securities lending times

The primary source of global securities finance news and analysis

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Facilitating the client journey

Philippe Seyll of Clearstream on how technology is disrupting the market

S3 Partners: Wirecard short sellers suffer costly time-out

The German financial regulator, Federal Financial Supervisory Authority (BaFin), has put Wirecard AG short sellers in a costly time-out, according to Ihor Dusaniwsky, managing director predictive analytics of S3 Partners.

Recently, BaFin halted short selling on Wirecard because its falling share price caused uncertainty in the market.

Dusaniwsky noted in his research that BaFin's short sale prohibition turned the tables on short sellers, with no opportunity for them to continue beating down Wirecard's stock price. Meanwhile, unopposed long shareholders were able to drive up Wirecard's stock price by 21.25 percent in just two days.

According to the research, the price move cost Wirecard short sellers most of their February profits, down $450 million in mark-to-market losses on the 18th and 19th.

Shorts are now up only $20 million in mark-to-market profits in February, $17 million year-to-date.

Depending on the Wirecard news over the next two months, Dusaniwsky said that we may see upward price pressure due to short covering and long buying.

This will be followed by even more of the same after 18 April if Wirecard's accounting scandal proves to be a red herring, or an even greater wave of short selling if the accounting scandal is substantiated, he added.

Dusaniwsky cited: "BaFin might have stabilised the German market, and Wirecard in particular, over the short term, or they may have just closed the pressure valves and created the possibility of a flood of short selling in two months."

"To add another twist, BaFin may choose to lift the Wirecard short selling ban early and leave both long and short-side traders scrambling to execute their strategies."

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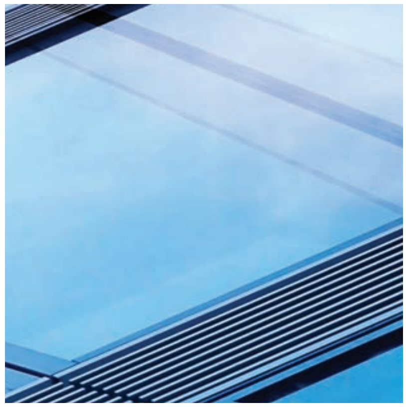

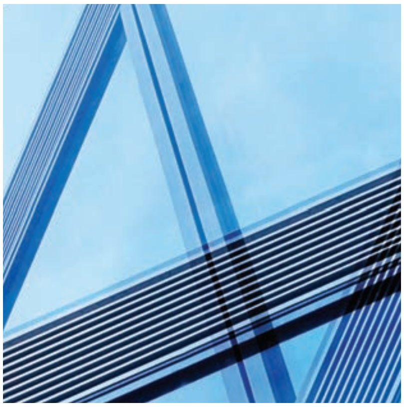

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FCA urges firms to prepare for LIBOR end date

How firms respond to the London Inter-bank Offered Rate (LIBOR) deadline will be of fundamental importance to firms and customers, said Megan Butler, executive director of supervision, Financial Conduct Authority (FCA).

Speaking at the Investment Association, Butler cited that Inertia remains the biggest obstacle to smooth transaction to the LIBOR discontinuation by end of 2021.

Butler advised industry participants to not make the back book problem worse than it needs to be, adding that it should be put right now.

So far this year, the FCA has seen 15 sterling bond issues that have referenced the Sterling Overnight Index Average-based (SONIA), with a total value of about £8.7 billion.

Butler explained that there is evidence of progress and some business are already managing down LIBOR-linked derivatives books and moving portfolios across to SONIA-based swaps, but there is work that remains to be done.

It was also noted that the FCA strongly encourages asset managers to transition their hedges and positions over to SONIA before LIBOR disappears, and before liquidity in LIBOR-derivatives begins to decline

Butler commented: "Firms can adopt different approaches to scenario planning and reviewing or re-papering contracts. There is nothing wrong with this. We're not prescribing how you do it. But you need to do it."

"You need to be prepared for an end date for LIBOR in 2021. Whether your exposure is to sterling LIBOR or one of the other LIBOR rates, you will hear the same message from central banks and regulators in other jurisdictions, as you hear from FCA and the Bank of England today."

Butler continued: "The absence of ways to remedy the current underlying weakness in LIBOR the lack of transactions to underpin the rate, and the unattractive prospect of LIBOR limping on with fewer panel banks, all lead to one conclusion."

BIS: Interdealer market effects sec lending usefulness

The usefulness of the securities lending market depends on the severity of frictions in the interdealer market relative to the securities lending market, according to a Bank for International Settlements (BIS) working paper, 'Over-the-Counter Market Liquidity and Securities Lending', by Nathan Foley-Fisher, Stefan Gissler and Stéphane Verani.

It was noted that as dealers use the securities lending market in "normal" times, disruption in the securities lending market is expected to have an effect on liquidity even then.

The paper found that the shutdown of AIG's securities lending programme in 2008 caused a statistically and economically significant reduction in the market liquidity of corporate bonds predominantly held by AIG.

The decline in liquidity several years after AIG's securities lending programme was shut down suggested that the interdealer market could not fully compensate for the shock to the securities lending market, the paper read.

