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THE BURNING ISSUE OF ESG

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Hazeltree acquires ENSO Financial Analytics

Treasury management services provider Hazeltree has acquired ENSO Financial Analytics, a portfolio analytics services provider for hedge funds and prime brokers, previously owned by CME Group.

ENSO's suite of data-driven tools aims to enhance risk and operational transparency and improve transactional efficiency, thereby allowing multi-prime hedge funds and asset managers to optimise structural and variable costs.

It captures data on more than $1 trillion in hedge fund assets under advisory.

Hazeltree said that ENSO will become an integral part of its product suite, and its prime brokerage, asset management, technology and data specialists will be integrated with Hazeltree's team.

Data analytics provider IHS Markit is also a minority stakeholder in the transaction alongside existing investors.

Pierre Khemdoudi, global co-head equities data and analytics at IHS Markit, said that the data analytics provider was drawn to investing in the deal because the platforms and data solutions from Hazeltree and ENSO are highly complementary to its own services and network of buy-side and sell-side clients.

"Our investment is a way to help align our solutions to serve the evolving needs of our customers while also establishing a foundation for potential further integration and partnerships in the future," he added.

The specific financial terms of the transaction were not disclosed. Sameer Shalaby, president and CEO of Hazeltree, said: "The acquisition will result in a truly unique integrated solution with extensive scale and talent, to support more than 200 important clients, who can now benefit from the best solutions and services available."

Paul Busby, global head of ENSO, added that he expects to the deal to create significant synergies for their global client base.

He added: "Together, our teams will continue to deliver industry-leading technology to help drive continued innovation of our portfolio finance, treasury, and data solutions."

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BNY Mellon to add ETFs to agency lending collateral list

BNY Mellon is set to add exchange-traded funds (ETFs) to its collateral list by the end of the year in response to client demands for greater flexibility when collateralising securities lending transactions.

In a recent report for institutional customers in the US and Asia Pacific, Simon Tomlinson, global head of agency lending trading at BNY Mellon, said the process of adding ETF collateral lists to the agency lending business is already underway, with a view to accepting it this fall.

According to the report, the decision comes after the bank began to receive "questions from securities borrowers who want to know when ETF collateral will be accepted for its own agent lending business".

The report also reviews the results of the bank's survey which asked, among other things, if its buy and sell side clients would be open to growing their currently very low levels of utilisation of ETFs as collateral as a way of increasing market liquidity.

The survey of 20 collateral provider clients by BNY Mellon Markets found that, by and large, firms use a negligible amounts ETF collateral today.

Many see their usage growing, however, especially if liquidity and circulation of the funds increases or they can find buysiders to accept the funds, the report noted.

Although the report acknowledged that the use of ETFs as collateral for securities financing transactions is on the rise, "convincing hundreds of clients to add ETFs to their collateral schedules will take time".

The bank plans to leverage its new RULE tool, which can help clients with changes to their existing collateral schedules to include ETFs, to help speed up the process.

According to BNY Mellon, the adoption of ETFs as collateral has also been slowed by a lack of nuance in the regulatory oversight of ETFs.

Katy Burne, the report's author and BNY Mellon's content and communications strategist, described how one current sticking point is that regulators that determine what collateral can be pledged against derivatives currently treat Goldman Sachs Access Treasury (GBIL), an ETF that tracks an index comprised of US Treasury securities with less than one year remaining in maturity, no differently than an ETF containing Russell 2,000 stocks.

"When traders pledge $100 of collateral, the regulators guide the receivers of that collateral how to discount its value in case one side goes belly up," she explained.

"With the typical equity-like haircut for ETF collateral, the requirement today can be north of 15 percent," Burne added.

However, the bank now believes that there are several market forces that might increase the potential for ETF collateral use as institutions become more comfortable with how ETF baskets are built and dismantled. As well as this, collateral flexibility is becoming more important.

The report noted that if ETFs are mobilised as collateral then it is more likely funds' liquidity will increase, thereby reducing market friction.

Additionally, for those jurisdictions and credit arrangements where cash collateral may be restricted, ETFs could be easier to move and manage than other assets, BNY Mellon noted.

The report comes a month after Goldman Sachs Asset Management selected BNY Mellon to provide asset services for its newly-launched European UCITS ETFs.

BNY Mellon's global head of business solutions for asset servicing, James Slater, remarked that the world is better piped to move equities than money market funds.

He commented: "The need to collateralise transactions is increasing and in some cases regulations restrict the use of cash."

Robert Rushe, head of ETF services for Europe, the Middle East and Africa at BNY Mellon, noted: "Our appointment bears testament to the quality of our ETF-specific technology, our scale and our team of ETFs experts."

New UK fintech enters the securities finance market

Industry newcomer Hudson Fintech has unveiled a new securities finance front-office technology platform for sell- and buy-side institutions, based on a core technology that is unique to the financial markets.

Hudson Fintech's company mission statement states its aim is to revolutionise processes and tackle the "stagnant financial software market".

According to Hudson Fintech its software captures and displays trade and market data, provides position blotters and real-time analytics, as well as support end-to-end workflow processes.

It also promises to improve efficiency and risk management, while lowering the processing costs of trades.

In a statement on the launch, Hudson said that the platform gives financial institutions more ownership and control of trading operations, while the software provides the tools and capabilities to allow customers to quickly adapt to changes in the regulatory landscape, such as the Securities Financing Transactions Regulation.

Hudson was co-founded in March by Michael Walliss, who acts as CEO, Troy Peterson, who serves as product technical lead, and Dietmar Nowatschek, who is the product owner.

Walliss brings experience running technology start-ups, while Peterson specialises as a lead developer for trading systems focused on repo, prime brokerage and fixed income.

Nowatschek has more than 22 years of experience in the global banking sector on both the vendor and the client-side and has focused on analysis and development in front- and middle-office areas.

Under the hood

The Hudson platform is built on an advanced system architecture, known as an entity-component-system (ECS), which was first developed by the online gaming industry to allow for regular software patches to be completed with minimal disruption to players.

As such, Hudson's new ECS technology platform is designed to be implemented quickly, in parallel with existing systems, with little regression testing.

ECS architecture works with a data model where all objects become individual entities to which arbitrary data can be added or removed at runtime, Hudson explained in the statement.

Business logic is implemented in the form of unique behaviours that operate on combinations of attached data components.

This new style of data model aims to resolve legacy issues, where traditional 'hierarchical' systems are interdependent on other components of the system, Hudson added.

Hudson promises that, with fewer interdependencies, its platform can be flexible in the event of a regulatory or technological change to the business, as well as faster to develop, and ultimately less expensive.

The fintech added that this is achieved by extensively reusing existing code with continuous automated testing, meaning that less time is spent on manual regression testing.

As a result, Hudson aims to significantly reduce the time taken to upgrade systems and to cut typical licence fees by up to 50 percent, which it said reflects institutions' needs to reduce costs and increase efficiency.

Why launch now?

A spokesperson for Hudson confirmed that the platform is now live but does not currently have any clients on board, although several sell-side institutions are conducting tests with Hudson's software.

The spokesperson added that the impetus behind the new platform was demand from banks for a more modular and light-touch technology solution that would solve the new demands of today's securities finance market environment, including post-crisis regulatory frameworks.

As a result, Hudson was established to resolve financial institutions' new requirements for increased regulatory reporting and transparency, improved risk management processes, and balance sheet constraints.

In its launch statement, Hudson outlined that regulators around the world demand increased data control and reporting, leading to many financial institutions reviewing their outdated legacy systems, typically using multiple technology bolt-ons, which limit the flow and efficiency of trading operations.

As the financial markets continue to evolve, many of the larger sell- and buy-side institutions are moving away from all-encompassing technology solutions that are difficult to install, Hudson said.

The fintech added that specialist firms are able to offer easy to implement technology modules that address specific issues without impacting an entire technology stack.

Rupert Bull, CEO of The Disruption House, a banking technology consultant that is currently reviewing Hudson, said: "As many existing technology platforms reach their end of life, we see a demand for a new technology player in repo trading."

"I'm a firm believer the regulator doesn't give a stuff about millions of data fields," says ISLA panellist

The purpose of EU regulations due to come into force in 2020 is less about gaining access to vast quantities of securities finance transaction data and more about driving the industry's transparency modernisation, says ISLA conference panellists.

