# securities lending times

The primary source of global securities finance news and analysis

Issue 231 09 July 2019


## The standout Asian market

Hong Kong has been a standout market in recent times and industry experts are seeing continued growth for clients

The ‘weaponisation’ of the dollar | Repo insight: reaping the rewards | FIS on the advantages of integration


IS YOUR SFTR SOLUTION MISSING A PIECE OF THE PUZZLE?

EQUILEND
OUR INNOVATION. YOUR ADVANTAGE.

TRAX®
A MarketAxess Company

BEYOND

GLOBAL SECURITIES FINANCING

More than just securities financing, together we can create the right solution

Voted most innovative Global Equity Borrower*, Natixis offers high quality solutions thanks to its in-depth knowledge of the Securities Financing market.

Collaboration || Financing || Solutions

*Group 2 - Global Market Lenders and Borrowers were split into 2 groups based on the volume traded

CREATIVE FINANCIAL SOLUTIONS
THAT GO BEYOND

**Contact: Ian Beattie**, Head of Client Development Europe & UK
Tel: +33 1 58 55 83 08 - ian.beattie@natixis.com

www.cib.natixis.com

# Delta Capita, Pirum and IHS Markit to collaborate

Delta Capita, Pirum Systems and IHS Markit are collaborating with an industry testing consortium to help firms meet Securities Financing Transactions Regulation (SFTR) requirements.

In a recent announcement, Delta Capita revealed the creation of a consortium of banks to establish a standardised SFTR industry test pack.

Under this collaboration with Pirum and IHS Markit, Delta Capita will make the test pack available to IHS Markit and Pirum to support testing and provide feedback to the consortium.

According to Delta Capita, customers of the joint IHS Markit and Pirum SFTR solution who have independently licensed the consortium test pack will benefit from knowing the service and potentially reduce their own testing efforts and costs.

David Field, head of the securities finance practice, Delta Capita, said: "The test pack will provide full traceability to the RTS/ITS, European Securities Markets Authority guidance and industry best practices across repo, BSB and stock borrow/loan."

"It will provide users with the test data, test scripts and expected results they need to conduct their UAT and to test with their counterparts, trading venues, service providers, central counterparties, tri-party agents and trade repositories."

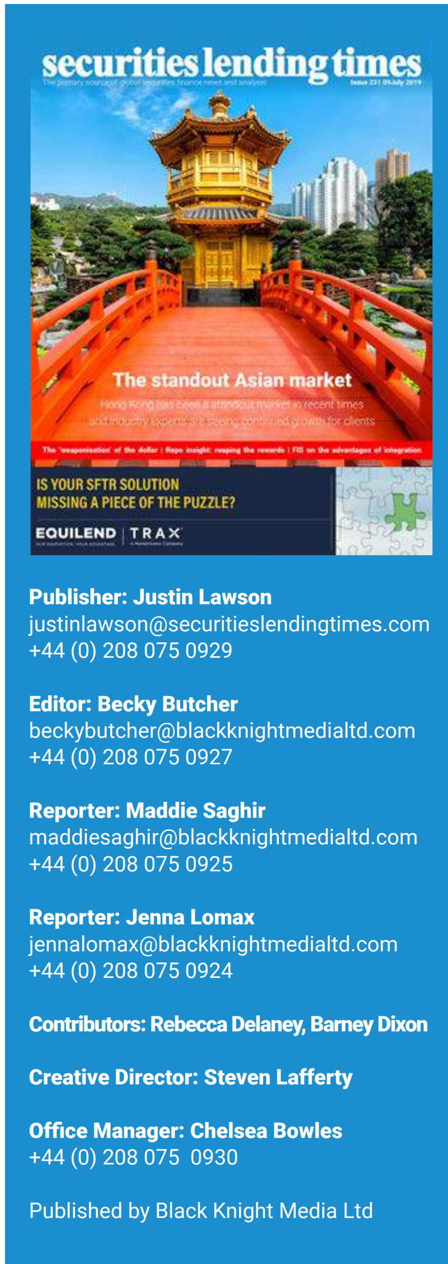
He continued: "Consortium members will be able to benchmark their testing run rates and pass rates to highlight areas of concern for review and remediation."

Rajen Sheth, CEO, Pirum Systems, cited: "We're pleased to be able to support our clients to leverage the testing consortium in order to bring efficiencies to participants as they work towards meeting their SFTR reporting obligation."

Pierre Khemdoudi, managing director and global co-head of equities, data and analytics, IHS Markit, added: "The securities finance industry will greatly benefit from the standardisation of testing as we continue implementing technology for SFTR reporting."

"By integrating Delta Capita's testing within our SFTR solution, our common clients will be able to move forward with no additional effort, while being assured on the accuracy of the reporting."

# Inside SLT





**Publisher: Justin Lawson**
justinlawson@securitieslendingtimes.com
+44 (0) 208 075 0929

**Editor: Becky Butcher**
beckybutcher@blackknightmedialtd.com
+44 (0) 208 075 0927

**Reporter: Maddie Saghir**
maddiesaghir@blackknightmedialtd.com
+44 (0) 208 075 0925

**Reporter: Jenna Lomax**
jennalomax@blackknightmedialtd.com
+44 (0) 208 075 0924

**Contributors: Rebecca Delaney, Barney Dixon**

**Creative Director: Steven Lafferty**

**Office Manager: Chelsea Bowles**
+44 (0) 208 075 0930

Published by Black Knight Media Ltd

## Malik's Memo

Market FinReg's head of financial law Seb Malik on the 'weaponisation' of the US dollar and the lack of credible alternatives

## Hong Kong

As the second largest securities lending market in APAC, Hong Kong has been a standout market in recent times

page 13

## Repo Insight

John Edwards of BrokerTec explains why there has been significant growth in EU repo trading and discusses BrokerTec Quote

page 16

## FIS Review

FIS sits down with Rich Hochreutiner of Swiss Re, to understand his vision for integrating repo, securities lending and collateral management

page 18

## Data Analysis

IHS Markit's Sam Pierson provides a securities lending Q2 update

page 20

## Industry Appointments

Comings and goings at Soc Gen, National Bank of Canada and more

page 24

ABN·AMRO

# Your securities financing partners

## ABN AMRO UK Awards - 2018

**Top Borrower in EMEA**
Group 2 - ISF Survey Awards

**Best Bank in the Netherlands**
Euromoney Awards for Excellence

**www.abnamro.co.uk/GlobalMarkets**

*Banking for better, for generations to come*

## ESMA to hold open hearing on SFTR

The European Securities and Markets Authority (ESMA) will hold an open hearing on its consultation paper published on 27 May 2019 on draft Guidelines for the reporting under the Securities Financing Transactions Regulation (SFTR).

The open hearing will take place on Monday 15 July 2019 at ESMA's premises in Paris.

SFTR is the EU's response to the Financial Stability Board's August 2013 policy proposals on securities lending and repos, expected to be implemented in Q1 2020.

Steven Maijoor, chair of ESMA, encouraged industry members to attend the open hearing held by ESMA to discuss the SFTR guidelines in his keynote speech at this years' International Securities Lending Association conference in Madrid.