AIG's programme was shut down during the financial crisis for reasons unrelated to the demand for corporate bond borrowing or to corporate bond market liquidity.

Meanwhile, other insurance companies' securities lending programmes remained active.

Research conveyed in the paper found that a statistically and economically significant decrease in the market liquidity of those corporate bonds predominantly held by AIG.

It was estimated in the paper that the effect of securities lending on corporate bond liquidity includes general equilibrium effects of substitution by dealers towards interdealer markets or inventory. According to research from the paper, in times when the interdealer market is likely to have more frictions—such as during the financial crisis—the effect of disruption in the securities lending market will be amplified.

Further findings in the paper highlighted the importance of the shadow banking

system as a potentially fragile determinant of market efficiency.

SmartStream partners with Numerix for collateral management

SmartStream Technologies has partnered with Numerix, a provider of risk technology solutions, to meet the International Swaps and Derivatives Association's (ISDA's) collateral management obligations.

In order to facilitate The Basel Committee on Banking Supervision-International Organization of Securities Commissions guidelines for margin requirements relating to over-the-counter (OTC) derivatives, ISDA has proposed a Standard Initial Margin Model (SIMM) to be used by market participants to provide transparency in the collateral management space.

SmartStream's TLM Collateral Management solution reduces operational risks and costs associated with collateral management and will reduce counterparty disputes for clients dealing in collateral management for OTC derivatives.

According to SmartStream, Numerix's advanced computational abilities make it possible to generate the risk sensitivities required by ISDA SIMM that are leveraged as input into initial margin calculations.

Jason Ang, programme manager for TLM Collateral Management at SmartStream, said: "SmartStream's TLM platform is proven to

Eurex establishes direct connection to Bloomberg

Eurex Clearing and Bloomberg have extended their cooperation for interest rate swaps clearing.

The initiative means Bloomberg's US-based swap execution facility (SEF) and UK multilateral trading facility (MTF) will now be connected to Eurex Clearing as approved trade sources.

According to Eurex, this will improve efficiency via straight-through processing, allowing market participants who are Eurex Clearing clients to submit their executed swap transactions directly through Bloomberg's SEF or UK MTF to Eurex Clearing as the central counterparty.

Following recent authorisation to operate an MTF in the Netherlands, Bloomberg will also look to provide connectivity to Eurex Clearing for its Dutch MTF.

Bloomberg was the first to offer direct connectivity to Eurex for its over-the-counter trading services in 2016, and is now extending this link to Eurex Clearing from its regulated execution venues.

Nicholas Bean, head of electronic trading solutions at Bloomberg, said: "Our expanded connectivity to Eurex Clearing delivers a more streamlined workflow to the entire swaps trading process on Bloomberg."

"We will continue to provide a venue for clients globally to access broad liquidity while leveraging the efficiencies of electronic execution."


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manage credit and operational risk through collateral management, we are delighted to be working alongside Numerix, whose expertise will complement our ability to manage complex business requirements in this space."

Steve O'Hanlon, CEO of Numerix, commented: "As new transactions become subject to initial margin requirements, front-to-back SIMM calculations, including the generation of fast and accurate SIMM sensitivities, have become critical. By partnering with SmartStream we are happy to make Numerix SIMM capabilities available to a greater set of market participants."

Dutch regulator gives green light to MarketAxess MTF

MarketAxess's group entities have received approval from the Dutch Regulator, AFM, to operate a multilateral trading facility (MTF) and act as a data reporting service provider in the Netherlands.

The AFM's approval ensures that MarketAxess is able to provide UK and EU clients with uninterrupted service and access to liquidity post-Brexit. The services to EU clients will be provided by new subsidiaries located in Amsterdam: MarketAxess for the MTF, and Trax for the post-trade data reporting. Trax will act as a provider of both approved publication agreement and approved reporting mechanism services.

Meanwhile, the MTF approval includes permissions for MarketAxess to provide its

Oasis implements Hazeltree's collateral product suite

Oasis Management Company has implemented Hazeltree's cash and collateral management product suite, which enables centralised aggregation and monitoring of Oasis' cash balances.

Hazeltree helps Oasis Management Company's finance and treasury team manage operational risks through internal controls driving efficiencies and increasing yield on cash management.

Hazeltree collateral product suite streamlines and aggregates Oasis' over-the-counter (OTC) collateral management activity and compares and reconciles internal, independently-valued OTC positions.

Additionally, it applies relevant credit support annex terms and responds to issues or disputes daily margin calls to minimise collateral usage.

Seth Fischer, Oasis' founder and CIO, commented: "Hazeltree provided an integrated, scalable solution that fully supports our expanding business requirements and has proven to be the ideal partner."

Sameer Shalaby, president and CEO of Hazeltree, added: "We look forward to supporting Oasis' treasury requirements as they continue to expand their business."

open trading all-to-all execution service to clients in the EU.

According to MarketAxess, this gives those clients ready access to an existing broad pool of cross-border liquidity. The AFM's approval ensures that MarketAxess is able to provide UK and EU clients with uninterrupted service and access to liquidity post-Brexit.

