securities lending times

The primary source of global securities finance news and analysis

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SHORT SELLING STORM

While some are banning aspects of short selling, others are only just introducing it

Preparations for initial margin | Australia’s market growth | Securities lending Q1 revenues

Broadridge launches securities lending solution

Broadridge has launched a firm-specific fund-by-fund comparative securities lending assessment solution for mutual fund firms and the boards that oversee their funds.

The solution, Broadridge Securities Lending Board Insights, is currently being used by a number of clients.

The client-specific report lets companies monitor the relative cost, fee 'splits', and income obtained from their securities lending arrangements. In addition, it will help all interested parties receive appropriate rewards for the risks they undergo in their lending programmes. Broadridge noted that it also helps to reduce risk related to mal-distributed securities lending income.

Eric Bernstein, head of asset management solutions at Broadridge, said: "Faced with mounting pressure on fees and the need for a clearer understanding of competitive financials, many funds are looking to securities lending programmes to maximise yield on their long-term holdings."

He added: "Based on Broadridge's unique data set, coupled with rich subject-matter expertise, the reports help boards and fund companies get ahead of today's challenges to capitalise on what's next, uncovering opportunities to improve their returns."

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Fidelity expands securities lending programme

Fidelity has expanded its securities lending programme to include National Financial Services, LLC (NFS), a Fidelity-affiliated lending agent doing business as Fidelity Agency Lending.

Currently, Fidelity's agency lending programme includes active equity funds, index funds, and certain collective investment trusts.

In Fidelity's draft funds update, they cited that all revenue from securities lending, excluding lending agent and custodial fees, will continue to go back to each fund to benefit shareholders. The fees will be structured to ensure that the funds pay less in agency fees to NFS than they would have paid to the current lending agent under the existing arrangement. Fidelity noted that NFS's automated lending technology is expected to enhance the funds' lending programme.

They also explained that these changes will have a positive impact on the securities lending revenue generated for the funds.

European repo market sees continued steady growth

The European repo market is showing continued steady growth as the market size reached €7,739 billion, according to a survey by the European Repo and Collateral Council (ERCC) of the International Capital Market Association (ICMA).

ICMA explained that the baseline figure for European market size at €7,739 billion is up from €7,351 billion in the June 2018 survey.

This represents an increase of 6.3 percent year-on-year since the December 2017 survey.

The survey calculated the amount of repo business outstanding on 5 December 2018, from the returns of 58 offices of 54 financial groups.

Godfried De Vidts, senior advisor to ICMA's ERCC, said: "Modest growth in repo outstandings since the last survey shows that the secured markets continue to play a pivotal role in servicing the financial markets."

"Various regulatory and prudential initiatives designed to improve financial stability continue to increase the need for further use of collateral. Political events will cause further shifts in Euro repo trading locations when the June 2019 survey takes place."

He added: "The ICMA ERCC repo survey remains the unique resource for buy

J.P. Morgan completes first cleared repo transaction on DTCC's repo programme

J.P. Morgan has completed its first cleared repo transaction under the newly approved Category 2 Sponsoring Member classification, marking an important milestone for DTCC.

This follows the recent Securities and Exchange Commission approval for DTCC subsidiary Fixed Income Clearing Corporation to expand its Sponsored Service.

The expanded sponsored service allows a broader category of market participants can participate in the service as sponsors. This includes dealers, non-US Banks and prime brokers (all referred to as Category 2 Sponsoring Members).

In addition to J.P. Morgan, there are now over 12 Category 2 Sponsoring Members approved, or in the process of approval, to leverage the new service. The expansion also changed how the service can be used, with sponsors now able to let their clients trade with counterparties other than themselves.

J.P. Morgan's managing director of fixed income financing, Brian Connell, commented: "We were excited to participate in the original sponsored repo programme and we believe the expansion of the programme will continue to streamline dealer balance sheets and further enhance repo market liquidity."

Also commenting, Murray Pozmanter, DTCC's managing director and head of clearing agency services, said: "The increased participation, particularly from the buy side, will yield significant benefits in reducing systemic risk and creating market capacity."

and sell-side participants and regulators alike to understand the impact of changes on market behaviour during the implementation of the Securities Financing Transactions Regulation."

ICMA updates legal opinions on GMRA

The International Capital Market Association (ICMA) has published updated legal opinions concerning the Global Master Repurchase Agreement (GMRA).

The GMRA refers to the standardised agreement for international repository transactions, which is a cornerstone of many national markets.

The updates from ICMA have been developed to accommodate jurisdictions that are non-EU member states in response to the political landscape of Brexit.

Legal opinions affiliated with ICMA include the use of the GMRA in nearly 70 jurisdictions in a global context.

BCBS sets out global standards

The Basel Committee on Banking Supervision has launched a new section on its website that sets out a consolidated version of its global standards for the regulation and supervision of banks.

The committee is welcoming comments on the accuracy and clarity of the consolidated

framework, and on the proposed technical amendments to the standards.

The consolidated framework aims to improve the accessibility of the Basel Committee's standards and to promote their consistent global interpretation and implementation.

According to the committee, the publication of the standards in the new format has focused on reorganising existing requirements, not introducing new ones.

Certain inconsistencies were revealed in the preparation of the framework between Basel requirements as well as ambiguities that need to be addressed through minor policy changes.

The framework has been published initially in draft form, together with a consultative document to gather feedback on the website and on various proposed technical amendments to the standards.

Société Générale to cut 1,600 jobs

Société Générale's two adjustment projects have been submitted for consultation and could lead to a reduction of approximately 1,600 jobs.

Short sellers borrow $455 million of LYFT shares

Shares of Lyft, a transportation network company, closed 2 April 4 percent below its initial public offering (IPO) price of $72, however, Sam Pierson, director of securities finance at IHS Markit suggests that belies the volatility of the first three days of trading.

