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# Two stories to tell

The US is seeing two sides to securities lending, while the supply side enjoys a story of growth, the demand side is telling a disappointing story

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# BNY Mellon goes live with cleared securities lending for clients via Eurex Clearing's Lending CCP

BNY Mellon has become the first agent lender to centrally clear a securities lending transaction on behalf of a buy-side client through Eurex Clearing's Lending Central Counterparty (CCP) platform.

Executed by BNY Mellon on behalf of an insurance company client, the trade originally faced Morgan Stanley as counterparty, and ultimately cleared with Eurex Clearing, a CCP.

The trade was matched and novated through Pirum's CCP Gateway.

BNY Mellon said the transaction represents a "major new route" to the market for its clients. Clients will now be able to capitalise on growing market demand to undertake securities finance within a centrally cleared environment, without the obligations and responsibilities of traditional clearinghouse membership.

Commenting on the trade, James Slater, global head of securities finance, liquidity and segregation at BNY Mellon, said that the trade "marks a watershed in the development of the securities lending market".

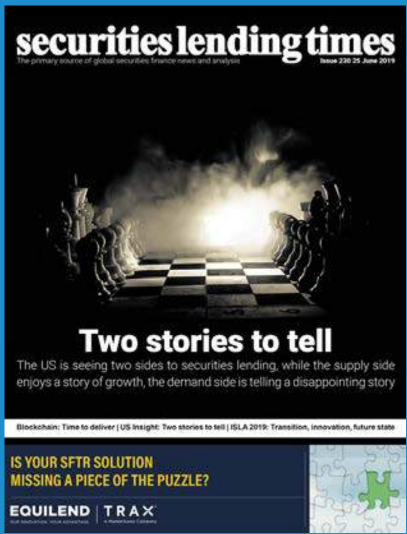
Slater explained: "Central clearing will add capacity to the market and provide new opportunities for our clients."

"Those clients who choose to participate in this new distribution channel should see increased utilisation and better pricing, all while facing a highly-rated clearinghouse as counterparty."

Also speaking on the transaction, Marcel Naas, managing director of Eurex Repo, noted that in recent years the margin and operational efficiencies offered by central clearing "have the potential to add huge value to the global securities finance landscape".

Naas said: "That's why we are so pleased that BNY Mellon has completed their integration into Eurex Clearing's Lending CCP platform and we welcome their first clients into the centrally cleared construct. This is just the beginning, and we anticipate much greater utilisation of our services going forward as the securities finance industry looks to realise the benefits of a CCP model."

Arianne Collette, executive director from bank resource management at Morgan Stanley, added: "Morgan Stanley is committed to supporting central clearing solutions for securities finance transactions and is pleased to be executing the first agent lender transaction on the Eurex Clearing Lending CCP Platform. This marks a significant turning point for central clearing of securities finance transactions and adds another execution form in the SFT optimisation tool kit."

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## DTCC to support Catena, CSS and Finastra with SFTR

DTCC has made three new partnerships in order to support mutual clients who will leverage the DTCC Global Trade Repository (GTR) service in support for the upcoming Securities Financing Transactions Regulation (SFTR).

DTCC's new partnerships are with Catena Technologies, Compliance Solutions Strategies (CSS) and Finastra.

Marisol Collazo, managing director, business development and head of strategic partnerships at DTCC, commented: "DTCC works to advance industry-leading solutions that help secure and shape the future growth and development of the global financial marketplace."

"Our Partner Program supports this mission by actively promoting collaboration with global and regional financial technology providers to help mutual clients to mitigate risk, achieve market efficiencies and reduce costs—and SFTR is, rightly so, front of mind for many right now."

Val Wotton, managing director, product development and strategy of repository and derivatives services at DTCC, said: "DTCC strives to transform the post-trade ecosystem through strategic partnerships that drive client value while accelerating the adoption of new initiatives and best-practices across the financial services industry."

## Calypso teams up with IHS Markit on SFTR reporting

Calypso Technology has signed an agreement with IHS Markit to make the Securities Financing Transaction Regulation (SFTR) reporting process seamless for common clients of both companies.

Calypso is already expanding its cross-asset product suite and post-trade processing, collateral and securities finance platform to help clients meet SFTR reporting requirements.

This strategic alliance with IHS Markit, who partner with Pirum Systems for SFTR delivery, further extends the support available to clients.

The new interface is designed to offer clients seamless connectivity for SFTR reporting, from the booking of the trade right through to the trade repository, giving clients an end-to-end view of the reporting.

It facilitates integration, significantly reduces the time to market and amount of work needed to be done by each client and, will be supported by Calypso moving forward.

Pierre Khemdoudi, managing director and global co-head of equities, data and analytics at IHS Markit, said: "We are delighted to collaborate with Calypso to make the SFTR reporting process as seamless, efficient and simplistic as possible for our clients. This agreement moves us closer to that goal, offering an integrated and comprehensive


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approach to managing SFTR requirements within the required timeframe."

Adds Mayank Shah, chief of staff and head of strategic alliances at Calypso, added: "Calypso is aware of the pressure on financial institutions from the constantly changing regulatory requirements. We are already helping clients to prepare for SFTR, and this strategic alliance with IHS Markit will enable us to extend SFTR support still further."

"Common clients will benefit from a single interface to the trade repositories of their choice, with data validation, enrichment and pre-reconciliation to ISO 20022 format performed en-route in collaboration with IHS Markit. This partnership is a continuation of our commitment to provide our clients with a cost-effective, timely and complete end-to-end solution."

## Investment banks 'overconfident' on SFTR compliance

Tier one, tier two and tier three investment banks are 'overconfident' about the Securities Financing Transactions Regulation (SFTR) implementation, according to a new Regulatory Outlook Report from Luxoft.

The Luxoft report indicated almost all (99 percent) of senior compliance professionals responsible for implementing the regulation are confident they will meet the requirements, yet Luxoft's Regulatory Outlook Report shows that this confidence may be misplaced.

## Repo volumes reach $200 billion for the first time in decade

Repo volumes reached $200 billion for the first time in a decade as total average daily trading volumes (ADV) were $211.5 billion in repo traded during May, according to Tradeweb.

This marked an increase of 43 percent year-over-year and the first time repo market volumes exceeded the $200 billion threshold since March 2009.

Across all asset class, May 2019 set a new record in total trading volume with ADV of 741.8 billion, up 38.7 percent year-over-year, Tradeweb found.

According to Tradeweb, the strong volumes were driven by a rise in trading of short-term tenors as well as continued growth in overall trading volumes.

Tradeweb also discovered that short-term rates trading surged as activity in rates derivatives increased 94.0 percent year-over-year in May, reaching a total ADV of $228.1 billion.