Speaking on a panel focused on the Securities Financing Transactions Regulation (SFTR) at the International Securities Lending Association's (ISLA) Post Trade event in London, a panellist explained: "I'm a firm believer that the [EU] regulator doesn't give a stuff about having millions of data fields."

"That's not the point; the point is supporting people to become transparent."

Meanwhile, another speaker said that SFTR would bring efficiency, transparency and synergy to operational procedures, such as with reconciliation.

"Transparency will help us identify where we can focus our interests to improve processes and trading as well as create opportunities around data," the speaker added.

Elsewhere, a third panellist said that SFTR will also bring sales opportunities.

"We talk about auto-returns based on the unique trade identifier (UTI) and benefits there and we use it as a stick to encourage borrowers," they explained.

"From a commercial angle from an agent lender perspective, it's another service to offer clients; another piece in our creative toolbox that an agent lender can offer, so there is a benefit from a sales perspective as well."

In a later panel, delegates were asked whether they could be ready for the April 2020 implementation date for SFTR if the level III regulatory details were only released in December.

Of the 66 people that responded, 62 percent said "no", 33 percent said "yes", and 5 percent said they "did not know".

Despite this fast-approaching cliff edge, SFTR is apparently not the biggest concern the industry faces today.

When asked in a separate poll what regulatory challenges kept them awake at night the most, only 20 percent of delegates cited the release date of SFTR level III clarifications.

A further 11 percent pointed to the new data requirements, including legal entity identifiers and UTIs, while just 3 percent said actual transaction reporting.

The poll further revealed that delegates' biggest worry was the Central Securities Depositories Regulation's (CSDR) mandatory buy-ins and penalties (34 percent), along with related booking practices, i.e. corporate actions and booking timing (31 percent).

Comparing the challenges posed by SFTR and CSDR, a panellist said: "I think it [CSDR] is a slightly different beast, it is all about prevention, and CSDR is about how much money do you want to throw at it to make those problems go away but at the same time it is not something you can work on in isolation."

CSDR's settlement discipline rules, which include the mandatory buy-ins and settlement fails penalties, is due to come into effect in Q3 2020.

Nomura has selected IHS Markit's Collateral Manager

Nomura has changed collateral management provider selecting IHS Markit's collateral solution.

IHS Markit has said in a research note on the new mandate that it can reduce Nomura Asset Management's operational costs and optimise efficiency with its Collateral Manager solution.

Its solution manages over-the-counter (OTC) collateral and the trade lifecycle with a "comprehensive, end-to-end solution," said IHS Markit.

Additionally, IHS Markit said its solution adds a future-proof, cloud-based solution with visibility and control over the collateral processed, and allows for a centralised and standardised workflow.


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Broadridge acquires Shadow Financial Systems

Broadridge Financial Solutions has acquired Shadow Financial Systems to build on its current post-trade processing capabilities.

The acquisition adds a solution for exchanges, inter-dealer brokers and proprietary trading firms as well as capabilities across exchange-traded derivatives and cryptocurrency.

Michael Alexander, co-head of North American Wealth and Capital Markets Solutions for Broadridge, said: "We look forward to bringing real benefits to a new set of market participants as well as new capabilities to our existing client base."

Don Marino, president of Shadow Financial Systems, said: "We are excited to join industry leader Broadridge and to better serve our clients' evolving needs while adding the scale, deep domain expertise and technology resources that Broadridge can provide."

In its research note, IHS Markit said it was able to secure Nomura as a user of its platform in part because of the heightened regulatory demand under the Uncleared Margin Rules (UMR), which is currently being rolled out in phases, and scrutiny over collateral agreements.

IHS Markit explained that, as a result, the volume of disputes escalated to the Nomura team from its former outsource provider to surge exponentially.

Commenting on the switch, a spokesperson for Nomura said: "IHS Markit's solution fits the collateral management need that Nomura cannot deliver in-house alone. We look forward to continuing to meeting regulatory and market requirements in partnership with IHS Markit."

Eurex launches exchange-traded ESG options

The derivatives exchange Eurex has doubled down on its commitment to socially-responsible finance by launching adding its first exchange-traded environmental social and governance (ESG) options on a European benchmark to its product range.

ESG is an umbrella term for investments that seek to achieve positive financial returns while also contributing to improving society and the environment.

The launch of Eurex's new options, which are based on the new STOXX 600 Europe ESG-X Index, is scheduled for 21 October.

Eurex noted in a statement that the options will further complement its STOXX Select products with futures and options that capture the performance of European companies with high dividend payments, low volatility and a relatively high ESG score.

In February, Eurex claimed to be the first exchange to introduce an ESG product- suite of three futures based on European benchmarks.

In a statement on the launch, Eurex said the three futures on the highly-liquid European STOXX benchmarks covering ESG exclusions (low carbon and climate impact) support market participants to manage sustainability-driven challenges.

Seven months after their launch, STOXX Europe 600 ESG-X Index Futures (FSEG), which Eurex says are by far the most popular contracts, have reached over 362,000 traded contracts with 55 percent of the flow coming from end clients and asset owners.

During the peak of the most recent roll period, open interest reached 85,000 contracts worth €1.2 billion notional value, according to Eurex.

"Options are the next logical step to extend our ESG offering on European benchmarks," said Eurex executive board member Michael Peters.

"As market feedback on our sustainable derivatives is very positive, we will continuously expand our product range closely aligned to the needs of our clients."

Andrew Fisher, managing director at Goldman Sachs, added: "With the market becoming increasingly focused on sustainable investing, we are excited by this new initiative from Eurex and look forward to bringing these new products to our clients.

RMA forms new fintech group

The Risk Management Association (RMA) has launched a new Financial Technology and Automation Committee to guide the financial service industry's engagement with and adoption of new technologies while acting as an advocate for best practices.

The committee will be co-chaired by Charles Post, managing counsel and director and head of legal data management and advisory at BNY Mellon and Nickolas Delikaris, global head of trading and algorithmic strategies at State Street.

In its online mission statement, the committee stated its aim is to reduce risk and facilitate financial markets through the understanding, leveraging and implementation of technologies that assist lending, trading, collateral management, funding, clearance and settlement.

According to the RMA, the committee will accomplish this goal through the creation of a forum where members can learn to understand these technologies, their application, and risks, and formulate and drive standards to lower the barrier of entry for members.

Committee agenda topics include distributed ledger technology/blockchain, advanced algorithms, such as artificial intelligence and machine learning, as well as robotics and new platforms microstructure connectivity.

New co-chair Delikaris said that the RMA will be revealing further details about the committee and looking for new participants at this year's RMA Securities Finance and Collateral Management Conference.

State Street launches managed peer-to-peer securities finance platform

State Street has today launched its first managed peer-to-peer securities finance platform.

The bank currently hosts five lenders and will soon have a second borrower.

In a statement on the launch, the bank said that the new product facilitates direct lending transactions by leveraging its agency lending and enhanced custody programmes to offer customers on either side of the transaction the benefits of each programme.

"Over the last decade, we have worked hard to manage balance sheet constraints across banks and broker/dealers participating in securities lending," said Martin Tell, State Street's global head of securities finance.

"State Street has created a number of innovative solutions to support our clients, expanding our program to add new markets and collateral types and diversifying methods for borrowers to post noncash collateral by pledging securities instead of a title transfer."

Stress in the stress test

On 26 September 2019 Andrea Enria, chair of the European Central Bank's (ECB) supervisory board, outlined his proposals to amend the nature of the annual EU-wide banking stress test (the future of stress testing–realism, relevance and resources). This stress test has been subject to mounting criticism concerning its accuracy and hence Enria seeks to make the test more realistic, relevant and with fewer resources required.

Methodology is key

The test results are only as good as the realism of the scenarios against which they are tested. For 2020, the EBA explains: "[S]cenarios, methodology, minimum quality assurance guidance, templates and template guidance will be agreed by the European Banking Authority's (EBA) board of supervisors. The macroeconomic adverse scenario and any risk type specific shocks linked to the scenario will be developed by the European Systemic Risk Board (ESRB) and the ECB in close cooperation with competent authorities and the EBA."

Criticism of existing stress test

In 2011, the EBA was criticised for being overly lenient in its criteria, not factoring in a Greek sovereign debt default, thereby passing Dexia, only for it to subsequently collapse.