MarketAxess expects the same range of dealers and liquidity will be available on the EU MTF when compared to the UK MTF. This level of continuous service will ensure that MarketAxess clients can confidently comply with their regulatory obligations even if divergent transparency and transaction reporting regimes are introduced following Brexit, MarketAxess revealed.

Christophe Roupie, head of Europe and Asia for MarketAxess and Trax, said: "We're always looking ahead to anticipate future client needs. That means not just developing award-winning trade execution and reporting technologies, but also knowing how to deliver those technologies to clients in any regulatory environment."

"Recognising the potential impact of Brexit on European financial markets, we were one of the first movers in establishing an office in the Netherlands. Receiving approval from the AFM further demonstrates our commitment to ensuring that our clients receive the same level of service and access to liquidity post-Brexit."

ISLA: CSDR to help create new efficiencies in securities lending

Central Securities Depositories Regulation (CSDR) represents an important step in the harmonisation of EU CSD's, which in turn, will create new efficiencies in the settlement of both securities lending transactions and the wider market place, according to an International Securities Lending Association (ISLA) white paper.

The paper entitled 'CSDR: Settlement Discipline Impact to Securities Lending', noted that the securities lending market will be impacted by the enforcement of settlement fail cash penalties.

It will also be impacted by buy-in regimes contained within CSDR, expected to go-live September 2020. ISLA added that timing challenges inherent in reporting obligations of Securities Financing Transaction Regulation (SFTR) mean that accurate records, reconciled with counterparties, will be key to its success, and fails will significantly impact reporting accuracy.

In light of the increasing need to improve settlement rates driven by the executive operations board of ISLA, the CSDR Working Group identified key settlement issues and causes of fails faced by the market.

Some of the key findings found that available automated [vendor] solutions may not meet market needs and are not consistently utilised by firms. Functionality in TARGET2-Securities is not being fully utilised because of internal restrictions and budget restraints. Delivery versus payment settlement generally prioritised above free of payment settlement by market participants and intermediaries, creating challenges for efficient securities lending settlement, also featured in their key findings.

Meanwhile, in the white paper's summary of the provisions for mandatory buy-ins, it was cited that the buy-in process shall be part of the contractual documentation applicable to each participant of a CSD, central counterparty (CCP) and trading venue. It was also noted that buy-ins should avoid unnecessary costs for the failing counterparty and avoid any risk taking by the CSD, CCP, and trading venue.

Adrian Dale, director of regulation and market practice, ISLA, said: "This is a major step forward for the industry as we work with our members to understand the full ramifications of CSDR."

EACH welcomes EMIR REFIT

The European Association of CCP Clearing Houses (EACH) has welcomed the agreement reached by the European Parliament and EU Member States on the targeted reform of the European Market Infrastructure Regulation (EMIR REFIT).

In particular, EACH welcomes the clarification that national insolvency laws do not limit the central counterparties (CCP) ability to port assets and positions in case of CM default. EACH also agreed with the decision that trades resulting from portfolio compression should remain subject to the clearing obligation until further assessment by European Securities Markets Association (ESMA) and the commission.

The clarification that the reporting responsibility should remain in the hands of those who hold the trade information until a holistic review of the reporting regime for derivatives is conducted, is also welcomed by EACH.

EACH welcomes the request for ESMA to consider whether the list of financial instruments available for CCP investment policy should be extended and potentially include money market funds.

The association question whether or not the exemption for UCITSs/AIFs from group level calculation of the clearing threshold weakens the G20 reforms and enforces an unlevelled playing field with other financial market participants.

Consequently, EACH has called on National Competent Authorities and ESMA to ensure that a definition and calculation of the clearing threshold does not lead to a systematic underestimation of the positions of the fund manager or lead to a circumvention of the clearing obligations. **SLT**

The blockchain bonanza

Seb Malik of Market FinReg explains that as blockchain solutions progress from proof of concept to real life prototypes, the time is nigh for legislators and regulators to establish formal consultations on legislation and regulation

Last month, J.P. Morgan launched its own digital coin, quickly nicknamed JPM coin. Umar Farooq, head of blockchain initiatives at J.P. Morgan's Corporate and Investment Bank explained: "Exchanging value, such as money, between different parties over a blockchain requires a digital currency, so we created the JPM Coin."

Whether JPM Coin is a genuine implementation of blockchain technology is subject to much debate but the fact that the investment bank associated its payment system with the nascent technology shows what a bonanza blockchain will eventually prove to be.

The underlying blockchain technology is a form of distributed ledger technology (DLT) whereby ownership ledgers are no longer centrally stored by one party, rather digitally shared across all participants without a centralised authority. Data quality is maintained by database replication and computational trust.

According to IHS Markit, by 2030 the value derived from blockchain's adoption in financial markets could reach $462 billion. Deloitte believes that "blockchain technology has the potential to wipe Luxembourg off the map of the fund distribution and administration market".

Clearing and settlement disruptive technology firms are forging ahead with solutions that aim to strip out the middle-men thereby securing increased speed and efficiency.