Of this, Tradeweb said this was predominantly driven by an increase in trading of swaps and swaptions under one year in duration.

The report highlighted some 98 percent of tier one, tier two and tier three investment banks will be relying on systems and process infrastructure used for past regulations such as the European Market Infrastructure Regulation (EMIR) to comply.

But Geoff Hutton, Europe, the Middle East and Africa regulatory specialist at Luxoft, warned: "Some of the groundwork from these [past] regulations will help firms to comply, however, SFTR presents a completely different set of challenges."

He added: "Capturing the data required and putting in place the processes and technology to report efficiently will be a huge and costly challenge which firms are not prepared for."

Almost three quarters (72 percent) of those asked agreed that SFTR implementation will be more costly than EMIR or the second Markets in Financial Instruments Directive (MIFID II), with 30 percent stating the cost of hiring new talent will be the most expensive aspect.

However, fewer than half (48 percent) of respondents said they have conducted a cost benefit analysis of the regulations or set up a planning committee (46 percent), centralised their SFT reporting (39 percent) or hired a trade repository (TR) (26 percent).

Some 74 percent of those asked said they acknowledged SFTR compliance will require a much more complex IT infrastructure than EMIR or MIFID II, while only 40 percent of senior compliance professionals reported 'regulatory fatigue' at their firm.

Elsewhere, 78 percent of firms stated they recognised that investment in compliance for regulatory initiatives such as SFTR makes their market position stronger and more resistant to new entrants.

Hutton said: "SFTR is the most demanding piece of transaction reporting regulation the sector has seen, and firms seem overconfident on delivering on the requirements when there is a vast amount of work to be done, with very little time to spare."

He concluded: "With the 2020 deadline fast approaching, banks should start establishing SFT activities, understand trigger events and report types and decide how they will build or outsource their software solutions. By effectively implementing SFTR, not only do firms mitigate future risks, but they could also realise the business benefits that this new regulation brings."

## ISLA to keep ESG in focus

The International Securities Lending Association (ISLA) will continue to keep environmental, social and corporate (ESG) governance in focus, according to its CEO, Andy Dyson.

The ESG debate and how securities lending co-exists alongside principles of responsible investing and good corporate governance is something that ISLA has been looking at for some time, Dyson noted in his blog, 'Reflections of the CEO'.

Dyson explained that he recently attended the regular Bank of England Securities Lending Committee (SLC) meeting, where it was acknowledged how important it will be to get this dynamic right.

He added it will be important if we want proper secondary market liquidity behind these funds, as well as allowing investors to see incremental returns to their investments through securities lending.

This theme will be explored at future meetings and was a key component of the sustainability sessions at the ISLA conference in Madrid. Two further agenda items from the meeting are relative performance measurement for securities lending, and the drive towards diversity across our markets and institutions.

## AccessFintech extends partnership with J.P. Morgan

AccessFintech has extended its partnership with J.P. Morgan to launch a trade processing solution for its buy-side clients.

AccessFintech's solution provides real-time transparency into trade lifecycle statuses, standardised commentary and shared bi-directional workflow for buy-side clients.

According to AccessFintech, these real-time transaction statuses will significantly reduce the time needed to be spent by buy-side operations teams to monitor multiple internal tools and custodian portals.

The solution has been in bilateral testing with select buy-side clients and is now in the process of global deployment.

Following the collaboration with J.P. Morgan's Securities Services business, AccessFintech will be extending the service to other custodians.

In order to use the product, clients can either leverage the AccessFintech front-end or integrate via application programming interface into their system of choice.

This integration removes the traditionally difficult task of connecting to numerous third-party portals.

AccessFintech utilised J.P. Morgan's In-Residence Programme, which incubates emerging technology companies to develop production-ready solutions solving for critical wholesale banking problems.

AccessFintech was able to test the solution with a number of J.P. Morgan's businesses.

Roy Saadon, co-founder and CEO of AccessFintech, said: "Through our partnership, we have been able to harness the power of the J.P. Morgan franchise, thought leadership and strong client relationships in developing an industry-leading solution."

Teresa Heitsenrether, global head of securities services, J.P. Morgan, commented: "J.P. Morgan was an early adopter of AccessFintech, and has been successfully testing its value proposition throughout our business for over six months."

She added: "Coupled with J.P. Morgan's industry-leading operating model and workflow tools, with AccessFintech's cutting-edge technology, we are continuing to drive industry change that positions ourselves and our clients for the future."

## AMF plans to improve European rulebook

The French financial markets regulator, Autorité des marchés financiers (AMF), is making concrete proposals to improve the quality of the European rulebook and its ability to evolve.

It has proposed a series of adjustments to existing texts to make them easier to read, simplify and, if necessary, correct provisions that prove inadequate.

Additionally, AMF suggested that the architecture of asset management regulation be rethought.

During the review of the Alternative Investment Fund Managers Directive, the drafting of a legislation defining a clearer and more harmonised common set of rules for asset managers could be considered.

AMF also affirms its support for simplifying the Packaged Retail and Insurance-based Investment Products regulation to better inform investors.

As well as this, AMF supports a targeted review of the second Markets in Financial Instruments Directive.

This is to adjust certain provisions in the light of experience and to take into account the effects of the UK's exit from the EU.

The regulator also called for a review of reporting requirements to avoid duplication and inconsistencies.

AMF noted: "The AMF puts forward pragmatic proposals to promote greater convergence in the supervision of actors and developing a framework for day-to-day relations between supervisors in a European landscape that will be profoundly transformed by the UK exit from the Union and the coexistence of several financial centres."

## Pirum and IHS Markit complete successful SFTR testing with Rabobank

Pirum Systems and IHS Markit have successfully completed a full end-to-end test with Rabobank in preparation for the upcoming Securities Financing Transactions Regulation (SFTR) through DTCC's Global Trade Repository (GTR) service.

The test included ingestion, enrichment, validation and submission of securities financing transactions under SFTR.

The 48 firms committed to using the IHS Markit and Pirum Systems SFTR solution can now benefit from the connectivity through to TR submission to test the end-to-end service prior to pre-production testing in Q3 2019.

Duncan Carpenter, head of SFTR, Pirum Systems, cited: "This is a breakthrough for us and our clients. We have demonstrated the seamless integration between our clients, Pirum Systems, IHS Markit and relevant Trade Repository (TR)."

"This allows firms to generate and share unique transaction identifiers (UTIs) with their counterparts and pre-reconcile data prior to submission to the TR."

Pierre Khemdoudi, managing director and global co-head of equities, data and analytics, IHS Markit, stated: "Our testing environment can now be leveraged to submit trades for data validation, enrichment, report creation, ISO transformation and TR submission. This will allow firms to onboard and integrate to our joint SFTR solution, while running pre-production testing to identify and remediate issues, ahead of the reporting start date in April 2020."

