- and post-settlement efficiencies in Korea and across the rest of Asia.”

Seoul relative

Despite the slight scare in October, custody clients and the international community are still favouring South Korea, and collateral has its opportunities there too.

As Darren Boulos, head of foreign exchange (FX), Asia Pacific, at BNY Mellon, says: “South Korea is a strategically important country for [BNY Mellon] custody clients and the international investment community. It captures some of the largest investment flows among the restricted markets BNY Mellon serves.”

And, as Solway indicates, in the Korean market “pharmaceutical companies, [as well as] marine transportation, tech and heavy industrial/ manufacturing sectors continue to dominate specials activity”.

This is mirrored by Sam Pierson, senior director, at IHS Markit who states: “Celltrion and Celltrion Healthcare have been most popular, recently there was some more demand for Samsung and affiliates into earnings, with Samsung electro-mechanics seeing a surge in borrow demand.”

However, Solway warns: “South Korean economy is growing only gradually, with GDP slightly below expectations. Fiscal and economic policy developments in the coming months could cause investors on the long and short side of the market to change their market positioning.”

And as for collateral, Natalie Wallder, markets head of collateral management at BNY Mellon, explains: “Challenges will undoubtedly present themselves in relation to the industry mobilising eligible collateral to manage regulatory changes, such as the need to segregate margin for over-the-counter derivatives.”

But she states: “Such challenges, however, can turn into opportunities where the market expands its range of eligible collateral to include other high-quality liquid assets (HQLA) and creates more seamless solutions to use onshore securities.”

A question of regulation

Regulations governing securities lending are more global in nature, according to Solway, but he states they are driving opportunities across the marketplace.

He adds: “Markets like Korea and Taiwan continue to be very rules-driven and transparent on the short side. Some participants believe this could set the standard for other markets in future, whereby local intermediaries form part of the ecosystem that allows for reporting to exist at a granular level via the central exchange or depositary.”

“As we have seen, this transparency requirement is the driver of more recent regulations such as the Securities Financing Transactions Regulation in Europe.”

“This, in turn, should bring new trading counterparties to the market who are looking to transform cash assets into HQLA. It also creates more of a need for institutions who hold Korean assets to further finance them.”

Solway predicts that the financing market will continue to evolve in the near term. This, he says, “is where triparty agents can assist to mitigate operational and settlement risk for borrowers and lenders”.

Neighbours

Where China is concerned, trade tensions with the US could have a knock-on effect when predicting future successes in the Asia Pacific region.

However, David Braga, head of Australia at BNP Paribas Securities Services, notes: “China [is] generating the most interest and demand. We have built a robust product offering to support clients’ investment ambitions in China.”

Elsewhere, Singapore has evolved and is now seen as an active financial hub for Southeast Asia and globally.

Singapore’s advanced technological infrastructure has been a strength and the city-state remains in a prime position to help increase Asia’s securities lending market.

As Solway indicates: “Securities lending across Asia continues to develop and grow.”

“The Philippine and Indonesian local bourses are both revisiting their domestic short-selling mechanisms that in turn will require facilitation from viable securities lending platforms that can support both local and offshore participation.”

“As always, China remains a market that the whole industry is keen to see open up beyond the existing restrictions that disqualify many firms from securities lending.” **SLT**

An undeniable necessity

Staffan Ahlner of BNY Mellon suggests that over the next few years technology will be crucial in enabling changes

Maddie Saghir reports

How does BNY Mellon help institutional investors meet their collateral obligations? How can BNY Mellon help reduce risk?

BNY Mellon provides clients with access to all of the various elements of the collateral workflow that they may need. We offer an end-to-end solution which gives institutional investors options around: how collateral is segregated, how margin is calculated, how assets can be transformed in order to meet collateral obligations and how we can provide sophisticated ongoing collateral screening across asset classes and geographies. As an independent collateral manager, we are an impartial agent enabling our clients to manage collateral safely while providing access to the market's largest lending pool for transformation and to the market's biggest triparty pool for collateralisation globally.

What collateral segregation solutions does BNY Mellon provide?

We provide multiple segregation options for clients, including triparty, third party, and the transfer title, pledge and custody-based segregation, configurable depending on the individual needs of the clients. We can also segregate assets into triparty and third party accounts across a wide variety of transaction types including regulatory-driven segregation (reg-seg) and non-reg seg.

Additionally, we provide collateral administration services which manage margin calls for clients and facilitate the movement and settlement of collateral assets. Separate from these functions, we also provide valuation services for reg initial margin and variation margin, as well as a full complement of transformation services to clients that require specific forms of collateral to meet their agreed counterparty needs.

