securities lending times

The primary source of global securities finance news and analysis

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ASIA RISING

INTEGRITY, DUTY AND COMPASSION

Malik's Memo

The differences between EU regulatory frameworks are due to be ironed out with EMIR Refit. Seb Malik reports

Deutsche Bank

Newly installed global securities lending head, Rebekah Flohr, talks about her vision for the bank's ASL programme

Collateral Freedom

Pirum Systems offers a practical guide to moving collateral in the fast lane and improving efficiency


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Saudi Stock Exchange proposes SBL and short selling rule changes

The Saudi Stock Exchange (Tadawul) and the Securities Depository Center (Edaa) have published amended drafts for the country's securities lending and short selling regulations for industry consultation.

The changes would impose stricter short selling regulations on the market along with amendments to collateral rules and eligible participants for securities lending transactions.

The proposed changes are aimed at bringing Saudi Arabia's regulatory environment more in line with international best practices and stimulate a "motivating and competitive atmosphere with high reliability," the exchange says.

For securities lending, the edits include refining the terms of when such a transaction can be entered into and who is considered an eligible participant in the market.

The legal definition would be expanded to include, "natural persons allowed to open an investment account in the kingdom and an account at the depositary centre".

Changes would also be made to the collateral rules.

According to the Tadawul, where there has been a failure to return the collateral provided against borrowed securities in accordance with the terms of the transaction agreement, the custody member must notify the depository centre which will then terminate the transaction.

The proposals also refine the framework around returning borrowed assets to include the return leg of collateral.

Elsewhere, the amendments to Saudi short selling rules would remove the exemption of short selling from Tadawul's investment limits and impose several new constraints on eligible listed securities.

The new limits include a short ratio to the average daily traded volume of the relevant security of the previous 60 days, which must not exceed 10 days.

Additionally, total net short positions must not exceed 10 percent of the free-floated securities of the relevant security.

The exchange clarifies that listed securities breaching these limits are not permitted for short selling in the next trading day.

Other edits would add a similar expansion of eligible participants to that seen in the securities lending rules.

Industry participants are now able to submit feedback on the amendments until 23 February.

Inside this issue

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

Editor: Drew Nicol
Drewnicol@securitieslendingtimes.com
+44 (0) 208 075 0928

Reporter: Natalie Turner
Natalieturner@securitieslendingtimes.com
+44 (0) 208 075 0926

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

Sales Support: Sophie Lam
Sophielam@securitieslendingtimes.com
+44 (0) 208 075 0934

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

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Delayed: CSDR settlement discipline regime

ESMA has recommended a delay to the Central Securities Depositories Regulation (CSDR) settlement discipline regime until 1 February 2021, following a deluge of warnings from those in-scope that the rules would damage market stability.

The settlement discipline regime was originally due to come into force on 13 September and includes mandatory buy-ins and cash penalties of failed trades.

Industry bodies representing a huge swathe of European financial markets have consistently been sounding alarm bells that both these features – especially the buy-in rules – will in fact do the opposite of their intended aim of protecting buy-side participants from losses by improving settlement rates.

Most notably, 14 trade associations recently sent a joint letter to European Securities and Markets Authority (ESMA) and the European Commission (EC) requesting a delay to the settlement regime due to a range of concerns highlighted in research by the International Capital Market Association and others.

Following weeks of market speculation, ESMA has acknowledged the industry's concerns. It has submitted a report to the EC requesting a postponement until next year in order to efficiently manage amendments to CSDR's regulatory technical standards (RTS).

Why was the delay granted?

ESMA's rationale for the delay acknowledges concerns raised by stakeholders but focuses mainly on the ISO-related technical issues first reported by SLT in November 2019.

The EU market watchdog explains that due to the far-reaching impact of the regime, a pushback would be needed to accommodate the time needed for vital IT system changes and the development and the updating of ISO messages, as well as market testing and adjustments to legal arrangements between the parties concerned.

These issues must take into account the 22 November 2020 go-live date for the ISO messages annual release, as well as the need to have a "reasonable buffer to cover for operational complexities after the go-live, and in order to avoid an overlap with the end of the year/ beginning of the year system freeze," ESMA adds.

The authority also cites "new developments, such as the envisaged go-live date of the Target2-Securities penalty mechanism," as a driver behind the decision.

"Given the extensive IT developments which are needed for the implementation of the new settlement discipline requirements, stakeholders have highlighted the need for more time before the entry into force of the already published RTS on settlement discipline," ESMA states.

The International Securities Lending Association, which was among the 14 trade bodies to write to European regulators

last month, says it welcomes the decision and that it will continue to work with fellow associations to gain further clarity on how CSDR will impact the securities lending industry.