The EBA focused on Dexia's 10.3 percent core tier-one capital ratio, placing it well clear of the 6.3 percent threshold for a pass. That Dexia put out a press release on 15 July headlined "2011 EU-wide stress test results: no need for Dexia to raise additional capital," left the EBA distinctly embarrassed. Since 2014, the ESRB has taken over developing the scenarios for the stress test.

In an academic paper commissioned by the European Parliament (EP), Thomas Breuer, outlines three criticisms of the test:

- "The restriction of attention to one adverse scenario might foster an illusion of safety"
- The stress test neglects the macroprudential view on systemic risks. A static balance sheet view based on a fixed scenario fails to factor in second round effects (banks' reactions)
- Banks are allowed, indeed encouraged, to use internal models which might lead to an inadvertent (or deliberate) misrepresentation of risk

Regarding the third point, there is empirical evidence to support Enria's notion that internal modelling "provides banks with substantial leeway to materially underestimate their vulnerability to adverse circumstances, to 'game' the exercise, in other words".

Proposed solution

Enria proposes to radically change the stress test after 2020 by: splitting the test into a 'bank view' and a 'supervisory view'; the 'static balance sheet view' would give way to a more realistic dynamic view; and by increasing the transparency by linking the stress test to supervisory capital requirements.

The two views would be the most decisive aspect of the proposal. The problem with relying solely on the banks' bottom-up figure are, according to an EP briefing paper, that "banks use their own models to calculate the effects of pre-defined macro-financial scenarios and to generate the stress test projections (in the EU, a so-called 'base-line' scenario and 'stress scenario' are used)". In using these models, banks use internal methodologies to translate macro-prudential parameters into risk parameters. For example, for credit risk: in particular the probabilities-of-default (PDs), and the losses-given default (LGDs). I wrote about these in my last memo.

Enria's approach would call for the ECB to conduct parallel calculations and then present the two results–the banks' and the ECB's–side by side, thereby allowing the public to reach their own conclusion.

As regards the static balance sheet, this assumption is a key component of the stress test. It controls (holds constant) the balance sheet total volume, maturity and product mix (no policy change) over the stress test horizon. It does not allow the bank to factor in expected reactions to scenarios. This assumption reduces complexity as the expense of realism. Enria suggests a switch to a dynamic balance sheet response with it left to the bank to justify any changes.

Finally, linking regulatory capital to the stress test. As Enria stated: "While we are very transparent on the results, we remain quite opaque on how they translate into capital add-ons."

Bringing transparency to opaque models by having an adjacent regulator view and bank view is a good idea. It will diminish the temptation for banks to 'cook the books' by manipulating models since large unexplained discrepancies with the regulator's calculations will lead to a loss of investor confidence. This discussion ties in with Basel III reforms that limit the use of internal modelling.

Seb Malik
Head of financial law
Market FinReg

THE BURNING ISSUE OF ESG

As the world battles with climate change-induced forest fires, floods, hurricanes and drought, that is causing wide-spread social unrest around the world, the securities lending industry looks at how it can do its part to adapt to the new ESG environment

Maddie Saghir reports

This year so far has seen the Amazon rainforest afflicted by untameable fires, while global temperatures continue to rise and ocean ecosystems are being terminated. Elsewhere, the refugee crisis in the Middle East following the collapse of the terrorist group ISIS in Syria continues to worsen, and grassroots protests have sprung up in the US and across Europe against perceived political corruption, social injustice, and environmentally irresponsible business practices.

One of the most prominent mass protests occurred earlier this year in London when thousands of protesters took to the streets under the banner of a new environmental activist group called Extinction

Rebellion to shut down large swathes of the city in a bid to force the then Prime Minister Theresa May to declare a "climate emergency".

More recently, teenage climate change activist Greta Thunberg gave an impassioned speech at the United Nations' Climate Action Summit, saying: "For more than 30 years, the science has been crystal clear. How dare you continue to look away and come here saying that you're doing enough when the politics and solutions are still nowhere in sight."

"People are suffering. People are dying. Entire ecosystems are collapsing. We are at the beginning of a mass extinction, and all you can talk about is money and fairy tales of eternal economic growth. How dare you!"

Without doubt, 2019 is the year that environment and social issues fully captured the world's attention to such a degree that it has trickled down into niche areas of the financial markets, including the world of securities finance.

In fact, while Thunberg was berating world leaders in New York, securities finance market participants were meeting at IMN Beneficial Owners' Securities Finance and Collateral Management Conference in London, for a series of panel debates that repeatedly highlighted the growing trend of environmental, social and governance (ESG), also known as 'sustainable investing', in the lending market.

Talking to Securities Lending Times earlier this year, Andrew Dyson, CEO of the International Securities Lending Association, described ESG as an umbrella term for investments that seek positive returns and long-term impact on society, environment and the performance of the business.

"Sustainable finance includes a strong green finance component that aims to support economic growth, while reducing pressures on the environment, addressing greenhouse gas emissions, tackling pollution, minimising waste and improving efficiency in the use of natural resources," Dyson explains.

"In light of the growing political and social focus on issues associated with climate change more broadly, investors are increasingly looking to align their investment strategies with these greener credentials," he added.

However, despite the virtuous overtones presented by many entities the inevitability of ESG integration in investment analysis, for both securities lending and borrowing, is a case of practicality over philanthropy, says Harry Merrison, investment manager, vice president at Kingswood Group, a wealth management business.

So what is driving this greener and more ethical way of doing business? Is it a latent moral awakening by the financial community or a shrewd investment move to capture the latest social trend?

The pull of the sell side

In its mission to affect a real change in the climate debate, Extinction Rebellion has found an unlikely ally in several of the largest pension funds and asset managers around the world.

Industry experts have indicated that the drive primarily stems from the sell side and that pension funds, in particular, are pushing for ESG investing to present a socially responsible face to their investors—and they might be onto something.

"The latest research reinforces popular belief that millennials value ethical investing more than the previous generation," explains Merrison. "The age of wealth distribution is imminent. Millennial investors are more and more discerning, thus increasing the likelihood that demand for ethically focused strategies will continue to swell."

One such example of the knock-on effect of this social shift was offered when the Amazon rainforest fires in Brazil and Bolivia first began to dominate media headlines. In response to the crisis, the California Public Employees' Retirement System, one of the largest pension funds in the US with $16.2 trillion in assets, became one of 230 global investors to sign an open letter warning hundreds of unnamed companies to either meet their commodities supply-chain deforestation commitments or risk economic consequences.

Merrison highlights that, as well as becoming more vocally activist, pension funds are also putting their money where their mouth is. He says that in the UK alone, capital allocated to ESG funds now exceeds £1.2 trillion, with the majority held within pension funds.

Roy Zimmerhansl, practice lead at Pierpoint Financial Consulting, which works with beneficial owners on their lending programmes, reinforces this point, explaining that pension schemes are increasingly focused on ESG and transparency for members is essential for those plans.

"Retail funds, including exchange-traded funds, mutual funds and UCITS use the ESG tag as a way to capture inward investment in this trendy and timely area," he says.

Zimmerhansl says that he sees ESG being an increasingly important issue for institutional investors as part of their governance process and portfolio construction. He explains that inevitably this is having an impact on the securities lending market and the market intermediaries will be required to respond.

"Our discussions with beneficial owners focus on the full lifecycle of activity," he explains. "Obviously, agents can only lend securities in client portfolios, so the front-end composition is the responsibility of the portfolio managers. However, clients also own the collateral they receive from borrowers and so in our view, collateral needs to also satisfy the lender's ESG guidelines. There is also ever-increasing scrutiny of actual voting practices by asset managers and this will also impact the business as we anticipate more active voting in future."

Speaking at the IMN conference, Matthew Chessum, investment manager at Aberdeen Standard Investments, said: "ESG is embedded across all of the investment processes that we [Aberdeen Standard Investments] run."

"The main driver behind ESG investing is to increase corporate standards which is becoming more important. Clients are very interested in understanding how our focus of ESG is embedded in our investment management process. The momentum behind this practice is definitely picking up and it is only going to become more important as time goes on," Chessum notes.