With Clearstream being a major post-trade services provider based in Luxemburg, the Grand Dutchy is paving the way by providing the necessary legal framework to allow for blockchain settlement. The Chamber of Deputies passed Bill 7364, which seeks to "provide financial market participants with legal certainty for the circulation of securities via blockchain technology". The bill will render "transfer of securities more efficient by reducing the number of intermediaries".

On 21 February, Continental, Commerzbank and Siemens successfully field-tested blockchain technology on a Money Market Commercial paper transaction that processed in minutes rather than days. According to the press release, "it had a volume of €100,000 and a term of three days. Continental was the issuer of the money market security, which was in the form of a euro-denominated electronic commercial paper according to legal requirements stipulated in the Luxembourg law. Commerzbank provided the Corda-based blockchain platform through its research and development unit, main incubator, and acted as a service partner. Siemens subscribed to the money market security as an investor".

Last year a large German corporate, ThyssenKrupp, traded a foreign exchange (FX) forward with Commerzbank and this transaction was instantaneously replicated in a blockchain successfully. Commerzbank explained that the use of blockchain completely eliminates the need for a manual or semi-automated reconciliation between the client and the bank, thereby drastically reducing operational risks in FX transactions.

The EUR/PLN FX forward deal, which amounted to €500,000 with a one month tenor, was initiated by ThyssenKrupp using FX Live Trader, Commerzbank's flagship FX trading platform. The deal confirmation was sent to ThyssenKrupp directly via Corda, a distributed ledger designed for finance by the R3 blockchain consortium.

Aside from technological challenges including performance and interoperability, legal hurdles remain. Legislation and regulation have lagged technological innovation with key jurisdictions adopting a wait and see strategy to see how DLT develops. While understandable, market participants seek legal clarity. The UK's Financial Conduct Authority (FCA) said: "Historically, the FCA's philosophy has been one of 'technology neutrality' but that this might have to change."

Jurisdictional issues arise from blockchain due to its inherent distributed nature—no one participant or node owns the network. In the event of litigation, which law would apply and in which jurisdiction? While participants could sign up to a governing law and jurisdiction clause, further legal clarity would be welcome.

Due to the nature of blockchain and DLT, data is either public or open to all node participants. This poses a host of privacy problems to which no adequate solution yet exists.

Allocation of risk and liability across the nodes and network need to be resolved together with service level agreements to ensure uptime and availability. As blockchain solutions progress from proof of concept to real life prototypes, the time is nigh for legislators and regulators to establish formal consultations on legislation and regulation.

The FCA acknowledges "that the cross-border applications of DLT will require regulatory collaboration" and work is underway on an Financial Stability Board (FSB) and the International Organisation of Securities Commissions level. Harmonisation is key and the FSB would be the natural choice for issuing guidelines on a G20 level. **SLT**

New entrants in the Nordics

While the Nordics have faced some challenges over the years, industry experts expect new entrants to enter the Nordics securities lending marketplace, which could provide the region with opportunities

Maddie Saghir reports

Despite a few challenges over the past few years, there is light at the end of the tunnel for the Nordics. New entrants are now entering the Nordics securities lending marketplace following a somewhat stagnant period. And, while challenges in equity lending are still ongoing, improvement and progress is being made, and there has been year on year (YoY) growth in this particular space. Further challenges revolve around regulation, the complex Securities Financing Transactions Regulation (SFTR), and Brexit uncertainty.

Data gathered by IHS Markit shows that Nordic equity lending revenues grew 21 percent YoY in 2018 as it came in at just over $270 million, however, this is still 30 percent lower than 2016 due to lower average fees. Regionally in the Nordics for 2018, Sweden had $271 million (+21 percent) in equity lending revenue, Norway had $97.8 million (-17 percent), while Finland had $78.8 million (+32 percent), and Denmark $27.6 million (+18 percent).

Paul Wilson, global head of IHS Markit, securities finance, said: “The overall trend has been positive over the last year, with 2018 average loan balances reaching the highest levels since at least 2008.”

Wilson added: “There is some cause for optimism regarding lending fees, as average fees for Sweden, the largest Nordic market, were higher in Q4 thanks to an increased demand for specials. With demand robust and revenues trending higher, there is cause for optimism for securities lending in the Nordic region coming into 2019.”

Nordic equity delivered Q1 2018 revenue of $60 million, up 12 percent as compared with Q1 2019. In terms of whether or not Q1 2019 will see this similar increase, Wilson predicted a positive outlook for Q1 based on January's results; January revenues for Sweden were up an astounding 136 percent compared to January 2017 due to higher fees.

Relative to January 2017, Denmark underperformed the most, says Wilson, with revenues down 50 percent, caused by loan balances and fees both declining by more than 20 percent. Wilson highlighted that given the significance of Sweden to the overall returns for the region, the upswing in fees augur well for Q1 revenues.

Bo Thulin, country manager for Nordics at Northern Trust, affirmed: "Q1 2019 has started with good revenues once again, mainly supported by specials demand in the key Nordic market, Sweden. In the retail sector, investors remain concerned about the longer-term outlook and broader structural trends, such as the shift to online shopping. Retailers continue to struggle with competition from big online competitors, declining foot traffic, burdensome rents and heavy debt loads."