Non-EU AIFs are exempt from SFTR, says EC

The European Commission (EC) has clarified that third-country alternative investment funds (AIFs) with managers based in Europe are, in fact, not required to report under the Securities Financing Transactions Regulation (SFTR) after all.

When the final guidelines for SFTR were belatedly released on 6 January, one of the main surprises was the implication that non-EU AIFs would be expected to report SFTs if their manager was within the EU. This requirement was not telegraphed in prior guidelines

Specifically, trouble arose around the industry's reading of the categorisation of 'financial counterparties' listed in Article 3(3) of SFTR, which includes "an AIF managed by AIFMs authorised or registered in accordance with Directive 2011/61/EU".

The EC's statement is the result of a lobbying effort by the Alternative Investment Management Association (AIMA), which represents the global alternative investment industry and wrote to the EC requesting clarification on apparent inconsistencies in the terms of the guidelines.

The EC's explanation came in the form of a letter sent only to AIMA in response to the association's own letter querying this ambiguity on the issue. The commission and the European Securities and Markets Authority (ESMA) are yet to publically acknowledge the clarification.

The EC stated that the association's reading of the guidelines is correct, but the inclusion of non-EU AIFs is subject to SFTR Article 2(1).

This article limits the application of SFTR to "(a) a counterparty to an SFT that is established (i) in the EU, including all its branches irrespective of where they are located; (ii) in a third country, if the SFT is concluded in the course of the operations of a branch in the EU of that counterparty".

The letter continues that in this article, no reference is made to the location or to the authorisation of the fund manager.

Therefore, the EC states, non-AIFs "are not subject to the obligations set out in Article 4(1) SFTR, even if the AIF manager is authorised or registered in accordance with Directive 2011/61/EU, except in respect of SFTs concluded in the course of the operations of a branch in the EU of the non-EU AIF".

A spokesperson for AIMA tells SLT that it "welcomes the fact that the commission has confirmed our understanding of the scope of SFTR.

"This will make sure firms are approaching the new rules in a more consistent way."

Several areas of confusion that have arisen from the publication of the final guidelines for SFTR also require further details from regulators. Key areas of uncertainty that remain include whether failed deliveries of securities should be reported and the suitability of the formula for calculating collateral re-use, among other areas.

The spokesperson adds that the association

has no current plans for further lobbying efforts related to SFTR.

The EC's clarification will come as welcome news to those non-EU funds that, since January, have been facing the complex task of scrambling to get their reporting frameworks in order before the October deadline.

The wider industry will also be breathing a sigh of relief as the prospect of a significant portion of these buy-side firms not managing that timeline would have seen them excluded from the lending market overnight, which would have adversely affected overall liquidity.

IHS Markit beefs up securities finance platform with Credit Benchmark deal

IHS Markit has teamed up with Credit Benchmark to create the "industry's first" securities lending data platform that includes tools for managing counterparty credit risk.

Through the collaboration, IHS Markit will incorporate Credit Benchmark's credit risk analytics, Consensus Analytics, into its platform.

In doing so, IHS Markit says it can offer additional performance measurement and reporting capabilities for global lending programmes.

The IHS Markit Securities Finance performance tracks more than $25 trillion of global securities in lending programmes from more than 20,000 institutional funds.

Its measurement tool enables firms to compare returns on portfolio assets against a variety of customisable peer groups.

In a statement on the deal, IHS Markit explains that by enriching its platform with Credit Benchmark's consensus analytics it can independently evaluate risk-return exposure based on the credit quality and liquidity of counterparty assets.

Credit Benchmark is the brainchild of Donal

Smith and Mark Faulkner, the man behind Data Explorers, which was acquired by Markit (now IHS Markit) in 2012.

It is the first financial data company to provide consensus credit risk assessments on a global range of corporations, financial institutions, sovereigns and other funds.

Its credit risk inputs are sourced from more than 40 of the world's leading financial institutions, providing a new unique measure of risk.

"Consensus credit analytics brings new and much-needed transparency to the entire securities lending landscape across beneficial owners, agents and principal borrowers," says Faulkner. "I am delighted to be returning to the securities finance space with this particular service targeted at helping industry participants [with] know your counterparts creditworthiness."

Paul Wilson, managing director and global head of securities finance at IHS Markit, adds: "Our collaboration with Credit Benchmark creates the industry's first solution for managing counterparty credit risk in step with securities lending inventory and loan activity."

For IHS Markit, the partnership comes shortly after it opened its high-quality liquid asset reference data and inventory and portfolio stability metrics to its securities finance clients.

The latest addition of credit risk analytics will further allow clients to optimise their use of capital, the firm says.