Val Wotton, managing director, product development and strategy of repository and derivatives services, DTCC, said: "This marks an important step in establishing end-to-end flows from clients through to our trade repository and demonstrates the importance of the tools DTCC have created for the industry to facilitate early testing."

Wotton continued: "We are committed to working with our partners to help clients through the challenges posed by SFTR and look forward to working with our partners to deliver clients first in class solutions."

Allan Bolk, head of securities finance at Rabobank, commented: "This successful test result confirms we have made the right decision by entering in this partnership for the SFTR solution and we feel confident to be fully prepared for SFTR go live."

# Blockchain: time to deliver

While the blockchain legislative juggernaut rolls on, practical implementation of blockchain technologies continues to frustrate.

Earlier in June, Nevada became the latest jurisdiction to pass a suite of laws that expressly addresses blockchain and its associated technology. Governor Steve Sisolak signed off on the package that includes:
**SB161** - Creates a regulatory sandbox for emerging technologies companies.
**SB162** - Defines “public blockchain”; requires government agencies to accept electronically certified documents, including those on a blockchain.
**SB163** - Authorises businesses to store and maintain corporate records on a blockchain.
**SB164** - Defines virtual currencies as intangible personal property: exempts them from personal property taxation.

Ohio, Arizona and Arkansas have or are in the process of adopting similar legislation. I have previously written about Luxembourg being an early adopter. The Library of Congress recently undertook a global analysis of legislation concerning related crypto assets—that are built on blockchains—entitled Regulatory Approaches to Cryptoassets in Selected Jurisdictions. I would encourage readers to review this document. What is clear is the fragmented approach to regulation. There is a strong case for a global institution such as the G20’s Financial Stability Board to issue a detailed template to ensure major jurisdictions are on the same page and, equally, that there is no regulatory arbitrage race to the bottom.

Meanwhile, practical blockchain solutions continue to frustrate. The Bundesbank in conjunction with Deutsche-Borse ran a series of tests from 2016 that concluded recently. Bundesbank president Jens Weidmann was unimpressed: “The blockchain solutions did not fare better in every way: the process took a bit longer and resulted in relatively high computational costs [...] Similar experiences have been made elsewhere in the financial sector. Despite numerous tests of blockchain-based prototypes, a real breakthrough in application is missing so far.”

I have previously written about blockchain and its need to mature from proof of concept to practical solutions. While the use cases are numerous, the bottom line will always be money. The cost benefits need to be shown: in post-trade, how can a network be cheaper than a central clearer?

Meanwhile, Vanguard recently reported that since February it has been using a blockchain to ingest data for $1.3 trillion worth of funds. Vanguard partnered with blockchain technology firm Symbiont to deliver what could be the first ever real-life implementation of blockchain to solve a real problem.

We keenly await further details such as speed performance, security, data privacy, accuracy, ability to handle errors, robustness and ability to recover from a node failure and, as mentioned, cost. If the project is indeed successful, then it would mark a historic milestone and presumably raises questions as to the technological savvy of other entities who are hitherto struggling to make headway.

## Investment…and hot money

While precise data is difficult to obtain, estimates suggest over $1 billion will be invested in blockchain this year—mostly from venture capital firms.

In April this year, PayPal disclosed that it had made its first ever investment in a blockchain company. In a statement, PayPal said: “We made an investment in Cambridge Blockchain because it is applying blockchain for digital identity in a way that we believe could benefit financial services companies including PayPal. Our investment will allow us to explore potential collaborations to leverage blockchain technology.”

As for speculation, we also learned in April that Okta—a Nasdaq-listed company—has set up a $50 million Venture Capital fund (Okta Venture) to invest in early-stage technology start-ups that include blockchain. Its first investment in Trusted Key, a blockchain-based digital identity company set up by former executives from Microsoft, Oracle, and Symantec.

To what extent does hot money “investment” in blockchain represent the makings of a bubble remains to be seen. How many of the new blockchain start-up techs are genuinely engaged in novel research or creation of solutions for genuine problems is not known. Anecdotes gleaned from speaking to investors at conferences suggest there is rightly healthy scepticism. We must ensure there is no repeat of the dot com bubble, where merely the words: dot com in a company name lead to millions of dollars of hot money flooding in. Blockchain is no different in this regard to the internet. It indeed could prove to be a game-changer from a technology perspective, but that does not automatically render a blockchain company a decent investment.

The next 18 months will be crucial for blockchain. It is time to stand up and deliver.

**Seb Malik**
Head of financial law
Market FinReg

# Two stories to tell

The US is seeing two sides to securities lending, while the supply side enjoys a story of growth, the demand side is telling a disappointing story

***Maddie Saghir reports***

In the US there are two stories in securities lending, one story is that the supply side is seeing growth, while the second story tells a more troubling tale as the demand side is causing a decrease in returns for investors holding US equities.

As well as this, the trade war between the US and China is still ongoing. At this year's 9th Annual Canadian Securities Lending Association Conference, Benjamin Tal, managing director and deputy chief economist of CIBC, noted that despite an economic slowdown globally, the US has pushed against this trend. However, this was a "short-term gain", but could result in "long-term pain" for the US, according to Tal. Usually, governments stimulate their economy when it's down—not up—but Trump provided an extra lift that it did not need when it was high, he explained.

Elaborating on the two stories, Peter Bassler, managing director, business development, eSecLending, explains: "First, the supply side is one of growth where we are seeing new lenders come to the market and the available supply is increasing significantly. That is the good news as a growing number of investors embrace the product."

"Unfortunately, there is the second story, where the demand side continues to disappoint with few specials in the market leading to lower overall returns for investors holding US equities."

"Intrinsic rates on specials remain strong, but there is no breadth and depth of a strong specials market across the board. The current pick up in IPO activity and the recent spike in volatility provide hope as we continue through 2019."

Lori Paris, head of client management, North America, for Northern Trust securities lending, is seeing a similar story. She observes: "We continue to see interest in securities lending by asset owner clients. The lendable base of securities available for loan continues to increase, which is a testament to the continued interest and value proposition of the securities lending product."

"However, demand has not tracked at the same rate as the increase in available supply. While the demand to borrow high-quality liquid assets (HQLA) continues to be significant, regulation and extreme market volatility have contributed to slower demand growth. Hard to borrower securities remain under pressure as a lack of conviction and borrower demand have persisted since the end of 2018."

"Recent global economic news has also had an impact on securities lending demand. As investors continued to weigh the impacts of US-China trade negotiations, the potential for softer demand on weaker Chinese and European economies and Brexit related uncertainties, we see consistent borrowing demand in sectors such as autos, financial, technology, healthcare and energy. US borrowing demand has largely been driven by long-term directional sentiment within these sectors."