Also discussing the securities lending industry in the Nordics, Simon Lee, managing director of business development, Europe, the Middle East, Africa and the Asia Pacific, eSecLending, said: "Consistent with other fund centres we are starting to see new entrants to the securities lending marketplace, firms that are either lending for the first time, or re-entering after a hiatus, often stretching back to the financial crisis in 2008. Over the coming years, we would expect to see a continued increase in market participation from beneficial owners, together with the attendant growth in lendable assets associated."

"Whether this has a longer-term dilutive effect on individual lender performance remains to be seen, though as is often the case, the market evolves and identifies new opportunities that may offset any decline from lending in new markets to enhanced operational efficiencies through automation."

Increasing Interest

As noted, new entrants in the marketplace are bringing opportunities to the Nordics securities finance space. Lee commented: "New entrants to the marketplace bring new lendable supply, with those lender's portfolios naturally having more exposure to not only the Nordic markets but also other higher margin markets in Eastern Europe such as the Czech Republic, Poland, and Russia."

"In addition, we are seeing the more engaged Nordic lenders following similar paths to lenders in other jurisdictions. They are adapting their programmes to enhance performance in consideration of the evolving regulatory environment and the effect that has on borrower demand. This may take the form of expanding acceptable collateral schedules, engaging with new borrowing counterparties, or accessing additional routes to market through alternative providers, and through principal, exclusive, and peer-to-peer trade structures."

Wilson commented: "We are observing continued interest from Nordic beneficial owners, looking to review their securities lending strategies. Those not currently lending are considering dipping their toe in for the first time. There's focus around oversight and control, monitoring lending activity and an increasing interest in trying to understand and quantify risk."

"While most are in lending programmes that are indemnified, having an independent statistical measure of risk alongside the income appears to be getting more attention. Additionally, we also have seen some interest in looking at methodologies to help support the firm's requirement of best execution under the second Markets in Financial Instruments Directive."

Discussing increasing interest on Northern Trust's lending programme, Thulin said: "We continue to see new clients join our securities lending programme and we are working with our existing lenders to expand their parameters through a thoughtful, risk-adjusted approach, whether that is reviewing borrowers, lending limits, collateral requirements or adding new lendable assets and trade structures to their programmes."

Thulin continued: "The Nordic region has continued to perform well trading-wise in a period of market volatility. We have seen the demand dynamic in this environment evolve, with conditions more suitable to quantitative strategy activity."

"The algorithmic-based trading models are better suited to periods of increased market volatility and helped support lending volumes at a time that traditional fundamentals have found it more difficult to deploy capital on the short side. Short interest themes also changed and we have seen a reduction in demand for oil-related stocks, a sector the region has particular exposure to and the emergence of new themes in the retail and debt collection sectors."

From a fixed income viewpoint, Thulin explained that balances have remained broadly stable, and largely centre on the high-quality sovereign debt the region has to offer, in addition to supranational and government agency issuance.

Thulin observed: "Pockets of demand are evident for general collateral bonds, but there are few issues, government or credit, trading with any notable special value. In the Nordic region, we often find that local borrowers prefer the certainty and ease of facing a predetermined client in either an exclusive or sole-borrower arrangement."

Obstacles and opportunities

Regulatory challenges are an obstacle for most jurisdictions and the Nordics is no different. In particular, the complexity of SFTR and it's upcoming implementation date is proving to be a challenge for most market participants.

Wilson cited: "It starts with the creation of dissemination of unique transaction identifiers following the European Securities Markets

2018 Nordic region equity lending revenue summary:

- Sweden $271million (+21%)
- Norway $97.8 million (-17%)
- Finland $78.8 million (+32%)
- Denmark $27.6 million (+18%)

* Data from IHS Markit

Authority (ESMA) waterfall, continues with the gathering of the 155 data points required under the regulation—including 96 of which need to match within strict tolerance settings—and ends with the reporting to a trade repository of up to 32 reports requested in ISO 20022 format. All of this under a lightning T+1 reporting timeframe (S+1 for collateral)."

"Within the SFTR initiative, there are embedded considerations around Brexit with data having to be warehoused under the correct jurisdiction (UK or EU) by all the firms involved in the SFT reporting. We can see that all of the main trade repositories have set up entities across the Brexit divide to cover their clients' requirements."

Meanwhile, Thulin remarked: "In this regulatory focused environment, regulatory and capital efficient lending structures are becoming even more important in driving loan balance. Clients who are viewed favourably in this regard are well placed to benefit from more bespoke, segregated, lending opportunities."

Sweden's not so secret sauce

Sweden still stands ahead of other Nordic countries in terms of securities lending and Wilson noted that there is no secret sauce to this. Wilson asserted: "Sweden equity lending revenues were 57 percent of the regional total in 2018, the highest contribution percentage recorded, up from 53 percent from 2017. There is no secret sauce to this—the Swedish equity and fixed income market is broader and more liquid than other markets, hence the probability of opportunity is greater. That being said, the increase in specials demand in stocks, such as Intrum, Mycronic and H&M, is expanding Sweden's lead in revenue generation."