Israeli exchange's DLT securities lending platform nears completion

The Tel Aviv Stock Exchange (TASE) has partnered with Blockchain Technology Partners (BTP) to put the finishing touches on its distributed ledger technology (DLT) securities lending project ahead of the platform's launch later this year.

According to TASE, the Blockchain Securities Lending (BSL) platform aims to address the

fragmented, inefficient and opaque nature of the securities lending market in Israel.

BSL will enable direct lending among all the major financial participants and offer a one-stop shop for all securities lending activities, the exchange says. It aims to facilitate access to larger securities volumes within shorter timeframes and operate in shorter-term positions.

Uri Shavit, chief information officer for TASE, says BSL will provide a distributed service available to all Isreali market participants in order to increase market volumes and make securities lending available for more players.

The DLT platform is being built in collaboration with Accenture, Intel and global fintech innovation centre The Floor, and was has been in development since early 2017.

BSL is built on Hyperledger Sawtooth, an open-source enterprise blockchain network. It utilises Intel Software Guard Extensions technology to maintain data privacy, which aims to ensure that the details of an individual transaction are only visible to its participants.

BTP was introduced to TASE by Intel and has now been brought onto the project to “ensure the production readiness” of the platform and provide ongoing support after its launch. As part of its contribution, BTP will offer access to its management platform Sextant.

Sextant is comprised of production-grade Sawtooth distribution technology and other tools to deploy and manage this distribution on Kubernetes in production, says BTP.

Duncan Johnston-Watt, CEO of BTP, explains that since joining the project his firm and been working with TASE on acceptance testing over the past few months.

TASE’s choice of Sawtooth sets it apart from other exchanges’ DLT project including Deutsche Boerse’s partnership with HQLA^X, which is powered by R3’s Corda technology, and Spanish stock exchange BME’s offering built on Hyperledger Fabric.

Hyperledger Sawtooth is an open-source enterprise blockchain network that is hosted as part of the 'Hyperledger Greenhouse' but which is distinctly different from better known open source projects such as Fabric and Indy.

Johnston-Watt tells SLT that, besides being open source, industry agnostic and governed by the Hyperledger Foundation, the key point in favour of Hyperledger Sawtooth is its pluggable consensus mechanism.

It is also scalable and has a highly modular architecture that offers a clear separation between the network and the application tiers, he adds.

EquiLend reveals five new counterparties for NGT securities finance platform

EquiLend has brought on five new counterparties to its NGT securities finance trading platform, bringing the total number of active user firms to more than 100.

DZ Bank AG, E*Trade, Janney Montgomery Scott, Matsui Securities and TD Ameritrade are the latest to join NGT – EquiLend's multi-asset class trading platform for securities financing.

NGT, which launched in 2015 and supports all types of securities finance instruments, promises to increase trade-level transparency, improve workflow automation and generate market-wide efficiencies.

Average daily transaction notional on NGT exceeded $80 billion in 2019 across more than 50,000 trades each day from users in more than 30 cities globally, EquiLend says.

According to EquiLend, a recent analysis showed that trades executed on NGT have a far greater matched rate than those booked manually and have less risk of input errors. EquiLend explains that this will support firms in meeting their Securities Financing Transactions Regulation and Central Securities Depositories Regulation requirements.

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Seb Malik
Head of financial law
Market FinReg

Fitting the Refit

The incongruence between the European Market Infrastructure Regulation's (EMIR) clearing obligation (CO); Markets in Financial Instruments Regulation's (MiFIR) derivative trading obligation (DTO); and the new EMIR Refit is set to be resolved following the European Securities and Markets Authority's (ESMA) final report into the matter, released on 7 February.

The CO is the European Union's (EU) fulfilment of a 2009 G20 commitment to centrally clear derivatives to prevent a repeat Lehman-style collapse. Central clearing reduces systemic risk by interposing a clearing house between every buyer and seller, with daily margin posted to prevent a large build-up of contingent risk.

Similarly, the DTO from MiFIR obliges firms to trade selected classes or contracts of derivatives on trading venues and not bilaterally. This increases visibility, standardisation (thereby allowing netting), and price discovery.

Unfortunately, the two categories are not identical meaning that a firm could potentially be obliged to centrally clear, but trade off venue and, conversely, trade on venue but not centrally clear.

EMIR Refit changes

A further complication was introduced by EMIR Refit. EMIR Refit has changed the scope of financial counterparties (FCs) and non-financial counterparties (NFCs) that are in scope of the CO. For FCs, EMIR Refit now distinguishes between those that may pose an important systemic risk to the financial system (FC+), and the others (FC-). Hence, since the entry into force of EMIR Refit, the CO only applies to FC+s.