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 bring what used to be known as shadow banking activities into the light and transform these activities to resilient market-based finance".

## IHS Markit collaborates with Cappitech for SFTR solution

Cappitech has partnered with IHS Markit to develop the IHS Markit Securities Financing Transactions Regulation (SFTR) solution.

The SFTR solution will incorporate regulatory reporting solutions provider with Cappitech's platform Capptivate, which will provide automated and efficient transaction reporting to trade repositories under SFTR, as well as additional securities finance instruments from the second Markets in Financial Instruments Directive that will be in scope under SFTR.

Under SFTR, firms will be required to report 155 data fields daily, including the unique transaction identifier, legal entity identifier and master agreement for each transaction.

The IHS Markit SFTR solution promises to provide a one-stop-shop service for these requirements, encompassing data aggregation, validation and enrichment.

Pierre Khemdoudi, managing director and global co-head of equities, data and analytics at IHS Markit, commented: "We look forward to leveraging Cappitech's technology to deliver a regulatory reporting solution that can help manage the comprehensive requirements of SFTR."

"We believed our combined expertise will further automate complex data management processes through a highly scalable, cost-effective and unified platform."

transform|business

A range of apps that will transform
your securities finance business

2016 and 2017
Best Software Provider

tradingapps

www.tradingapps.com

Ronen Kertis, CEO and founder at Cappitech, added: "We're delighted to be partnering with IHS Markit to power their industry-leading SFTR solution."

"Our mission at Cappitech is to ease the regulatory reporting burden by offering clients next-generation technology that allows them to both comply and gain a competitive advantage."

## Finperform creates SFTR implementation advisory service

Finperform has launched an offering of Securities Financing Transactions Regulation (SFTR) implementation advisory services.

The risk, regulation and data governance consultancy will provide an "end to end programme delivery" for the reporting regulation, ranging from data gap analysis, internal and external data sourcing, technology solution assessment, and the building of operating models.

Finperform's experienced consultants allows the firm to provide detailed industry knowledge of the regulation and its implementation requirements.

Suriya Subramanian, managing director, Finperform, commented: "We recognise the complexities and nuances in SFTR and the evolving nature of industry maturity on SFTR."

"Our service is built on our understanding of the regulation, industry practices and technology implementation expertise."

## Finastra and Xceptor partner on reconciliation

Finastra has collaborated with Xceptor to provide reconciliation in the securities market.

The existing Fusion Markets solution for Finestra clients will be enhanced to allow efficient, accurate and automatic reconciliation and validation of transactions and data.

Automation platform Xceptor will aid with the extraction and transformation of data to then be integrated and reconciled.

Michael Henssler, general manager, treasury, capital markets and risk, Finastra, commented: "The securities services industry is fragmented, and traders are operating in a more complex and regulated market. Our customers need better transparency to transform traditionally complex data and processes into simple usable business insights."

He continued: "Xceptor is a specialist in its field and we're delighted to offer their in-depth knowledge and capabilities to our securities customers."

Andrew Kouloumbrides, CEO at Xceptor, added: "This new reconciliation functionality will enable Finastra customers to overhaul, optimise and automate their positions reconciliation process. We are continuing to explore new opportunities with Finastra and are looking forward to extending our relationship further in the near future."

Consololtd
Business Change Specialists in Securities Finance
consololtd.co.uk
info@consololtd.co.uk

### SFTR services to be offered by UnaVista Partner Programme members

Some 25 independent software vendors (ISVs) within UnaVista's Partner Programme are now looking to include Securities Financing Transaction Regulation (SFTR) services as part of their offering to clients.

The ISVs will be connected directly into UnaVista, allowing its clients to report all their required transactions through their existing connections and onto UnaVista's trade repository, in preparation for SFTR, due to be implemented next year.

Partner firms include Calypso Technology, EquiLend, IHS Markit, MarketAxess Trax, Message Automation and Murex S.A.S.

Ahead of SFTR reporting go-live, clients can now simulate their reporting and perform data gap analysis using UnaVista's SFTR Accelerator tool.

The UnaVista Accelerator tool will enable clients to test for and address any data discrepancies, formatting issues or shortages before the regulation goes live.

UnaVista is also working with clearing houses, such as LCH Group's RepoClear and CC&G, to give their clearing members the option of assisted reporting.

Mark Husler, CEO of UnaVista, said: "We have been working with the industry for a number of years now to create a network of connected market participants. This gives the client options as to how they want to report, to make it as simple as possible for the industry."

He added: "Our Partner Programme has also inspired new product innovations that not only help firms to reduce the burden of accessing their data, but can also help them improve their matching, data enrichment and reporting."

### FCA has recognised the UK Money Markets codes

The Financial Conduct Authority (FCA) has formally recognised both the voluntary foreign exchange (FX) Global and UK Money Market Codes of the Bank of England.

The FCA's codes recognition scheme is applicable to codes relating to unregulated financial markets and activities.

The FX Global Code, upheld by the Global Foreign Exchange Committee, establishes international good practice standards in FX markets, while the UK Money Markets Code is upheld by the Money Markets Committee and sets industry standards for UK deposit, repo and securities lending markets. Formal recognition from the FCA means that the codes can be embedded in the Senior Managers and Certification Regime, which requires market participants to meet a universal standard of market conduct.

EXPERTS IN:

☐ SECURITIES LENDING
☐ RISK MANAGEMENT
☐ CLIENT SERVICING
☑ ALL OF THE ABOVE

ACHIEVE GREATER

NORTHERN TRUST

*To learn more, visit northerntrust.com/securitieslending*

**ASSET SERVICING** \ ASSET MANAGEMENT \ WEALTH MANAGEMENT

DIRECTED TO PROFESSIONAL CLIENTS ONLY. NOT INTENDED FOR RETAIL CLIENTS. FOR ASIA-PACIFIC MARKETS, THIS MATERIAL IS DIRECTED TO INSTITUTIONAL INVESTORS, EXPERT INVESTORS AND PROFESSIONAL INVESTORS ONLY AND SHOULD NOT BE RELIED UPON BY RETAIL INVESTORS.

© 2016 Northern Trust Corporation, 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the United States. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation. For legal and regulatory information about individual market offices, visit northerntrust.com/disclosures. Issued by Northern Trust Global Services Limited.

Andrew Hauser, executive director, markets, Bank of England, commented: "I welcome the FCA's decision to recognise the codes. The desire of market participants to embrace best practice is shown by how widely adoption has spread. With the Senior Managers' Regime expanding in scope from December 2019, recognition of these codes by the FCA provides another wholly positive reason for those who haven't yet signed up to do so—helping to build trust in financial markets, enhance corporate governance and empower your own business."

## Swiss Life adopts Eurex Clearing's ISA Direct

Swiss Life Asset Managers has become the first buy-side organisation to utilise Eurex Clearing's ISA Direct service.

The service was used for over-the-counter (OTC) interest rate derivatives, while ABN AMRO acted as clearing agent.