Thulin added: "Sweden is one of the largest and most established of the four Nordic markets and as a result less concentrated to particular demand themes. We have seen demand fluctuate in oil-related names recently, with Finland and Norway, in particular, having higher exposure to this sector. Sweden has benefitted from some key demand themes over recent times, in particular, the retail, biometric and debt collection sectors."

An automated outlook

Technological advancements in the Nordics' securities finance space have an automation focus. Indeed, automated trading platforms are expected to play a key role in the industry. Thulin says: "Technology continues to represent an important tool in optimising the delivery of the product, and we expect the Nordics to be no exception to this. Growth in quantitative-based trading strategies is changing the ways in which borrowers and lenders are consuming, pricing and executing securities lending transactions."

Thulin added: "Automated trading platforms, such as Equilend's Next Generation Trading (NGT) will play a key role in this evolution as the industry works to add efficiencies and scalability. We expect the Nordic securities finance industry to continue to focus on environmental social and governance and corporate governance. The requirements of SFTR are a key area of attention for the industry and Northern Trust will be supporting our clients to ensure their securities lending transactions are reported under this regulation."

From an IHS Markit perspective, Wilson said that the area they getting the most focus has been an increased desire for more detailed information regarding lending fees, particularly transaction level and intra-day data.

According to Wilson, this is a general trend that IHS Markit is seeing across the securities finance space globally, as firms look to identify market trends, securities and re-rate opportunities in a timely, efficient manner.

Additionally, with elevated demand for Nordic equities, the focus on extracting value from lendable portfolios is increasing, Wilson revealed.

Looking at the securities finance industry in the Nordics over the next five years, Wilson said he anticipates an increase in Nordic-based beneficial owners participating in securities lending.

He commented: "There will be no dramatic increase, more a general gradual increase over the next few years. Performance and cost pressures should drive more beneficial owners to weigh up and evaluate the value of potential income opportunities. On the flip side, as has been noted more broadly across Europe, SFTR and its increased costs could lead some smaller beneficial owners to stop lending." **SLT**

Philippe Seyll
CEO
Clearstream Banking S.A.

Facilitating the client journey

Discussing technology developments, Philippe Seyll of Clearstream Banking S.A. suggests there are too many proofs of concepts in sandbox environments in the industry when it comes to blockchain

Maddie Saghir reports

In Luxembourg, are you seeing increased automation in the securities lending market?

The securities lending market is already highly automated. Take, for instance, the first collateral call, which is automatically linked to the corresponding lending transaction.

It is very important, especially in a highly regulated business like ours, to automate the mark to market. This is how we ensure that the lender is fully collateralised at every single moment. An alarm is triggered in case of a shortage of collateral and also when there is too much collateral because then it becomes uneconomical. That way, we can support the lender in their collateral management after lending has taken place. At Clearstream, the collateral business and the securities lending business work in close alignment in order to create synergies and automate processes wherever possible.

In the current environment, are innovation and solutions becoming real differentiators?

Yes, when margins are involved, every single penny counts. Determining the right amount of collateral that has to be deposited takes an enormous amount of time. Over- as well as under-collateralisation are extremely expensive and risky. Automation helps to liberate manpower within middle and back offices that would otherwise be blocked by repetitive tasks within these processes. The time freed up by automation is what creates value.

What opportunities is technology providing the industry with? Is it driving the creation of new business models?

One major opportunity lies in collateral mobility. It might be easy to move collateral within one custodian or between a handful of large banks. It is very difficult, however, to mobilise collateral between several different or new systems and across locations—to collateralise a lending transaction.

Together with the fintech company HQLAx, Deutsche Börse has developed a blockchain-based platform to facilitate more efficient collateral management of high-quality liquid assets. Unlike in traditional settlement, there will be no actual movement of securities between custody accounts. Instead, tokens will be transferred while the underlying securities will be kept off-blockchain. This concept of tokenising the collateral rather than moving the assets themselves is a great idea. It will make collateral management easier and cheaper and provides more opportunities for securities lending.

Are some industry participants reluctant to change when it comes to technology and automation?

This is not the problem. Everybody wants to participate in the blockchain, but there are too many proofs of concepts (POCs) in sandbox environments. The first priority is to ensure use cases that really facilitate the client journey. There are still too many solutions looking for a problem to solve.

Deutsche Börse's solution with HQLAx is not a POC, it exists and is going into production within the next upcoming months. Six banks have already joined the platform and Clearstream is the first custodian to onboard. Additionally, Deutsche Börse is currently in advanced discussions with other custodians. We are not live yet, but we are definitely not in a sandbox. We are in the real world building a real ecosystem.

Is technology disrupting and what challenges are associated with it?

Does technology have the power to change the financial industry? Definitely yes. Will it really disintermediate the whole financial industry? Definitely not. We are dealing with large amounts of money in a highly regulated environment. If I decided to take an Uber to the airport and I miss my plane, I would be cross. But if I give my money to a disintermediated banking service and my pension disappears, then it's a different story. In businesses where we are dealing with large amounts of money, trust is key—there have to be fiduciaries ensuring the safety of the assets. Everything has to be bulletproof and robust. This is why there will be radical changes but no complete disintermediation.

