# securities lending times

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## World shakers, Markit makers

Paul Wilson of IHS Markit provides an update on current initiatives and business priorities

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# IHS Markit calls for securities lending overhaul

IHS Markit, in conjunction with the International Securities Lending Association (ISLA), is launching an industry-wide working group with the aim of issuing a global Securities Lending Performance Measurement charter.

In an article, published in the 10th edition of ISLA's securities lending market report, Paul Wilson of IHS Markit suggested that the "lack of trust and use of Securities Lending Performance Measurement calls for overhaul and modernisation".

The aim is to complete the work by Q3 2019 but allow some flexibility around adoption given the implementing Securities Finance Transactions Regulation implementation and potential development work.

Wilson explained in the report that the securities lending industry has dramatically evolved and has managed to continue adjusting itself to a variety of challenges.

However, not much has changed with Securities Lending Performance Measurement in terms of keeping pace or staying in line with the structural customisation developments.

Wilson suggested that this has led to a common view from many beneficial owners that under the current approach "everyone seems to win".

He suggested that having an industry-wide global standard, which all participants adhere to, will eliminate inconsistencies and lead to a far more trusted and utilised methodology.

Wilson concluded: "This is not about winners and losers—in fact, a fresh standardised approach will ensure all participants have a more accurate view of their respective programme performance."


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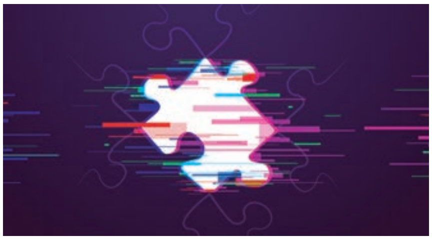
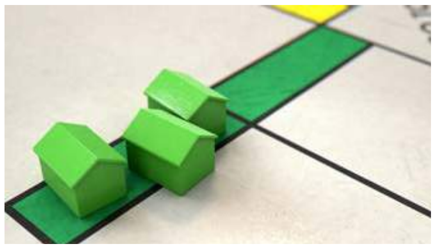












## FINRA fines Cantor Fitzgerald over short selling

Financial Industry Regulatory Authority (FINRA), a private corporation that acts as a self-regulatory organisation, has fined Cantor Fitzgerald $2 million for regulation SHO (Reg SHO) violations and supervisory failures spanning a period of at least five years.

The Securities and Exchange Commission adopted Reg SHO to address concerns regarding persistent failures to deliver the sale of securities that an investor does not own or has not borrowed.

The rule requires firms to deliver the shares on the settlement date or take affirmative action to close out the "failure to deliver" shares by purchasing or borrowing the securities.

If the failure to deliver is not closed out, the firm may not accept additional short sale orders in the security without first borrowing or arranging to borrow the security.

FINRA found that from January 2013 through to December 2017, Cantor's supervisory system was not reasonably designed to achieve compliance with the requirements of Reg SHO.

According to FINRA, Cantor's use of a predominantly manual system to supervise its compliance with Reg SHO was not reasonable in light of the firm's business expansion and increased trading activity—from 35 billion shares in 2013 to 79 billion shares in 2014.

Cantor's enhancements to its supervisory systems and procedures were not fully effective and they failed to identify fails-to-deliver in accounts that were not monitored by its supervisory systems, FINRA revealed.

Additionally, Cantor failed to timely remediate issues identified by its personnel. As a result, Cantor did not timely close-out at least 4,879 fails-to-deliver.

As well as this, it routed and/or executed thousands of short orders in those securities without borrowing the security or issuing notice of the need to pre-borrow to the broker-dealers for whom it cleared and settled the trades.

As part of a settlement, Cantor has agreed to retain an independent consultant to conduct a comprehensive review of the firm's policies, systems, procedures and training related to REG SHO.

Susan Schroeder, FINRA's executive vice president, department of enforcement, said: "Firms need to ensure that their supervisory systems are reasonably tailored to their business and once they become aware of deficiencies in their supervisory systems, they must promptly remediate them."

Schroeder added: "As our annual examination priorities letters make clear, firms' compliance with Regulation SHO is a continued focus for FINRA when evaluating operational risk and is necessary to preserve investor confidence."

## Tradeweb repo volume surges on bilateral trading growth

Tradeweb reached an average daily volume of $167.8 billion in repo for February.

According to Tradeweb, trading volume was driven by growth in bilateral electronic trading on its platform.

Last month, Tradeweb revealed it had set a post-crisis repo volume record for January.

Average daily volumes for January increased by 23.6 percent year-over-year, topping $170 billion.

## S3: Alibaba largest but least profitable HK\China short

Alibaba is the largest short in the HK\China sector but it is not a profitable one, according to 'S3 Short Interest and Securities Finance Data and Analytics'.

The findings also show that Alibaba continues to be the largest worldwide short and makes up over a fifth of total HK\China short exposure.

According to S3, Alibaba shorts were down $5.49 billion (-29.4 percent) in a year to date mark to market losses.

S3 found that there are only six shorts in the HK\China sector that had over $1 million in mark to market profits for the year.

Overall, HK\China short sellers were down $8.94 billion in mark to market losses

for a -27 percent year to date return, S3’s analytics found.

Compared to Hang Seng, which is up 11.5 percent for the year, and CSI 300, which is up 25.5 percent for the year, short sellers severely underperformed the HK\China markets, S3 revealed.

It was noted by S3 that there were very few HK\China stocks that had a significant increase of shares shorted in 2019.

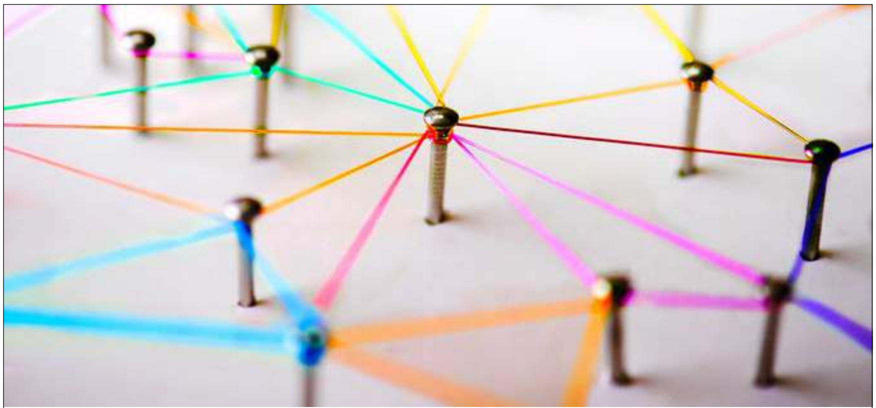
Only four stocks had increased short exposure due to additional short selling over $100 million.

S3 explained that there were more securities that had a meaningful amount of short covering, with Tencent (700 HK) leading the pack with nearly half a $ billion of short shares covered.

In the S3 analytics, it was outlined: “Alibaba short exposure increased by 33 percent to $20.71 billion in 2019 while overall short exposure to the HK\China sector only increased by 22 percent to $98.29 billion.”

It added: “Short sellers have increased their concentration to Alibaba in 2019 with 21.2 percent of all HK\China short exposure in the internet stock, an increase from 19.4 percent at the end of 2018.”

“Alibaba continues to be the bellwether short in the region, with no other stock in position to challenge its prominence.”



## Regis TR launches new UK trade repository

REGIS-TR has launched a new UK trade repository (TR), REGIS-TR UK.

According to Regis TR, the new TR has its operational infrastructure firmly in place and is ready to provide full UK European Markets Infrastructure Regulation (EMIR) regulatory reporting services from the first business day after Brexit.

The Financial Conduct Authority (FCA) requires a meaningful presence for trade repositories in the UK in a post-Brexit world.

Additionally, with a focus on both Brexit and Securities Financing Transactions Regulation (SFTR) reporting, REGIS-TR is bringing in new senior regulatory staff to strengthen and expand its existing UK TR team.

The new company is based in the London offices of Clearstream, one of REGIS-TR’s parent companies.

REGIS-TR UK has invited UK entities with a reporting obligation and those that report on their behalf to contact it to discuss account models and test its regulatory reporting solutions in its free, no-obligation user test environment.

Elena Carnicero, CEO of REGIS-TR, said: “The UK will continue to be a major player in European and global finance. It is therefore key to maintain a continuous service for UK clients and to maintain the UK market. Our overriding aim is for UK participants falling under EMIR requirements to receive seamless continuity of service when supervision is transferred to the UK.”