Eurex Clearing developed ISA Direct in response to risk concentration, increased cost of clearing, and increased capital requirements for banks.

It uses intermediaries as clearing agents, who assume responsibility for default management compliance.

ISA Direct is initially available on Eurex Clearing's interest rate swaps and repo transactions, providing them with a lower balance sheet impact.

Jan Grunow, head of operations at Swiss Life, commented: "By being able to directly connect to Eurex Clearing, our concerns about credit risk and the portability of our assets are much better addressed. The ISA Direct model alleviates many of our concerns and helps us to meet the regulatory requirement of central clearing."

Philip Simons, head of fixed income, funding and financing sales, Eurex Clearing, added: "We welcome Swiss Life on board and thank ABN AMRO Clearing for its continued support. It confirms the value proposition of the ISA Direct model and we look forward to working with market participants to accelerate the adoption of this innovative service."

## SEC adopts new requirements under the Dodd-Frank Act

The Securities and Exchange Commission (SEC) has adopted a series of regulations and requirements under Title VII of the Dodd-Frank Act.

The new requirements will affect security-based swap dealers (SBSDs) and swap market participants, and aim to develop risk mitigation practices.

The rules in question under title VII establish minimum capital requirements for SBSDs (and increase the requirements

Transforming the world of Securities Finance.

At Stonewain, we understand the importance of being secure and agile, which is why we created a fully-integrated technology solution 'Spire'. Spire's architecture meticulously integrates with your organization's IT system, consolidates workflows and cohesively performs with other proprietary systems.

**It's time to give your business the Spire Advantage.**

- Global Stock Loans and Borrows
- Agency Lending
- Collateral Management & Optimization
- Cash Management
- Repo/Financing
- Regulatory Locates

400 Connell Drive, Suite 5300, Berkeley Heights, New Jersey 07922
info@stonewain.com www.stonewain.com 973-788-1886 973-315-3092

for broker-dealers using internal models to calculate net capital), establish margin requirements for nonbank SBSDs, and establish segregation requirements for SBSDs and individual broker-dealers for both cleared and non-cleared security-based swaps.

Furthermore, the new regulations amend the SEC's existing cross-border rules relating to compliance requests for capital and margin requirements for foreign SBSDs.

Jay Clayton, chairman of the SEC, commented: "These rules help ensure that the firms who are at the centre of the SBSD market manage counterparty risk appropriately and in doing so protect investors and the market more generally."

He explained: "Our colleagues at the SEC, including our teams in the division of trading and markets and the division of economic and risk analysis, brought their extensive knowledge and expertise to bear in crafting these rules."

Commissioner Hester Peirce added: "These final rules are designed to ensure the financial integrity of dealers at the centre of the critically important security-based swap market and represent an enormous effort on the part of our staff."

## DTCC's subsidiary FICC has achieved clearing milestone

DTCC's subsidiary Fixed Income Clearing Corporation (FICC) has achieved a milestone in the transformation of the US treasury market toward central clearing, as Citadel executed and cleared both cash and repo trades via FICC's recently expanded Sponsored Service model.

The Sponsored Service was recently extended to cover a wider scope of market players who can act as sponsors.

The expansion also allowed sponsor member clients to facilitate clearing transactions with market participants other than their sponsors, labelled a "done away" activity.

This enabled Palafox, a subsidiary of Citadel, to be the first sponsor to carry out centrally cleared "done away" cash and repo trades on behalf of Citadel's Global Fixed Income Master Fund.

Murray Pozmanter, managing director and head of clearing agency services at DTCC, commented: "The greatest benefit of allowing different types of firms to be sponsors is that FICC has now made it possible to bring a much larger percentage of the market into clearing, while maintaining our robust risk management standards."

Dan Dufresne, managing director and global treasurer at Citadel, added: "We continue to support FICC's efforts to expand the accessibility of central clearing for cash and repo trading, and are excited to be a part of this important milestone in the evolution of the US treasury markets."

## European Commission advocates 'voluntary' taxonomy framework

Implementation of sustainable taxonomy should be voluntary, according to a new report published by the European Commission's Technical Expert Group (TEG).

The report determined that investors with an interest in taxonomy-eligible activities should either utilise the available EU framework or disclose their own individual approach.

The voluntary use of the framework has "divided political opinion", causing the European Parliament to call for either a "comply or explain approach".

The TEG defined climate change mitigation (an environmental objective set forth in the report as a criterion for determining an environmentally sustainable activity) as "greening of" and "greening by", in order to widen the scope of the term to apply to more activities.

Furthermore, climate change adaptation was defined as a twofold approach that initially examines the "negative physical impact" of climate change on a particular activity, before formulating a programme to minimise such impacts. SLT

Don't get left behind

The joint IHS Markit and Pirum solution has:

- 45+ Clients signed up to the solution
- SFTR and MiFID coverage
- All SFTs covered
- A full end-to-end solution
- A fully ringfenced data model

www.pirum.com

For more information contact **connect@pirum.com** or call **+44 (0)20 7220 0968 (UK & Europe)** **+1 917 565 8575 (US)**

# Get the Most From Your Lending Program

Securities lending can be an important source of return and a key part of overall portfolio and risk management strategies. We offer individualized service, technology and a commitment to transparency to help you achieve your goals.

For informational purposes only. Securities lending services are provided through State Street Global Markets, the marketing name and a registered trademark of State Street Corporation, used for its financial markets business and that of its affiliates. Products and services may not be available in all jurisdictions. ©2019 State Street Corporation.

statestreet.com/securitiesfinance

2397543.1.1A.AM.

# The 'weaponisation' of the dollar

As the Iran nuclear deal unravels before our eyes, we are served a stark reminder of the perils of a world with a single global reserve currency—the dollar.

Following the Trump regime's unilateral breaking of the Iran nuclear deal (officially: Joint Comprehensive Plan of Action) and the imposition of sanctions, Iran had urged European countries to continue to honour their commitments. The Europeans tried hard. They said the right words, passed the correct legislation, but ultimately,companies are faced with the stark choice of complying with EU laws obliging the ignoring of US sanctions and doing business with the US as the US will impose secondary sanctions against any company that deals with Iran.

As Benoît Cœuré, executive board member of the European Central Bank (ECB), said in February this year: "In such an environment, being the issuer of a global reserve currency confers international monetary power, in particular, the capacity to 'weaponise' access to the financial and payments systems."

European companies made a simple bottom line calculation. There was no choice. Last November, SWIFT—the Belgium-based global payment system—announced it would suspend Iranian banks from its messaging system: "In keeping with our mission of supporting the resilience and integrity of the global financial system as a global and neutral service provider, SWIFT is suspending certain Iranian banks' access to the messaging system. This step, while regrettable, has been taken in the interest of the stability and integrity of the wider global financial system."

This, despite the EU having enacted blocking legislation to prevent EU entities from complying with the extra-territorial application of (principally) US sanctions. Council Regulation (EC) No 2271/96 was augmented on 6 June 2018 to specifically prevent EU entities from complying with named US sanctions.