## Driving the demand

Discussing key market drivers for the US this year, Paris believes that demand will primarily be driven by the overall strength and direction of the financial markets.

She explains: "Regulation and liquidity management have been a primary focus within the securities financing space for the last several years. Now that many regulations have been implemented or are more clearly understood, market participants can deploy their resources on new product and business initiatives."

Paris adds: "For example, in the past year, several emerging markets have started discussions on workable securities lending models. Securities lending is a prerequisite for attracting investors to emerging markets by providing the necessary liquidity to the market. In 2019, the securities lending market's drivers will rely on a stable broader market."

Meanwhile, Mike Airey, vice president, strategic solutions, securities finance and collateral management, Broadridge, says: "Regulation continues to impact the industry and the types of trades undertaken. Another trend is the growth in new sources of supply as brokers look to finance idle assets through fully paid lending."

Regulators, buy-side and sell-side firms are also seeing a lot of interest and activity around sponsored repo. These moves are generally seen—among other benefits— to reduce systemic risk and create market capacity. In addition to broadening the footprint of market participants for sponsored repo, sponsors can also now let their clients trade with counterparties other than themselves. This provides sponsored members with the same execution flexibility as they have in the bi-lateral market today."

"A further trend we see is that some beneficial owners are becoming more sophisticated in their business models and evaluating whether to bring some or all of their lending activity in-house. While it is not suitable for everyone, for some participants there can be benefits to lending directly to borrowers."

"From a technology perspective, data is a real theme—access to data, utilising data in trading decisions, cleansing and re-purposing of data across the business stack."

## Regulatory impact

The most immediate regulation that is impacting the US is adherence to the International Swaps and Derivatives Association (ISDA) stay protocol for certain transactions, according to Paris.

She notes that, as a requirement for certain borrowers, on 1 July 2019 participating lenders need to confirm their adherence to stay protocol resolution or risk having an impact on their securities lending programme.

Paris continues: "Looking ahead, there has been progress with SFTR (Securities Finance Transaction Reporting) to prepare for the 2020 regulatory deadlines. The necessary infrastructure is being offered by several providers and lenders, who will have to decide how to comply with this massive industry regulatory reporting initiative."

Airey points out that Basel III and Dodd-Frank continue to influence the types of transactions undertaken, such as term trades, and the behaviour of various market participants.

He adds: "There's more of a focus on the capital impact of certain trades and counterparties, along with rising indemnification costs. The BCBS IOSCO Uncleared Margin Reform rules will continue to increase demand for collateral as more participants meet the thresholds for compliance in September. Single-counterparty exposure limits will also start to impact some market participants soon."

"These regulations are driving the continuing consolidation of securities lending, repo and derivatives collateral management. This is coupled with a need for technology solutions that can provide clear views of inventory and exposures across business lines, mobilise and process collateral efficiently and connect to market infrastructure."

## Talking technology

Discussing technology, Paris sees the opportunities that technology can bring and notes that the increasing use of technology and automation continues to bring benefits to asset owner clients that participate in securities lending.

Paris asserts: "We see continued focus on pre-trade, trade and post-trade automation to increase efficiencies for the securities lending industry. In 2018, the expanded use of the Next Generation Trading (NGT) platform added significant straight-through processing capabilities, bringing increased levels of transparency and efficiency to the industry."

"Northern Trust has built out our capability to take advantage of the improved distribution and pricing offered by the platform. In 2019, our focus will be on the use of emerging technologies such as artificial intelligence (AI), robotics and machine learning to further optimise pricing and distribution of client portfolios."

Bassler explains that technology can help improve efficiency, he cites: "All agents and borrowers today are looking for efficiencies in their respective businesses and technology is the catalyst to accomplish this. Whether this is through ALD for on-boarding new lenders or Equilend's NGT platform for auto-borrow, the desire for efficiencies for lower cost is a top priority for all businesses across the securities finance landscape."

"Automating administrative functions and low spread trading is important to allow your talent to focus on generating revenue from the high spread opportunities and focusing efforts on creative and new ways to identify new revenue opportunities through new markets, structured trades, peer to peer transactions etc."

Airey doesn't necessarily see technology as a disruptor, as it is a highly regulated environment with a highly connected ecosystem. He says: "There is also significant potential for operational and systemic risk. Many market participants, particularly beneficial owners, are conservative by nature."

He states: "For real innovation or business model change to work in securities finance it needs to be adopted simultaneously, en-masse among a range of market participants. This makes it difficult to achieve widespread disruption to business models, is not helped by ageing legacy technology solutions and a lack of standardisation."

On the topic of AI, Airey believes that AI offers great potential and notes that there has been a lot of conjecture recently on the extent that AI will replace people in securities finance.

Airey continued: "However, we don't expect the entire trade lifecycle to be completely automated. There is a reason that parts of the business are still relationship based. Human interaction will also still be a requirement due to a need to continually govern AI solutions."

"Someone needs to identify sources of bad data, manage the impact of new data as it enters the system and recalibrates the solution to ensure the correct outcomes. It is unlikely that many market participants are ready to trust their trading or operations activity to a completely automated machine learning algorithm."

## The collateral question

Non-cash collateral has been trending in the US recently, and Bassler observes: "Although many in the US are not accustomed to non-cash collateral, we are having many risk discussions around the nuances with this structure. We are comfortable with the tri-party arrangements and work closely with our clients to discuss how various forms of non-cash collateral will perform in market stress scenarios."

Bassler highlights that education in this area could be heightened: "There is a lot of education that is needed on this topic in the US. Europe, Canada and Asia view non-cash as a standard practice, however, it is still early in the life cycle in the US, so education is necessary."

Paris sees the non-cash trend as a result of regulations impacting the borrowers. She asserts: "As borrowers look to more efficiently utilise their balance sheets, and deploy cash and HQLA assets in more effective ways, non-cash balances have risen to new heights in the securities lending market. With that being said, it is absolutely imperative to have a non-cash strategy and work with our clients to understand collateral flexibility and diversification to take advantage of this important trend."

Airey adds: "From a systems perspective, it creates a need for solutions that can handle the added complexity of non-cash (corporate actions and substitutions for example) in an automated way without a corresponding increase in operational workload."