The shares opened above $87 on Friday, the first day of trading, so 2 April's close reflects a 26 percent decline from the intraday peak. Pierson explained that 2 April was the first settlement day for Lyft shares, which means short sellers are able to borrow shares to settle short sales.

IHS Markit receives intraday reporting of borrow transactions from market participants, which allowed those contributors to see 1.56 million shares in new borrows on 2 April, which were lent out at just over 100 percent annualised fee.

In the overnight settlement reports, Pierson noted that there were 6.61 million shares reported as on-loan—a market value of $455 million—which serves as the best proxy for the current short position.

IHS Markit noted that borrow fees range from 85 percent to 150 percent, however, the majority of activity has been just over 100 percent fee. Pierson explained that makes Lyft the most expensive to borrow US equity with over $5 million in balances.

Pierson stated: "New IPOs often attract short sellers, who seek to capitalise on falling momentum after an IPO. Timing is the key, which is why short sellers are often willing to pay extraordinary borrow fees for IPOs."

"Even successful companies often stumble out of the gates, for example, Facebook shares fell more than 50 percent during their first three months of trading before rallying more than 800 percent off the lows. On the other end of the spectrum, shares of Blue Apron doubled in price during their first three months of trading, before falling 75 percent from the peak."

In France, these job reductions would be made in accordance with the new employment agreement signed with all employee representatives.

Société Générale explained that this would be carried out through internal mobility and natural departure and, in some perimeters, through a voluntary departure plan. Internationally, these job reductions would be done in accordance with local regulations and practices.

The planned strategic adjustments are aimed at better meeting clients' expectations while structurally improving its profitability.

As part of these projects, the group will concentrate its wholesale business model on its areas of strength where it has sustainable and differentiating competitive advantages.

In global markets, the bank wants to focus on investment and financing solutions, by drawing on its leadership in equity derivatives and structured products.

The bank also plans to close its over-the-counter commodities business and its proprietary trading subsidiary and reorganise and refocus its flow activities to make them more profitable.

In financing and advisory, the bank plans to strengthen the alignment of its teams and its offers in order to pursue its growth plan.

Meanwhile, in asset and wealth management as well as in securities services, actions would also be implemented in order to better leverage resources towards core franchises while reducing costs.

Additionally, Société Générale explained that the group intends to simplify the head office structure of its international retail banking and financial services activities, reflecting the reduction of its scope following the recent disposals.

The contemplated organisational projects would be implemented following the consultation with the French employee representative bodies, which is expected to be completed by Q3 this year.

KDPW Trade Repository reveals fee reductions

Annual fees charged to new clients of the KDPW Trade Repository who join KDPW_TR from 1 April to 31 December 2019 have been reduced by 60 percent on average.

The promotional annual fee charged to General Reporting Participants is €3,488, which is 62 percent less than the regular fee. According to KDPW, the reduction applies to all types of participation involving data reporting and data access.

KDPW noted that the new fees are designed to attract new clients of services offered by KDPW_TR, particularly in view of the uncertainty around Brexit.

Meanwhile, nine trade repositories have been registered in the EU, including four in the UK.

Singapore Exchange to launch Asia's first total return futures

Singapore Exchange (SGX) is launching Asia's first total return futures (TRF), as it continues to pivot towards futurised derivatives, effective 13 May.

The new futures solution further expands SGX's suite of risk-management tools that meet increasing market demand for new trading instruments.

According to SGX, the TRF, with contract months listed up to 10 years, will also allow investors to trade a particular financing cost, the implied equity repo, for the first time.

The exchange explained that Japan has the largest and most mature securities borrowing and lending market in Asia. It suggested that it has grown into one of the biggest markets for structured products against a low-yield environment.

SGX noted that they are driving futurisation in derivatives in response to client demand to mitigate pressures on capital, collateral and balance sheets, following Basel III and bilateral margining rules for uncleared over-the-counter contracts.

Michael Syn, head of derivatives at SGX, commented: "We are launching a solution that perfectly meets our market participants' needs for trading opportunities with increased transparency and less risk. This is the first product of its kind in Asia, which is testament to our ability to quickly respond to market requirements."

"Repo is a new class of interest rate product that complements our comprehensive Japan equity derivatives offering, enabling participants to risk-manage both costs and benefits in Asia's largest securities financing market."

Deutsche Bank has gone live with CSDClear service

Deutsche Bank has gone live as the first German bank to offer client clearing through LCH's CDSClear service.

Asset management firms MEAG and Union Investment are the first clients to connect to CDSClear via Deutsche Bank

Frank Soussan, global head of CDSClear, said: "We're delighted that Deutsche Bank is the latest clearing broker to join our growing network of firms offering their clients the ability to clear credit derivatives at LCH."

"The German market is a major hub for credit derivatives, and we are pleased to welcome additional clients from Germany as our customer base continues to expand."

Nic Maalouf, global head, listed derivatives and clearing, Deutsche Bank, added: "We are committed to the derivatives clearing business and continuously review our offering to evolve and grow in line with the demands of our clients."

"Offering clients access to LCH CDSClear will provide them with more choice, and we are delighted to have completed this milestone."

Jan Reher, senior portfolio manager fixed income, MEAG, commented: "Central clearing enables us to benefit from enhanced risk management for our credit derivatives trading business."

"Connecting to LCH provides us access to a broad range of cleared US and European CDS products, and we are pleased to have onboarded via Deutsche Bank."

Christoph Hock, head of multi-asset trading at Union Investment, added: "Transparency is an important element of risk management, and accessing LCH CDSClear allows us to trade and clear our credit derivatives in a standardised manner."