What is on the horizon for the securities lending industry in Luxembourg for this year?

Of course, Luxembourg will see changes due to Brexit. As one of Europe's financial centres, it provides stable alternatives for UK-based market participants no matter what the final outcome. We are working closely with regulators, politicians and other market participants to best prepare our customers for what's to come. **SLT**

Blurring the lines

David Lewis of FIS explains that efficiency is a keyword in the securities lending industry right now, and it is unlikely to get any less important anytime soon

The word "industry" was chosen very specifically, with the intention of encompassing every facet of the securities finance and collateral management ecosystem, because the need to be efficient to preserve or grow margins affects everyone's segment, from technology vendor to prime broker to the beneficial owner to hedge fund. There isn't, of course, one magic formula for improving the efficiency of your business and enabling healthier returns. If there was, we would all be doing it, and then, most likely, it wouldn't work anymore.

As a technology provider delivering solutions across the breadth of the banking industry, FIS can meet competition from not only other providers but from internal build projects. As banks move to improve automation, increase efficiency and expand their margins, they look to their technology base as a strong contender for investment, either through offering new services or improving processes in a bid to bring higher overall yield. With the seemingly exponential growth in the application of technology, banks can employ new systems not only to automate the mundane and repetitive but, with machine learning and artificial intelligence, even address tasks that were believed well beyond the wit of machines only a short while ago. Once the strategic decision to invest has been made, the question of build or buy is almost inevitable, and when it arises, we should also be thinking about whether there should be some delineation as to who does what in this space.

When an organisation steps beyond its specialisation, or where it has previously brought value, should we really expect it to be the best at making those wished for returns come to life? Certainly, in a downturn, it appears very common that the recovery process that many companies undergo will involve the divestment of "non-core" activities, which would suggest that they underperform in the long term and act as a drag on the main activity the organisation is good at. At the moment, there are a number of these lines being blurred across our industry, and it must be considered as to whether this is firstly a good idea long-term, and secondly, whether it actually makes the markets more efficient in real terms.

When considering the rise of online retailers, consumers are swapping convenience for immediacy, valuing the convenience of ordering goods from their couch at home higher than getting the items themselves the same day. For the companies themselves, they get to hold no inventory and little risk, simply taking a turn for connecting the buyer to the seller. Across many events and publications focusing on the rise of technology and the value of the companies that develop new services, the point is consistently made that the largest cab company in the world owns no vehicles, the largest retailers have no stores and the biggest food delivery companies, no restaurants. Is there a parallel to be drawn in finance?

In market making, banks utilise their balance sheet and trading capabilities to buy assets from clients who want to sell, when they want to sell, and sell to clients who want to buy, when they want to buy. Where they cannot provide inventory immediately, they look to the securities lending and borrowing market to smooth out the imbalance of supply and demand. However, as balance sheets become more expensive to maintain, and margins get compressed, banks must either make those processes more efficient or find other lines of business. One of the pressures compressing margins in this part of the market comes from disintermediation, where technology companies are offering to connect buyers and sellers of assets directly, both in the cash markets and the financing business, and the banks need to respond, whether defending their existing services or attempting to beat the new entrants at their own game.

Like its retail cousins, buyers of services in the online matching arenas are looking for convenience and cost savings, potentially at the loss of immediacy and the protection afforded by the balance sheet of their agent or broker. Liquidity is key to the success of any such exchange-like service, replacing the market-making capabilities of the bank, but where supply is dependent entirely on the suitability and availability of buyers and sellers, or borrowers and lenders, immediacy can be difficult to guarantee.

Now banks are either building their own technology solutions or muscling in on others in an attempt to beat the nimble young start-ups on their own turf and technology companies offering services similar to the traditional banking world, both with the ultimate aim of protecting their overall business and client base. If this happens to the new offerings in the securities finance and collateral markets, are we missing out on an opportunity to advance the services we both use and offer?

That would certainly be the case if those services started to see the same issues that can appear in the online retail markets, where adverts on one platform are simply showing new goods available from other providers that the buyer could utilise if they searched just that bit harder. Realising the client's need for immediacy above value or efficiency, online providers are moving into market making – for example, well-known used car buying services, which freely acknowledge that you won't get the market price for your asset, but you will get the cash straight away. A similar offering in the US is trying to do the same with houses, stepping away from simply matching buyers and sellers without balance sheet risk or funding costs, and moving into the mortgage financing business.

There is no one hard and fast rule that suits all providers and all clients, and therein lies the richness of our industry, but there is a place for both automation technology and banks. Immediacy may be key in some trades, whereas value and efficiency may be the most important aspect of another. Whether automated or manual, market data is key to getting the right deal, and getting the right value for an asset is a fiduciary responsibility of all the participants in our market. We must all do more with less, and automation of processes and the intelligent employment of technology is key to achieving that, but we must also keep a keen eye on what each of us does best, bring that expertise to the market and not simply mimic others to replicate what they do. **SLT**

Comings and goings at Karson, Broadridge, Dentons and more

Roy Zimmerhansl has started a consulting role at Karson.