The US is proceeding to impose civil penalties (fines) on any company it unilaterally deems has dealt with Iran in breach of its sanctions. This year they fined a Kollmorgen Corporation, a Virginia-based company for the activities of its Turkish affiliate.

The simple reality is that the US continues to dominate global commerce with 60 percent of international debt denominated in the dollar. While the Euro peaked at 27 percent in 2002, it has since declined to 22 percent. The Renminbi is, of course, not free float.

Companies are forced to submit to US jurisdiction or face being cut out of the US market. The Europeans have attempted to shield their companies from the wrath of the US by forming a special purpose vehicle through which Europeans could trade (primarily oil) with Iran. The problem is that no European country was prepared to host the vehicle! Eventually, France agreed to host the instrument called Instrument in Support of Trade Exchanges (INSTEX). It is a virtual ledger that offsets payments in a barter style system. The key factor being that US dollars are not used and no payment flows through the US. On 28 June, the EU announced the scheme was operational.

While this is unlikely to impress the Iranians, from a financial perspective it represents a small yet significant step in constructing financial flows that bypass the dollar and the US.

What is really needed is a credible alternative that could compete on equal terms. The Eurozone is comparable to the US in size, it is governed by a rules-based system and is a free float currency. I had hoped the Euro would assume such a reserve currency role but its uptake has not only flatlined but declined. The Eurozone and sovereign-debt crisis no-doubt played a large role in this. Data through 2018 shows that AAA-rated Euro-area sovereign debt amounts to just 10 percent of GDP compared to more than 70 percent for the US. The fiscal divergence between the Eurozone is great (compare Germany to Greece). Monetary union with fiscal divergence does not instil investor confidence. A raft of European Union legislation (that I wrote about in Issue 219) should help but until there is political will coupled with fiscal harmonisation, the Euro will continue to play second fiddle.

Until then the US will continue to enjoy what is sometimes labelled its "exorbitant privilege". The global financial system is at an inflection point.

Will the Euro finally emerge from the shadows of its bigger brother?

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

# The standout Asian market

As the second largest securities lending market in APAC, Hong Kong has been the success story in recent times and industry experts are seeing continued growth for clients there

***Maddie Saghir reports***

## Standout performer

Branded as the "standout market" in Asia in recent times, Hong Kong is seeing continued growth for clients lending securities. There has been an increase in specials activity across Asia Pacific (APAC) which has contributed to strong lending returns. This story of growth rests against the backdrop of an uncertain external environment with the ongoing China and US trade war, yet experts say they expect to see the Japanese market continue to thrive.

Commenting on the current state of Hong Kong's securities lending industry, Andrew Geggus, head of securities lending trading, Asia Pacific, Northern Trust, says: "Hong Kong has a well-developed securities lending framework, and as the second largest securities lending market in Asia Pacific, Hong Kong continues to serve as an important revenue source for clients."

"Bolstered by the significant end-user demand for exposure to China, Hong Kong is a clear destination for investors with its comparatively deep liquidity profile. In the absence of a viable means to transact securities lending via the Stock Connect, we see this trend continuing for the near future."

Geggus continues: "The number of clients lending Hong Kong securities continues to grow in line with the global expansion of securities lending interest; while the number of local clients lending either domestic or global assets remains relatively small. We anticipate this changing in time with familiarity and the need for return."

Zubair Nizami, vice president, head of Asian securities lending trading, Brown Brothers Harriman, also observes an increase in specials activity across Asia Pacific and explains that this growth can be attributed to several factors, such as high asset values, robust borrower demand, increased beneficial owner participation in lending programmes and strong corporate deal flows.

Nizami comments: "While Asian markets overall generated strong lending returns, we have certainly seen Hong Kong as one of the stand-out markets in recent times. However, we have witnessed a softening in securities lending demand across the region since the beginning of the second quarter of 2019, with Hong Kong particularly impacted."

"A slowdown in corporate deal activity, coupled with an uncertain macro environment, largely due to the escalation in the China/US trade war, has resulted in reduced hedge fund activity and consequently subdued borrowing demand. Given an uncertain external environment, we expect lending returns in the region to reflect this trend in the second half of 2019."

## Japan's thriving market

Japan's securities finance market has continued to thrive for a variety of reasons, and Nizami explains that abenomics and, more specifically, the loose monetary policy set by the Bank of Japan (BOJ) has driven key Japanese interest rates into negative territory for a prolonged period.

He states: "As a result, Japanese banks looking for foreign currency funding have been actively engaging in financing transactions, thereby boosting overall volumes. In addition, this has enabled foreign banks and brokers to be active in placing their surplus Japanese yen or assets to Japanese counterparts that accept this form of collateral."

There has also been a healthy demand for specials in the past few years spurred on by strong corporate deal activity and an increased focus on corporate governance for Japanese-listed companies by activist investors, Nizami highlights.

Nizami cites: "Finally, Japan has an established securities finance framework which has less rigid rules and regulations compared to other markets in the Asia-Pacific region, and a deep pool of liquidity in both equities and fixed income."

"This provides investors with the confidence to actively participate in the market. The lower barriers to entry for new entrants is also a major factor in encouraging both foreign and domestic participation, thereby boosting overall market liquidity and returns for investors."

## Hong Kong trends

Global trends emerging across the broader beneficial owner community are also applicable to beneficial owners in Hong Kong. Geggus points out that the drive to maximise performance in a low yielding market environment is helping to grow momentum in new clients entering the securities lending space, or clients that previously participated re-entering.

He stipulates: "Securities lending is increasingly being looked at as an integrated investment vehicle to complement the suite of front-office activities in pursuit of meeting performance objectives. In this regard, beneficial owners are looking for ways to ensure their securities lending programmes are being optimised within a prescribed level of risk tolerance, which is keeping agent lenders focused on investment in innovation and technology. This is markedly different to the days of securities lending sitting in the back-office as an engine to merely offset costs. We see this trend continuing."

He continues: "That said, the distinction between outbound securities lending (Hong Kong-based clients lending local and global assets) and inbound lending (non-domestic clients lending Hong Kong assets) is pronounced."

Geggus further noted that inbound lending is a mature and well-developed practice, whereas outbound lending by domestic beneficial owners and intermediaries is some way behind much of the Asia Pacific and the global industry.

According to Geggus, this trend is expected to change in time as potential lenders become more familiar with the benefits of a robust and well-managed securities lending programme and start to enter (or re-enter) the market, seeking return and cost offset.

Nizami adds: "We are seeing several trends from our global clients with an overarching theme focused on generating additional revenue from securities lending to augment their investment activity."

"In Japan, institutional clients remain focused on meaningful returns, as securities lending returns are an important revenue generator in the current environment. Additionally, a relatively new development in Japan is the rise of actively managed equity mandates in lending programmes."

"In the past there has been a misconception in the market that only passively managed global index mandates would be suitable for lending. However, because of increased engagement with active managers about the benefits of lending we have been able to advance this discussion, which is an overall positive for boosting liquidity and generating returns for investors."

## Incorporating ESG

Globally, environmental, social and governance (ESG) investing in the securities finance industry is becoming more prevalent. Recently, the Stock Exchange of Hong Kong published an ESG consultation paper to support and improve issuer's governance disclosure of ESG activities and metrics.