## LiquidityEdge hits record trading volumes

Electronic US Treasuries trading venue LiquidityEdge has revealed that it reached record trading volumes during February.

On 28 February, LiquidityEdge participants traded over $31 billion across both on-the-runs and off-the-runs.

It also had a record week last month, with $101 billion traded between 21 and 28 February.

According to the trading venue, the increase in activity was due to the treasury actions, calender rolls and a record number of unique participants.

The record volumes in February follow on from those in January, where LiquidityEdge recorded average daily volumes of $16 billion, representing a 250 percent increase from 2018.

Nichola Hunter, CEO of LiquidityEdge, said: "This trading data demonstrates that we are successfully challenging market structure and bringing about change in the largest global fixed income market for the benefit of participants."

"We expect our market share to continue to grow based on our deep customer pipeline and number of clients currently integrating into the platform."

## Euroclear sees net profit increase

Euroclear's net profit was up 36 percent to €322 million, as of 31 December 2018.

Euroclear's 2018 financial results revealed that operating costs stood at €814 million for 2018 as a result of continued investment in Euroclear's customer proposition and regulatory-driven initiatives, which were offset by tight control of costs.

It also showed that the average value of securities held on behalf of Euroclear clients continued to grow last year to €28.8 trillion, compared to €28.4 trillion in 2017.

Euroclear's collateral highway saw a yearly average of €1.2 trillion, up 7 percent from 2017, while the number of fund orders routed by Euroclear increased 4 percent to 10.9 million last year.

As part of its strategic update, Euroclear said the launch of single central securities depository (CSD) and access to the European Central Bank's TARGET2-Securities platform has provided "an efficient gateway to Eurozone liquidity for international investors".

The bank also said it was "continuing to invest in core systems, enhance cyber resilience and meet the requirements of incoming regulations, including the Central Securities Depositories Regulation".

Commenting on the results, Lieve Mostrey, CEO of Euroclear, said: “Euroclear has had an excellent year, with key business metrics reaching record levels, demonstrating the attractiveness of our proposition and focused strategy.”

She added: “Looking forward, we will continue to invest in our customer offer and focus on delivering our strategic objectives for the benefit of all our stakeholders.”

## ESMA explains no-deal Brexit effect on OTC trade reporting

In an event of a no deal Brexit, transactions concluded on UK trading venues would be considered over-the-counter transactions (OTC), according to European Securities and Markets Authority (ESMA).

Therefore, UK venues would be subject to the post-trade transparency requirements pursuant to Articles 20 and 21 of Markets in Financial Instruments Regulation (MiFIR).

This would be in the case of a no-deal Brexit where trading venues established in the UK will no longer be considered EU trading venues, effective from 30 March this year.

ESMA noted this in a public statement, which among other things provided opinions on third-country trading venues for the purpose of post-trade transparency and position limits, and post-trade transparency for OTC transactions.

It was expressed that ESMA aims to avoid double-reporting including commodity derivatives contracts traded on third-country trading venues in the position limit regime.

In order to avoid this, ESMA published two opinions on third-country trading venues in the context of the second Markets in Financial Instruments Directive (MiFID II)/ MiFIR in 2017.

The first opinion clarified that investment firms trading on third-country trading venues meeting a set of criteria are not required to make transactions public in the EU via an approved publication arrangement (APA).

The second opinion clarified that commodity derivatives contracts traded on third-country trading venues meeting a set of criteria are not considered as economically equivalent over-the-counter contracts for the position limit regime.

As the UK is currently a member of the EU, ESMA has not assessed any UK trading venue against the criteria set out in the two opinions.

According to ESMA, it stands ready based on requests from EU27 market participants, to carry out such assessments.

Commenting on ESMA's statement in a blog, Anne Plested, a regulatory expert at Fidessa, noted that ESMA's clarification that EU investment firms will have to publish their OTC trades via an EU APA if a UK counterparty is involved could be problematic.

Plested cited: "While in Europe this approach may serve to ensure post-trade transparency within the EU27, it is also true that the UK counterparty could be required to publish that trade to a UK APA."

"This sounds to me like a recipe for a return to the problem of OTC duplicate reporting, despite MiFID II's decade in the making efforts to improve on that situation."

She added: "In case of a no-deal Brexit UK firms will become third country counterparties when facing the EU, and with no equivalence granted pan-European participants may end up shedding a bit too much light on OTC volumes."

## Firms must use available tools to mitigate CSDR implementation impact

It is vital that firms utilise currently available tools to mitigate the impact of Central Securities Depository Regulation (CSDR) on legacy upgrades and technology solutions, according to Robert Frost and James Bell of Pirum.

In an article in the International Securities Lending Association's securities lending market report, the Pirum duo said that the timeframe around the implementation of CSDR has the potential to interfere with firms looking to technology to overcome regulatory challenges, making it vital that they utilise available tools to mitigate the economic and reputational impact.

Specifically, the regulation has the potential to interfere with firms looking to upgrade legacy systems or build a technology solution to assist in overcoming CSDR's challenges.

Pirum's Frost, head of product development and Bell, product analyst, suggested that CSDR will pose numerous other challenges for securities finance participants.

They noted that CSDR does not only introduce measures for the authorisation and regulation of EU CSDs but sets out to increase the safety and efficiency of securities settlement infrastructures in the EU. Importantly this will apply to any transaction that is due to settle on an EU CSD, regardless of where the trading entity is domiciled.

They stated: "Perhaps CSDR has not received as much attention or press as the second Markets in Financial Instruments Directive (MiFID II), Securities Finance Transactions Regulation (SFTR) or Brexit to date, however, the reality of CSDR and its strict settlement discipline regime has the potential to present market participants with difficult challenges."

While there are overlaps between SFTR and CSDR, the European Securities Markets Authority has "largely tried to avoid market participants duplication their reporting requirements by removing fields such as 'place of settlement' which appeared in the first consultation papers", according to Frost and Bell.

"Ultimately market participants who ensure that robust technology solutions and processes are in place well before September 2020 will help protect themselves against the many risks posed by CSDR and SFTR," they explained.

## Iceland's GDM to sign treasury securities agreements

The Government Debt Management within the Central Bank of Iceland will conclude agreements concerning the issuance of treasury securities and market making in the secondary market. The task was assigned by the Minister of Finance, and a sample has been released by the Government Debt Management. Financial entities in Iceland that have been granted an operating license pursuant to clause 1-2 in the first paragraph of article 4 in Act No.161/2002 on financial undertakings have equity of a minimum of €10 million.

In addition, they are equipped to participate in auctions of treasury securities, are invited to become parties to such agreements.

Meanwhile, primary dealers have the exclusive right to submit bids at the auctions, where marketable treasury securities are offered for purchase or sale. They will also have access to securities lending according to terms and rules.

Primary dealers will act as market makers for benchmark series of treasury securities. Additionally, primary dealers are obliged to submit a given minimum amount of bid and ask quotes for each benchmark series of treasury bonds in accordance with the maximum spread specified in the agreements.

In article 7 of the sample, it was outlined that, "the primary dealer authorises the Central Bank to directly debit its accounts no. X and no. X, at the Central Bank for all transactions related to auctions and securities lending".

It was further noted that "any settlement of business related to auctions and securities lending, including but not limited to all costs and fees. The primary dealer is obliged to have sufficient funds available on its business accounts".

According to article 10 on the sample, it was also cited that, "primary dealers have access to special service such as securities lending facilities provided by the Central Bank. The central bank sets rules concerning securities lending facilities provided to primary dealers that parties of this contract shall obey." **SLT**

# UK trading venues turning OTC?

As of writing, Brexit crunch week looms. The UK Parliament is set to reject Theresa May's revised deal.

By the time of publication, we will know if Parliament also voted: to rule out a no-deal; extend the Article 50 deadline, and possibly also whether a people's vote (second referendum) will occur.

Remember, in the UK constitutional arrangement, it is parliament that is sovereign, not the prime minister nor government.

Connected to securities lending is a host of urgent issues concerning the status of UK trading venues that is rightly concerning the industry such that the Futures Industry Association (FIA), International Swaps and Derivatives Association (ISDA), Alternative Investment Management Association (AIMA), Association for Financial Markets in Europe (AFME), Securities Industry and Financial Markets Association (SIFMA), Investment Company Institute (ICI) Global and other lead trade associations issued a joint letter to Valdis Dombrovskis at the European Commission seeking urgent clarification.