Dispelling the myths and tackling the issues

While there is an increasing demand for ESG investing options, some industry experts say that it is not on every investor's agenda and more can be done to enhance engagement. One of the main reasons for behind some investor's reservations is the belief that ESG investment processes can reduce a fund's performance, especially when it comes to securities lending. The argument against ESG follows the well-trodden path that the equity as the collateral debate has taken in recent years. In essence, in the context of the buyers' market that lenders operate in means, they cannot afford to make themselves any less attractive to borrowers by presenting potential suitors with a laundry list of collateral that goes against its ESG policy.

In tackling some of these issues, Merrison notes that while investors increasingly expect ESG factors to be integrated into investment processes, he sees reduced performance as often being cited as a reason for investing elsewhere. According to Merrison, this is simply not a valid argument and in the past five years, ethical indices have outperformed their non-ethical counterparts.

He adds: "Another measure of success is non-monetary. Investors can map securities to the UN Sustainable Development Goals (SDG) to determine how their investment has a positive impact. Investor capital can be an important mechanism for change if responsibly deployed."

The relationship between ESG strategies and risk is also frequently questioned, but Merrison outlines that evidence suggests and performance demonstrates that companies which integrate ESG factors into their corporate fabric are better long term custodians for investor capital.

"The logic is irrefutable and many investors recognise that long-term stable and sustainable investment returns depend on well-governed social and environmental systems," he argues. "Ultimately investing in companies which apply ESG factors offers greater downside protection and yields better long-term risk-adjusted returns."

On the practical reality of the more complex collateral profile that ESG represents, Pierpoint's Zimmerhansl says: "From a securities lending perspective, we expect to see more operational impact in terms of customised collateral profiles, more comprehensive governance and oversight and increased voting. More moving parts are a potential risk, but the industry infrastructure is more than capable of dealing with these rising demands."

Other forces for change

Additionally, Zimmerhansl notes that he has been involved in discussions with hedge funds that use ESG filters as triggers for potential short positions as there is some evidence that poor corporate ESG characteristics may lead to share price underperformance. The issue that they face at times is a lack of supply for mid-cap companies that are short candidates, he adds.

Moreover, regulators are also applying pressure on firms to consider ESG risk and the carbon impact of investments.

A series of governing rulesets, such as the United Nations Principles for Responsible Investments (UNPRI), have been formed in the past decade to offer financial institutions guidance and a framework with which to support their evolution to a more responsible way of doing business. Signatories of the UNPRI, for examples, are committed to incorporate ESG considerations in their investment decision making.

"Regulatory changes are strongly contributing to the shift towards a low-carbon economy and the reorientation of private capital towards a more sustainable world," says Sergi Castellà, managing director, head of asset liability management, treasury and funding at CaixaBank, which is a signatory of the UNPRI, "At the European level, for instance, the publication of the new EU taxonomy provides a shared classification system to identify green assets that should be increasingly used by the investor community."

Castellà also cites the Paris Agreement as a driving force behind a great number of global economic stakeholders including sovereigns, corporate and institutional investors taking a stand on how they can contribute to climate change mitigation.

"The challenge is now to move beyond consciousness and towards concrete actions. Again, CaixaBank's SDGs Framework is not only a response to increasing investor demand but also aimed at reinforcing awareness around the importance of ESG investing options," he says.

Looking to the future, we can expect environmental and social issues to remain in the spotlight and likely grow further in prominence on the world stage and in finance; and the securities lending industry will have to play its part. **SLT**

Singing the same song

BCBS-IOSCO has recommended a one-year extension on the final implementation phase of uncleared initial margin rules but several regulators are still yet to agree, and they all need to say yes

Maddie Saghir reports

Earlier this year, the smallest firms affected by the Uncleared Margin Rules (UMR) were offered a life raft when the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (BCBS-IOSCO) recommended a one-year extension on the final implementation phase of the initial margin (IM) requirements for non-centrally cleared derivatives.

This extends the deadline to 1 September 2021 for phase six firms, while the deadline for phase five firms remains at 1 September 2020, thereby offering those that were struggling to prepare more time to juggle UMR alongside myriad other demands on their resources.

However, while many in the industry are celebrating the much-needed reprieve, others are warning in-scope market participants not to take their foot off the pedal for its preparation efforts, as for many, the delay is still not a done thing.

Shaun Murray, managing partner of Margin Reform, says: "BCBS IOSCO has extended the time available for the industry, which effectively splits the problem into more manageable chunks of delivery. Following advocacy, BCBS-IOSCO would feel like they have given the industry the time for the smaller firms to assiduously prepare rather than shoe-horning everyone through the 2020 window."

He predicts: "The extended timeframe makes things easier for the industry, which is why I expect the regulators will see that and support it. I will be surprised if a regulator comes out against anything that BCBS-IOSCO have proposed."

And indeed, a significant number of the regulators have verbally indicated or provided a written statement saying they support it allowing them extra time but it is still important that the remaining regulators are all on board.

At time of writing, the US, the EU, Hong Kong, Singapore, South Korea and Australia have agreed to the BCBS-IOSCO extension. Meanwhile, Canada, South Africa, Japan, Mexico and Brazil are still considering the proposal. Other global regulators are yet to publically respond. Although the general reaction by regulators to the deadline extension has been positive, all the regulators must confirm their approval in order to avoid market disruption.

A problem could arise if, for example, there are two firms conducting a transaction and one is from a jurisdiction that hasn't agreed to the extension, that firm still has to be prepared to operate under the terms of the sixth phase of the margin rules.

What are the initial margin requirements?

The IM requirements for non-centrally cleared derivatives seeks to establish international standards for non-centrally cleared derivatives. Plans started back in 2009 at the G20 Pittsburgh Summit, when the international forum for the governments and central bank governors from 19 countries and the EU, responded to the global financial crisis of 2008-2009 by agreeing to a financial regulatory reform agenda covering over-the-counter derivatives markets. This included recommendations for the implementation of margin requirements for non-centrally cleared derivatives.

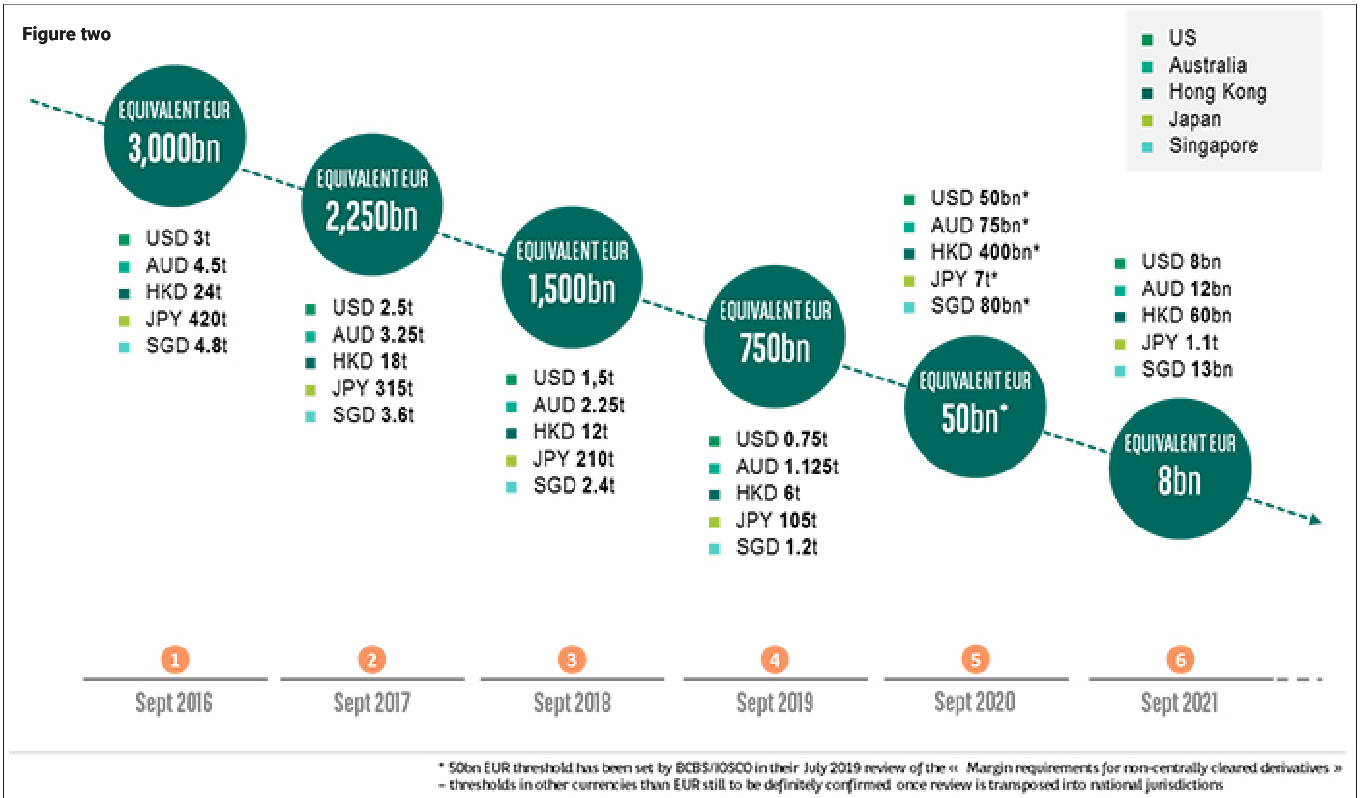
Since then, the International Swaps Derivatives Association (ISDA) and Securities Industry Financial Market Association have observed that, regulators around the world have implemented IM requirements for non-centrally cleared derivatives generally in accordance with the final framework, but with some critical differences in certain instances (See figure one).