The optionality is driven by the clients' specific requirements, their legal analysis, and their desired degree of automation. To give an example of the configurability of our offering, an investment manager can take in collateral through a repo trade to reuse the securities purchased in a margin transaction, thereby seamlessly combining securities finance, collateral management and margin segregation.

Are there any opportunities to be had in optimising collateral use?

Absolutely, but it's important to realise that optimisation is a subjective goal. Optimisation for an institutional investor is different to optimisation for a bank and there are even pronounced differences between institutional investors. As such, understanding the chain and the value of optimisation for all parties involved in the chain is important. How an institutional investor uses collateral has an impact on the price of the transaction, both from a fee perspective and capital implication for its bank counterpart. Understanding how liquidity ratios are affected by all parties in the transaction is important. The optimisation is also about liquidity and its similarly important to ensure that you have access to the right liquidity pools, in order to mobilise collateral when needed, due to external factors such as market fluctuations, interest changes and volatility.

How can institutions leverage technology to help in the collateral space?

Technology and specifically automated screening, analysis and the automated movement of margin is an undeniable necessity in any sizable collateral operation. We have leveraged our scale to invest in technology. That has meant not only automating the screening and selection of collateral but also using technology to improve the workflow and negotiation of collateral requirements. A great example of this is RULE, our electronic collateral schedule platform, which has markedly simplified and hastened the negotiation of eligible collateral schedules between trade counterparties, due to go live in 2019. RULE has taken a paper-based and manual process that traditionally took weeks to complete and dramatically reduced the timeframe taken to conclude the agreement of collateral schedules. In addition, we continue to automate other processes and elements in the collateral workflow.

How are regulation and market changes affecting collateral sourcing? And to what extent is regulation increasing the demand?

Regulation has had a profound effect on collateral supply and demand. Consequently, it is key to have a collateral strategy that can cope with the capital pressures on the sell side, the fluctuating availability of balance sheet and cyclical supply factors. Collateral is benchmarked on much more than simply financials: a collateral trade needs to be viewed through the prism of a number of different criteria that are governed not only by risk appetite of the trading counterparts but also by regulation and numerous other considerations.

Due to the regulations such as Dodd-Frank and European Market Infrastructure Regulation, we are seeing increased volumes in our collateral management businesses. It's notable that the nature of these volumes is changing: while the margin assets being pledged in early days of the new regulations were predominantly high-quality liquid assets, the focus is now on alternative collateral assets such as equities and corporate bonds. We are also seeing more counterparty types coming into the collateral management space, and more buy-side participants in particular. Once those clients are on board it opens the playing field for the buy side to optimise their collateral pools, which in turn means they need access to new systems and architectures for them to optimise those assets.

What trends are you currently seeing regarding collateral in the securities finance space?

There is currently a major focus on the pledge in the market under a number of different legal constructs in a variety of jurisdictions. Institutions are actively repapering title transfer transactions into pledge structures to allow for greater trading volumes. Further, we are seeing growing interest in using alternative collateral in a number of markets, including money market funds and exchange-traded funds, and the opening up of new markets, such as the expansion of the Hong Kong Connect service into South Korea. We also continue to see the centralisation of collateral desks and resource desks on both the collateral provider and receiver side of the market.

How important is it for firms to understand what is happening in the wider market in relation to the evolving collateral landscape?

Numerous external regulatory and macro-driven events affect the usage of collateral, and as a result, in order to be effective, you need to be aware of the market forces impacting you and other parties in the collateral chain. It is hugely important to look at collateral management holistically and not as an isolated activity. To look at what is happening in the market both on a day-to-day basis as well as over the longer-term can help prepare both collateral providers and receivers to be ready to move quickly and nimbly when challenges and opportunities arise.

What do you think the collateral landscape will look like in the next three to five years? What impacts or consequences will technology and regulation have on it in the long term?

To mention a few, I expect we will see new entrants coming into the market, many of which will be smaller actors; we will see a heavier reliance on technology and more demand for transparency; and ultimately we will see greater demand for stability across financial, macro and operating environments. Technology will, of course, be crucial in enabling some of these changes to take place, and amid these developments, we will continue to see regulators—rightly—looking to ensure both sustainability and stability in the collateral marketplace.

In addition to the positive impact new technologies like RULE will introduce into the market, I think we will also see a much greater focus on market structure and the use of client communication tools. A number of service providers have developed platforms that act as central hubs for the processing of margin calls, and we can only expect the role played by those platforms to become even more pronounced as the industry moves to handle much greater volumes of margin messages across the collateral sector. There is also a lot of talk in the market about the concept of holding static client information in a centralised repository in order to help simplify onboarding and default management. I would expect to see some developments on that front in the coming years. **SLT**

Disclaimer: The views expressed within this article are those of the author only and not those of BNY Mellon or any of its subsidiaries or affiliates.