The consultation, a 'Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules', suggested that introducing mandatory disclosure requirements in the reporting guide should include a board statement setting out the board's consideration of ESG issues.

It was noted that it should also include applications of relevant reporting principles and boundaries in the ESG report. Further key proposals included requiring disclosure of significant climate-related issues which have impacted and may impact the issuer, and amending the 'environmental' key performance indicators to require disclosure of relevant targets.

Geggus noted that Northern Trust created customisable solutions for clients that help them to manage their requirements including the incorporation of ESG practices.

He adds: "Incorporating ESG is not without its challenges for the securities lending industry, as one of the common factors of ESG programmes is the requirement for securities to be available for voting. This requires a robust process being in place to ensure all securities that are out on loan are recalled ahead of key voting dates, ensuring the voting rights remain with the underlying client. This can cause a reduction in liquidity and stability for borrowers over certain key dates, which needs to be a consideration when managing their securities borrowing programmes."

## Hong Kong's horizon

Despite seeing areas of growth and cause for optimism, there are challenges that Hong Kong will face over the next 12 months. Nizami comments: "From a demand perspective, we believe a further escalation in the China/US trade war, continued uncertainty in the Eurozone economy and geopolitical risk factors such as Brexit and escalating tensions in the Middle East may lead to significant challenges for the capital markets. As we have seen in the second quarter of 2019, this market uncertainty has started to reflect on reduced returns for the securities finance industry."

Nizami also explains that aside from the macro environment, the implementation of the Securities Finance Transactions Regulation in 2020 will continue to remain a major focus for the industry. A successful roll-out to ensure securities finance data can be reported to trade repositories by the stated deadline will be of paramount importance for market participants.

Geggus remarks: "As the securities lending industry rapidly evolves, it is not without challenges. The industry continues to demand reduced latency in execution and improved efficiency, and balance sheet is a scarce commodity. However, these challenges have provided multiple opportunities."

He says: "Firstly, the advances in technological capabilities continue to transform not only the securities lending industry in Hong Kong but across the broader financial markets globally."

"Outside of technology, we see the development of capitally efficient routes to market as a key opportunity for the industry as the borrower community continues to look for ways to reduce their capital footprint and optimise the scarcity of available balance sheet. As such, there continues to be a focus on regulatory efficient structures such as collateral pledge model, which is beginning to grow as a more regularly utilised route to market. The pledge model not only allows for the potential reduction in cost of capital for borrowers, but also potentially allows for increased spreads and haircut for lenders able to subscribe to the framework."

*“The advances in technological capabilities continue to transform not only the securities lending industry in Hong Kong but across the broader financial markets globally”*

Looking to the future, Nizami predicts: "In the long-term we would expect to see the Hong Kong securities market become more integrated with mainland China. However, the big question on the minds of many market participants is 'when will China open its securities lending market for foreign investors?' In our view, while the potential will be a game changer, we believe that we are quite some time away from an established and robust securities lending framework, that can compete with the likes of Hong Kong, Japan or South Korea."

Nizami concludes: "However, the desire to do so is certainly there and the recent engagement between the relevant exchanges, regulators and industry associations has been positive." SLT

# Reaping the rewards

John Edwards, managing director of BrokerTec Europe, explains why there has been significant growth in EU repo trading and discusses BrokerTec Quote, a new dealer-to-client RFQ trading solution for the European repo

*Maddie Saghir reports*

**What are the current market drivers for EU repo trading?**

BrokerTec currently operates an existing dealer-to-dealer repo trading venue in Europe (and the US) for trading specific, general collateral (GC) and tri-party repo in the Euro sovereign debt markets. We have continued to see significant, meaningful growth over the last two to three years, which is evidenced by the numbers that we publish monthly for the repo sector, which includes both Euro denominated and UK Gilt sterling repo trading.

There have been a number of market and macro-economic drivers which continue to drive growth in terms of volume traded, as has

been seen on BrokerTec. There remains a strong demand for high-quality liquid assets (HQLA), against the recent backdrop and activity of the European Central Bank Quantitative Easing programme and short supply of certain issues. Over the last three years or so, the market has benefitted from changes to derivatives margining requirements and we have seen the increased appetite for collateral through repo trading as a more secure form of trading collateral and a very liquid secondary market with the settlement and netting benefits derived from a cleared central counterparty (CCP) execution solution.

Although the CCP is a key component of our business, the deep liquidity pool and commercial offering are fundamentally important. Many financial institutions have gone through cleaning up exercises on their balance sheets and are currently enjoying greater balance availability for their repo activity.

Additionally, some increase in activity may be derived from regulatory developments. Even though the second Markets in Financial Instruments Directive (MiFID II) only partially impacted the repo and securities lending markets, it has definitely helped to focus on transparency, audit trails and reporting, where electronic trading solves many of these issues easier particularly against the old school voice broking activity. Right now, though, Securities Financing Transactions Regulation (SFTR) is very much on everyone's mind.

## Why do you think we are seeing an increased demand for collateral?

This links back to changes in capital requirements (net stable fund ratio and liquidity ratios and buffers) with higher demand for liquid assets to be held as capital. This is as well as a longer-term shift from unsecured to secured forms of funding.

## At BrokerTec, what trends are you currently seeing among clients?

So far this year, we have continued to see growth across pretty much all Euro sovereign and UK Gilt markets, with record volumes and trade counts in most of these sectors; March and April were very strong performing months. We anticipate that demand for repo and collateral in those markets will continue to grow. Dealers and the major international banks are leveraging the deep liquidity pool in the dealer to dealer (D2D) space to manage an increasing amount of what was typically bank to client flows, with more of this inventory finding its way into the wholesale markets as banks typically carry less inventory now.

Access to this liquid market, providing real cost efficiencies in terms of straight-through processing, order management and balance and settlement netting opportunities plus certainty of execution and collateral availability are drivers in themselves, and Broker Tec is on the cutting edge of this service. We are also seeing some changing trends which segway into the BrokerTec Quote initiative, driving change and providing a real solution for dealer-to-client, repo request for quote (RFQ). This is probably one of the last asset classes to adopt electronic execution.

MiFID II focused many views and opinions on the future evolution and what would be required to limit the pain and increased workload under SFTR for repo traders. Naturally, this type of automation in the execution piece also brings technical efficiencies and cost savings in the work flow–particularly post-trade.

Traditionally, this activity has been transacted over the phone or email/Bloomberg, and there is now a demand to look at something which is more transparent and starts to deliver some real efficiency from both an execution and straight-through-processing perspective over a longer period of time. The seed change in this space really started in Q2 2018 but space is only just hotting up and the race is far from won.