## MIFIR

A no-deal, no equivalence Brexit will cause significant disruption to trading as Markets in Financial Instruments Regulation (MiFIR) imposes a 'trading obligation' for shares: "That trading obligation requires investment firms to undertake all trades (…) on a regulated market, a multi-lateral trading facility (MTF), a systematic internaliser or an equivalent third-country trading venue."

Therefore, EU27 participants will lose out from significant UK liquidity pools, being precluded from trading shares in the UK on what would be a non-equivalent third country. MiFIR also imposes a trading obligation on large classes of derivatives (broadly identical to EMIR's clearing obligation derivatives): The obligation to conclude transactions in derivatives pertaining to a class of derivatives that has been declared subject to the trading obligation on a regulated market, an MTF, organised trading facility (OTF) or third country trading venue.

Absent an equivalence decision, in a no-deal Brexit, EU27 persons will not be allowed to transact large swathes of derivatives on UK MTFs, OTFs or exchanges. This would cause major disruption as many contracts are only traded in London.

The trade bodies cite the following examples: "Many of the contracts traded on the London Metal Exchange are unique to that exchange, there is no widely-used substitute on other exchanges for ICE Futures Europe's the Gilt Futures and Short Sterling Futures and trading on ICE Futures Europe in the global crude oil benchmark—Brent Futures—and the leading global benchmark for refined oil—Low Sulphur Gasoil Futures—accounted for 90 percent and 99.7 percent respectively of global trading volume in Q4 2018."

## EMIR

UK exchange-traded derivatives (ETDs) will become over-the-counter (OTC) derivatives after a no-deal Brexit, per EMIR article 2(7): 'OTC derivative' or 'OTC derivative contract' means a derivative contract the execution of which does not take place on a regulated market or on a third-country market considered to be equivalent.

Since there is no (article 2a) equivalence decision, UK ETDs will be considered OTC. This would mean EU27 non-financial counterparties currently under the EMIR clearing threshold would suddenly be bumped into the scope and have to consider collateral, clearing and other significant EMIR obligations.

These are serious problems that would cause significant disruption and market fragmentation: in 2018 the total value of trades by EU27 clients on the London Metal Exchange exceeded $560 billion.

## Equivalence

As I have previously written, central counterparty (CCPs) will benefit from mutual recognition in a no-deal scenario and both the Financial Conduct Authority and European Securities and Markets Authority (ESMA) are currently accepting registrations. The only solution would be for a similar bilateral automatic recognition system (subject to registration) or a formal article 47 MiFIR equivalence decision.

The problem with a formal equivalence decision is that it is the Commission that is empowered to do so, which places the decision squarely in the arena of politics.They typically take a long time to negotiate although, with the UK currently being 100 percent equivalent, presumably Brexit-related equivalence would be an exception.

If Theresa May's deal is voted down as I write, there is light for the remainers (and the financial industry is overwhelmingly for remaining in the EU). The landscape should be clearer by the end of this week. But if hard Brexit is the outcome, the trading venue issue needs to be urgently resolved within the next two weeks. **SLT**

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# World shakers, Markit makers

After eight months at IHS Markit, Paul Wilson talks about the company's current initiatives, its business priorities in 2019 and the implementation of SFTR

***Maddie Saghir reports***

## What is the main focus at IHS Markit?

Before joining IHS Markit, I had the advantage of being a client for many years—all the way back to predecessor company Data Explorers, which IHS Markit acquired in 2012. IHS Markit paved the way for greater transparency in the securities finance industry by developing the first performance measurement tools. Working at IHS Markit, two things have quickly struck me: the first is the level of commitment across the firm to our securities finance business (we currently have 75 people committed to the business); the second is the dedication of the firm in its drive to deliver information, analytics and solutions for firms operating in financial markets. We are focused on identifying interdependencies across complex industries to truly understand why things happen. In turn, this enables us to see the big picture and all the connections, while providing our clients with insights and perspectives on what really matters.

IHS Markit Securities Finance's three main initiatives are:

1. Enhancing the experience for clients by rebranding our tools, launching an insightful home page and implementing an exciting programme through the year that is focused on user experience.
2. Rolling out a robust programme to vigorously engage with our clients, ensure they are maximising their usage and value from the vast array of data, tools and analytics we have available.
3. Building a two-year, forward-looking investment plan where every month we implement new or enhanced functionality.

In Q4 alone, we implemented:

- **Related corporate bond data:** Helps long/short equity, credit and credit default swap (CDS) traders gain an aggregate view across the capital structure with popular metrics like utilisation, demand supply and borrow rate information.
- **Borrower performance measurement:** A powerful and intuitive tool for borrowers to benchmark their borrow rates compared to other borrowers in the market.
- **Peer group analysis tool:** A new tool available to our lenders to provide users with an enhanced securities lending performance comparison with the best-matched peer group.
- **US public short forecast and public disclosure:** The US short forecast model creates a weighted-average forecast for each security, considering additional inputs such as correlations to securities lending balances, dividends and total volume traded.

I am pleased to say we are making great progress in all these areas and are strongly executing our 2019 product roadmap.

## Are there any other priorities for the IHS Markit Securities Finance business in 2019?

We are very much focused on delivering tools and solutions that enhance our clients' businesses. To this end, some other key priorities include:

- **Collateral:** We are implementing new collateral characteristics that better align with the collateral that funds accept. This, in turn, will harmonise the approach for performance measurement and allow for more precise what-if scenario analysis. But we are going even further by aiming to collect collateral data at the transaction level to provide greater insight on volumes and rates for each security by collateral type. Combining the two aspects, we will be able to create attribution of like funds where collateral choice has led to greater or lesser performance, even for funds with the same collateral characteristics.
- **Data:** We are passionate about growing our data pool in terms of depth and breadth. We have already had numerous successes attracting new data contributors and this will remain front, line and centre in everything we do. Clients are seeing great benefits from our global intraday data offering, which is growing quarter by quarter and provides the most timely view of market sentiment and activity.
- **Beneficial owners:** We are rolling out a completely new suite of services to beneficial owners, which includes helping them establish the appropriate policies/framework for securities lending, governance and oversight tools including board and executive reporting, revenue estimate validation, providing regular actionable information to assist with programme management (including multi-agent consolidated reporting and securities lending performance measurement) and measuring the inherent risk of lending activities and/or establishing a risk budget. So far, the reaction has been very positive as the focus is helping beneficial owners in the areas that have the most relevance to them.
- **HQLA:** This has been the buzz across the industry for the last few years. But evaluating whether a specific bond issue qualifies as high-quality liquid assets (HQLA) requires complex daily testing of each issue to ensure it qualifies as HQLA in accordance with Basel III requirements. IHS Markit already undertakes this analysis and we are looking to provide our clients with a supplementary service that shows exactly what inventory, loan volume and collateral (both at industry and portfolio level) is HQLA.
- **Analytics:** We are renowned for our analytics, but we will be significantly overhauling borrower and lender league tables with more value-added data such as fee bucket, market share and possibly collateral type, etc. We are also exploring prototypes of a securities finance best execution reporting solution. Under

the second Markets in Finance Instruments Directive (MiFID II), this is becoming an increasingly complex area and some of our clients have asked if we can help create a solution given we have three plus million daily transactions within our dataset.

- **Short squeeze model:** We are in the final throws of releasing a multi-factor model designed to predict short events. For crowded trades, the model seeks to identify potential catalysts that will lead to a short squeeze, including earnings forecast, RavenPack news data and abnormal trading volume.
- **Public disclosure expansion:** We continue to grow our global public disclosed short interest data set, and are in the process of adding Japan to our already robust offering. We are also looking at the addition of other markets.

> ***We are building upon our core strengths of data, independence and leading client service***

The bottom line is that these are very exciting times at IHS Markit. We are building upon our core strengths of data, independence and leading client service, and continue to focus on making our services relevant. This will bring additional value to our clients, who can take advantage of our unique firmwide datasets and intelligence.