These rules are commonly referred to as UMR, and margin collected and posted under UMR is referred to as 'regulatory margin'.

UMR began to be phased-in on 1 September 2016 for the largest market participants and broader implementation of variation margin requirements occurred in March 2017. IM requirements continue to be phased-in annually, bar the new extension.

As the market's struggles to meet the deadlines became apparent, BCBS-IOSCO issued a statement on July 2019 that outlined its recommendation to a one-year extension on the final implementation phase (see figure two). BCBS-IOSCO say that the extended timeline

Figure two



Source: BNP Paribas

is set to support the smooth and orderly implementation of the IM requirements.

At this point, covered entities with an aggregate average notional amount (AANA) of non-centrally cleared derivatives greater than €8 billion will be subject to the requirements. According to the BCBS-IOSCO, this is consistent and harmonised across their member jurisdictions and will also help avoid market fragmentation that could otherwise ensue.

All instruments (including physically settled forex forward and forex swap transactions) count for the purpose of calculating the AANA, even if they eventually benefit from an exemption of initial margin exchange.

BNP Paribas explained that given the steep increase in the number of institutions in scope of the September 2020 deadline, in July 2019 BCBS/IOSCO published a revised policy framework stating that the threshold applicable in 2020 would be raised from €8 billion to €50 billion and that the €8 billion threshold would be postponed to September 2021. This statement will be transposed in every jurisdiction in the near future.

Meanwhile, in terms of the instruments concerned, BNP Paribas say that the scope of non-cleared derivative instruments that are subject to the collection of initial margin is generally consistent across the main jurisdictions in Europe, Asia Pacific and the US.

Physically settled forex forwards and swaps are excluded across all jurisdictions. However, some jurisdictions may have specific exemptions, either on a permanent basis (e.g. equity options and forwards are out of scope in the US) or on a temporary basis (e.g. equity options are exempted in the EU only until 4 January 2020), BNP Paribas outline.

In terms of how prepared companies are for IM, Murray says that despite the extended deadline, he hasn't heard of anyone taking their foot off the gas.

"I haven't seen a spike in client interest but I also haven't seen a slowdown in client interest," he explains. "I think there are a number of clients out there who have been sat waiting for this to come out who are now going to have to gear up to get going because they realise they are still phase five." **SLT**

Figure one	EUROPE	US	AUSTRALIA	HONG KONG	JAPAN	SINGAPORE
INTEREST RATES DERIVATIVES	✓	✓	✓	✓	✓	✓
CREDIT DERIVATIVES	✓	✓	✓	✓	✓	✓
FOREIGN EXCHANGE (« FX ») DERIVATIVES, EXCEPT:	✓	✓	✓	✓	✓	✓
PHYSICALLY SETTLED FORWARDS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
PHYSICALLY SETTLED SWAPS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
PRINCIPAL PAYMENTS ON CROSS-CURRENCY SWAPS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
EQUITY DERIVATIVES, EXCEPT:	✓	✓	✓	✓	✓	✓
EQUITY SWAPS	✓	✓	✓	✓	✓	Yes from 2020/02/29
EQUITY OPTIONS	Yes from 2020/01/04	Exempt	✓	✓	Yes from 2020/02/29	Yes from 2020/02/29
EQUITY FORWARDS	✓	Exempt	✓	✓	✓	Yes from 2020/02/29
COMMODITY DERIVATIVES, EXCEPT:	✓	✓	✓	Yes under conditions	✓	Yes, only for trades not for commercial purpose
PHYSICALLY SETTLED FORWARDS	Yes under conditions	Exempt	✓	Exempt	Exempt	Yes, only for trades not for commercial purpose
PHYSICALLY SETTLED OPTIONS	Yes under conditions	✓	✓	Exempt	✓	Yes, only for trades not for commercial purpose
OTHERS (e.g weather derivatives)	Yes, if instrument defined as derivatives under Mifid	Yes under CFTC No under SEC	Yes if instrument defined as OTC derivative under local rules			

Source: BNP Paribas

Beyond Meat: Did you miss out?

SLT sits down with Christopher Sappo of Tidal Markets to discuss one of the year's hottest stocks, Beyond Meat, and review how his securities lending volatility indicator dataset revealed how some agents might have missed out on revenue

Introducing itself into the securities lending market at the start of the year, Tidal Markets is making waves with its new volatility indicator.

Tidal Markets was founded by Christopher Sappo, a former database engineer involved with all aspects of securities lending market data, from on-boarding client data to processing and amalgamating analytics for the securities lending industry.

After beginning his graduate studies at Boston College in 2015, Sappo continued his work by focusing on securities lending data, which led him to derive a unique proprietary mathematical formula to calculate volatility between lending and borrowing rates.

After several years of fine-tuning, the securities lending volatility indicator, known as the 'SLVX', is marketed and sold under multiple datafiles by Tidal Markets.

The SLVX is a weighted average intrinsic rate standard deviation formula. In layman's terms, the formula takes all transactional data underlying a security, assesses the volume and rates being charged, and outputs a statistical value that identifies rate disparity.

When market participants are closely aligned with the rate being charged to borrow a security, the SLVX indicator is low. But when underlying counterparties change direction and agree to lend/borrow statistically significant volumes of securities at rates deviating from the norm, the SLVX moves higher; indicating that the spread in activity is widening.

This spread in activity translates to increased revenue or a cost-saving opportunities, depending on which side of the trade you're on, and how quickly you can react to those changes.

In simple terms, Sappo explains, if you're on the lending side of the trade–you're better informed of the opportunity to increase the cost to borrow a security. If you're on the borrowing side of a trade–you're looking to lock in the lowest rate possible before rates begin to rise.

To showcase how the SLVX provides clarity as a secondary metric of rate analysis, Sappo offers some simple examples (see tables, overleaf).

When counterparties are closely aligned the SLVX is low, which indicates the disparity in rates is also low (see example one).

When counterparties are closely aligned with rates being charged, even if there is an anomalous spike in rates, due to the minimal volume relative to other trades, the SLVX remains low and still indicates the disparity in rates remains small (see example two).

But, when an underlying counterparty changes direction, the SLVX spikes and indicates that the disparity in rates is asymmetric (see example three).

As exemplified in the third scenario, when the majority of the market is under the presumption that the cost they are charging to borrow AAPL is closely aligned to the weighted average rate, the reality is that the fourth lending agent is significantly profiting by lending the same amount of shares of AAPL. Therefore, unbeknownst to those who are lending AAPL, the first, second and third lending agents are missing out on significant revenue opportunity.