Delta One and Dynamex Trading launch equity finance marketplace

Delta One LLC and Dynamex Trading have launched a "transparent, liquid and actionable" equity finance marketplace, Delta One.

The new equity finance marketplace is designed to allow faster and more efficient comparison of rates, balance sheets and trading opportunities.

It is expected to launch on 1 July, with existing Dynamex customers holding exclusive eligibility to the benefits available for stock loan market participants.

Delta One LLC was founded in 2016, with the primary goal to bring transparency to the stock-lending marketplace while Dynamex Trading is a provider of options brokerage services for stock loan market participants.

Harris Bock, CEO of Dynamex and co-founder of Delta One, said: "All participants in Delta One will have equal access to our information, which was our goal from the very beginning."

He added: "We wanted a human layer of protection between our users and the marketplace. To that end, trades will only consummate after a trader assesses fairness and context. We have always protected our customers' financial interests and we will continue to do so through this new platform."

Transforming the world

Whoever leads in artificial intelligence (AI) "will be the ruler of the world", so said Vladimir Putin in 2017. And he's right. Disruptive technology that often exploits AI is revolutionising the world.

While Putin's focus was probably automation and AI in warfare, the same science is being deployed in the financial sector. Tractica predicted that investment in AI within financial services will exceed $4.5 billion by 2025.

Definitions

First the definitions. AI is "the science of getting computers to act without being explicitly programmed," according to Stanford or, per an Financial Stability Board report, "AI is the theory and development of computer systems able to perform tasks that traditionally have required human intelligence".

Machine learning is defined as "the implementation of the compute methods that support it...AI is the science and machine learning is the algorithms that make the machines smarter," according to Intel's head of machine learning, Nidhi Chappell.

With the advent of greater computational ability at an affordable price, and the generation and availability of vast swathes of data with associated big data analytics, the computational forces of computers are being unleashed on every field of human life.

The world is creating in excess of 0.1 zettabytes of data. That's about 100 million terabytes. Where there is data, there will be AI.

Automation

The traditional model comprised humans coding programmes that instructed computers what to do. Initially, AI was deployed within set parameters to perform specific tasks in what became known as weak AI, but with recent developments, machines are self-learning. In fact, they are increasingly able to learn what they need to learn.

Financial sector

BlackRock has an AI engine called Aladdin which helps in sentiment analysis. Goldman Sachs and others have equivalents.

Picture the scenario. An AI system can analyse thousands of company financial reports, perform aggregations by sector and country, cross reference this with economic indicators, use natural language processing to analyse government and industry reports and statements to spot changes or trends that could affect a business, cross referencing this will sentiment analysis and provide trading signals whether to buy/short/hold a security and its quantity—this is already happening.

Regulation

This week, the European Commission crystallised its approach and adopted seven essentials for achieving trustworthy AI.

These principles are worth exploring as, I believe, they form the embryonic framework for inevitable forthcoming regulation:

- **Human agency and oversight:** AI systems should enable equitable societies by supporting human agency and fundamental rights, and not decrease, limit or misguide human autonomy.
- **Robustness and safety:** Trustworthy AI requires algorithms to be secure, reliable and robust enough to deal with errors or inconsistencies during all life cycle phases of AI systems.
- **Privacy and data governance:** Citizens should have full control over their own data, while data concerning them will not be used to harm or discriminate against them.
- **Transparency:** The traceability of AI systems should be ensured.
- **Diversity, non-discrimination and fairness:** AI systems should consider the whole range of human abilities, skills and requirements, and ensure accessibility.
- **Societal and environmental wellbeing:** AI systems should be used to enhance positive social change and enhance sustainability and ecological responsibility.
- **Accountability:** Mechanisms should be put in place to ensure responsibility and accountability for AI systems and their outcomes.

Article 22 of the General Data Protection Regulation already addresses aspects of AI in establishing that, "[t]he data subject shall have the right not to be subject to a decision based solely on automated processing, including profiling, which produces legal effects concerning him or her or similarly significantly affects him or her".

While the UK enacted the Automated and Electric Vehicles Act 2018, which tackles the issue of insurance and liability for automated vehicles, the legislation remains in its infancy and hence the EC's guiding principles are welcome. The EC is setting up a stakeholder contact group in the summer to build a consensual approach.

This is most welcome and should aid in formulating a unified approach across jurisdictions. I would encourage participants to engage with the EC's contact group and national equivalents.

The power of AI and machine learning and associated technologies are the next industrial revolution. They will radically transform the world. Whether for the better or the worse, will in large part be dictated by robust regulation.

Seb Malik
Head of financial law
Market FinReg

Much to be done

Peter Rippon of OpenGamma discusses what firms should be doing to prepare for the upcoming initial margin deadlines and what challenges asset managers and pensions funds face

Jenna Lomax reports

What should firms be doing to prepare for the final phases of initial margin? What do the final stages of implementation involve?

There's a lot the industry still has to do in terms of setting up the tri-party relationships, both legal and operational. But the broader picture here is that many more firms in the industry are going to have to post more margin. In many places, the firms that are being impacted have never had to post margin before or on their bilateral trades.

For example, if they are a pension fund, they are very likely to have been trading with zero margin, and suddenly they are going to have start tying their assets and bonds up and actually posting them to their counterparties. There's also the challenge of legally and operationally tying up balance sheets. A lot of the initial concern lies with the legal and operational side. They are the core basics that have to be in place to allow you to post margin—we focus in the area after that.

Once these assets start to be processed, you then have a slightly different problem which is essentially a knock-on impact, which is that you have more exposure to your counterparties as you're actually posting your assets to them. Ultimately your leverage is being constrained.

You can't use those assets in the way you used to be able to generate returns, and therefore it's a returns problem that is created, that is the knock on impact of these regulations. Firms will realise this when they start to post.