ESMA explains this view is "[b]ased on trade repository data, [that] showed that in the interest rate derivative asset class, less than 500 counterparties (out of more than 6,000) represented 99.4 percent of the activity. Similarly, in the credit derivative asset class, less than 400 counterparties (out of more than 2,000) represented 98.6 percent of the activity."

EMIR Refit also reduces the number of in-scope NFCs. Formerly, if an NFC breached any of the volume thresholds for any class of derivative, the entity would have to clear all classes of in scope derivatives. Thus, a firm that only traded a hand full of derivatives in a particular class would be forced to centrally clear due to its trading in other derivatives.

Since MiFIR's DTO cross-references the original EMIR, EMIR Refit's new definitions do not apply.

Legislation

ESMA can only act insofar as it has received legislative empowerment. It can (and often does) fall back on generic empowerments but to change specific scopes is firmly ultra vires. Its mandate is to assess, "the necessity and appropriateness of aligning the trading obligation for derivatives under [MiFIR] with changes made under [Refit] to the clearing obligation for derivatives, in particular to the scope of the entities that are subject to the clearing obligation".

ESMA has forwarded recommendations as contained in its report to the European Commission recommending legislative changes and, in the interim, has requested national competent authorities (NCAs) "not to prioritise their supervisory actions in relation to the DTO towards counterparties exempted from the CO following the entry into force of EMIR Refit". The approach is akin to informal decriminalisation.

ESMA would like to see MiFIR amended to refer to the new EMIR Refit definitions.

This appears to be eminently sensible and I fully expect the commission to adopt ESMA's recommendations later this year. Between now and then, firms are in a grey area. While formally the law on the DTO points to the old EMIR scope, ESMA has made clear that it expects NCAs "not to prioritise" enforcement action.

Taking a broader view, we can expect this year and next year to be a mop-up year where EMIR, MiFID II and related legislation are tweaked, amended and adjusted. There will be no MiFID III, as I have long advised, but we can expect amendments.

Recently, the Alternative Investment Management Association (AIMA) successfully lobbied ESMA to adopt an interpretation that exempted non-EU AIFs from SFTR (See news section p6).

The regulators are listening and it is incumbent on industry bodies to make representations to guide the evolution of the next phase of MiFID II.

View from the top

Drew Nicol reports

Deutsche Bank's new global head of agency securities lending, Rebekah Flohr talks to SLT about her vision for how to take the bank's programme to new heights

Congratulations on your new role. You're coming into this securities lending role with a global markets background. Can you talk us through your experience?

It's true, I've been in global markets for most of my career. Before Deutsche Bank I was at J.P. Morgan selling derivatives clearing and prime brokerage products. I came here to do a similar role but pretty quickly I was asked to lead an effort to sell our transaction banking products to institutional clients and one of the products was the agency lending business. As a result of that, along with my prime brokerage experience, I've been involved in securities lending in one way or another for a long time.

How will this broad experience and global outlook influence your management of the bank's agency lending programme?

It makes me aware of the global resources that we have as an investment bank. We have amazing research resources, for example, that would not traditionally be married to our agency lending business but it could be woven in to create more value for our clients. This is just one of the things we're already trying to do and something I'm very excited to reap the benefits of.

This new role comes alongside your existing role managing global sales and

securities services in the Americas. How will you manage these responsibilities?

I see these roles as going hand in hand. They are very co-mingled in my mind. We have growth strategies across the board for both custody and agency securities lending (ASL) businesses and I've always viewed our securities lending service as a real differentiator between us and others in the market. Our out-performing ASL product can offer real value to new and existing clients and help drive growth for our wider securities services business.

What are your first priorities now you've officially taken over the reins?

First and foremost, I'm very lucky to be able to leverage a very experienced and established team that's already in place, along with long-term client relationships, so we have a great starting point with which to build out our service. My first aim is to bring in other parts of the firm to assist that existing foundation better.

I want to tap into my connectivity and work with colleagues such as Michaela Ludbrook (Deutsche Bank's head of securities services and head of corporate bank for the Americas), to allow the ASL business to benefit from the broader resources at the firm.

We are also focused on accessing new technology resources and have made some engineering hires. The aim is to take the core system that has been servicing our client base for a long time and make that less burdensome on us and them.

We are constantly evaluating the arrows in our quiver to maximise value for all our clients, be that on the borrower base or looking at the types of securities our clients want to lend. Something I've been really impressed with so far is the high standards our team has with regards to customer service.

Do you see Deutsche Bank's ASL programme expanding its services in emerging markets or targetting new client types?