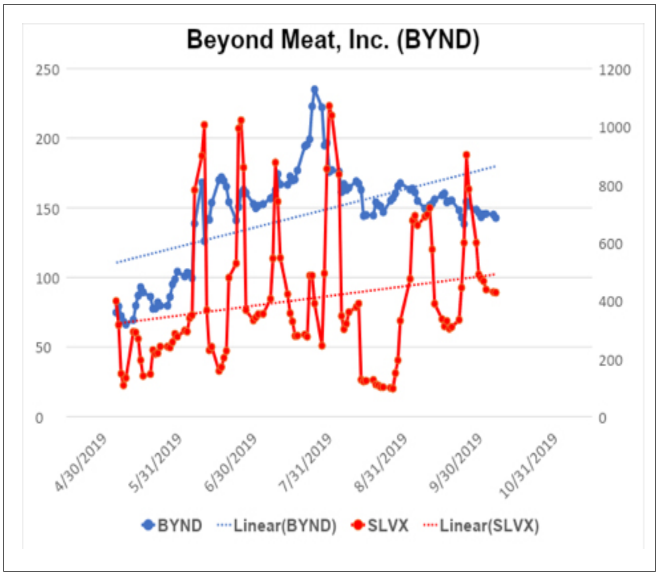
According to Sappo, this is the statistical clarity the SLVX provides that no other data providers exhibit.

To illustrate the potential power of the SLVX indicator in the real world, Sappo highlights how it performed against Beyond Meat (BYND), one of the hottest stocks of the year for the securities lending industry.

Beyond Meat's initial public offer was in May 2019. The SLVX (see figure one) illustrates not only large individual spikes occurring on 11 June, 26 June, 10 July, 1 August, and more recently on 26 September, but also that the disparity in rates being charged averaged over 400 deviations during this time period. In translational terms, this means the weighted average standard deviation for all counterparties that transacted BYND was on average 400 deviations from the average rate charged.

The SLVX statistically demonstrates how there is a wide spread in rates being charged to borrow BYND.

Figure one



From the lending side, this means there are some lending agents making significantly more money than their peers. And on the borrowing side, this means there are certain borrowers saving substantial money by borrowing from agents who are mispricing their loans.

Examining the most recent SLVX spike for BYND on 26 September, the SLVX computed a value of 902.30. On the same day, the weighted average rebate rate was -127.68 percent, whereas the lowest rebate rate was -327.50 percent.

While the average lending rate was -127.68 bps, other participants were profiting largely by charging -327.50 bps. This is not an anomaly, and as the SLVX statistically exemplifies, lending agents who failed to re-rate their loans closer to the maximum -327.50 percent rate were losing out, potentially to the tune of $10,000s each day.

The SLVX averaged at levels of more than 400 since Beyond Meat went public which shows the inefficiency of rates being charged by some lending agents and where such volatility can bring unusually high returns. As more beneficial owners begin watching their lending programmes with a keener eye, greater precision into the cost to borrow securities is something market participants can ill afford to miss.

The SLVX dataset analyses over 2.1 billion shares of outstanding loans daily, spanning over 40,000 global securities within 70 industries. Historical data coverage spans from January 2010 to the present. Per security datafiles are categorically grouped on a geographic basis and disseminated via file transfer protocol daily at 7am EST.

Example one:
Securities lending transactional data for Apple (AAPL)

Entity	Ticker	Intrinsic Rate	Volume
Lending Agent 1	AAPL	0.50	10,000
Lending Agent 2	AAPL	0.60	10,000
Lending Agent 3	AAPL	0.40	10,000
Lending Agent 4	AAPL	0.75	10,000

Securities lending summary data

Ticker	Min. Rate	W.Avg Rate	Max Rate	Volume	Std Dev.	SLVX
AAPL	0.400	0.563	0.750	40,000	0.149	2.085

Example two:
Securities lending transactional data:

Entity	Ticker	Intrinsic Rate	Volume
Lending Agent 1	AAPL	0.50	10,000
Lending Agent 2	AAPL	0.60	10,000
Lending Agent 3	AAPL	0.40	10,000
Lending Agent 4	AAPL	2.65	100

Securities lending summary data:

Ticker	Min. Rate	W.Avg Rate	Max Rate	Volume	Std Dev.	SLVX
AAPL	0.400	0.507	2.65	30,100	1.078	2.389

Example three:
Securities lending transactional data:

Entity	Ticker	Intrinsic Rate	Volume
Lending Agent 1	AAPL	0.50	10,000
Lending Agent 2	AAPL	0.60	10,000
Lending Agent 3	AAPL	0.40	10,000
Lending Agent 4	AAPL	2.65	10,000

Securities lending summary data

Ticker	Min. Rate	W.Avg Rate	Max Rate	Volume	Std Dev.	SLVX
AAPL	0.400	1.038	2.65	40,000	1.078	15.055

Top five takeaways

SLT unpacks the major talking points of the IMN Beneficial Owners' Conference in London, which hosted panels that touched on technology, collateral and new revenue opportunities

Drew Nicol and Maddie Saghir reports

The 24th Annual European Beneficial Owners' Securities Finance and Collateral Management Conference in London offered an opportunity for lenders to rub shoulders with their peers and other demographics of the industry that they may not unusual get to interact with to discuss their securities lending strategies and thoughts on the market.

This year's conference covered a wide array of topics from the lags in global revenue in the first half of 2019, to the evergreen debate around collateral flexibility, and the role of emerging technologies in cutting costs and improving overall market efficiency. SLT looks back at some of the key takeaways from the two-day event.

1) Lending revenue turned a corner in Q3

Delegates heard from a diverse panel of industry participants why it has been a challenging year for securities lending revenue so far, with the fixed income segment especially facing major headwinds, compared to equities. Q2 equity revenues were largely propped up by a limited number of 'specials', mostly based in North America, that had commanded borrow fees several times above the market average.

Conference panellist Nancy Allen, global product owner at DataLend, painted a bleak global picture when she explained that global year-to-date revenue (as of August 31) was down approximately 16 percent compared to the same period in 2018. Although, this news was caveated by the fact that 2018 saw the largest revenue generation since the 2008 financial crisis. It was also noted that revenue short-fall has been ubiquitous across all three major regions.

However, discussing Q3 revenue on the opening panel for the day, Paul Wilson, global head of IHS Markit Securities Finance, told delegates that it is on pace to be the first quarter of 2019 with year-over-year growth. He added that improved equity revenues are offsetting declines in fixed income.

According to Wilson, the key metric this year is the number of high-value specials in the US with more than 200 securities having fees that at one time or another traded above 50 percent. However, he also explained that this means revenue is therefore quite concentrated and is potentially masking other downward trends.

On the same panel, eSecLending CEO Craig Starble pointed out that there has been rate volatility and fluctuation due to Federal Reserve intervention in the US overnight repo market along with geopolitical issues, which have contributed to additional revenue opportunities.

2)The supply/demand balance is tipping the wrong way

Later in the day, Starble explained that the global pool of lendable securities has increased but, at the same time, spread compression and deteriorating demand continues to plague the market. "Hedge funds and other risk-takers have been challenged for trade opportunities and that has contributed to the decrease in demand, especially in the North American markets, outside of a few top concentrated specials in initial public offering securities or cannabis companies," Starble noted.

Panellists agreed that new supplies of securities were always welcome but, coupled with the loss of borrower demand, it means the already heavily lopsided supply/demand imbalance in favour of borrowers is still increasing.

Starble added: "Clients who are engaged in their lending programmes and are evolving their collateral guidelines, considering new lending markets, participating in elections or other corporate action events and finding ways to capture alternative trade opportunities are the ones capturing the greater share of revenue in the marketplace."

3) Blockchain: Reliable steed or magic unicorn?

As has been the case for several years now at all industry events, conversations around technology drifted inevitably towards blockchain, which appears to be the securities finance industry's version of Godwin's Law. Largely, panellists were bullish about the potential of blockchain to add value to the market in terms of transparency and cost-cutting, but most predictions became less certain when it came to the timeframe.

"The infrastructure around blockchain is a good one and it is something our industry can eventually wrap its arms around," said eSecLending's Starble. "Even though the larger institutions like the global custody banks and DTCC have started to explore blockchain technology, the universal adoption will take a longer period and will not occur within the next few years."

Panellists were given a further reality check on their ambitions for distributed ledger technology (DLT) and blockchain in the form of a one-to-one conversation between SecFinHub's Bill Foley and Greg Chew, founder and CEO at QPQ, a fintech firm that aims to automate and digitalise transactional processes using proprietary 'smart' legal contracts and treasury accounts.

Commenting on the blockchain phenomenon, Chew said: "Blockchain/DLT is a nascent technology whose primary attribute is to remove the need for third-party trust. Where that core function is not necessary, such as within an established group, or can be achieved but without cost-effectiveness that more established services would provide – such as cloud databases, cloud computing, etc – then the use case for blockchain/DLT is not made."