What challenges are asset managers and pension funds facing in the lead up to the final phases of initial margin implementation?

Derivatives are becoming more and more expensive to trade. This is not just because of regulation. At the end of the day, when products become more expensive to trade, that is ultimately a returns problem.

While there are definitely benefits to regulation, in terms of making the system more robust, safer and more transparent, there are also material costs involved, which are just being passed down to the actual users of these products in terms of pension funds and asset managers.

At OpenGamma, we help our clients with return problems. We provide them analytics that give them ways to minimise the negative cost impact under new regulations. So for initial margin, in particular, we give clients mechanisms that allow them to reduce the impact of margin regulation.

Are the final phases more intense than previous phases, and why?

What's different about phase 4 and 5 is the amount of firms being impacted who have never had to post margin before on their bilateral trades.

Hedge funds, for example, have, for the most part, already posted margin on these trades, whereas phase 4 firms have never had the infrastructure in place to have to post margin on bilateral trades. Therefore, it's a much more significant change to their processing and an impact on their business.

Phase 1 and 2 firms were largely just banks that were already very well developed in this kind of area. They've been trading in this way for a long time and there was a much lower impact on them.

Could smaller companies suffer under phase 4 and 5?

It is becoming more and more expensive to trade. It's also true that there are costs associated with complying. The bigger the firm, the more prepared they will be to deal with all the regulatory impacts that are hitting them. The smaller firms do suffer most because of the fixed cost associated, especially with onboarding and legal work. All these things are dependent on the size of the firm.

What happens if firms are unable to meet the September 2020 deadline? What are the consequences?

If we look at other regulations, the second Markets in Financial Instruments Directive (MiFID II) is a good example where there has been some leeway given to firms. With MiFID II, there wasn't a hardline cut-off deadline where everyone had to demonstrate a very clear path of compliance.

Equally, the reputational impact of looking after someone else's money and ability to comply with the regulation reflects your ability to run your business. While there is leeway in terms of physical compliance with phase four and five, the reputational impact alone means they'll be a different kind of cost in failure to comply.

What opportunities will come from the final phases of initial margin implementation?

The underlying effect of these initial margin rules is to make bilateral trading more expensive because the intent of the regulation is to push more trading to clearinghouses from bilateral to cleared. Clearing comes with lots of benefits, but there are some concerns that have prevented firms from moving to that model.

In general, the intent is to move everything toward a central clearinghouse. Once you're clearing there are benefits, not least, it's an immediate way to reduce the amount of margin you have to post.

The bilateral margin is set up in a way to make it more expensive from a margin perspective, making an immediate margin saving. You get the benefits of credit risk and benefits of liquidity.

The single biggest benefit for a pension fund is a liquidity one, where they're no longer locked into their bilateral trading relationships. They can exit trades with any counterparty, reducing the amount of locking they have on every trade they do to be more price competitive in their trading.

What would you advise to firms who are still unsure about these initial margin rules?

While there are core, operational and legal requirements up front, firms should be thinking about their mechanics—once they have the facilities in place to post margins, that's going to have a material impact on their business.

You have to look across all these different ways that these products are traded, whether that's exchange-traded, over-the-counter cleared, as well as bilateral. It's only when you have the full picture you can then actually optimise the margin. **SLT**

The short selling storm

With the ability to influence market volatility, short selling plays an important role in the finance industry, and while some areas are banning aspects of short selling, others are only just introducing it

Maddie Saghir reports

Short selling has created a storm in the finance industry recently with much change and movement going on in this space. While some markets around the world are introducing short selling to boost activity, others are banning it. Short selling can be seen as a risk; it is the sale of a security that the seller has borrowed and if a security's price declines then the short seller profits. Short sellers can affect volatility and liquidity.

Recently, the Canadian Securities Administration (CSA) and Investment Industry Regulatory Organisation of Canada (IIROC) proposed a halt on cryptocurrency short selling, and the German financial regulator, the Federal Financial Supervisory Authority (BaFin), banned short selling on Wirecard, for a set period.

Argentina lifted its short-selling ban, and the Asia Securities Industry and Financial Markets Association (ASIFMA) has proposed a workable securities lending regime in China. More recently, the

Central Bank of Bahrain's (CBB) issued new regulations in respect of short selling and giving securities on loan in an effort to develop the financial sector in the Kingdom of Bahrain.

This unbalance of opinion on short selling stems from the risk factors associated with it and institutions such as Nasdaq have called for more transparency in this area. Indeed, in early 2015, Nelson Griggs recommended tailored rules to prevent aggressive short selling and disclosure of short positions.

The vigour of volatility

Discussing the impact of short selling on market volatility, Sam Pierson, director of securities finance at IHS Markit, indicates that short selling can have a dampening effect on market volatility, for example in a market sell-off short sellers will often be buyers of stocks, seeking to lock in profits.

He comments: "The lack of short positioning in developed markets in the latter half of 2018 may have contributed to the sell-off at year end, as there were fewer buyers to step in."

"On the other hand, short sellers actively increased positions throughout the Q1 2016 sell-off; the short covering came after the market had bottomed and if anything increased the volatility to the upside."

"Generally speaking, the presence of willing buyers at lower prices, and sellers at higher prices should function to provide liquidity where it is most needed and dampen volatility."

Ihor Dusaniwsky, managing director of predictive analytics, S3 Partners, argues that in an absolute sense, short selling adds to the overall liquidity in the market by providing both offsetting bids and offers to the general trend or momentum of buy-side order flow.

He cites: "The short seller, who is often a contrarian, will sometimes be one of the few takers on the opposing, or 'unpopular' side of a trade. Stepping aside from traditional statistical analysis of market volatility and liquidity, short selling provides a counterpoint to the prevailing market voice which eventually spurs additional trading and analysis."