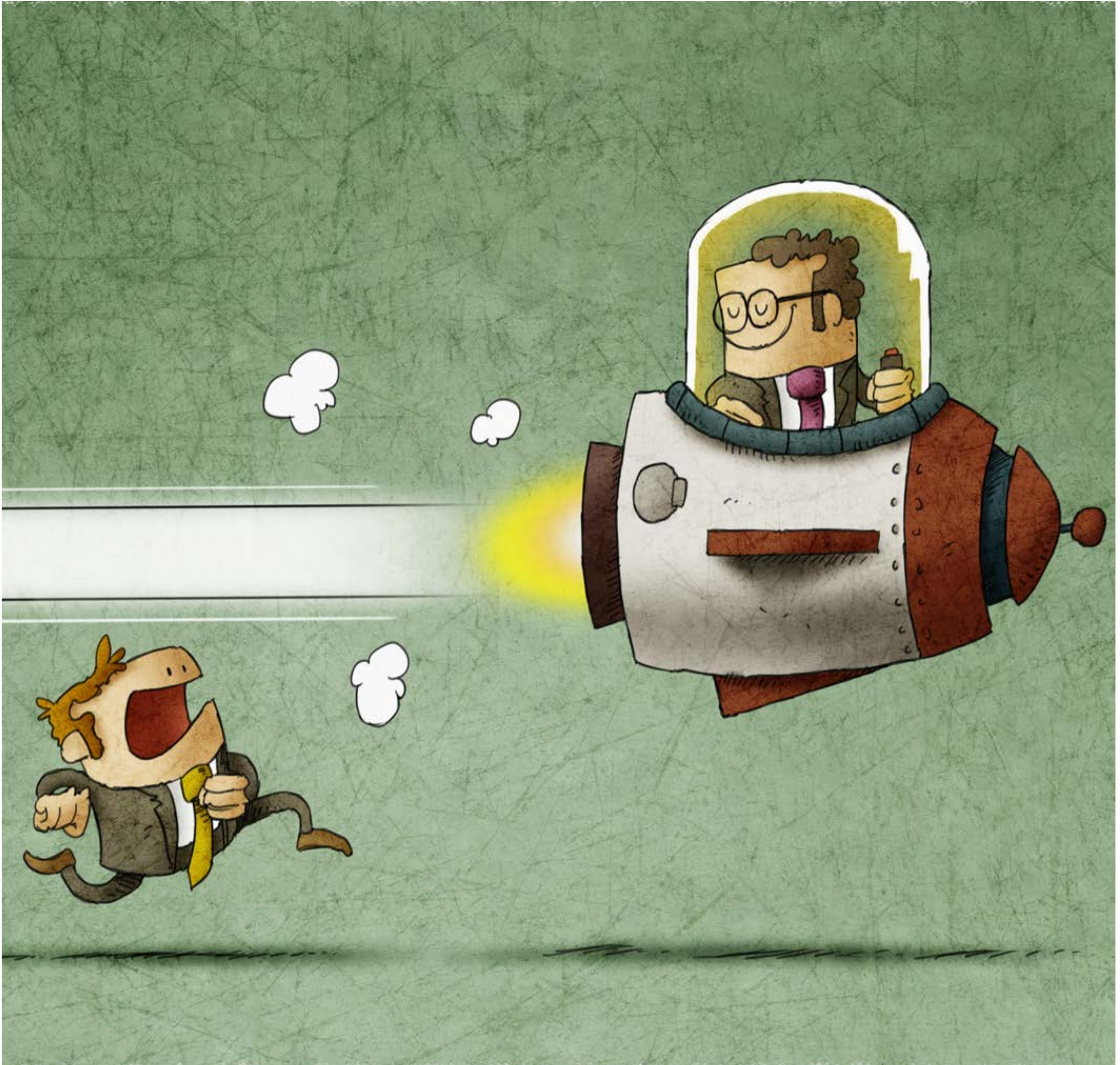
## You recently launched BrokerTec Quote. How will this benefit clients?

We are targeting a pilot go-live and production ready before the end of June 2019. The initial launch will be a small number of dealers and buy-side clients. We are working with a very agile and flexible technology partner in building out this new execution solution, enabling us to offer something which is intuitive, easy to use, and has rich functionality to support the workflow and mechanisms unique to both RFQ and more so to repo trading.

In 2018 we set up and established a Repo Working Advisory Group with representation from both the banks and the buy-side side to help us to determine the workflow and what features and functionality are fundamentally important. We will release and upgrade several iterations following go-live and before year end 2019 that will broaden our scope and products that can be traded including the likes of GC and open repo, which will also allow us to further diversify and target different buy-side organisations.

This initiative is a change of direction as BrokerTec has historically existed across several different asset classes, both within Europe and the US, in what has predominantly been a wholesale secondary market. While this clearly leverages a lot of the existing client base from the bank or dealer perspective as more typical liquidity providers, it also allows us to target a different demographic on the buy-side; we have been very pleased and encouraged by the level of interest from that perspective, ranging from hedge funds to asset managers. There is competition in this space, but it is early days and the market opportunity is meaningful.

The identity and recognition of the BrokerTec name within the D2D space holds real strength, even within the buy-side or end-users in our ability to work collaboratively in a manner that looks to solve and partner for our clients and deliver something that is very credible in terms of the trading experience. **SLT**



# Advantages of integration

## FIS speaks with Rich Hochreutiner, global head of collateral, Swiss Re, to understand his vision for integrating repo, securities lending and collateral

**Why is securities finance important for insurers and what are the goals of the programme?**

Our securities finance programme serves three main purposes for Swiss Re. First, it is a means of reducing bank risk. As part of our cash management activities, we include reverse repo rather than letting cash sit unsecured with a bank. Second, the repo market provides us with funding resilience. The chances of being able to borrow cash are infinitely higher on a secured basis than on an unsecured basis, particularly in times of market or name-

specific stress. The third goal is to yield enhancement. Using securities lending to generate welcome extra revenue in these times of low yield is increasingly important for asset managers, insurers and pension funds. Every basis point counts, especially for long-term investors.

## How have you organised your treasury, securities finance and collateral management businesses at Swiss Re?

We believe that aligning these lines of business is a crucial success factor—not only for the insurers but also for most other participants in these markets. It is no longer feasible to have separate silos for treasury, fixed income and equities with derivatives collateral management on the side. The traditional model simply isn't smart enough anymore. We started combining onto one central platform back in 2009, which allows us to benefit from the intrinsic synergies and avoid paying a spread to the market.

As an example, you could use repo to raise cash for variation margin, thereby removing the need to sell long-term investments. Or you could use the securities lending market to transform the securities you have to obtain securities you need. Having all investments available to transform into the collateral you need minimises the probability of needing to go into the market and paying a fee to do so—you'd rather share the savings within the group.

## What drives the choice between insourcing your securities lending programme vs. using an agent lender?

Of course, critical mass is a deciding factor whether to do something in-house or to outsource to an agent lender. I believe that solution provider companies like FIS can significantly impact the decision of whether to outsource or not by offering innovative, cost-effective solutions that lower entry barriers for new market participants. If you can cover multiple facets of the market with one system, that is a welcome simplification. Personally, I believe that focusing on your own positions will generally lead to better returns rather than being one of many in a large programme.

Insurers must have effective funding and liquidity management. If you are doing cash management using repo, then adding in securities lending is a small step. It's not a complicated business. If you already manage interest rate risk of decades, then you can probably manage short-term interest rate risk.