He went on to say that there is no magic in DLT as it is the mechanisation of a process that can be achieved by manual processes of notation and submission for confirmation of consensus.

According to Chew, blockchain will be part of a suite of emerging technologies that contribute to the digitalisation of the market, "but in-and-of-itself it [blockchain] has few truly commercial stand-alone applications".

Chew said the industry should expect the wider picture around the technology to change rapidly and the place of DLT to become more enabling rather than front-of-house.

"A more nuanced approach is needed that puts investment into emerging technology where straight questions get straight answers and nobody is talking about, metaphorically, unicorns transporting leprechauns from the money tree to the wishing well," Chew concluded.

4) ESG is here to stay

The topic of environmental, social and governance (ESG) is of increasing interest in the securities finance world and has been a conference panel-topic staple throughout 2019. Panellist Sharon Terry, securities finance trader at Aviva Investors, said: "We [Aviva Investors] have funds that look to promote ESG practices, but it is important that there is flexibility. I'm not sure clients would want one-size-to-fit-all. There are different funds with different values and criteria."

Panel moderator, John Arnensen, co-practice lead at Pierpoint Financial Consulting, asked speakers, including two beneficial owners and an agent lender, to outline to what extent ESG compliance has influenced decisions of portfolio managers.

In response, Terry replied: "Clients are constantly asking what we are doing to integrate ESG into our investment process. We integrate ESG into investment analysis and decision-making to meet our client's criteria. It's not just about the investment process itself, it is about looking at the company as a whole, and how diversity leads to a stronger board. It's not just about targets, it's about having the right people in the right jobs."

Meanwhile, fellow panellist Matthew Chessum, investment manager at Aberdeen Standard Investments, said that ESG is embedded across all of the investment processes that Aberdeen runs. He explained that the main driver behind ESG investing is to increase corporate standards which are becoming more important.

"Clients are very interested in understanding how our focus of ESG is embedded in our investment management process. The momentum behind this practice is picking up and it is only going to become more important as time goes on," he added.

Questions were raised by audience members around how significant a challenge the added layer of complexity that the ESG policies of lenders pose to borrowers looking to post collateral for securities financing transactions.

Terry answered that collateral regarding ESG is a newer area for Aviva and that it has implemented a baseline ESG collateral screen.

"However, we have the ability to implement a more specific collateral screen should the client require it. Beneficial owners need to give their lenders clear instructions as to what companies they want to exclude," Terry affirmed.

Short selling and its relationship with ESG also became a topic of discussion during the panel. Chessum highlighted the market had moved a long way in terms of regulating short-selling compared to 10-15 years ago and that naked short selling is banned in almost all financial markets.

"Is covered short-selling fully aligned with ESG principles? I believe that it is as it promotes price discovery and in some instances helps highlights poor corporate behaviour," he explained.

5) Data demands

Data continues to pop-up as a popular topic at securities finance industry events, and IMN was no different. Discussing the uses of data as a beneficial owner, Allen explained that historically, lending data was primarily used for price transparency, liquidity and benchmarking.

According to Allen, until recently, most beneficial owners did not consume data directly and did not integrate securities lending data into their wider portfolio strategies, but that was changing. Today, beneficial owners require greater transparency as they transition to a more active and engaged lending programme.

A recent beneficial owner survey by DataLend and Funds Europe showed that 66 percent of beneficial owners participate in securities lending to generate alpha. Allen noted that that's up 7 percent from their previous survey conducted in 2017.

As a result, beneficial owners are now demanding more detailed data and analytics to drive their decision making. The survey further showed that today, 81 percent of beneficial owner respondents are actively using data to manage their programme.

The panel's moderator, Bill Foley, director of SecFinHub, asked panellists what the one piece of advice they would give beneficial owners was on how to use data.

Samir Dhrolia, vice president of global derivatives, trading and index portfolio management at British Columbia Investment Managment Corporation, commented: "If you want to make more out of the programme then you have to do more heavy lifting, and you have to become obsessed with data. There is money on the table, but it is difficult to get. Start collecting data, building tools, and embrace derivatives."

"Beneficial owners, agent lenders and broker-dealers are all beginning to integrate securities lending data alongside other data sets," Allen explained. "Whether it be to drive securities lending trading algorithms to optimise collateral or to use it more broadly for portfolio construction, securities lending data is being used to drive decision making."

Allen added that it will be exciting to see lending data incorporated into artificial intelligence and machine learning algorithms, allowing market participants to apply predictive analytics to their securities lending programmes. **SLT**

Winds of change

Market participants must learn to do more with less if they want to control the narrative of change in an evolving securities finance market, or risk being left behind in the push towards greater efficiency. David Lewis of FIS explains

The increasing rapidity of change is discussed across almost every medium and every subject imaginable, from the environment, technology, economics and politics to industry and beyond.

The securities finance industry is every bit as susceptible to the winds of change as any other industry, financial or otherwise. It's facing both megatrends that affect all industries (you may have noticed that nothing can be an ordinary size anymore if the attention of a reader or consumer is desired; as such, to identify a simple "trend" is insufficient) and pressures that are specific to finance and collateral management. The variable is how we choose to respond to them.

Consider the megatrend of productivity. Very few organisations in our industry are not reacting to, or even driving ahead with, the "do more with less" mantra. In an environment of faltering demand that's pushing down revenues and margins for market participants, growth can be hard to come by.

One previously popular 'silver bullet' strategy of opening new markets has mostly run out of steam; significant potential remains untapped in some markets, but the real impact of expanding into those remaining countries is still on the horizon and some distance from boosting the bottom line.

The introduction of new product types is another well-used strategy. This still has legs as markets look to create other transactions with the economic equivalence of the more traditional securities finance trades such as repo, buy/sell back and securities loans. But this is where the market is crossing back into the do-more-with-less-approach. A new synthetic transaction type or new technology such as tokenisation or blockchain will not necessarily drive activity to new heights. But they may improve market efficiency through lower transaction costs, fewer fails or improved levels of automation.

At the recent International Securities Lending Association (ISLA) Annual Post Trade Conference, some drew a parallel between the cash equity and the securities finance market. The implication was that the improved access, cheaper technology and greater transparency that has driven the equity market to undreamed heights of volume and value (ignoring the last few quarters' stumbles) will bring the same explosive growth to securities finance.

The lowering of barriers to entry in the cash equity markets has indeed welcomed untold numbers of new entrants who trade through cheap online brokers, banks or any other firm that wants to provide market access. However, the growth in activity in a market where a security, or its derivative, can be bought or sold an infinite number of times does not translate easily into a borrow and loan market.

Lowering the barriers to entry, a prerequisite to dis-intermediation, is certainly advantageous to the vibrancy of a market because new entrants drive competition and innovation. But making a transaction easier does not necessarily attract new demand. It has long been the mantra of agent lenders that they cannot drive demand, but they can make themselves attractive lenders through flexible collateral and lower-cost post-trade performance (re-rates, recalls etc). The arrival of new direct lenders, such as large asset managers entering the market to disintermediate their agents, certainly affect the marketplace, but their ability to grow the space must be limited by the levels of demand.

Certain changes in the wider financial markets–notably the increase of collateralisation standards across the financial industry, including margin requirements for uncleared derivatives (UMR)–are expected to create more demand. However, is that demand sufficient to compensate for the acceleration in market supply? If it isn't, then margins and incomes must fall as a simple response to the laws of supply and demand.

If they are not doing so already, agent lenders are very likely going to be looking at their client list and how much each client costs them to maintain. You don't need complex mathematics to assess the impact, or lack of impact, of a reduction in clients on the income an agent generates across that client base and for itself.

The same analysis should be applied to the drive for adding new clients to the roster and how much net revenue growth is achieved by including their assets into the lendable pool. If the answer is zero, then every client will see their share of revenues fall, and the revenue estimates given to the new client may be missed. What follows will be an awkward conversation about fee splits for the following year, piling further pressure on service providers.

Doing more with less is vital to keeping ahead; automating pre- and post-trade activities is key to enabling that change and driving progress. Regulatory changes bring both benefits and costs, with the rise of collateral demands from an increasingly consumer protection-led regulatory agenda adding demand for assets to borrow, while punitive risks from fines from the Central Securities Depositories Regulation and invasive data gathering from the Securities Financing Transactions Regulation may well drive costs up and some participants out. Enterprise-wide asset mobilisation can drive efficiency, reducing participants' reliance on counterparts that can drag heavily on their balance sheet and capital costs – but these are just the start.