## What's your view around performance measurement for beneficial owners?

Beneficial owners have typically been less focused on performance measurement, not in the least because there is an almost unspoken sense that it seems to give rise to "everyone seems to win". From a purely mathematical perspective, when using average returns as the benchmark, in dollar value terms, there should be an equal proportion of under and over performance. But feedback from beneficial owners does not indicate this. There are several reasons why this happens, including amongst other things, a differing view around inventory, timing, optional trades, collateral and peer group size. While there are no wrong or right answers, having a global industry-wide standard, which all participants adhere to, will eliminate inconsistencies and lead to a far more trusted and utilised methodology. The way to achieve this is industry collaboration. This is why IHS Markit in conjunction with the International Securities Lending Association (ISLA) has announced it is going to spearhead an industry-wide working group to address the challenges with the aim of issuing a global Securities Lending Performance Measurement Charter.

## What differentiates IHS Markit in securities finance data and analytics?

- **Depth and breadth of coverage:** We have the broadest range of data (over $20 trillion of inventory and $2.3 trillion of loans) across the widest range of counterparties, with 12 years of daily historical data available through all product platforms. We have no restriction in the clients we can work with and receive transaction information at each stage of the value chain, providing the clearest view into the lending and financing markets. The depth and breadth of our data was evidenced in our 2018 Year in Review publication where we reported $10.7 billion of revenue.
- **Innovative analytical tools:** Such as borrower benchmarking, league tables and stock screening to allow critical differentiation versus peers and to identify revenue opportunities. Corporate bond aggregate data provides transparency in activity across an issuer's capital structure, unearthing new loan opportunities and allowing directional interest to be covered using other issues from the same issuer.
- **Firmwide securities finance focus:** Datasets and expertise in related activities such as dividend forecasting, delta one, Securities Financing Transactions Regulation (SFTR), HQLA analytics and repo curve generation for trading and risk management via TOTEM, the industry leader in alternative data.
- **Product specialists:** Provide clients with expertise and a single point of contact to ensure that clients maximise the business value of our data, tools and analytics.

## How is SFTR implementation progressing?

After what feels like an eternity, and with many false starts thrown into the mix, it now looks like the SFTR kick off is finally upon us. On 13 December 2018, the European Commission finally adopted the Level II legislation that was presented by European Securities Markets Association (ESMA) in their final report submitted on 31 March 2017.

The legislation is now with the European Parliament and Council for approval, which we expect to be completed by April 2019. As has been widely publicised, once the regulation is officially written into law, the first reporting obligation will take place one year later—meaning a go-live around April 2020 for financial institutions.

While our more than 40 Design Partners and clients have already begun implementing our SFTR reporting solution, this news was the signal that many other firms in securities finance were waiting for. They are now ready to start their respective SFTR projects and allocate resources.

With a light graphical user interface version planned for April 2019 and a beta version planned for November 2019, the development of the IHS Markit SFTR platform is entering an advanced stage. **SLT**

# A little bit of je ne sais quoi

*While growth in France's lending revenues may inspire feelings of optimism for the rest of 2019, challenges around the unbalanced lendable and borrow demand, regulation and political factors are causing some unrest for France*

**Maddie Saghir reports**

While securities lending in France is experiencing growth, there is a 'je ne sais quoi' vibe around the murky unknown areas of Brexit, the upcoming Securities Financing Transactions Regulation (SFTR) and ongoing frayed tensions around the world.

Some of these concerns that lurked on the minds of French investors, for example the strained relationships between France, the US, the UK and Russia, as a result of the civil war in Syria, have been allayed at the beginning of this year. Alongside this, France could actually benefit from Brexit, using the crisis of an independent Britain to position Paris as a global financial hub, replacing London. Moving away from last year's Syria and Brexit worries, Tom Elliot, international investment strategist, DeVere Group, exclaims that France's main problem, as far as investors are concerned, is the risk that Macron fails his "self-appointed task of modernising labour law and tackling protected interests".

He remarks: "If Macron can't do this, who can?"

## Grande growth

Worries aside, France has experienced decent growth over the past few years. Data from IHS Markit found that French equities reached $539 million in 2018, 5.6 percent higher than 2017. Sam Pierson, director of securities finance at IHS Markit, explains that the increase in revenue was driven by increasing loan balances, partially offset by declining average fees and, in fact, the $6.9 billion in average loan balances was the highest since 2011.

Although revenues for French equities experienced growth, they did not keep pace with the broader Eurozone, Pierson found. In 2017, France delivered 27 percent of regional equity lending revenues, but that dropped to 25 percent in 2018. Lendable assets have experienced continuous growth; the $390 billion for French equities in 2018 is the highest on record despite declining market valuations in the latter half of the year. This year is off to a promising start, with French equity lending revenues up 17 percent year on year through the end of February.

## Technology, trends, and opportunities

In terms of trends, Pierson suggests that clients have been adopting more technology and have been more systematic in data use. This change, he says, is generating demand for more granular data, such as transaction level feeds.

He expands: "Previously, clients would have relied solely on the security level aggregation of lending data."

“There has also been a greater focus on the timeliness of data. For instance, intraday and pending transaction data is providing pricing transparency for trading decisions. On the trading side, we’ve seen some consolidation of functions.”

“Enabling the consolidation of securities lending and swap trading desks, as well as enabling the formation of centralised funding groups, including repo trading. We expect to see further implementation of technology to streamline processes, which allows traders and other stakeholders to efficiently operate in the current market environment.”

Pierson continues: “We believe the market will continue to adopt technology, streamlining the operations for securities lending trading, performance measurement and regulatory reporting. While it’s impossible to forecast demand, the trend over the last couple of years has been positive and revenues are picking up on the margin.”

“French equity loan balances have increased 22 percent year-to-date (YTD), while lendable assets have only grown 14 percent, which helps to explain the uptick in Q1 fees.”

Pierson recognises that SFTR reporting is a significant task for the industry, but adds that progress toward effective solutions is "well underway" for most industry participants, which should make for a smooth implementation.

"With lending revenues trending higher on the back of robust borrow demand, and a marginal YTD uptick in fees, there is cause for optimism looking ahead to rest of 2019."

This growth is continuing to attract firms to France. For example, LCH recently announced that it will be building a sponsored clearing at its Paris-based central counterparty (CCP), LCH SA, which is expected to launch later this year.

Paul Elkins, head of product development, RepoClear and EquityClear, LCH, explained: "Currently, RepoClear's sponsored clearing service has been live at London-based clearing house, LCH Ltd, since September 2017."

"Going back quite a few years, LCH decided to enable all of their members to clear all of their European debt in a single CCP."

Elkins explained: "LCH Group operates two central counterparties (CCPs), LCH Limited and LCH SA, in London and Paris, respectively. The London CCP clears the repos and debt that have been traditionally cleared and settled in an international central securities depository (ICSD) environment. The French CCP historically cleared euro debt that was settled in local CSDs environment in France, Italy and Spain."

## Hurdles on the horizon

Like most other countries, regulation is one of France's key upcoming challenges. It is perhaps unsurprising that SFTR will be the main regulation keeping people awake at night.

Discussing regulatory challenges, Pierson commented: "The biggest regulatory challenges for the industry in France are the second Markets in Financial Instrument Directive (MiFID II) and SFTR."

"At this point, most of the work toward MiFID II compliance is complete, making SFTR the primary focus of this industry."

"Over the past year, the anticipation of this reporting requirement has generated a significant uptick in participation for our solution. Last year, market participants were debating whether they should build in-house reporting solutions or purchase them from third parties. Most of those participants have chosen to partner with data vendors, minimising costs and assuring streamlined compliance."

"We are confident that the industry will be well prepared to adopt this reporting requirement in 2020, when it goes live."

Meanwhile, discussing challenges more broadly, Pierson noted that the effort required to adopt MiFID II, along with best execution concept for securities lending transactions, has been underway for years, yet remains relevant.

From a structural perspective, Pierson cited that the securities lending market in France has similar challenges to other developed equity markets; the advances in market value over the last decade have seen the growth in lendable assets significantly outstrip the growth in borrow demand, leading to compressed spreads and lower revenues.

Pierson commented: "The average fee for French equity loans in 2018 was the lowest on record going back to 2006."

"That said, borrow demand has increased year on year for the last three years and average fees are on pace to surpass 2018 through the end of February, creating some cause for optimism as we look to the remainder of 2019 and beyond."