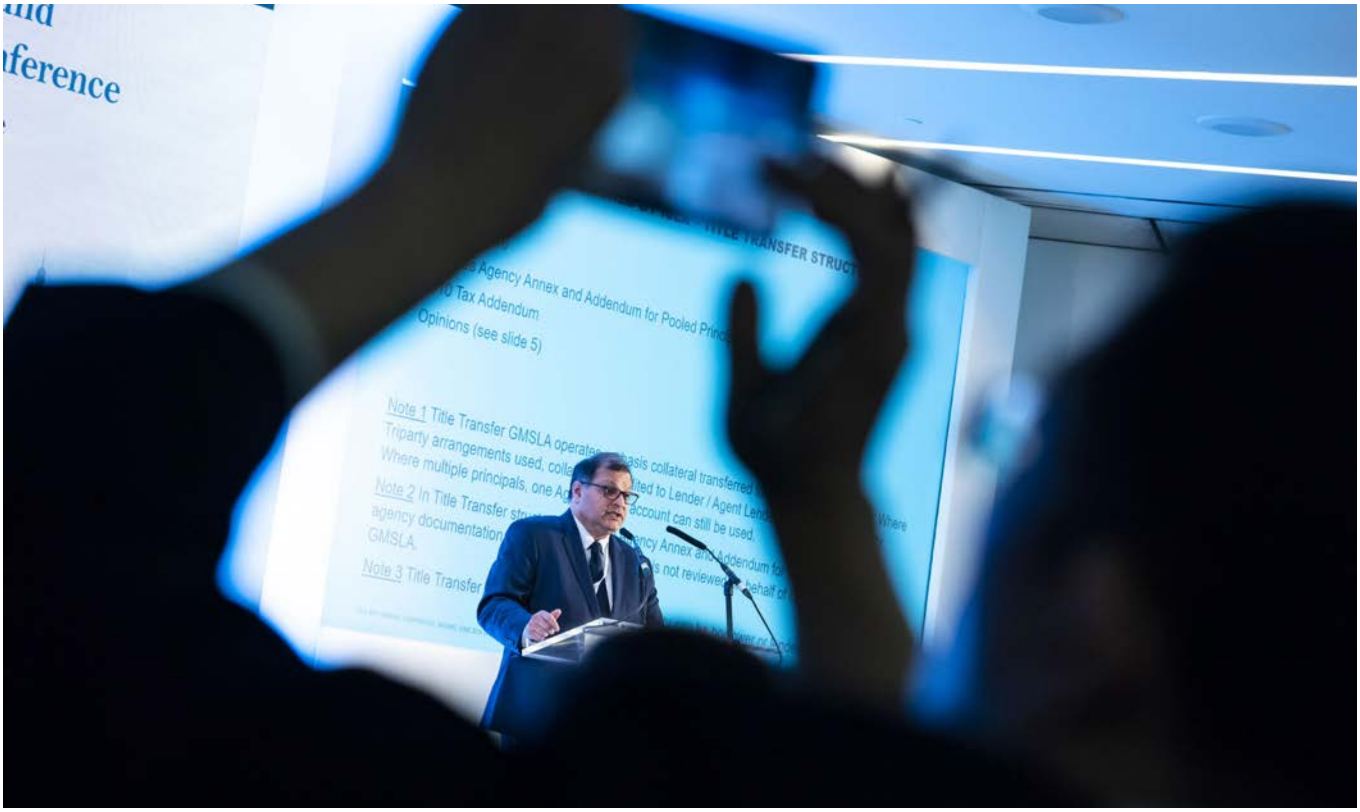
## On the 2019 horizon

In March this year, the Federal Reserve indicated that there will be no more hikes ahead this year and said that they would be 'patient' and take a 'wait-and-see approach' to changes.

Paris affirms that anticipating interest rate changes has an impact on securities lending because it signals the direction of the economy.

She comments: "At the end of 2018 and in the first quarter of 2019, we saw extreme volatility in the market mainly due to uncertainty around the strength of the economy which in turn stifled securities lending demand."

"There were other factors at play such as year-end funding, profit-taking and balance sheet considerations that also contributed to lower-demand. So as we look ahead to 2019, a key factor for securities lending demand is the ability to keep volatility at moderate levels."



# Transition, innovation, future state

## Find out what the big talking points were at ISLA's 28th Annual Securities Finance and Collateral Management Conference in Madrid

***Becky Butcher reports***

This year's International Securities Lending Association annual conference was held in Madrid, Spain. Although securities lending in Spanish securities is common practice, an opportunity which the industry watches closely is the relaxation of current restrictions that prevent local domiciled mutual funds from fully engaging in securities lending.

A panel at this year's event suggested that there is "no good reason" why securities lending should not be done in Spain.

One panellist said the current restrictions prevent the growing market from fully capitalising on trading opportunities such as high-quality liquid asset lending.

Another speaker explained that if introduced, it would be a step closer to achieving a greater harmonisation across EU regulatory frameworks that address securities lending for similar fund types in other domiciles.

In terms of opportunities, one panellist noted that it would provide additional liquidity to the marketplace by making available securities that are "otherwise shut away in portfolios".

The speaker added that it would also generate additional income for fund investors, which can be significant in respect of comparable fund performance.

A speaker suggested that there is a confidence this change can go through before the year ends. While another explained that "it is ready, we just need to get it on the agenda and signed off".

It wouldn't be a securities lending conference if the Securities Financing Transactions Regulation (SFTR) didn't feature on the agenda. During his keynote speech, the European Securities and Markets Authority (ESMA) chair, Steven Maijoor said the reporting regime requires "important market preparations".

Maijoor urged the audience that if they haven't already started preparations for SFTR, "you should not delay, now is the time to get ready".


The ESMA chair also explained the importance of responding to the SFTR guidelines, published at the end of May by the authority.

He said that the SFTR guidelines were published after the "positive experience" when publishing guidelines for the Markets in Financial Instruments Directive (MiFID).

He also encouraged industry members to attend the open hearing held by ESMA on 15 July to discuss the SFTR guidelines. Maijoor explained the importance of the input from the industry because, like previous consultations, ESMA considers adjustments in response to feedback from stakeholders.

When describing SFTR, Maijoor explained that the implementation of SFTR in the EU is "one of the final pieces in the post-crisis efforts by global regulatory authorities to be what used to be known as shadow banking activities into the light and transform these activities resilient market-based finance".

Maijoor noted that SFTR is also "the most far-reaching and encompassing legislation" in terms of types of securities financial transactions (SFTs) and counterparties of all the global jurisdictions contributing to the Financial Stability Board's data collection.

He said that, based on ESMA's data strategy and all the experience gathered in recent years, "reporting frameworks such European Market Infrastructure Regulation and the Markets in Financial Instruments Regulation will mould the SFTR data around four major data building blocks, which include counterparty, loans and collateral, margin and re-use data".

When it comes to future SFTR data, Maijoor said there are "high expectations that this will allow authorities to gain greater insight into SFT markets".

Maijoor said: "In addition to financial stability monitoring, central banks will be able to rely on it to inform their monetary policy decisions. Prudential supervisors will more easily oversee the risks entailed by the liquidity and maturity transformation that can result from SFTs."