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Staffan Ahlner
Managing director
BNY Mellon

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Going up in smoke

David Lewis of FIS discusses the newly legalised cannabis market in Canada, and some US states, and how it has opened the floodgates for investors and producers alike

Environmental change is very much in the news at present, not least as a result of the climate conference that recently took place in Argentina. Whatever your position on climate change, it is hard to argue that our inability to adapt to an environment that may be changing beyond all recognition is a significant risk to us all. Commercial organisations share much in common with living organisms in this regard, and their ability to adapt to their environment is key to their growth and success, or even survival.

One of the industries that has come under significant regulatory as well as fashion or trend pressure is the tobacco industry. An increasing focus on health and vitality has taken its toll on the health of the tobacco producers as more people shun their products and the risks associated with them. However, like any successful business, the tobacco industry has shifted its focus to replacing its disappearing clientele with new markets and more modern products to service them. The success of vaping and other non-traditional tobacco-based products, which are said by some to be less harmful than their more traditional cigar and cigarette counterparts, can be credited with reversing the fortunes of some of the world's largest tobacco producers.

Just five years ago, the share price of $100 billion market cap Altria Group, owner of the famous Phillip Morris brand of cigarettes and tobacco products, including the famous Marlboro brand, was trading around $35. By June 2017, it was worth more than double that at over $77 apiece.

More recently, however, the US Federal Drug Administration (FDA) has been looking at the tobacco companies' targeting of young adults and lower age groups. It is logical for the producers of any product or service to look at ways of replacing or even growing its client base wherever it can, but new restrictions around targeting vaping products at the under-21 age group has potentially closed off an avenue of growth, and the impact on the share price is obvious. Altria shares closed last week below $54. So, where next?

The legalisation of recreational cannabis in Canada, and some states of the US, has opened the floodgates for investors and producers alike. One of the most well-known, Tilray, came to the market via an IPO in July of this year, launching at $17 apiece. Last week saw the shares close at over $102. While this is a long way below their post IPO peak close of $214, it is a significant way above the IPO price and brings this newly public company into the same market capitalisation bracket as The Gap and Macy's. Perhaps unsurprisingly, Tilray is a significant target for short sellers who consider the shares significantly overbought.

Altria wants in on this growth space and is targeting Cronos, another Canadian cannabis company, whose share price five years ago was around CAD$0.60, rising to CAD$5 apiece by the end of 2017. However, with the legalisation of cannabis and interest from Altria, the shares are now trading at over CAD$14. Again, short sellers are focusing on shares that they believe have become overpriced, as figure one shows.

Figure one: Short interest volume indexed to April 2017

Source: FIS' Astec Analytics

The tie-up between the companies appears to make a great deal of sense, with the infrastructure, marketing and distribution expertise that Altria can provide to access a burgeoning market that Cronos is looking to address.

As figure one shows, a significant quantity of short interest activity suggests that many think the shares should not be as high as they are, and a correction may be due. Figure one shows indexed short interest volume since April 2017, and the steep rise in activity over the last five to six months. It should also be noted that utilisation over the same period has been consistently over 80 percent, and the maximum 100 percent for much of the time between April and September.

Altria and Cronos are not the only pairing up that is occurring in the cannabis sector. Aphria, a Canadian pharmaceutical company, is also in the news at the moment as it looked to expand its operations by acquiring the interests of LATAM Holdings, a Columbian cannabis producer. This deal has also tripped the noses of the short selling community, as figure one shows.

Taking the five-year trend as before, Aphria shares can be seen advancing from CAD$0.75 to a peak of around CAD$23 in January of this year.

At around the same time, short sellers began to aggressively build up their positions, quickly pushing utilisation over 60 percent and between 80 percent and 90 percent by the middle of the year. Some sceptics are suggesting that share issuances by Aphria, timed to take advantage of the stratospheric share price gains, may not be all they appear to be. Irrespective of the share issuances purpose, short sellers were quick to take up any new shares that came to market, keeping utilisation levels high.

Quintessential Capital Management's Hindenburg Research has suggested that the purchase of LATAM has been simply to divert the newly raised capital "from the shareholders into their pockets," a suggestion strongly refuted by Aphria.