Why not use the collateral management system you need for derivatives collateral to also manage securities lending? If you are doing asset management, then you already have people moving securities and cash. The process to start lending and borrowing is not much different. Having the expertise is one component but you need the organisational alignment and modern infrastructure to do it effectively. A platform should cover securities lending, repo and derivatives collateral, be regulatory-compliant and provide seamless connectivity to the market infrastructure. A modern system that solves these problems is a great way to get started and will find support along the process chain and within the control functions.

## How will UMR for OTC derivatives impact firms like Swiss Re? What will be the impact on securities finance?

UMR will add some complexity because of the amount of documentation adaptation, but operationally, Swiss Re is well prepared because we have consolidated securities lending, repo and collateral management on a single system in Apex that can already accommodate the changes. I could imagine that, the requirement to exchange non-cash initial margin for over-the-counter (OTC) derivatives may push additional people into the securities finance market. If you're doing collateral management for initial margin (IM) with multiple counterparties, you may as well do securities lending. The structure of the market would benefit from new participants.

Repo and securities borrowing and lending markets are the way to create a universe of securities needed for IM. Firms will increasingly be using systems that provide a central platform for securities finance and collateral. The decision to centralise these disciplines is both an organisational and an infrastructure question. We are all concerned about how regulations stop people getting on and doing their business. However, this regulation could paradoxically have a positive effect on securities finance.

## What other factors will influence your business over the coming years?

The Securities Financing Transaction Regulation (SFTR) will continue to be a topic over the coming years for insurance companies and other non-bank firms. The buy-side community has six months longer than the banks to be compliant, by October 2020.

As Apex users, we are relying on FIS to provide an effective solution. We are also currently evaluating FIS' reporting solution that plugs directly into trade repositories, bypassing any need for another layer of data aggregation which could create friction. We believe such a direct approach could be the most efficient for reporting the business of our EU-based companies. There are many complexities to SFTR reporting and FIS has designed a simple but effective solution.

## How important is the choice of a vendor partner to support your business goals?

In my experience, the main selling point of FIS is that it has a great team of people. Being able to have a discussion with someone who understands what you need as a buy-side firm and can challenge you is a huge advantage. Apex has really rich functionality with all the components we need for securities lending, repo and cross-product collateral management. This is what people need more than ever.

# Bright spots

## IHS Markit's Sam Pierson provides a securities lending Q2 update

Global securities lending revenues for Q2 2019 totalled $2.59 billon, 10 percent below the average Q2 revenue over the last three years. There were some bright spots, with an increase in special balances in some of the larger markets along with continued expansion in emerging asset classes. Total loan balances fell 12 percent year-on-year (YoY), with the largest driver being declining demand for government bonds. The largest contributor to the revenue shortfall was European equities, however, even within that asset class, there were some bright spots such as specials demand for UK equities.

The second quarter saw some signs of life for specials demand after a challenging first quarter. The spate of recent US IPOs boosted demand for specials. The most notable was Beyond Meat, where fees for new borrows exceeded 300 percent during the second week of June. Those lofty fees made the plant-based meat-alternative the most lending revenue-generating security globally for Q2. The other significant revenue generator from the US IPO space was LYFT (UBER also attracted significant borrow demand, however, a larger float kept a lid on fees).

The first quarter of 2018 represented the post-crisis peak in demand for government bonds, with average loan balances greater than $1 trillion. Each subsequent quarter has seen declining balances, with Q2 2019 balances averaging $815 billion. The primary driver of demand has been the collateral needs of broker-dealers in relation to regulatory requirements for holding high-quality liquid assets (HQLA). Increased issuance, reflected in additional holdings on broker-dealer balancesheets, may be contributing to the declining overall demand. Despite the cooling overall demand, there were some short-lived opportunities to generate lending revenue, most notably the on-the-run 10Y bond in early June.

Corporate bond lending revenue fell 18 percent (YoY), primarily driven by declining demand for dollar-denominated credits. Revenues for EUR and CAD denominated bonds increased on the back of higher fees, despite lower loan balances. Overall revenues fell for both investment grade and non-investment grade issues, however within each there were some countertrends. The largest positive contribution to investment grade revenue growth was from the CAD denominated bonds; the largest positive contributions to non-investment grade revenue growth were EUR and GBP denominated issues.

Equity lending revenues came in at $2.1 billion, a decline of 17 percent compared with Q2 2018. Asia equity lending revenues fell 14.6 percent compared with Q2 2018, the first YoY decline in quarterly revenues since Q3 2017. The (YoY) decline was entirely driven by lower fees,

however, balances remain elevated though they have fallen from record Q1 levels. Asian equities also contributed to American Depository Receipt (ADR) revenues, which were 9.5 percent higher than Q2 2018. ADR revenues failed to better the all-time record revenue set in Q1.

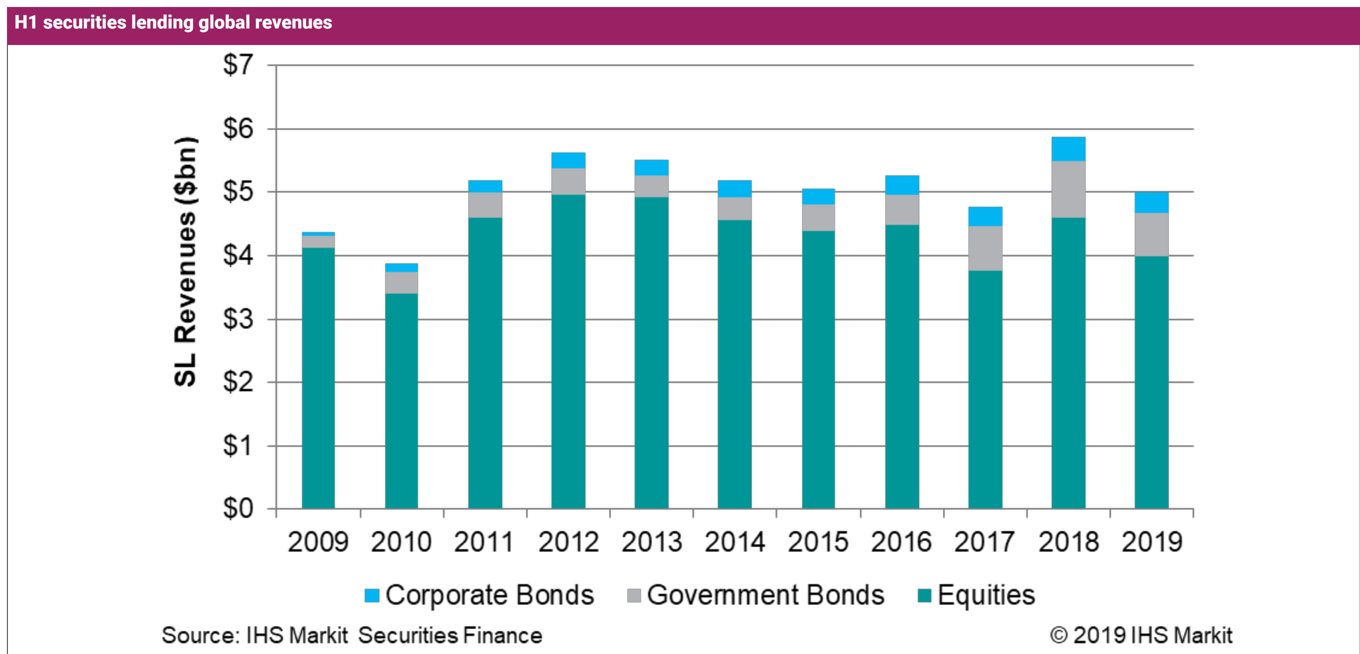
The exchange-traded fund (ETF) lending revenues continue to underperform 2018, primarily the result of lower fees and balances for high-yield bond funds. Borrow demand for exchange-traded products remains robust, with Q2 balances 12 percent higher YoY. The most revenue-generating funds continue to be USD HY credit, broad US equity index, leveraged loans and emerging markets.