"Regulators will also use the reported information to calibrate future potential regulatory requirements, such as the implementation of the Financial Stability Board haircut floors on non-centrally cleared SFTs."

He added: "Moreover, authorities will be able to closely assess the build-up of leverage and interconnectedness in the financial system, as well as monitor the close links between interest rate swaps and repos."

SFTR will also shed light on the reuse of securities and the reinvestment of cash collateral made by market participants and will enable authorities to better monitor the so-called collateral velocity, according to Maijoor.

He concluded: "As I hope I have made clear, large amounts of data now sit within securities markets regulators. Unfortunately, the development of analytical capabilities has lagged, mainly due to the limited resources available at both EU and national level. This has hampered a more widespread reliance on quantitative information, which has not been exploited so far to its fullest extent."

Another panel, also discussing SFTR, suggested that backloading is a "tricky issue" and "will introduce practical issues".

The panellist said: "SFTR doesn't only require new trades to be reported but also trades that are already open on the go-live date."

They explained: "There is a six months 'grace period' that ESMA has given for backloading."

"Backloading only starts six months after go-live, which radically reduces the number of trades that need to be backloaded. That is positive but it also introduces some practical issues in particular reporting on a net exposure of a portfolio basis."

In addition to SFTR, panellists also discussed other upcoming regulations, including the Central Securities Depositories Regulation (CSDR).

The moderator discussed the CSDR timeline and said that it has been something of a lengthy process involving lots of industry engagement.

It was indicated that there has been a delay to the CSDR deadline and that the September 2020 deadline will be delayed by a few months to a possible November date—although this has not yet been officially confirmed by regulators.

Another panellist said: "ESMA is taking a three stage approach to CSDR. Following the acceptance of Regulatory Technical Standards for settlement discipline, we shifted our priorities from advocacy to practical implementation so from a cash bond market perspective and also a repo market perspective."

"We have mobilised a CSDR settlement discipline working group, which consists of traders—both cash bond and repo—and also operational experts, as well as legal and compliance representatives. It is predominantly sell side but increasingly we are seeing buy side members as well."

"We are working on a number of things including designing a passport mechanism and we are also looking to update our buy in rules, which will be impacted by CSDR."

Meanwhile, another panellist said that best practice is really important for driving CSDR forward and overcoming some of the settlement barriers will be a challenge.

A discussion around the Capital Markets Union (CMU) also took place on the second day of the event, with a panel suggesting that the industry lacks a place, whether it be physical or virtual, where issuers

meet investors and have a hub on the continent that is comparable to London or New York.

The panel suggested that a CMU provides a reasonable basis to achieve that “hub”, but market participants need to take action.

One speaker suggested that it will not happen from one day to another but if there is a political will, then this needs to be encouraged by the players in the market as well.

A panellist suggested that the CMU is a framework that has an objective to “tear down some barriers to do more across national waters and align regulation”.

However, the panellist explained that the industry has to “overcome national interest and preferences”.

Another panellist said putting aside the political situation markets cannot deal with, or struggle to deal with, is the massive regional differences in the industry.

The panellist said: “If you look at the US market, it is very efficient, it is a one-stop-shop, it has regulation. I would push for the CMU and I would hope that it brings a one-stop-shop when it comes to the various regulations, the various challenges, the various reporting and various information that the politicians and regulators need.”

“In terms of opportunity, I’m not sure it creates a revenue perspective in terms of trading but it puts us all in the industry in place. We know what to do, we know what the regulations are, we know how to report, there will be one process and one chosen path.”

Another panellist explained that Brexit has forced Europe to do more on the CMU and move ahead, given that the largest capital market is leaving the EU.

The speaker commented: “We have also seen Paris competing against Frankfurt to be the next hub, which is positive. However, we also need some fundamental regulatory change as well because there are still issues around insolvency laws on the regulatory side because they are very different across jurisdictions making some business models very complicated.”

They added: “If you look at where firms in Europe go to get there funding, a lot of them go to the US to access the market there for funding rather than Europe, so we need to look at what can be done there to improve.”

“We also need to look at how we can incentivise asset owners in Europe to hold more long term debt rather than just government debt, so there is a lot that can be done.”

At the end of the panel, the audience was asked what they thought the single biggest impact would be on their business model over the next 24 months.

The majority of attendees (48 percent) thought new regulations such as SFTR, CSDR and the Capital Requirements Regulation would have the biggest impact.

Just under a quarter (24 percent) thought that geopolitical tensions and uncertainty would have the biggest impact, while 14 percent thought that Brexit would. Fintech received 7 percent of the vote, as did environmental, social and governance.

Environmental, social and governance (ESG) also featured on this year’s agenda at the conference. One panel warned that firms within the securities finance industry “need to act on ESG now”.

When asked if ESG is compatible with securities lending, the panel collectively agreed that it is, however, it needs to evolve.

One panellist explained that in the past it may have been neglected because of a lack of understanding, but times have changed.

During the panel the audience was asked if they thought the industry was doing enough to incorporate sustainability principles. Some 70 percent, thought that the industry is not doing enough and should be doing more.

Elsewhere, 17 percent thought that the industry is doing enough, while 13 percent thought that the industry is not doing enough but also should not be doing any more towards sustainability principles.