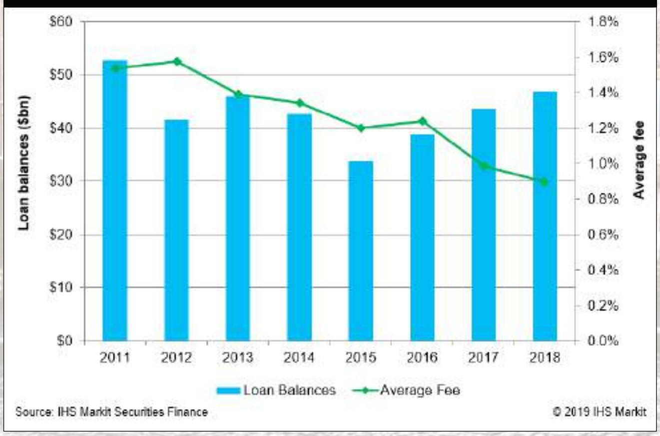
Meanwhile, Elliot further drew upon the problems in the political space and potential hurdles on the horizon there.

Looking at the risk of Macron failing his labour law modernisation, he said: "Will the yellow vest movement provide morph onto a permanent populist feature of French politics, perhaps creating its own political party? Disruptive, asking questions, but not offering any solutions beyond simplistic mantras (for example 'tax the rich')."

"If so, will it lead to support for the far right, giving the Front National a wider support base in the next national elections? Or will it split the protest vote?"

Leaving food for thought, Elliot mused: "Is Macron/France capable of leading the EU? The EU needs strong leadership from its largest members to confront and solve problems such as slow growth, immigration, Trump, the flawed euro project. Germany is unable to do this. German chancellor Angela Merkel, is now much weaker at home and so less powerful within the EU. Is France able to do so?" **SLT**

**France equity loan balances & fees**



# Reducing the risks

Michael Saunders of BNP Paribas explains the opportunities and challenges of non-cash collateral as well as discussing how technology can be leveraged in the collateral space

***Maddie Saghir reports***

### What are the main opportunities to be had for non-cash collateral?

Industry metrics certainly validate the increase of non-cash collateral in securities lending, predominantly in the US market. As a programme, BNP Paribas clients are assisting in the growth of non-cash collateral. The significant growth can be attributed to several factors benefiting both the beneficial owner and the borrower in a transaction, which includes a lower risk profile for the beneficial owner along with a significant savings of capital consumption from a borrower's perspective.

Non-cash collateral transactions provide a significant opportunity for beneficial owners to lower their programme's risk profile as the cash collateral reinvestment component of the transaction is eliminated. The result is an overall lower risk profile as the risks typically associated with a cash collateral programme become mitigated. Specifically, duration mismatch, as well as interest rate mismatch, becomes eliminated in non-cash transactions. Further, the element of liquidity risk typically associated with funding a portfolio of long-dated instruments is removed entirely.

Borrowers are also keen to engage in non-cash transactions. The benefits are clear as non-cash transactions consume less balance sheet and thus capital for a borrower. This savings enables a beneficial owner to engage in transactions which otherwise would be prohibitive from a capital viewpoint, specifically low margin activity such as general collateral.

The ability to increase utilisation rates across a programme through a non-cash programme benefit both a beneficial owner and borrower creating an ideal scenario of capital efficiency and increased loan activity.

### What are the main challenges around managing non-cash collateral loans? What regulatory restrictions exist?

There are several challenges in managing a non-cash programme. The first relates to providing beneficial owners with an understanding along with the benefits of engaging in a non-cash transaction. Our experience at BNP Paribas has been that many beneficial owners have a rather novice understanding of non-cash collateral transactions due to the sudden increase in market share of non-cash transactions in the marketplace.

Operational flows and an understanding of a trade lifecycle can also pose a challenge in a non-cash transaction. Historically, a majority of non-cash transactions have been on a bilateral basis. While this still exists, there is a prominent shift to utilise tri-party banks to facilitate the collateral management element of non-cash transactions. This shift has and will continue to ease the perceived operational burden in a non-cash transaction as the functions of collateral valuation, collateral concentration and collateralisation are assisted through a tri-party bank.

Aside from the operational components, a rather large challenge associated with a non-cash lending strategy is dismissing the misnomer that non-cash lending is only feasible and applicable when accepting non-traditional assets or even equity collateral. Certainly collateral flexibility assists in wider fees of a transaction. However, opportunities certainly exist in accepting high-quality assets such as US Treasuries. As an example, BNP Paribas highlights the ability of an SEC 1940 Act fund engaged in a non-cash collateral programme with a restrictive non-cash collateral profile limited to US Treasuries.

Demand remains robust from counterparties to borrow low margin securities versus the limited collateral set simply due to the capital benefits realised by the counterparty. The beneficial owner benefits under a non-cash transaction as lending activity is realised for these general collateral trade which otherwise would not have been feasible in a cash collateral profile.

The message is clear from the BNP Paribas perspective. Non-cash lending permits transactions, which otherwise would not be attainable despite collateral restrictions associated with regulatory requirements.

### What trends are you seeing from beneficial owners and borrowers? Is there an increase in beneficial owners considering alternative collateral profiles?

Across our global teams, BNP Paribas is experiencing an increased level of engagement from our client base to understand our collateral flexibility in a non-cash transaction. The opportunity to engage in transactions involving cross-currency transactions from a multitude of global markets provides substantial opportunities to increase programme activity and revenue for our clients in a risk-controlled manner. The ability to accept securities across the capital structure as well as non-traditional assets has assisted in the growth of the business globally.

The continued growth of non-cash transactions in the market has presented an opportunity to diversify a programme's borrower base away from the traditional borrowers. Agents continue to expand their programme's trading counterparties to gain exposure to the borrowers willing to engage in non-cash collateral transactions. This includes the addition of several offshore entities and exploring alternate types of trade structures.

### How can technology be leveraged in the collateral space?

As an industry, several vendors have formed somewhat of a cottage industry to facilitate the non-cash collateral activity. The shift throughout the industry of both borrowers and agents to utilise tri-party banks in the collateral management function is a testament to this. Further, industry metrics are including transaction detail bifurcated between cash and non-cash collateral. This is very positive and highlights the growth and acceptance of non-cash collateral activity. **SLT**

> ***Continued growth of non-cash transactions in the market has presented an opportunity to diversify a programme's borrower base away from the traditional borrowers***

**Michael Saunders**
Director, head of trading and investments, securities lending, North America
BNP Paribas

# Talking technology

## Securities Finance Technology Symposium

After the success of last year's event, Securities Lending Times is hosting its second Securities Finance Technology Symposium at Grange St. Paul's Hotel in London.

Securities finance is an essential part of financial markets. The European Commission has adopted the seven delegated regulations comprising the Securities Financing Transactions Regulation (SFTR) level II legislation with firms set to go live with SFTR reporting in Q2 2020. Technology will play an important role for firms in adhering to the regulation: reporting, data validation, reconciliation and so many other areas.

Aside from incoming regulation, securities financing has other issues ranging from collateral liquidity to Brexit casting a shadow. But the industry remains strong, which is in part down to successful technology vendors aiding in tackling challenges that regulators and an evolving market landscape are presenting.

The Securities Finance Technology Symposium will also assess the future shape of the industry's new market infrastructure from distributed ledger technology (DLT) to peer-to-peer, data to regulation, post-trade to artificial intellgience, and more.

Securities Lending Times talks to some of the featured speakers for the event on the industry's hot topics.

# *Event Preview 2019*

**Sunil Daswani**
Business development for securities lending and repo fintech solutions

**MarketAxess**

**After the European Parliament endorsed SFTR RTS in December, what is the next step for the industry? How is Trax working with clients?**

Trax is well positioned to help clients prepare for the upcoming implementation of SFTR. Trax already has a robust regulatory reporting system called Insight which acts as the client front-end interface to see all trades and the lifecycle of these in one place. Having a great deal of experience with regulatory reporting and utilising our fintech experience and capabilities allows clients to focus on their daily business and leverage off of our experience to ensure a clean and efficient implementation of our SFTR solution.

With Brexit looming and the uncertainty that it will bring to the market, most clients are focused on ensuring that they are ready for a potential hard-Brexit. Not all of the SFTR specifications are clear and Trax currently participates in a number of industry groups to present the issues and work through the potential options and solutions.

Our joint solution with EquiLend provides us with a complete end-to-end service from the point of trade to responses that are fed back from trade repositories. We are currently actively onboarding clients and arranging live system demos, which puts us in a great position to help those clients enhance their own competitive position.