Emerging markets are a big priority for our wider securities services business because that lines up with our custody offering. We partner a lot with our emerging market colleagues for full value chain custody and ASL services. This means we're involved from the initial request from a client to gain exposure to a specific country all the way to making that happen and opening accounts and settling securities there.

Do you see yourself as more of a custody lending agent?

Absolutely not, we are very agnostic in that regard. The fact that we've re-incorporated our ASL business back into the securities services arm shows that we value our corporate banking products and aim to marry up all their growth strategies.

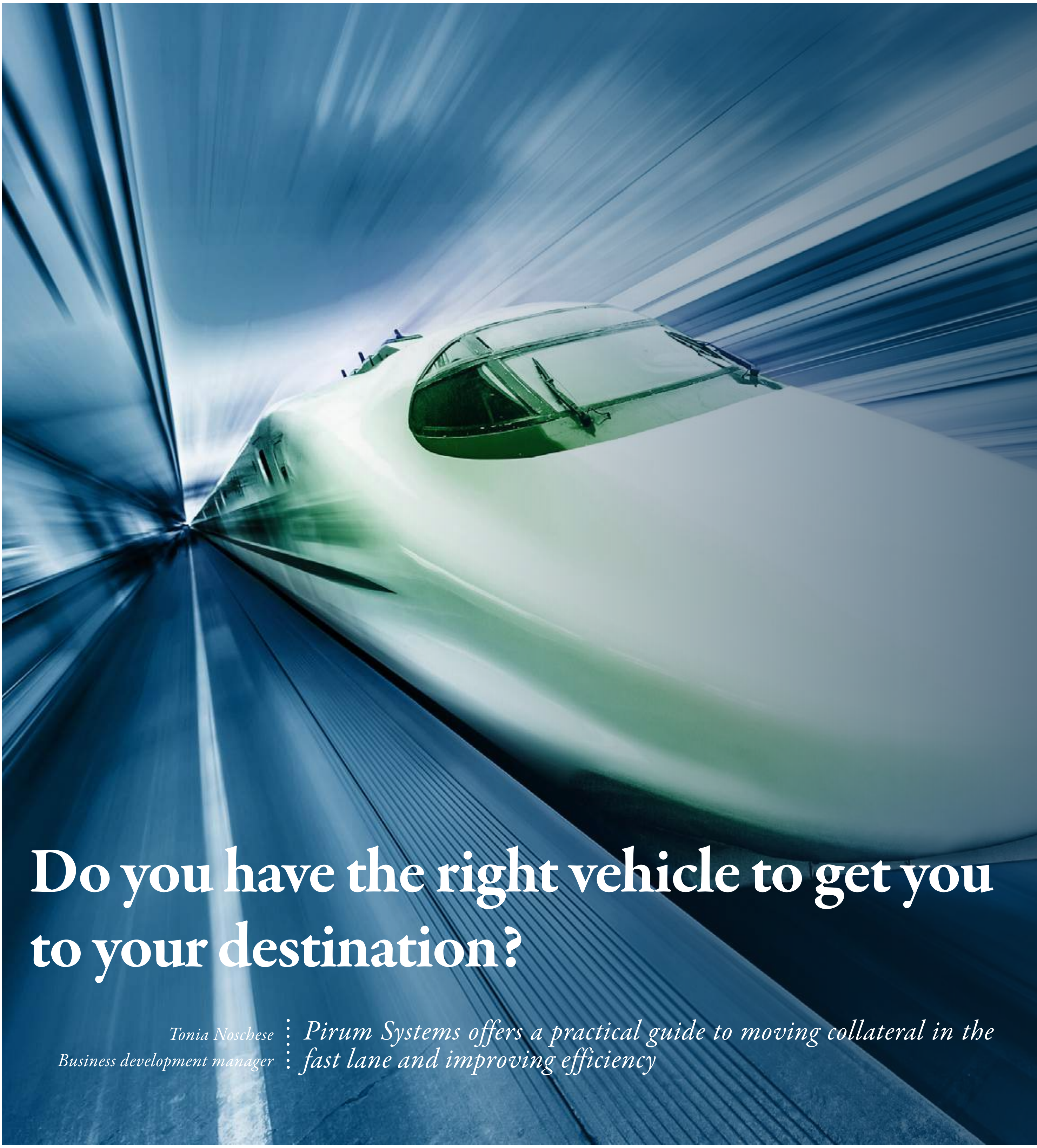
ASL was part of our global markets equities division for a time until July 2019 when we brought it back to securities services because of its ability to complement other services in that area.

Does Deutsche Bank's sell-off of its prime brokerage business affect its ASL business at all or change the way you sell those cluster of services to clients?