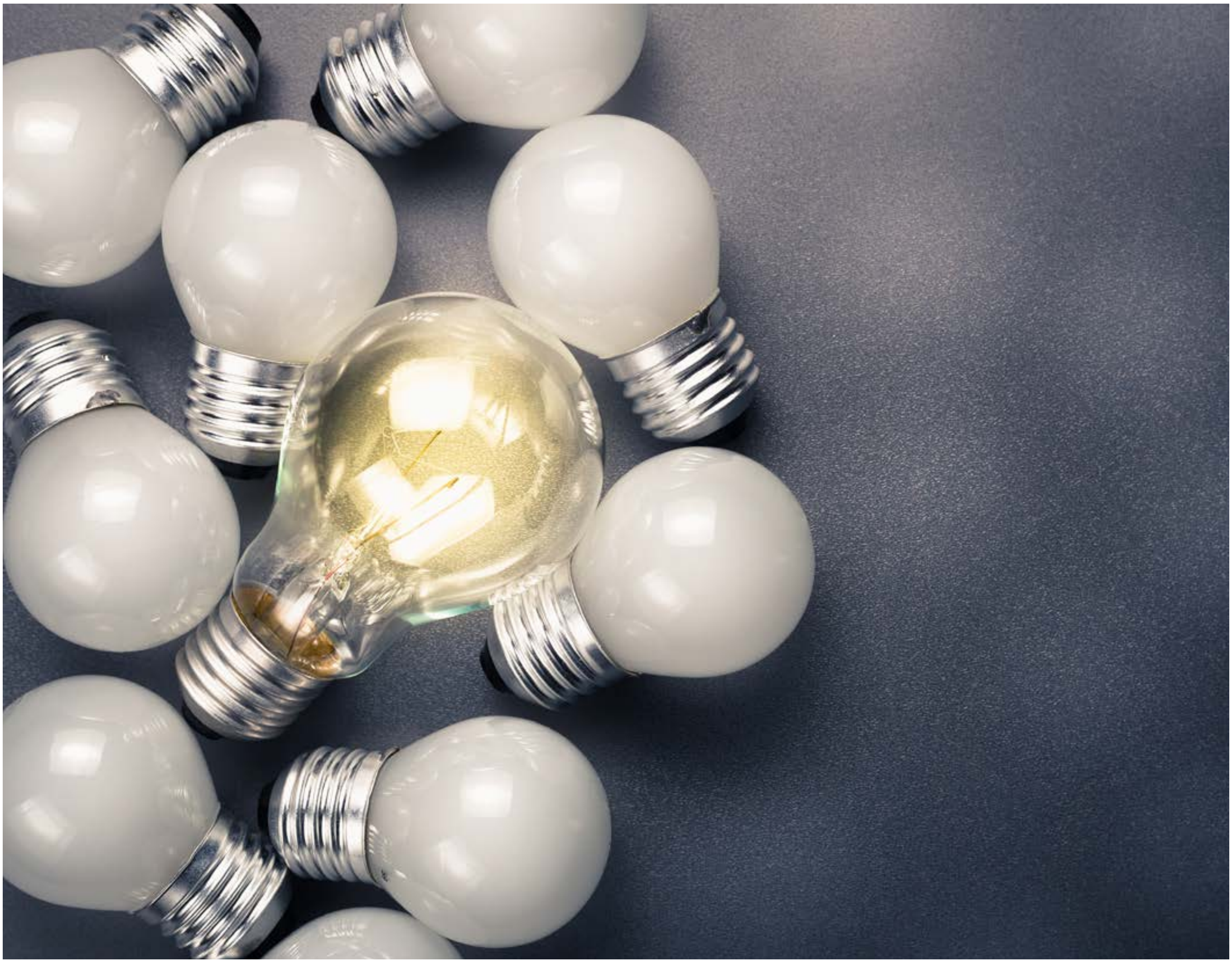
One speaker suggested that the increased focus on ESG investing is “raising the bar” for asset managers.

The speaker explained: “It is forcing more active ownership by fund managers and increasing the focus on engagement with companies. There has also been some question among certain ESG fund managers of whether securities lending and ESG can be combined.”

Another panellist noted that a common perception of securities lending is it facilitates shorting, and shorting is bad because it undermines the value of long-only portfolios. However, the speaker explained the notion that securities lending is incompatible with ESG because it facilitates short selling is a “misconception”.

The audience were also asked if regulation should play a greater role to change governance practices within the securities lending industry.

Some 76 percent thought that a combination of regulation and market-led initiatives is the best way to address changes in governance practices moving forward. However, 24 percent thought that this should be a market-led initiative.



# Uniformity may be the new differentiator

## David Lewis of FIS suggests that if the market can move effectively in the right direction, the industry will realise it loves SFTR

While this may sound like a version of "doublespeak" from some new dystopian world, there is, like in the book, 1984, some basis in the suggestion that the observations in this article will only tell you what you already know.

One of the positive spinoffs, as described by Andy Dyson, ISLA CEO, from the efforts being applied to analysing and implementing the Securities Finance Transaction Regulation (SFTR), is that the industry is being forced to shine a light on areas that have hitherto lacked the kind of attention that they have perhaps deserved.
In order to meet the stringent and complex demands of SFTR, market participant organisations and their providers are expending significant resources on data and processes. This includes not only adding and maintaining data items that they have not needed to consider before, such as legal entity identifier (LEIs) but potentially revamping their entire booking and position management process from start to finish. The ultimate aim, of course, is to be able to satisfy their regulators that they not only have a good grip of exactly what their positions and obligations are, but they can also efficiently and accurately report them within the quality and time constraints laid down in the regulation.

Both the dynamics of quality and time (to delivery) will weigh heavily on those reporting to their regulator, via their chosen trade repository. The time aspect can be altered through process and system/technology enhancements, but the key to quality is a different animal altogether. While pre-matching is not a direct requirement of the regulation, the matching rates arising from the data reported to the market trade repositories will become the benchmarks by which quality could well be measured. Early bilateral testing of data between some the International Capital Market Association (ICMA) members highlighted just how difficult a task this was going to be, showing that the somewhat fundamental data items of trades, including the security traded, the volume of that security and the rate charged, seemed to be causing most of the comparison mismatches. The fact that such mismatch issues could translate not into embarrassment and red faces but to real and potentially substantial fines has brought the need to prepare for SFTR properly into sharp focus.

At the recent Securities Lending Times Technology Symposium, some of the discussions revolved around the need to get the basics right in our market, and rarely has a more accurate statement been made when considering the requirements of SFTR. As an industry, we have an unusually varied approach to undertaking the activities of the securities finance and collateral business and it is those differences that may well cause the greatest issues. While tokenisation and distributed ledgers may be exciting buzz words and attractive bandwagons to jump aboard, the common data model (CDM) sounds positively pedestrian, even tedious. If the industry can get past that, and move toward not only a CDM but a more unified model of trading and position keeping, then the foundations for the more exciting developments will be all the more solid.

Few would advocate that all market participants should suddenly become carbon copies of each other, but the way that our business is undertaken could certainly benefit from more standardisation. This would be one logical response to the challenges of SFTR and other regulations where faster, more accurate data exchanges will be key to market success. One other, and certainly potentially as important, response could be increased mutualisation. At FIS, we have witnessed the benefits to our clients of bringing a utility approach to the post-trade management of derivatives, for example, and the success of this kind of mutualisation should not pass the securities finance industry by. The advent of SFTR has certainly brought about an unprecedented sense of collaboration right across the market. Witness the various vendor and market participant groups showing members working diligently together toward resolving the industry-wide challenge that is SFTR; yes, even the vendors, FIS included, are behaving kindly to each other in the common aim of bringing this project to a successful conclusion.

In real terms, the output of these efforts is likely to be more commonality in booking and processing methods, greater automation and higher rates of straight-through processing, coupled with solid regulatory reporting compliance. The work required to bring these often-disparate approaches to the market together into a single, unified set of reportable data is no small task, and that task could conflict with the desire of each market participant to retain their methods of working and managing their businesses. It is these individual approaches to working that can often deliver the competitive edge or differentiator that protects each organisation's market position. With that in mind, the key will be to concentrate on the areas of commonality that make sense, without degrading the identity and advantages each participant has built up over many years.