**What is the best piece of advice you could give to firms working towards the implementation?**

Keep your options open and utilise your time carefully. Furthermore, it is important to choose a provider who has experience in providing reporting solutions across multiple regulations and jurisdictions. With approximately 12-months to go, it's imperative to have a solid solution in place, but also one where you can feel comfortable you have control over the process.

**Guido Stroemer**
CEO

**HQLAx**

**How can DLT be used to manage regulatory challenges as well as providing benefits to those involved in collateral trades?**

Although the current collateral upgrade market provides market participants with an effective tool for transferring collateral liquidity across legal entities, there is room to improve operational efficiencies.

The incumbent securities settlement infrastructure suffers from the inability to provide an industrial strength solution for atomic delivery versus delivery (DvD) of baskets of securities across a fragmented securities settlement system. Current market practice is to settle collateral upgrade transactions in one of two ways: two free of payment (FoP) settlements, or two delivery versus payment (DvP) settlements. Unfortunately, both settlement practices have drawbacks and consume either intraday credit or intraday liquidity on the start and end legs of the transactions. The former consumes intraday credit caused due to timing mismatches of unsynchronised FoP deliveries, and the latter consumes intraday liquidity due to the cash payment legs of DvP settlements.

The HQLAx operating model leverages distributed ledger technology to provide DvD for baskets of securities residing at multiple custodians. The strategic vision for HQLAx is to enhance collateral mobility and improve market transparency by creating a fit for purpose, standardised, single market place, which will enable institutional treasurers to more easily fine-tune regulatory prescribed liquidity management metrics, including liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

**How is the HQLAx and Deutsche Börse blockchain securities lending solution progressing?**

While HQLAx is delivering the distributed ledge technology (DLT) layer of the operating model, Deutsche Börse is providing two other key components, the trade layer and the trusted third party (TTP) layer. Following extensive testing during deployment over the past months, the technical set-up is close to final, as is the legal and regulatory framework. Six banks and two triparty agents have started their onboarding processes and launch of the platform is expected in Q2 2019.

In addition to the strategic cooperation, Deutsche Börse purchased a first minority stake in HQLAx in August 2018, and it further strengthened its ties to the company by acquiring a second tranche of shares in December 2018.

**Dean Bruyns**
Senior product manager

**Broadridge Financial Solutions**

### Why should firms avoid a short-term solution for SFTR? How will this affect them in the longer term?

Short term solutions for SFTR, or any regulation for that matter, should be avoided if at all possible. Near term tactical fixes are rarely scalable or adaptable so they often require significant support and have a limited service life.

Also, considering that there are likely to be further revisions of SFTR which will require changes in reporting configurations. Features like adaptability and scalability are vitally important in any sustainable reporting platform.

Adopting long term strategic regulatory reporting solutions makes for a more coherent and enduring approach. With more securities finance regulations expected to roll out globally, it makes little sense to adopt short term fixes for every new regulation which comes along. The cost and complexity of implementing and supporting all of these jurisdictions independently become exorbitant.

We've had several clients migrate their existing regulations from short term or inefficient legacy solutions onto our proven multi-jurisdictional, multi-asset platform. This consolidation has allowed them to centralise their reporting function, improve efficiency and reduce their costs of supporting a multitude of different reporting structures.

### What challenges are firms facing? And can these be turned into opportunities?

Firms are facing substantial and wide-ranging challenges for SFTR, from detailed analysis projects, source system upgrades, implementation and testing pre-go-live. To the ongoing post-go-live environment, with all the additional workflow, support and complexity that it brings. It is changing the securities finance business in a fundamental way.

On a positive note, these challenges can certainly be turned into opportunities. SFTR has forced the industry to overhaul outdated practices, improve current processes and move towards more automation. Coping with manual workarounds and legacy systems will make for a difficult transition into the newly regulated securities finance market. So, automation and the adoption of specialist functionality to support the core business will be crucial to successfully navigate the new environment.

Naturally, the progressive firms who have robust and efficient reporting practices will automatically be appealing as trading counterparts, given the dual-sided nature of SFTR. It's simpler to trade with efficient reporting firms than it is with less organised institutions who will create more exception management workflow for trading allies than necessary.

Firms who are proficient in their core business and regulatory reporting processes can certainly attract more business and these companies may well gravitate towards each other and win more market share.

**Boaz Yaari**
CEO

**Sharegain**

### What role will technology play in the future in the securities finance market?

At its very core, securities finance is a lucrative practice and one which every investor has the right to benefit from. For this reason, we believe that the industry is ripe for democratisation and wide-scale adoption. Technology has already and will continue to play a pivotal role in taking the industry mainstream and establishing it as a valid investment activity for every investor.

Automation has already begun streamlining processes and reducing risk. Currently, a large barrier for widescale adoption are the complications surrounding onboarding processes. As has been the case in retail banking, technology and collaboration of incumbents can streamline an investor-friendly process, removing this barrier altogether. We also believe technology has a much wider role to play in creating a user experience fit for this digital age. The next step would be the introduction of applications for artificial intelligence and big data analysis, improving the pricing of loans, corporate events handling and implementing of predictive analysis.

In our vision, technology should inevitably lower and remove barriers to entry for new participants to a point that all investors would need to do to benefit from this lucrative activity is to click a button.

### As client behaviours change, how important is it for firms to stay up-to-date with the latest technology?

Client behaviour is changing dramatically. From leisure services to insurance and high finance, we all engage with apps with great usability and ease-of-use and our expectations from them are continually on the rise, and will not stop short of demanding the same in capital markets. Securities finance can learn a valuable lesson from successful fintech and insurtech firms such as N26, Starling Bank, Transferwise, Stripe and Lemonade. These firms have understood that in order to deliver a standardised solution and a strong value offering, digital capabilities, which focus on client experience, must be at the heart of their business model. They use technology to remove complexities associated with opening a bank account, buying insurance, making cross-border payments, taking business loans and much more. They are all heavily regulated, yet they have managed to create such great client-centric experience that delivers value while maintaining simplicity, engagement and transparency.

At Sharegain, we introduced the world's first digital agent lender, but we do not want to stop at this. We are proud to lead the tech evolution in our industry and continue to adopt new technologies which enable us to fulfil our mission to fully democratise the securities lending industry.

**Richard Gomm**
Head of EMEA
collateral management

**Vermeg**

### Should firms be making more effort to optimise their collateral?

Absolutely. Now more than ever, there is a distinct need to reduce the fragmentation of global collateral pools. As more and more firms are finding it too expensive to manage collateral on a cross-border basis, cross product optimisation is critical in the provision of high-grade assets.

Access to high-quality collateral positions, via optimisation and effective inventory management, are vital to market liquidity and the easing of the collateral scarcity phenomenon. Under the ever-changing regulatory landscape, post-trade operations are becoming key drivers of profit.

### How big a part does technology play in optimising collateral?

Firms need to be gifted the technological flexibility to support the wide variety of optimisation strategies, ranging from cheapest to deliver to more complex corporate driven strategies, employed globally without manual intervention.

Technology should facilitate the breaking down of product silos—providing a holistic, cross-product view of risk to optimise firm-wide collateral inventories. Competitive advantages such as these, are not only proving to be critical to the success of any institution, but to the financial industry as a whole.

**Matt Wolfe**
Vice president
business development

**OCC**

### How is OCC working to meet the ever-changing needs of exchanges, clearing firms, and market participants?

Everything we do is focused on reducing systemic risk across global financial markets in our role as a systemically important financial market utility.

We are enhancing our compliance-related and financial resiliency and furthering efforts to modernise our technology to continue to offer world-class clearance, settlement and risk management services with operational excellence. We continue to create greater efficiencies and lower costs for our participant exchanges, clearing firms and market users, such as delivering an improved methodology to determine the size of our clearing fund, which resulted in OCC returning more than $3 billion in collateral to our clearing firms.

There are three areas that OCC is focused on to reduce risk, improve efficiency, and support growth within our stock loan programmes: improving upon the existing hedge programme to provide a more complete guarantee of the stock loan contract details, including interest payments, term, and dividends; adding support for non-cash collateralised loans; and expanding access for agent lenders and beneficial owners.