"Whether it be the 'TSLAQ' versus the 'Cult of Tesla', or shorting an Initial Public Offering (IPO) soon after its issuance, the short side of the market stirs the pot and energises both the long and short side into more dialogue, resulting in trading activity based on reinvigorated convictions."

Dusaniwsky also observes that long shareholders of heavily shorted stocks are always on the lookout for the next 'short squeeze', which is an entry point to build their positions ahead of a rally. He added that short sellers, on the other hand, search out the overbought securities whose momentum is starting to peter out as the masses turn their buying attention to the next stock or sector that is beginning to outperform the market.

Meanwhile, Dusaniwsky also drew attention to the impact of social media and remarked that the conversation surrounding short selling at times has a greater effect on market volatility than the short interest data itself.

He outlines: "The mere mention of a new Short Research Report (for example, Citron, Muddy Waters, etc.), a bearish call on CNBC by short selling legend Jim Chanos, or negative commentary made by famous activist investors like Carl Icahn or David Einhorn, can start a cacophony of internet clicks and send stock prices tumbling within just a few seconds."

"While internet clicks and media chatter can affect the market temporarily, transparency into daily short selling activity reinforces the trends and validates additional trading activity."

> ***Whether it be the 'TSLAQ' versus the 'Cult of Tesla', or shorting an IPO soon after its issuance, the short side of the market stirs the pot***

Tesla trends

Not a stranger to the effects of social media, Tesla, the electric vehicle and renewable energy corporation, experienced extreme volatility last year. Tweets last year from Elon Musk on the privatisation of Tesla resulted in a lawsuit calling the firm's operations into question. In the Tweet, Musk claimed that he would make Tesla private and that the funding for doing so had been "secured".

Shareholders responded by saying that this was an attempt to manipulate Tesla's stock price and ruin plans for short-sellers

Currently, data suggests that there is a renewed interest in Tesla, Pierson outlined that for Tesla, IHS Markit currently estimates short interest at 31.4 million shares short, $8.5 billion, 23 percent of the free float.

He continues: "We've seen an additional 5.8 million shares borrowed since the end of February, suggesting a renewed interested in short exposure for the electric automaker. Short positioning peaked at just over $13 billion in June of 2018 and averaged $10.3 billion for the year, well above the current level."

"Generally speaking the short interest in share terms has moved inverse to price, so if the year-to-date (YTD) weakness in price persists we would expect to see the trend of increased short positioning remain in place. Tesla has been a good short in relative terms YTD, underperforming the Nasdaq by 30 percent in Q1."

Discussing the increase of shares shorted for Tesla this year, Dusaniwsky says: "With earnings coming out early next month; possible autopilot issues; car fabrication and delivery miscues; and a possible expansion of federal electric vehicle tax credits there will be enough volatility in the stock to move short selling in either direction."

BaFin's ban

Elsewhere, BaFin recently banned short selling on Wirecard. BaFin notified the European Securities and Markets Authority (ESMA) on 17 February 2019 of its intention to make use of its powers of intervention, introducing an emergency measure, which bans opening or increasing net short positions on shares issued by Wirecard—either directly or through related instruments, for a duration of two months. According to BaFin, they stopped short selling on Wirecard because the falling share price caused uncertainty in the market.

Of this, Dusaniwsky suggests that this put Wirecard AG short sellers in a costly time-out. Dusaniwsky explained 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.

In February, at the time of the ban, 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."

The ban also came under criticism from Fahmi Quadir, founder and CIO of Safkhet Capital Management LLC. In a letter addressed to

Jean-Pierre Bussalb, head of short selling section, Quadir called the ban “bizarre” and “backwards”, and noted that as a trading strategy, short selling is widely acknowledged as beneficial and a necessary countervailing force to maintain market efficiency.

Quadir’s letter said: “On 30 January [2019], Wirecard shares fell just 13 percent despite investor disappointment on weak fundamentals, emerging information related to potential fraud from internal Wirecard employees, and a dizzying near 300 percent share rally since 30 January, 2014.”

Christian Schablitzki, managing principal at Capco, Germany, highlights that BaFin’s decision to ban short selling in Wirecard AG for two months through to 18 April to prevent potential negative impacts on the German financial system stemmed from the fear that any ‘erratic losses’ in Wirecard stocks could have spill-over effects to other financial stocks, such as Deutsche Bank or Commerzbank, both of which were trading at relatively very low levels.

Schablitzki notes that the ban is more to do with maintaining overall financial stability than to Wirecard AG, which represents some 1.25 percent of the total value of the German DAX.

Andy Dyson, CEO of the International Securities Lending Association, exclaims: “Reactions to the decision to suspend short selling in Wirecard were mixed. On the one hand, many felt this was a strong stance from the regulator, while others felt that all that short sellers had done was to focus attention on certain alleged accounting and financial fraud allegations within the company.”

He continues: “We should not forget here that all short sellers are doing at one level is to simply express the sentiment in a particular security. What is clear here is that the current short selling rules that apply across Europe that require any short positions to be against an identified borrow or locate, do appear to be working although the debate still continues about the role of the BaFin in this particular case.”

Short selling shifts

In terms of trends, Pierson notes that it has been a challenging period for equity short sellers. He explained that the broad market rally in January saw the most expensive to borrow shorts significantly outperform, which reflects pain for short sellers.

Pierson continues: “Emerging Markets were generally a fertile ground for shorts in 2018, however, Equity Multiplier (EM) broadly outperformed developed markets in January, which also caused reticence on the part of short sellers to start the year. US equities have regained their footing relative to broad EM, however, China-related equities have outperformed, further frustrating short sellers of Chinese firms listed in Hong Kong and US American depository receipts (ADRs).”