Whatever route the industry takes to get there by next April, it is the standardised reporting outputs that the regulator will be looking at, as processed and delivered by the authorised trade repositories who operate under strict and well-practised record acceptability criteria. In that respect, it makes good sense for market participants to work toward common output testing regimes, as being promoted by one prominent market consultant. As the vendors work together, with each other and their clients, to try and reach processing and output standards, we will be working toward a common data model in terms of output. The only way to achieve that effectively is, of course, to get the inputs and data storage to also conform to new standards of commonality.

If the market can move effectively and swiftly in that direction, under the banner of regulatory conformity or otherwise, then the uniformity of data, trade booking, recording and management will bring operational efficiencies and a direct positive impact to the bottom line of all those that achieve it. Only then, just like Winston did in 1984, will we wake up from the nightmare of conforming to the authority of the regulator and realise that we love SFTR.

***"Whatever route the industry takes to get there by next April, it is the standardised reporting outputs that the regulator will be looking at"***

**David Lewis**
Senior director
FIS

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# Comings and goings at Pirum, REGIS-TR, Barclays and more

**Société Générale has appointed Ian Hallam as a senior trader on the "Cross Asset 1D Secured Financing solutions" activity, on Financing European desk, a source has confirmed.**

Based in London, he will report to Farouk Smatl, who is head of this desk based in Paris.

Most recently, Hallam served as director, securities finance trader at Commerzbank.

Previously, he served as vice president, liquidity management and collateral trader, and before this as vice president, cash management.

Hallam worked at Commerzbank for just over 19 years.

**Pirum has appointed Michelle Bastin as part of its securities lending team in the role of client services representative.**

Previously, Bastin served at HSBC where she was the manager of global banking and markets from 2015 to 2019.

She also worked as a director at Lehman Brothers from 2012 to 2015.

**REGIS-TR has appointed Thomas Steimann as new CEO.**

Steimann succeeds Elena Carnicero who became CEO in 2014. Previously, Steimann served at Iberclear, the Spanish Central Securities Depository and at BME Subsidiary, where he was an external advisor for strategic projects in the area of domestic and cross-border post-trade securities services.

Between 1998 and 2017, he served at Deutsche Bank in Madrid, initially with responsibility for non-resident institutional clients' securities clearing and custody activity in the Spanish market.

He also served as head of securities clearing and custody and depository bank services at Deutsche Bank from 2006 to 2017.

Philip Brown, chairman of the board at REGIS-TR, commented: "We are pleased to announce the appointment of Thomas Steimann as new CEO. He has many years of experience in the regulatory environment. Our business has grown and thrived under Elena Carnicero's leadership, and we are grateful to her for her contribution towards building the REGIS-TR franchise. We wish her every success in her next role."

**Barclays has appointed Fater Belbachir as global head of equities.**

Belbachir will lead the equities business across cash and derivatives.

Based in London, he will report to Stephen Dainton, interim head of markets.

Belbachir has more than 19 years' experience in the global equities markets.

Prior to Barclays, he spent 12 years at JP Morgan, most recently as global head of volatility trading and structuring.

Before J.P. Morgan, Belbachir was an equity derivatives trader at Credit Suisse.

Dainton said: "We are delighted to welcome Fater Belbachir to Barclays. Under his leadership, we look forward to building on the momentum that we have in our equities business."

**SimCorp has appointed Christian Kromann as COO, effective 1 August**.

Kromann has also been appointed a member of SimCorp's executive management board, overseeing all sales and marketing activities globally.

Prior to SimCorp, Kromann was CEO of TIA Technology. He has also served at SunGard and FIS.

SimCorp's executive management board now consists of Kromann; Klaus Holse, CEO; Michael Rosenvold, CFO; and Georg Hetrodt, chief product officer.

Holse commented: "It is a great pleasure to welcome Christian Kromann to our team. With his vast experience and insight into the market, he will be a strong asset in our pursuit of continued growth and in the transformation into an as-a-service company."

**GLMX has appointed Andy Wiblin as chief product officer.**

Wiblin previously held a senior position at ION Trading, where he was responsible for business development in repo, securities lending and collateral management products and services.

Phil Buck, managing director of GLMX Europe, previously worked with Wiblin at ION Trading.

Since June last year, Wiblin has been working as an independent financial markets consultant.

**Femi Orangun has departed DeltaOne Solutions, part of IHS Markit, where he spent more than 15 years as a primary architect of benchmark feed platforms.**

During his years as a primary architect, Orangun was intrinsic in the design of the Markit XML feed and the DeltaOne SOLA application. Orangun has now joined the ULTUMUS team as a solutions architect, to assist in the development of its data platform.

He will also assist in the production of advanced tooling in conjunction with the recent alliance between ULTUMUS and Velox Financial Technology.

Bernie Thurston, CEO, ULTUMUS, said: "Femi Orangun joining ULTUMUS is a key hire for the business and a firm commitment to bring the most experienced people on-board for further developing our index and exchange-traded fund data, meaning that we are the 'go to' company for anybody who needs timely or accurate benchmark data."

**Delta Capita appoints Emerson Boix.**

Delta Capita has appointed Emerson Boix to lead its Securities Financing Transactions Regulation (SFTR) Test Consortium technical implementation.

Boix, who will be based in London, has more than 20 years' banking experience working on securities finance projects. Most recently, Boix helped define target operating models in preparation for Brexit and performed SFTR impact assessments.

Boix has also worked on regulations including Basel II, European Market Infrastructure Regulation and the first Markets in Financial Instruments Directive, as well as global implementation of the second Markets in Financial Instruments Directive for Bank of America Merrill Lynch.

Previously, Boix served at Deutsche Bank and also worked for the US Federal Reserve and US Treasury where he designed and implemented solutions to manage fixed income portfolios and repos as well as the use of collateral.

Commenting on his new role, Boix said: "I am very pleased to be joining Delta Capita at such an exciting time. They have successfully created an industry consortium of top tier firms to address challenges created by SFTR. The mutualised-cost approach is unique and will allow banks to test the SFTR requirements robustly in a cost-effective and standardised manner."

David Field, head of Delta Capita's prime services and securities finance practice, commented: "Market participants should no longer define their test strategy in isolation for large regulatory changes. Agreeing the best approach among peers as they perform testing end-to-end is a smart way to ensure a quality deliverable at substantially reduced costs, while producing a common industry approach that addresses regulators' concerns."

**Schonfeld Strategic Advisors has appointed Chris Antonelli as managing director and co-head of Asia.**

Antonelli will assume senior responsibility for the firm's offering of equities, securities and portfolio management.

Previously, he served as managing director, global head of prime finance and head of prime services, Asia Pacific, at Nomura, and senior vice president at Lehman Brothers.