Disintermediation of the industry has been discussed for a very long time. Both large players and new start-ups are disrupting the traditional transaction chain as they search for new markets and demand. In reality, the same pie is being cut into ever thinner slices, with the overall market demand being at the mercy of larger pressures affecting the financial markets as a whole.

At the recent ISLA conference, an attendee made the sage comment that the disintermediation of inefficiencies is driving activity in this market, whether they be technological changes affecting straight-through processing rates or the broader structural changes to the traditional players in the transaction chain. And we need to focus on this if we are going to reinvent the business of securities finance–not only weathering the winds of change but driving them.

David Lewis
Senior director
securities finance
FIS

Comings and goings at Citi, S3 Partners and more

Stuart Day has re-joined IHS Markit's Securities Financing Transactions Regulation (SFTR) team as director after the hedge fund he moved to in 2018 shut down.

Day first served as IHS Markit's SFTR director from 2017 to 2018 before moving to Arrowgrass Capital Partners. However, the fund was reported to be in the midst of financial difficulties and was forced to close its doors last month after investors pulled out a large percentage from its already dwindling coffers.

As of this month, Day is now back at IHS Markit in his old role.

SFTR is due to come into legal force in April 2020 and will require banks and investment firms to report their securities finance transactions to a registered trade repository for the first time.

For its SFTR solution, IHS Markit is partnered with Pirum Systems, a provider of centralised reconciliation services for financial market participants, to offer a fully-hosted data and end-to-end reporting solution for SFTs.

According to the data provider, the solution offers participants turnkey connectivity to trade repositories and allows clients to use its modular nature to meet individual needs and structure.

ABN AMRO's head of US equity and exchange-traded fund (ETF) operations, Sean Frey, has left the bank to join PEAK6 Investments, a Chicago-based investment management firm.

In his new role at PEAK6 Investments, Frey serves as director of treasury.

Frey joined ABN AMRO as assistant treasurer, vice president, treasury in 2013 before becoming US head of equity and ETF operations in 2018.

The bank is yet to confirm his replacement.

Prior to ABN AMRO, Frey held a range of roles with Ronin Capital, a multi-strategy proprietary trading firm, over the space of 11 years. He started out here as an assistant controller from 2002 and was later promoted to operations manager for self-clearing operations in 2005, then assistant treasurer a year later before becoming a treasurer from 2012 to 2013.

During his career, Frey has also spent time with Market Liquidity Network and the Chicago Board Options Exchange.

Two S3 Partners senior directors have moved to financial solutions provider, Finastra.

In September, Christian Bullaro, S3's managing director moved to become Finastra's sales manager for capital markets, while Rhonda Lovings, a director at S3, has taken on the role of strategic sales executive for Finastra.

Bullaro and Lovings both joined S3 in May 2018 from their roles at FIS, where they served as head of sales for collateral and securities finance software and senior sales executive, respectively.

Prior to FIS, Bullaro and Lovings also both held roles at J.P Morgan. Bullaro served as head of sales and relationship management for derivatives and cash collateral for North America from 2005 to 2013, while Lovings was an executive director at JPMorgan Chase from 2008 to 2015.

Financial services provider TMX Group has wooed Steve Everett away from Strate after 11 years with the South African central securities depository to become its senior collateral manager in Toronto.

TMX Group operates equities, fixed income, derivatives, and energy markets exchanges, as a senior manager for collateral, based in Toronto.

During his tenure at Strate, Everett was based in Johannesburg, South Africa and first joined as a product development manager in 2008. He became a senior manager of Strate Collateral in 2014 and most recently serving as general manager from 2016.

Before working at Strate, Everett was a senior business analysts contract at Nedbank Corporate from 2007 to 2008, and prior to that, between 2006 and 2007, he was an analyst for KPMG.

Commenting on his new appointment at TMX Group via LinkedIn, Everett said: "I'm looking forward to my next chapter here in Toronto, Canada and I look forward to getting to know the Canadian Market well and further developing the post-trade digital collateral ecosystem."

Thomas Mordrelle has departed ABN AMRO's securities finance team after more than 11 years with the bank to pursue a "new and exciting corporate adventure".

Mordrelle confirmed he is now on garden leave until December in a LinkedIn post, but did not reveal any further details on where he would resurface or if it was in the securities finance sector.

"I am very excited and looking forward to my new challenge," he wrote.

Mordrelle joined ABN AMRO in 2008 as a prime brokerage securities lending and over-the-counter trader, before becoming an equity finance trader in 2009. He was later promoted to director of securities finance in 2012 and executive director in 2018.

Prior to ABN AMRO, he worked at Societe Generale for just over a year. In 2006 he worked as a sales assistant on the foreign exchange and fixed income derivatives desk before becoming a sales trader for equity finance in 2007.

Commenting on his departure from ABN AMRO via LinkedIn, Mordrelle said: "I truly enjoyed the time I spent in ABN AMRO and I will definitely miss you."

"Thank you all for your friendship, support and advice. I wish you all the best for the future and I am looking forward to working with you, albeit in a different capacity."

New mother Louise Rate has departed Citi where she served as vice president for prime futures and securities services since 2001.

Following the birth of her son nine months ago, Rate has decided to step away from the financial industry to focus on her new family.

"I have had the privilege of working with, and for some amazing people during my time with Citi. I have made some lifelong friends and best of all met my husband," said Rate in a post on LinkedIn.

"I have a lot to thank Citi for but since having my son nine months ago I would now like to take a little banking career break to focus on my new career as a mummy," she added.

Rate, who was based in Citi's London office, did not rule out returning to the financial sector but did not offer a timeframe on when that might be.

Securities lending blockchain platform HQLA^X has brought on Geoffrey Arend as its chief financial officer.

The HQLA^X platform for collateral swaps leverages R3's distributed ledger technology, Corda, to provide liquidity and collateral management solutions for institutional clients in the global securities financing markets.

The solution is being jointly developed with Deutsche Boerse Group.

He will continue to be based in Luxembourg at the HQLA^X head office alongside the firm's CEO Guido Stroemer and COO Nick Short.

Arend makes the move from RMS Luxembourg, a tax and fund administration service provider, where he was a director with responsibility serving an international client base on Luxembourg corporate structures.

Arend joined RMS Luxembourg in 2008 as a senior client advisor, before being promoted to tax and accounting manager in 2011, and finally director in 2014.

The hire comes a week after HQLA^X successfully facilitated several securities transactions by global banks through its blockchain platform for the first time, ahead of its November launch date.

The simulated transactions involved the ownership of baskets of securities residing at Clearstream Banking SA and Euroclear Bank being exchanged without the need for them to be moved across the Bridge, the electronic communications platform normally needed to transmit securities.

Commerzbank and ING were among the market participants that tested the front-to-back trade flow across the multiple layers of the HQLA^X operating model.

State Street has promoted Matthew Neville to managing director, head of agency lending trading for Europe, the Middle East and Africa (EMEA), based in London.

Most recently, Neville was managing director, head of trading, securities finance principal and enhanced custody for EMEA at State Street.

Neville joined the bank in 2009 as vice president, securities finance sales trading and enhanced custody; a role he served in until his promotion to head of trading in 2015.

Prior to State Street, Neville was an equity finance trader for structured products at Morgan Stanley from 2008 to 2009.

From 2007 and 2008 he served in a securities lending sales, market and distribution capacity. When he first joined Morgan Stanley in 2004, he was a manager of collateral distribution and positioning.

In his career that spans almost 20 years, Neville also spent just over four years at JPMorgan Chase between 2000 and 2004. His roles included senior collateral manager, triparty, manager, international settlements and analyst, international settlements.

Dimitri Arlando appointed team lead for DataLend

EquiLend has brought on Dimitri Arlando from BNY Mellon as team lead for DataLend, covering Europe, the Middle East and Africa.

Based in London, Arlando reports to DataLend's global head, Nancy Allen.

Arlando was most recently a director and sales and relationship executive for BNY Mellon Markets, where he worked from 2016 until he joined the securities finance data arm of EquiLend in September.

Before that, he served at State Street as head of business development for the Mena region between 2008 and 2016.

During that period he was responsible for all products including custody, fund accounting, securities lending, foreign exchange, transition management and research.

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