“Cannabis is another popular sector for short sellers which has caused pain this year. The exchange-traded funds which track the Cannabis sector has significantly outperformed the broader market, however, the gap has narrowed in recent weeks.”

Dusaniwsky predicts that two of the more lasting trends in 2019 are increased short selling in worldwide banking\finance sectors and increased short selling in the US\Canadian cannabis sector while a developing trend is unicorn IPO short selling.

Political factors can also be expected to impact short selling as Dusaniwsky affirms: “Increased short exposure in the Banking Sector has been fostered by Brexit fears in Europe; housing volatility in Australia and Canada; and interest rate uncertainty throughout the world. We’ve seen total short interest in the banking sector (which includes banking, mortgage finance, asset management, custody banks, capital markets, investment banking, and brokerage) increase by 20 percent to $130 billion in short interest this year.”

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Short selling transparency will lead to more short selling as the practice becomes more recognised, understood and executed

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Reflecting on the effects of short selling, Dusaniwsky highlights that without daily transparency, short selling is invisible and sometimes barely affects price moves compared to long buying.

He concludes: “But in today’s new era of short sale transparency via public disclosures and continuous dissemination, this increases the relevance markedly in a historically opaque marketplace. Pandora’s box is open, short selling transparency will lead to more short selling as the practice becomes more recognised, understood and executed. Transparency will lead to larger short-side reading volumes as these speculators will also have the ability to be momentum movers, just like their buy-side brethren.” **SLT**

Good times forecast

Although levels of borrower demand are lower than before the crisis, Mark Snowdon of Northern Trust explains that Australia is now seeing a new growth impetus in line with its Asian counterparts

Australia is big business for the securities lending industry, and securities lending has become big business for Australia. According to the major data providers, Australian assets account for around one-fifth of the total lendable supply in the Asia Pacific region. Along with global markets, supply declined dramatically in the wake of the global financial crisis but has now rebounded to surpass pre-2008 levels. Although levels of borrower demand are lower than before the crisis, Australia remains a well-established and mature securities lending market that is now seeing a new growth impetus in line with its Asian counterparts.

The Australian market's domestic orientation and close-knit investment community set it apart from other markets. Word of mouth is important in helping the industry grow, and reputations are hard-won and keenly protected. This makes a local presence essential for relationships and information flows.

With a presence in Sydney and Melbourne, organisations like Northern Trust can provide local expertise to domestic lending clients. As the asset owner and asset manager sectors continue to consolidate and grow, the bar has been raised across the industry and has driven innovation in Australia and beyond.

Against this backdrop of progress, and with a need to seek additional alpha wherever possible, the perception of securities lending has

shifted. For participants who opted out of securities lending following the crisis, appetite to re-engage their programmes has generally been weaker for onshore local lenders than it has for those of other jurisdictions. However, the industry has been able to demonstrate how securities lending has evolved into a more robust, transparent and flexible offering, with new tools available for customising parameters and managing risk.

Organisations that used to lend have now returned; those that never left are expanding their programmes. There is also a growing segment of the market that has never previously engaged in securities lending but is now launching programmes to meet their bespoke needs and specific requirements. As funds have struggled to fight the headwinds and impacts of a low interest-rate and low growth environment, the need to reduce costs and enhance performance has come to the fore, particularly for products that deliver revenue streams with relatively low levels of risk.

Growth over time

Australian lending has been viewed as heavily general collateral in nature, due in part to the dominance of companies with large and liquid market capitalisations. While this dynamic occurs across the Asia Pacific and even globally, it does appear more pronounced in Australia. The decline in index arbitrage strategies is a global phenomenon but accounted for significant loan volumes in Australia before the negative impact of increased regulation and balance sheet management. However, in a cyclical market where change is a constant and volatility is always around the corner, the landscape is changing for lenders and borrowers alike. This is creating alternative opportunities for market players and reshaping participant behaviour. For instance, the capital raising mandated by the Australian Prudential Regulation Authority saw strong securities lending revenues on the back of dividend reinvestment plan trades in 2017. While these opportunities fell away, collateral-flexible lenders and those who engaged in term trades continued to benefit from elevated spreads even for general collateral stocks in 2018.

In the fixed income space, there remains a robust trend to borrow high-quality liquid assets (HQLA) on a termed basis. Basel III required borrowers to meet liquidity ratios and funding thresholds—liquid coverage ratio and net stable funding ratio—and the migration of over-the-counter derivatives to a centrally cleared model has created further demand for HQLA as collateral. Historically, borrowers would have accessed HQLA supply instead of cash collateral, but the repo rate dynamic has made this trade economically difficult and made non-cash collateral the optimal choice.

Borrowers need to reduce capital drag on their balance sheets, and we have seen continued and growing demand to borrow HQLAs in the form of Australian government bonds instead of lower-rated or less liquid collateral. With the additional benefit to borrowers of accessing these HQLAs on a term basis, lenders have received premiums for the term element of the trade as well as the collateral transformation aspect.

A large proportion of assets are held by Australia's superannuation funds. As the fourth-largest segment in the world, the superfunds continue expanding through increased mandatory contributions from members throughout the next decade. While asset allocation, particularly in equities, remains largely domestically focused, there is evidence that the benefits of greater diversification and liquidity in global markets are driving a more globally balanced approach.

With domestic lending revenues being more focused and therefore generally more volatile in nature, a trend towards globalisation will help to diversify and enhance securities lending revenue streams for local beneficial owners. Recent industry data showed an increase to almost USD $20 trillion of lendable assets globally in 2018, with over USD $2.1 trillion on loan. Over time, increased allocations to offshore exposure are expected to give access to attractive and more consistent returns.

The benefits of a growing securities lending industry are felt not just by lenders and borrowers. As a well-regulated practice that aids the smooth functioning of capital markets through enhanced liquidity and price discovery, securities lending delivers benefits to a range of domestic and global stakeholders.