No. Although I'm personally sad to not work directly with my former colleagues in equity prime brokerage, there was very little crossover in terms of client coverage. The client experience with ASL should be very much unchanged except for improvements such as our increased focus on technology.

Where are the opportunities to capture revenue and growth this year?

There are definitely a lot of things on the regulatory agenda this year that will bring opportunities. Elsewhere, our focus on technology and partnering with other areas of Deutsche Bank's global business is where I want to start.



Do you have the right vehicle to get you to your destination?

Tonia Noschese
Business development manager

Pirum Systems offers a practical guide to moving collateral in the fast lane and improving efficiency

The increase in operational challenges and regulatory pressures has fuelled demand for technology driven solutions to standardise and simplify the securities finance exposure workflow. The requirement to agree a margin call, at a minimum daily, with your counterpart remains a manually intensive process with increased complexity and risks. Here we look at the steps that firms should be taking to improve efficiency.

Capital constraints continue to drive the need for asset optimisation and efficient usage of collateral. Agreeing margin calls in an efficient and timely way across international markets and geographical locations is now crucial.

This shift has primarily been driven by same-day non-cash pre-pay collateral delivery that requires faster calculations and agreement of collateral. This, coupled with firms evaluating their global practices with the advent of the Central Securities Depositories Regulation (CSDR) and the Securities Financing Transactions Regulation (SFTR) in Europe, has led to firms with regional offices reviewing their operating model. Additionally, securities finance activity has grown in Asia which has driven the need for scalability across that time zone.

There is also a high level of complexity due to the diversity of settlement, counterparty and operational infrastructure across the collateral landscape. Scrutiny for collateral demands will continue to prevail beyond securities finance with the fifth and sixth waves of over-the-counter (OTC) Uncleared Margin Rules (UMR). This will require an increased number of firms to post initial margin. Pirum has seen convergence across business lines (securities lending, repo and OTC) as firms are seeking enterprise-wide solutions across products for visibility, connectivity, interoperability and cost-effectiveness.

Accelerate decision making

There is latency in exposure calculations due to the use of legacy systems, inefficient process, customisation and servicing a growing diverse client base. Manual intervention is required to calculate the margin call which slows down the process and introduces risk due to omissions and inaccuracies.

There is no real-time visibility on the impact of events on exposure with the middle office reactive to valuations from their counterparts and often needing to re-run reports or use Excel to recalculate their requirement. This means dependency on key staff to know the parameters for what to include in the margin call. Forecasting movements to anticipate any large swings will improve operational efficiency as well as assisting funding requirements.

Finally, the holistic view of where we are exposed and by how much will aid prioritisation of which exposures to cover first and to mitigate risk by getting those margin call agreements done first.

For accurate valuations firms should consider:

- Automating the calculation of exposure value
- Systematically have real-time results available
- Standardising exposure reports providing the underlying information for calculation
- Using a projections tool

Velocity of margin call agreements

As firms seek to manage capital more efficiently there has been a rise in same day non-cash pre-pay so exposure calculations are needed more quickly, accurately and for transparency to be made available to both counterparts.

Offshoring, and compressed timeframes to resolve margin call disputes have further fuelled a need to have tools to prevent dispute and expedite remediation. The global workflow with the ‘follow the sun’ model also requires more standardisation in mechanisms to agree exposures and track reasons for the changes in valuations for the handover across time zones.

Time consuming tasks persist around communication of the agreement of margin calls as telephone, e-mail and spreadsheets are used to list positions with manual tick-back to determine differences in portfolio. Furthermore, identifying changes throughout the day and what specifically has changed since the value had been last agreed earlier is often manual.

To expedite agreement efficiently firms should:

- Auto-reconcile where there are differences with real-time matching
- Improve visibility to why there are valuation discrepancies

- Ease communication of information between counterparts
- Systematically agree and post required value to the
- triparty agent
- Improve workflow with transparency empowering the user with controls

Fuel efficient lifecycle

Managing resources efficiently needs to persist throughout the value chain. There is currently a problem with daylight exposure and intra-day credit for the borrower, exacerbated with non-cash collateralisation increase and same day non-cash pre-pay management. The lenders are also under time constraints to monitor receipt of collateral prior to releasing their pre-pay loans, in time for the market settlement cut off times. These tasks can be manual, with the risk of release of same day loans where there was only partial collateralisation in place.

The sooner collateral is moved by the borrower, the more time is available for the lender to recognise receipt of collateral and manage the loan release task. CSDR will add further pressures as late release of EU securities to market may lead to a failed settlement. This will potentially incur penalties adding further urgency and diligence around timely agreement of exposure, collateral settlement, visibility of pre-settlement matching of trades so there is improved straight-through processing (STP) in the loan release process.