The revenue shortfall in the first half of 2019 relative to 2018 appears rather large, however, it's worth noting that H1 2018 was the best six-month span post-crisis, making for a tough comparison.

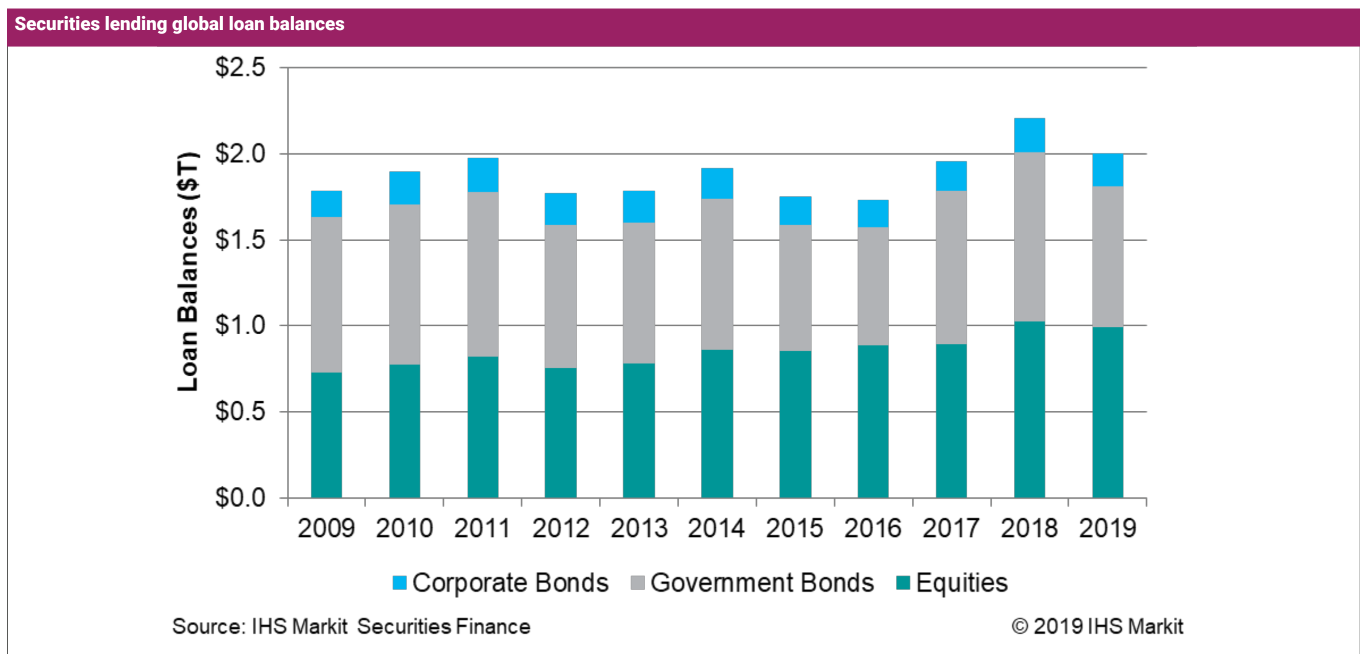
For some perspective, the H1 2019 revenues were a 4 percent improvement compared with H1 2017.

Against the broad trend of declining fees and balances, some asset classes have presented opportunities to generate incremental income, notably including the Cannabis sector, emerging markets, ex-USD corporate bonds, US IPOs and hard-to-borrow UK equities.

**H1 securities lending global revenues**




**Securities lending global loan balances**



# Don’t miss the next issue of SLT

SLT is present at all of the major securities lending conferences around the world. Make sure you pick up a copy of the latest issue

**Finadium Investors in Securities Lending Conference Paris**
Paris

September 2019
24

**International Collateral Management Forum**
Vienna

September 2019
26-27

**The SFTR Implementation Forum**
London

October 2019
02

**3rd Edition Impact of SFTR on Securities Lending and Reporting Conference**
London

November 2019
09

WELLS FARGO SECURITIES

# Discover a partnership for success on your terms

- PRIME BROKERAGE, MARGIN FINANCE, AND SECURITIES LENDING
- CUSTODY AND CLEARING SERVICES
- CAPITAL INTRODUCTION
- BUSINESS CONSULTING

Achieving success is easier when you have a relationship with someone who understands your unique needs. Our Prime Services group has the industry expertise to help alternative asset managers take advantage of a rapidly evolving marketplace. In addition, we offer financial, operational, and technical resources to help you succeed, today and over time.

Discover how a powerful relationship can help you achieve success. Visit **wellsfargo.com/prime**.

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, and Wells Fargo Bank, N.A. Wells Fargo Securities, LLC and Wells Fargo Prime Services, LLC are distinct entities from affiliated banks and thrifts.

© 2018 Wells Fargo Securities, LLC. All rights reserved. IHA-5362801

# Comings and goings at Soc Gen, National Bank of Canada and more

**Société Générale has appointed two co-heads of equities and equity derivatives, Americas, effective Q3 2019.**

In their new roles, James Masserio and Salim Nemouchi will assume responsibility for the development of the firm's equities and derivatives franchise, focusing on investment solutions.

Masserio previously held the position of head of equity derivatives trading, Americas, at the firm.

Nemouchi served as head of linear trading within the organisation's equities and equity derivatives group for the Americas.

The two appointments replace Hatem Mustapha, who was recently appointed as head of global markets, Americas. Both Masserio and Nemouchi will report to Mustapha and Alexandre Fleury, global head of equities and equity derivatives.

**National Bank of Canada Global Finance has appointed Pierre Celhabe as director and securities finance trader.**

Celhabe brings to the firm a range of experience in financial markets, specialising in equities, securities lending, repo and trading.

Previously, Celhabe served as a sales trader for securities lending and repo at Caceis for almost a decade, where he was responsible for stock lending and borrowing, repo, financing and collateral downgrade trades.

**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.

THIRD ANNUAL

SEPTEMBER 24, 2019 | PARIS, FRANCE

# The Leading Event for Investors on Opportunities and Challenges in Securities Finance

finadium.com