Technology leading the way

Advances in technological capabilities continue to transform the securities lending industry. Robotics is a key enabler for operational improvement, artificial intelligence (AI) is allowing improvements to the sourcing and enrichment of trading data and detailed reporting is a key benefit to lenders and to trading optimisation.

Technology provides opportunities for improvements across the value chain, from trading strategies and operational efficiencies to enhanced revenue generation and deeper counterparty relationships. At Northern Trust, we are working with a number of new technologies including machine learning, AI, robotics and data analysis. In addition to increased transparency, we are likely to see the use of automated pricing mechanisms, which enable lenders to more accurately predict and determine appropriate pricing levels for specials. A focus on investing in areas we believe will unlock value for our clients, such as automation of the trading function, frees resources to seek maximum trading value for our clients. Our expectation is that the practical application of new technology will help drive competitive advantage through greater efficiency, optimised performance and enhanced client experience.

The use of blockchain technology will be more widespread in five years' time, with its potential to drive both small-scale benefits for lenders and borrowers, and major industry-wide improvements and opportunities. Through our experience and expertise in deploying blockchain technology for private equity markets, Northern Trust believes distributed ledger technology will improve the transparency and efficiency of the market and provide potential opportunities to achieve industry cost efficiencies across the value chain. As confidence continues to grow in the technology, future opportunities could develop around account structures, regulatory reporting and digital issuance.

Strategic opportunities

At a time when some asset owners and asset managers are working closely with their boards to approve first-time engagement in securities lending, some lenders in Australia are leading the way in using securities lending as a vehicle to meet the needs of other functions with their businesses.

Many Australian asset owners remained committed to their securities lending programmes during and beyond the crisis, and have continuously evolved ways to derive additional value from the service and infrastructure. One interesting theme being explored is the extent to which securities lending can help the needs of the treasury function, with respect to cash management and liquidity, through concepts such as cash collateral self-investment, agency repo, collateral optimisation and peer-to-peer lending. With regulation never far away, the advent of a widely used securities lending central counterparty clearing platform is also a possibility.

While differences exist across beneficial owners with respect to the evolution of their programmes, many of these concepts are ultimately helping pave the future direction of the industry. Lending agents must continue to provide the ongoing partnership support, flexibility and customisation that afford their clients the means of fulfilling their long-term investment and risk management objectives.

Looking ahead

Australia, like its Asian counterparts, remains an important securities lending market. It has strong growth prospects and provides industry participants with a wide range of compelling opportunities. As Australian asset owners and managers continue to fight the headwinds of a low-return and low interest-rate environment, the need to cover costs and enhance performance has never been more important. This has encouraged the resurgence in securities lending that is now in full swing.

We expect continued efforts from the industry to develop lending programmes against a backdrop of robust, global demand. The forecast is bright and the outlook is positive. **SLT**

A tough act to follow

Last year delivered the most securities lending revenues since the financial crisis, which looks like a tough act to follow. Sam Pierson of IHS Markit explains more

Global securities lending revenues for Q1 2019 came in at $2.4 billion, 10 percent lower than Q1 2018. The good news is that the Q1 revenue also reflects 3 percent sequential improvement compared with Q4 2018. Equity lenders have seen a lack of specials balances, while there has been some marginal cooling in previously hot market segments including government bonds, corporate bonds and exchange-traded funds (ETFs). The revenues are within the range of the preceding four quarters, however the breakdown of returns continues to evolve with changing needs of market participants.

Lending of government bonds, particularly US Treasuries, has taken on an increased significance in recent years. The demand driver has largely been the collateral needs of broker-dealers in relation to regulatory requirements for holding high-quality liquid assets (HQLA). Apart from collateral needs, the Federal Reserve's path of rate hikes has created trading opportunities in recent years, which has also driven borrow demand. That tailwind is losing momentum, as total government bond loan balances have declined steadily from the post-crisis peak in Q1 2018, which was over $1 trillion. Along with balances, revenues are also declining, falling 9 percent compared with Q4 2018. Though overall revenues were challenged, there were some short-term opportunities to lend 10-year and 30-year US Treasuries at special rates in Q1.

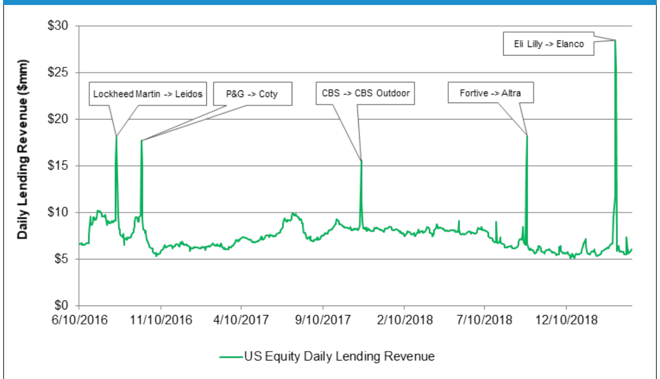
Corporate bond demand has been robust, with Q1 having the highest average loan balances for a quarter since 2010, just over $200 billion. Demand for dollar denominated credit has been consistent, with the bulk of recent growth seen in EUR and GBP denominated credits. Despite solid demand, revenues fell year-on-year in Q1 as the result of declining fees.

ETFs took a pause after an impressive period of increasing revenues, posting a 16 percent decline compared with Q1 2018. Half of the decline was accounted for by a single credit ETF (HYG) as the result of declining fees in Q1. While the revenues for ETF lenders are on pace to fall short of 2018's record, they appear likely to exceed the 2017 total, the second highest revenue year on record.