Net margin call figures are affected intra-day with settlements, returns, new trade bookings, price feeds, FX rates, and corporate action events. Break prevention is the most effective way to ensure an STP process for exposure agreement, and firms should leverage platforms to automatically process time critical tasks across the loan lifecycle.

Firms should promote automation across the loan by utilising:

- Pre-settlement matching
- Automated returns
- Systematic mark to market
- Controls for release of non-cash pre-pay loans on receipt
- of collateral
- Cash and payments reconciliation

Streamline design with safety features

Securities finance service delivery has become increasingly fragmented both geographically and functionally. Experience previously centralised within firms is now split across regional centres, with silos across tasks and the use of outsourcing.

Automation enables faster communication of events within firms between these silos and across market participants, with less manual effort whilst preventing errors and omissions.

However, the challenges of managing risk across exposure has been amplified, which has led to the need to unify standards in processes along with access restrictions across teams for enhanced controls and governance.

Firms should develop their controls dashboard to include:

- Supervisory oversight with permissioned assignment of tasks
- Audit trail of manual adjustments and overrides
- Monitoring of information to ensure timely accurate data available
- Establish a knowledge and training framework

Rocket launch

Regulations including Dodd Frank, the European Market Infrastructure Regulation and FINRA have mandated more rigorous margining of transactions. These requirements have not only become a compliance imperative but also create challenges for businesses. Boosters are needed for exposure management and require more STP and improvements to collateral evaluation along with analytics for pre-trade funding decisions.

Firms require:

- Cross-product coverage including stock loan, repo and OTC
- Full connectivity to collateral venues e.g. triparty agents, central counterparties, and third-party custodians
- Real-time visibility of collateral sources and uses
- Digitised collateral schedules with automated eligibility checking
- Analytics to Identify inefficiencies and drive efficient use of collateral

Direction of travel

We are seeing further investment in technology with artificial intelligence, machine learning and interoperability across the securities finance ecosystem to deliver more efficiencies.

Fuelled by cost pressures and a demand to streamline more of the operations workstreams, automation is being grasped across life-cycle event processing from marks to corporate actions.

Regulatory pressures such as SFTR are expected to rollout to jurisdictions beyond Europe, this will drive the need for scalability in data aggregation and reporting.

The move towards responsible investing means securities financing will need to consider how its work impacts environmental, social and governance (ESG) issues. ESG considerations create challenges across programme governance including proxy voting and collateral management with improved processes and infrastructure. Service and technology providers will also need to factor the integration of ESG into the service delivery for our clients.

Pirum can help

Pirum leverages technology and expertise to deliver solutions across securities finance, repo and OTC. In order for firms to improve challenged margins, the convergence of operations and business requirements are a necessity for growth and for profitability to prevail, and we can help you achieve this effectively.

Pirum achieves this by collaborating across the value chain, enabling connectivity for firms in the collateral ecosystem with full automation of the margin lifecycle. We turn complex, manually intensive tasks into efficient, scalable and controlled workflow processes that are shared between counterparts.

Pirum's established Triparty RQV workflow, launched eight years ago, was revolutionary in allowing our clients to shift to sixth gear with STP of calculation and agreement of the required value at the triparty agent. This enabled faster mobilisation of the required value (RQV) to be instructed to the triparty agent, replacing manual input into the different agent portals with a standardised dashboard agnostic to triparty provider.

The Pirum network has continued to increase, connecting over 41,000 triparty accounts covering the four global triparty providers. We have now expanded this connectivity to help clients with instructing initial margin for UMR.

Pirum's ExposureConnect product creates unparalleled efficiency between participants. Launched last year and growing rapidly with a network of more than 35 firms, it provides a consolidated margin call platform across collateralisation pools, fully integrated with our post trade automation.

Pirum's CollateralConnect platform provides pre- and post trade analytics to drive optimal collateral management and corresponding trading book decisions to drive performance from a profitability and financial resource perspective.

It is uniquely positioned to leverage from its established real-time connectivity across venues, participants, products and regions with a single, enterprise view of all deployed and available assets to identify inefficiencies and drive efficient use of collateral.

Do you have a frictionless process?

Pirum ExposureConnect and CollateralConnect platforms replace manual effort with automation to:

- Calculate the margin call requirement
- Reconcile positions to identify causes of discrepancy with the counterpart
- Agree collateral requirement with the counterparty
- Release non-cash pre-pay loans
- Collateral projections for funding requirements
- Communication across teams and time zones
- Instructing matched required values to the triparty agent
- Intra-day visibility to collateral value and underlying allocations
- Digitised collateral schedules with eligibility checks
- Pre-match, reconcile and update values in your books and records for marks & returns

Is an injection of efficiency needed at your firm?