### What is in the pipeline for OCC?

In late 2018 we launched our Renaissance Initiative, an ambitious multi-year investment to comprehensively redevelop and modernise OCC's risk management, clearing and data systems to better serve the users of our markets. The goals of this project are to enhance OCC's resiliency, improve our compliance posture, and help us operate in a more effective manner to help drive industry growth.

The Renaissance Initiative includes replacing OCC's stock loan systems which will introduce several enhancements. OCC's legacy system rolls up stock loan positions into aggregate positions and doesn't have full support for stock loan lifecycle events. The new system will provide contract level reporting and improve the settlement and lifecycle event processing.

An important goal of the new system is greater access to and ease of use of data. We will be working with stock loan participants to identify ways to leverage data in more effective ways to improve operational and reconciliation activities. **SLT**

# Global Securities Finance and Collateral Management Solutions

- Optimize funding and collateral decisions
- Reduce counterparty and operational risks
- Enable efficient and high-growth operations
- Meet regulatory and market requirements

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# Through droughts and rains

Delegates down under gathered at this year's PASLA/RMA conference in Sydney where hot topics included technology and forecasts for securities lending in APAC, as well as regional updates in this space

***Maddie Saghir reports***

This year, at the Shangri-La Hotel in Sydney, Australia, PASLA and RMA held their 16th annual conference on Asian securities lending. Panellists at the conference discussed the current forecast for securities lending in the Asia Pacific (APAC) as well as other hot topics such as technology, women in finance, and the future of APAC securities finance.

Tim Hogben, COO of the Australian Stock Exchange, kicked off the conference with welcoming remarks and said that ASX is making headwinds in the technology space. Hogben suggested that while technology might erode some of the traditional values across many industries, many consumers have benefitted and they now have a substantially higher value proposition.

He cited: "The winners seem to be the large technology companies rather than the traditional services providers. Why aren't we following their lead? It is hard and expensive digitising businesses. While our industry has made significant process in automating and straight through processing, it is generally having trouble consolidating the significant infrastructure. Why? Because it is really complex and is a global issue and not just an issue in Australia."

"Let's consider this, you can order and get espresso coffee specifically held in a warehouse delivered to you in five hours, I'm also told you can order an outfit online and have it delivered in two hours, and yet it takes two days to move an ownership of shares held on a hard drive. Customers question whether they will get the same service in financial services as they get in other parts of their personal lives. The answer is that they should."

Later elaborating on this in a panel on regional market updates for offshore participants, it was explained that ASX's replacement of its post-trade systems will mean that receiving the settlement of a trade will be a lot quicker for the securities lending industry. ASX announced last year that it would be replacing its current post-trade system with distributed ledger technology. One panellist on the panel suggested that this move would "allow for greater innovation and a much easier way to implement change".

"In doing this, it brings a test to the market. We are not looking for a like-for-like replacement and we are not demanding the market move to move to distributed ledger technology (DLT), there will be a message-based way to communicate with systems as well as a direct way to communicate, which would allow you to get all of the benefits of the DLT solution."

Additionally, the speaker said ASX is also adding an auto-borrow functionality, which is one of many functionalities that we will be added to the new platform when it goes live in April 2021. The auto borrow capability will allow for cheaper access for borrowing in the market. The speaker explained that ASX is laying down the technology in order to make that happen.

Meanwhile on a separate panel at the conference, an audience poll revealed that industry participants would like to see more liquidity in China. One panellist said that efforts to increase this are happening although there is a lot of work to be done in order to achieve this. Market participants also discussed the expansion of offshore securities lending in the Asian markets, which has often resulted in unforeseen barriers to entry. These barriers range from lack of regulatory, legal, and tax reform to technology issues, all of which impact and potentially hinder market growth.

The moderator asked the panel how things currently stand in India and what changes are currently happening there. In response, a panellist said the changes happening in India are in the derivatives space. They explained: "In India, if you are the Foreign Portfolio Investment you cannot short the cash market, so there are people who are unable to short cash markets. There is a need for them to borrow and short in the cash market."

"The Securities and Exchange Board of India (SEBI) has said that soon in 2019 all of the securities which are available from the derivatives segment will no longer be settled in cash, they will instead have to be settled physically."

This comes after SEBI notified that stocks of heightened volatility will move to physical settlement in addition to the existing schedule of stock derivatives moving to physical settlement.

Other movements in India include a trend of more borrowers and fewer lenders causing the need to talk to institutions such as the mutual funds. One speaker commented: "We think the next best thing for the Indian market will be the way people trade derivatives in the India marketplace because this is going to change dramatically. Investor participation is key to the success that India needs. In addition to the onshore liquidity, you are going to need some offshore liquidity to help facilitate and be efficient."

On another panel at the conference, a speaker said that securities lending is "no longer that closed secret door where everyone is trying to get one up on everyone else," in relation to the borrower and lender relationship in securities lending. According to the panellist, "we are here to work together because we are all out to build a business".

The moderator asked the panel: "As a borrower, you may have experienced some layers between yourself and a lender, are you seeing more demand in terms of information and pricing and a bit more awareness in general?"

One panellist replied: "Over the last ten years on the prime brokerage side, and on the securities lending side, in particular, has developed from that middle-back office function to a fully fledged trading product on the trading floor. Both sides [borrower and lender] need to understand each other and make sure that what is actually agreed is best for both sides; if one side doesn't understand that then that is not going to be good for the transaction. We are constantly out there looking to educate, share and provide information to people. We will speak to people directly and we have those conversations not just in Australia but globally."

Looking at the role of borrowers, the moderator asked the panel if they see a trend in Australia or anything unusual that is happening compared to the rest of the world.

A speaker replied: "Based on demand, Australia is a developed market and is no different to the US, UK, Japan or Hong Kong in that sense. The hedge fund community is extremely developed down here from a longshore angle. Australia does have some specific corporate actions down here, however, which are different. From a prime brokerage borrower perspective, we are looking for stable cheap easy-to-find demand. We are looking for a borrower who is long-term in the programme."

Another panellist added: "Australia does have some nuances but this is nothing that we don't see in other parts of the globe. We know that environmental social and governance is becoming a bigger part of the globe, and governance in particular impacts securities lending down here."

On the second day of the conference, participants on a 'Women in Finance' panel discussed the growth of the Fearless Girl campaign, which has resulted in 301 boards adding a female director. Indeed, the Fearless Girl campaign has ignited a global conversation about the power of women in leadership and inspired companies around the world to add women to their boards, according to State Street.

The panel's discussions on the campaign follow the recent unveiling of the Fearless Girl campaign, which was recently brought to London with a new statue in Paternoster Square, against the backdrop of St Paul's Cathedral. One panellist said that further results of the campaign have found 28 commitments to add female directors as well as 15 trillion total shareholders assets backing board diversity.

It was noted that the campaign aims to improve gender diversity at the senior leadership level and so they focused on working with 1,227 companies without a single woman director on their boards. The speaker from State Street explained that they called on companies from their portfolio to increase the number of women across the boards.

Further topics at the conference involved discussions on central clearing counterparties (CCPs) with one speaker remarking that CCPs are a natural evolution of the industry. The panellist said: "We want more transparency and diversification from banks. The point is not to disintermediate banks—it is a diversification away from banks if anything. You could make some strong arguments that certain institutional hedge funds would be less risky counterparties than some of the banking counterparties."

On this panel, speakers weighed up China Securities Finance Corporation Limited (CSFC) collateral acceptance, with one panellist saying: "There is so much change happening in China and it is hard to keep up with it all. I would place caution on the announcements, as they can be different as to what happens in practice. For example, it was said that stock connect was short seller eligible but there was a diversion. There was a big announcement in China in late January on utilisation so we might need to see where that goes in practice first, in my opinion."

The panel also debated physical securities based lending versus synthetics, and which is preferable. One speaker noted that the question is becoming more prominent.

One panellist commented: "There are markets where one or the other is preferable but this is not always the case. The regulation has made things somewhat fragmented in the sense that you can be based in an entity in London but they may have a different experience in an entity in the US or Singapore."

"The great thing about securities lending is that it has become standardised over the past 30 years, and there has been a lot of work towards that end. Synthetics are not standardised, every bank has a different operating model. It is operationally intensive it is a great product, there is an obvious demand for it, it works but it takes a lot of effort."

Echoing this, a fellow panellist exclaimed: "Balance sheet optimisation is what drives the existence of synthetics but the factors that determine what you do, focus on and how you balance, really has to be on the operational platform set up."