Whatever the truth of the matter, the shares have certainly come back to earth with a bump, trading under CAD$18 by November and closing this week at under CAD$6. This downward slide will have delivered significant gains for those holding short positions in Aphria, while leaving those who had bought into the frenzy surrounding the potential of the newly legalised cannabis market with a substantial headache. The accusations and rebuttals will, no doubt, continue to fly, but once the haze clears and the truth is known, there may well be some long investors nursing losses from investments that did, indeed, go up in smoke. **SLT**

"A significant quantity of short interest activity suggests that many think the shares should not be as high as they are, and a correction may be due"

David Lewis
Senior director
FIS

Comings and goings at Trading Apps, Morgan Stanley, BTIG and more

Matthew Harrison has joined BNY Mellon Financial Corporation as head of product development, securities finance.

Previously, Harrison served as a non-executive director at Trading Apps. He started his role at Trading Apps in November 2010.

Harrison has also served in roles at Rule Financial, Sungard Data Systems, Deutsche Bank, RTFM and various others.

David Brand has departed his role as global head of the resource management division at Morgan Stanley.

Brand has served at the company for the last 15 years. Brand joined Morgan Stanley in 2003 as a vice president of fixed income sales, covering institutional clients across all front-end products.

Previously, he served as vice president at Deutsche Bank between July 1995 and September 2003.

Morgan Stanley has declined to comment.

BTIG has appointed Jennifer Bloom and Rachel Lucas, managing directors, as co-heads of US capital introduction.

Based out of the firm's New York office, the duo will report to Peter Tarrant, head of business development and global capital introduction.

Additionally, they will manage an active team of capital introduction professionals across the New York, San Francisco and Dallas regional offices.

BTIG's capital introduction team works closely with hedge funds and investors to build long-standing relationships and facilitate meaningful introductions.

Tarrant commented: "Whether looking to launch a new fund or diversify an existing investor base, Jennifer Bloom and Rachel Lucas have the expertise to help clients refine their message and enhance their overall business development efforts. They are both skilled professionals, and we feel confident that under their leadership we will continue to build a best-in-class platform that meets the goals of clients."

Scott Kovalik, co-founder and CEO of BTIG, said: "As our business evolves and experiences dramatic growth, we continue to expand our management team by identifying key leaders with proven track records. Bloom and Lucas are both experts in their field and are highly regarded by clients and investors."

"We know that they will continue to provide excellent client service by supporting our clients with key introductions and offering helpful strategies."

Payfare, a Canadian fintech innovator, has bolstered its new senior management team with the appointment of Chris Seip as chair and CEO, Charles Park as CFO, and Brian Miller as COO and CTO.

Seip, who was COO and head of investor and treasury market services at RBC from 2012 to 2016, joined Payfare as CEO in September.

At RBC, Seip oversaw the global management of deposit taking, liquidity management, and short-term funding as well as foreign exchange, securities lending and asset management.

He was also responsible for $50 billion USD liquidity portfolio, $40 billion USD of liability issuance and $100 billion USD of intraday liquidity.

Meanwhile, Park is a chartered accountant, certified internal auditor and certified public accountant. Park has held several finance leadership positions at growth-orientated technology, financial services and telecom companies.

Miller has more than 20 years of experience as a technology leader and has held executive positions in private and public companies, which span financial services, healthcare and logistics, including IBM.

Seip commented: "The emerging gig-economy can't thrive with traditional payment cycles. Almost half of the households in North America can't manage an unexpected expense of $400."

"Payfare is disrupting payment cycles and empowering workers with same day earnings creating affordable and effective working capital solutions for better cash flow to cope with every day and unexpected expenses."

HQLA has hired Rod Jordan as senior technology operations manager.

HQLA is a new collateral lending solution that aims to improve collateral fluidity, enhance market transparency and promote financial stability.

Jordan was previously at Clearstream for 19 years, working as senior project manager at from 2015 to 2018, developing a collateral lending platform to facilitate the cross-entity flow of liquid assets between market participants.

Prior to that, he was Clearstream's head of unit and vice president of new collateral systems and assisted in the building of a new collateral management system.

Citi has appointed Nikola Todorovic as director of Securities Services Sales and client coverage.

Todorovic, who started the role in December, is based in Switzerland.

Previously, he served as head of sales and relationship management securities finance and collateral management at SIX.

Todorovic also served as senior sales manager at SIX where he was involved in clearing, cash equities clearing, global custody, securities lending, CCP securities lending, securities finance, collateral management, tri-party repo, tri-party services, carbon trading, electronic trading/execution/connectivity.

He has also worked at NYSE Euronext, Aramid Capital Partners and ABN Amro Mellon. **SLT**