Zimmerhansl will work remotely or from the firm's office in Hampton Court.
He will report to Derrell Hendrix who is the founder and CEO of Karson.

Karson is an independent financial market structuring and platform development company that designs and executes first-of-a-kind but scalable risk, reserve, capital and collateral financing solutions for regulated institutions.

Prior to Karson, Zimmerhansl has held various roles in the industry including global head of securities lending at HSBC, and product specialist at Trading Apps.

Tom Pikett is set to leave his position as Securities Financing Transaction Regulation business manager at Trax.

Pickett will take on a new role at J.P. Morgan. Based in London, Pikett served at Trax for just over five years. Prior to Trax, Pikett held roles at Royal Bank of Scotland and Euroclear.

Rafael Mendez has joined Broadridge as business analyst, Securities Finance & Collateral Management (SFCM).

In his new role, he will work on both internal and external client projects gathering requirements and defining the functionality required.

Among other responsibilities, he will also liaise with the development team where appropriate to identify the best solution and determine the effort required to

develop this. Based in Amsterdam, Mendez will report to Gilbert Scherff, who is also Amsterdam-based.

Most recently, Mendez served as a trader for securities lending and collateral management at KAS BANK.

Mendez worked at KAS BANK for just over seven years.

Michael Huertas has been appointed as co-head of Dentons' financial institutions' regulatory sector group in Europe, effective early February.

Along with Marcin Bartczak in Warsaw, he will steer the strategy and development of the group, while serving as the first point of contact for financial regulatory issues.

In addition to his new role, he will continue to coordinate Dentons' Eurozone Hub, which focuses on helping clients navigate EU and Banking Union-specific regulatory requirements. As well as this, he will provide specialist European Central Bank (ECB) experience and transactional support, notably in securities financing, derivatives and structured finance.

Additionally, Huertas will help drive the expansion of Dentons' Regulatory practice in Europe and globally, in close cooperation with colleagues in London, Brussels, Paris, Madrid and Milan.

This also includes respective banking and finance global heads in New York and global financial regulatory co-heads in Chicago and Sydney.

According to Huertas, Dentons is seeing a steady flow of instructions on multi-jurisdictional regulatory projects on both contentious and non-contentious regulatory matters, as well as Brexit projects for financial services firms and market infrastructure providers.

To respond to the growing demand, Dentons is looking to expand the Europe regulatory team in key markets such as Germany, Italy, the Netherlands and other jurisdictions.

Commenting on his appointment, Huertas said: "The announcement took effect early February. I'm delighted at how we're developing the entire team across the EU and wider Europe and helping our clients navigate regulatory challenges and seize opportunities in this period of fast-paced regulatory change and much sharper supervisory scrutiny."

Giselle Awad has left her role as director at Deutsche Bank and has joined Australia and New Zealand Banking Group (ANZ).

In her new role, Awad will help grow ANZ's repo business.

Awad joined ANZ on 18 February as director in the financial institutions' sales business.

Based in Sydney, she will report to Charles Evans, head of funding and middle markets, financial institutions.

For the last four years, Awad was responsible for the agency securities lending and repo business for Asia Pacific at Deutsche Bank.

Previously, she has also held roles at eSecLending, RBC Investor & Treasury Services and Goldman Sachs.

Brad Winges has joined Hilltop Securities as president and CEO, succeeding Hill Feinberg who remains in his role as chairman.

Winges will be based out of HilltopSecurities' headquarters in Dallas, Texas.

He joins HilltopSecurities from Piper Jaffray where he was senior executive managing director and a member of the company's leadership team.

Winges is a past two-term chairman of the Bond Dealers of America (BDA) board of directors and currently serves on the board's executive committee and as co-chair of the BDA's Fixed Income Market Structure Working Group.

Additionally, he is also a founding member of the American Securities Association and was appointed to the Securities and Exchange Commission's Fixed Income Market Structure Advisory Committee last year.

Feinberg commented: "We are excited to welcome Brad Winges to HilltopSecurities and look forward to his leadership and experience as we continue our efforts to grow our business across the country."

"Winges is a proven and respected leader with decades of experience in the financial services industry. His fresh perspective, strategic vision, and deep industry ties will serve us well as we begin this next chapter in our long history."

Pirum has hired Nancy Steiker as head of business development across the Americas, while Gareth Day joins as product manager for CollateralConnect.

Steiker will be supported by the existing New York team, including strategic advisor Jim Malgieri.

She brings with her North American experience across trading, collateral management and operations from her previous roles at Citigroup and Lehman Brothers among others.

On 6 February, SLT reported that Steiker had left her role at EquiLend as associate director, global trading product specialist lead.

Meanwhile, Day joins Pirum after spending 20 years at Morgan Stanley where he managed the secured funding operations team and was involved in a number of regulatory and efficiency projects.

Pirum COO Phil Morgan commented: "We are excited by the addition of these two high calibre individuals to the Pirum team, which is reflective of the business and product demand we are seeing from our clients globally across all facets of the business."

Do you have an industry appointment we should cover?

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