"If you're doing it manually then it is not scalable and if it is not scalable then you're not really deciding between one versus the other. That setup, the systems and risk management is automatically there to weigh the factors to determine what you're going to do and how you're going to achieve it." **SLT**

# SHORT SELLERS TARGET UK REAL ESTATE

Sam Pierson of IHS Markit suggests that short sellers are targeting the UK real estate market as Brexit looms

The UK real estate sector has attracted an increase in short sellers, due to concerns regarding Brexit. Many of the real estate investment trusts (REITs) in this sector own retail assets, which are currently under pressure along with their tenants. The marginal change over the last month has increased short coverage for Debenham's and Marks & Spencer—the most shorted UK retailers—however, we're now seeing that short sellers are shifting focus towards the sector's landlords.

**Real Estate growing percentage of UK short loan balance**


Borrow demand for the UK real estate sector surged after the original Brexit vote, nearly reaching 5 percent of all UK equity short loan balances in October of that year. During that time, the sector's loan balances grew by 40 percent, even though overall UK short loan balances only grew by 2 percent. The borrow demand was broadly based across the sector; the average percent of shares outstanding on loan increasing from 1 percent (before the vote) to 1.7 percent in November 2016. That was the high-water mark for general interest in shorting the sector, ahead of a two-year steady downtrend, which saw the average percent outstanding shares drop below 1 percent in early January of this year. A similar image is reflected in nominal short balances, which peaked at £1.5 billion in November 2016 before trending down, though a few constituent stocks did see increased balances in late 2017 and 2018.

For the first time since the summer of 2017, short loan balances in real estate stocks exceed 4.5 percent of the total for all UK equities. The year-to-date spike in that ratio is the result of both increasing demands for the real estate sector, and an overall decline in UK equity short loan balances. The current balance of £1.17 billion is the highest since May 2018.

Intu Properties currently has 11 percent of outstanding shares on loan, the most for any UK real estate stock and 11th for all UK equities. The £161 million in short loan balances are second most in the UK real estate sector, only behind the British Land Company with £218 million. The firm scorched short sellers last autumn when it announced a deal to take the firm private, which initially sent the share price soaring, and prompted over 100 million borrowed shares to be returned. When the deal fell apart in November, along with the announcement of a dividend cut, short sellers returned to the scene and have been adding to positions ever since.

**Intu Properties Plc equity short demand & share price**


Newriver REIT currently has 10 percent of outstanding shares on loan, the second most within the UK real estate sector. Short sellers have been adding to the position since the share price began its descent into a downtrend in late 2017. The 13 percent share price rally from the 27 December low has been met with increased borrow demand from short sellers, with the position reaching an all-time high in share terms, just over 30 million.

**Newriver Reit Plc equity short demand & share price**


The anticipation of various potential Brexit outcomes is likely to take many forms. For equity short sellers, the real estate sector has become a popular means of hedging exposures or outright bearish views. Similar to the period following the Brexit vote, the divergence between the increase in borrowing of the real estate sector relative to broader UK equities reflects a view that this sector could underperform. With that being said, the best opportunities are often found in unloved sectors, as Brexit uncertainty looms UK real estate may fit that bill.

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# Comings and going at Scotia Bank, Dentons and more

**Andrew Clarke is set to join Scotia Bank at the end of April, according to a reliable industry source.**

In his new role, Clarke will serve as director, head of hedge fund coverage for the US.

He will report to Brendan Eccles, managing director, US prime services.

**Rakuten Securities has bolstered its team with the appointment of Tomoaki Kinoshita.**

Kinoshita will be based in Tokyo, Japan.

Kinoshita is using his experience as the head of pan Asia equity finance of Mizuho to develop Rakuten's securities lending business.

Most recently, Kinoshita served as director at Mizuho Securities.

**Allen & Overy (A&O) has appointed Lee Alam as head of its new regulatory consulting practice.**

Alam joins A&O Consulting from Commonwealth Bank of Australia (CBA), where he was the general manager of global regulatory affairs.

In this role, Alam was responsible for managing CBA's regulatory approach and change projects.

Prior to serving at CBA, Alam was a managing director of J.P. Morgan Australia, responsible for the initial design and roll-out of its global culture and conduct risk programmes.

He also spent 12 years as the manager of the markets division at the Financial Conduct Authority in London.

A&O Consulting was launched in London in September 2018 with the hire of Sally Dewar as its CEO who leads the business globally.

Alam's appointment is the first of a number of planned appointments internationally.

Jason Denisenko, managing partner of A&O Sydney, explained: "The establishment of this new advisory discipline in Australia is timely in the post-Royal Commission environment of increased regulatory scrutiny. Our clients have asked for a broader advisory capability to complement our market-leading legal practice, which will be answered through Lee Alam's expertise in regulatory affairs and conduct risk."

Dewar said: "A&O has extensive experience and market-leading legal expertise in financial services regulation in Australia which when combined with this new capability will enable the firm to meet client demand for broader high-quality bespoke business-focused advice."

She added: "A&O Consulting complements the firm's existing legal services and broadens the firm's role in managing clients' regulatory risk and supporting control enhancement and remediation projects. We are excited to have someone of Alam's calibre join the team."

**Dentons has appointed Holger Schelling as a new partner in its Frankfurt office, effective March this year.**

Schelling will aim to strengthen the banking and finance practice and in particular the financial institutions' regulatory team.

Previously, Schelling practised with Mayer Brown, where he has been a counsel since 2016, and with Clifford Chance. He also gained in-house experience at DZ BANK.

Schelling has expertise in advising banks and financial service providers on banking and securities regulation as well as on legal aspects of derivatives.

He also advises fintech companies on payment services and on blockchain/distributed ledger technology, as well as representing clients in regulatory proceedings in front of the relevant authorities.

Commenting on his appointment, he said: "Dentons' global platform and the firm's special focus on new technologies build the perfect basis for advising my clients."

Andreas Ziegenhagen, Germany managing partner at Dentons, said: "The hire of Holger Schelling helps us pursue two strategic goals: his addition comes in response to our clients increasing demand for professional advice in a highly-challenging, regulated market; moreover, with his hire, we are further boosting our banking and finance and capital markets teams in Frankfurt, aligned with our growth strategy."

Arne Klüwer, head of banking and finance Germany at Dentons, said: "Holger Schelling and I have known each other for many years and we have worked closely together. His profile is a special benefit for our team. He will ideally complement our expanding financial institutions regulatory practice by his specialised knowledge and vast experience."

**LiquidityBook has opened a new office in Sydney, Australia**.

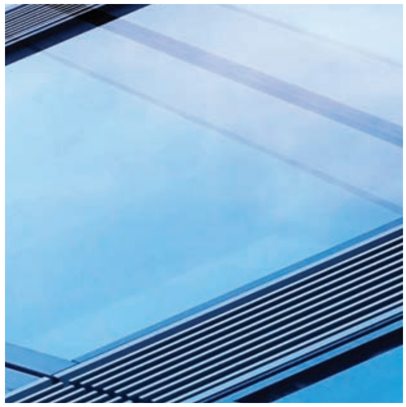
As part of the opening, LiquidityBook has hired Andre Meintjes as the Asia Pacific (APAC) client services lead.

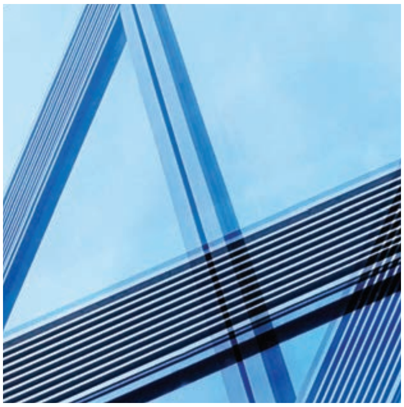
In his new role, Meintjes will deploy enhancements and support to both APAC-based clients and clients that trade into APAC.

Prior to LiquidityBook, Meintjes served as support office for ABN AMRO clearing's global execution services arm, where he worked closely with all levels of clients to deploy algos for various markets.

Meanwhile, the new office in Sydney is set to accommodate LiquidityBook's growing team and support its rapid expansion in the APAC region.

LiquidityBook explained that the new office better positions the firm as it works to expand and provide local service and support to its rapidly growing client base, which has shown an increasing interest in investment opportunities in the APAC region. **SLT**





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