Equity lending revenues came in at $1.9 billion, a decline of 7.5 percent percent compared with Q1 2018. The bright spot continues to be Asia, the only region to improve on equity lending revenues year-over-year in Q1. Asia equities also contributed to average daily rate revenues, which posted the most quarterly revenue on record at $128 million, with the gains largely resulting from increasing fees for lending Nio. Things were less upbeat in the West, with US and EU equity revenues both declining by more than 10 percent compared with Q1 2018. The blistering rally in expensive to borrow equities in January has kept a lid on specials demand.

Some opportunities for US equity lenders have emerged on the back of corporate actions, most notably the Eli Lilly exchange offer for its holdings of Elanco Animal Health. The exchange offer made Eli Lilly the second most revenue generating security in Q1, highlighting the significance of corporate actions to lending revenues. Exchange offers drive significant revenue as the result of the arbitrage opportunity created, in recent years there has been roughly one per year which has driven significant revenue.

US equity daily lending revenue



Source: IHS Markit Securities Finance © 2019 IHS Markit

Last year delivered the most securities lending revenues since the financial crisis, which looks like a tough act to follow in the early going of 2019. The last two quarters have been notable in that there hasn't been the pickup in borrow demand which often accompanies periods of increased volatility. Most recently, in Q4 2015 to Q1 2016, US equities had the two best post-crisis revenue quarters amid the credit and equity sell-off as investors hedged and added to shorts. There was no such increase in Q4, though there is some cause for optimism with Q1 revenues at least mounting some growth while market values recover. Asia remains the bright spot for equities, with sovereign bonds and corporate credits declining from peak revenue but remaining elevated. **SLT**

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May 2019
09

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London

May 2019
22-24

51st ICMA Annual General Meeting and Conference
Stockholm

May 2019
15-17

Comings and goings at Delta Capita, BlackRock, DTCC and more

Curvature Securities has appointed three to senior positions in its equity finance team, ahead of the launch of Curvature Securities LLC Equity Finance.

After developing Curvature Securities over the past several months, Greg Sorrentino, managing director, head of equity finance, has hired John Nacincik, Ed Connelly and Karen deStefani.

Nacincik will join the company as managing director and head of business development, having previously served as senior vice president and head of equity finance for ConvergEx group.

Both Connelly and deStefani join as director and head of equity finance trading, with deStefani bringing experience from her previous position as vice president of securities lending with ConvergEx Prime Services.

BlackRock has appointed Sarah Melvin to the newly created role of head of the UK.

Based in London, Melvin will be responsible for the UK retail and UK institutional client business and will partner with EII, Cash, BRS and Aladdin Wealth to deliver the full suite of BlackRock products and services to UK clients. He has worked for BlackRock for 13 years, most recently as head of the institutional client business for the US and Canada.

As part of a reshuffle, Supurna VedBrat will become head of global trading, overseeing trading, transition management and capital markets. Justine Anderson will continue to lead trading, transition management.

Ben Spielman and Ed Cook continue as co-heads of capital markets while Phil Vasan will now serve as head of global lending and liquidity, which includes cash, led by Tom Callahan, and securities lending, led by Roland Villacorta.

In addition, Richie Prager, managing director, head of global trading, is to retire from his role on 1 July.

In a statement, BlackRock said: "Richie Prager helped us re-architect trading, capital markets, cash and other functions as industry, regulatory and technology conditions evolved."

Delta Capita has appointed Jan Scibor-Kaminski as global head of sales.

Prior to joining Delta Capita, Scibor-Kaminski was CEO at SRP, an industry provider of structured products instrument data, market news and intelligence.

He has also served as a senior member of Goldman Sachs's business development services team.

BlackRock added: "Now, after a distinguished career of nearly 38 years, he has decided to retire while facilitating a transition to the next generation of leadership that he developed."

DTCC has appointed three new members to its board of directors.

Kieran Hanrahan joins the board as managing director of JPMorgan Chase's corporate and investment bank, where he oversees the management of global markets operations, including bonds, equities and commodities.

Joseph Noto joins from Barclays, where he serves as managing director and treasurer for the Americas.

From these positions, he has gained senior experience in developing capital and liquidity plans for the intermediate holding company and consolidated US operations.

Graeme McEvoy joins the DTCC board as managing director of Morgan Stanley's global operations division, where he also serves as the global head of institutional securities group operations.

Commenting on the appointments, the non-executive chairman of DTCC's board, Robert Druskin, commented: "We are pleased to welcome Kieran Hanrahan, Joseph Noto and Graeme McEvoy to the board of directors."

He added: "Each brings a wealth of knowledge and experience to the board and will no doubt play an important role as we continue to oversee the direction of the firm and identify opportunities to address the industry's top pain points."

Northern Trust has named Ernesto Arteta as head of foreign exchange (FX) sales for the Americas.

Based in Chicago, Arteta will lead a team of sales managers located in the Americas responsible for driving growth through Northern Trust's range of FX solutions for institutional investors and investment managers across the region.

Arteta has more than 25 years of experience in sales, trading, structuring and portfolio management of fixed income and foreign exchange cash and derivatives.

John Turney, head of global foreign exchange at Northern Trust, said: "We are excited to have a leader with Ernesto Arteta's breadth of experience as head of our FX sales in the Americas. Arteta's broad industry knowledge and industry expertise will help drive our momentum across the region. Recruiting senior talent like Arteta further endorses our commitment to building out our innovative FX capabilities and delivering market-leading services to our clients."

Fabian Klar has departed REGIS-TR where he served as business development manager.

Klar started his role at REGIS-TR in December 2017.

He will join DeltaconX, a Swiss-based regulatory reporting platform, that enables clients to unify all regulatory compliance processes in a single solution across multiple regulations.

Klar has also served as global client relations and tax intelligence support officer at Clearstream.

Do you have a industry appointment we should cover?

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