Asia: On the Rise

Industry leaders from the Asian securities lending sector discuss the region's outperforming revenue, the effects of the coronavirus on behaviour and which markets will lead the pack in 2020

Panel participants

Brian Leung
Vice president, trading, agency securities lending, Deutsche Bank

Simone Broadfield
Asia Pacific head of agency securities lending trading, J.P. Morgan

David Lai
Asia Pacific agency securities lending product manager, J.P. Morgan

Mark Snowdon
Head of capital markets, Asia Pacific, Northern Trust

Jansen Chua
Head of securities finance, Asia Pacific, State Street

The combined volatility of macro events impacted lending activity across Asia Pacific in 2019. Spread compression and a reduction in balances across equities were a notable trend towards the latter part of Q4

Simone Broadfield
Asia Pacific head of agency securities lending trading
J.P. Morgan

Asia's securities lending revenue outperformed on the global stage in 2019. What drove this trend and can we expect it to continue this year?

Mark Snowdon: 2019 was a mixed year for securities lending, with a feeling of continued buoyancy despite the headwinds that slowed growth in comparison to 2018. Political and economic uncertainty, driven by Brexit and international trade tensions, contributed to a general lack of conviction globally, resulting in reduced demand particularly in the equities space. This was evidenced by a 14 percent drop in year-on-year revenues for Asia Pacific (APAC) equities, according to DataLend.

The securities lending industry in APAC continues to be optimistic, despite the impact of slower demand and lower fees. Key developments are expected to take place regarding new markets and different approaches which will affect the lending industry throughout 2020 and onwards.

Jansen Chua: We welcome the development of the Asian markets from a lending perspective and note that there have been positive signals from the Philippines who recently approved implementing guidelines on securities lending. China continues to take promising steps towards market liberalisation; recent index inclusion has further increased investor interest. However, the ability for offshore securities finance to fully participate remains contingent on significant regulatory and market infrastructure change.

Simone Broadfield: Last year brought with it geopolitical unpredictability, global economic policies that led to trade-war tensions and sustained localised political protests. The combined volatility of these macro events impacted lending activity across Asia Pacific. Spread compression and a reduction in balances across equities were a notable trend towards the latter part of Q4.

Nevertheless, there were still significant opportunities available to generate alpha across equities assets within agency lending programmes, most particularly across longer term directional shorts in Australia, Hong Kong and South Korea. IPO assets entering the discretionary lending pool in Hong Kong, equities undergoing corporate activity in Japan and continued demand for flexible trading structures commanded a premium, particularly the last as balance sheet optimisation continued to be an ongoing focus for the market. The fee compression and balance reduction seen across equities were offset by increased opportunities within the fixed income space.

Demand for upgrade structures showed no sign of abating as 2020 began, with the main beneficiaries being those clients holding desirable risk-weighted asset ratings and a flexibility in terms of trade tenor and collateral parameters, such as the ability to accept Korean treasury bonds.

As 2020 Q1 began, the theme of fee compression across equities showed indications of continuing; however, the slower start is now moving into a period of increased market volatility as the impacts from coronavirus begin to emerge, leading to directional short opportunities and an anticipated recovery across APAC equity lending markets.

To face the challenges that the unpredictable market conditions may bring, agent lenders need to respond rapidly to the evolving needs of the securities lending market. The focus will be less on traditional lending, although that remains a fundamental part of revenue generation, and will shift towards customised trading solutions and continued diversification of product offerings.

Brian Leung: Asia's outperformance compared to its peers was largely driven by an increase in specials activity, particularly in Hong Kong where demand surged on the wave of the escalating US/China trade war and continued macro geopolitical uncertainty which drove end-users to increase China exposure. This was boosted by the fact that the Hong Kong market saw multiple high-profile capital raisings.

Similarly in Japan, strong corporate deal activity and increased focus by activist investors on Japanese-listed companies' corporate governance kept the Japanese market thriving. 2020 should see similar trends, as macro challenges are set to continue. Discerning lenders should be on the lookout for more corporate deals and be able to maximise their securities lending returns on the back of those transactions.

One of the big stories that came from Asia in 2019 was Japan's GPIF decision to partially pull out of lending. How big a shock was this and what is the impact on the market in Asia and afield?

Chua: While the decision was not communicated widely before the announcement, it was well-known that Japan's Government Pension Investment Fund (GPIF) holds a view on environmental, social and governance (ESG). There was also an internal opinion that the lack of transparency around securities lending trading activity did not support good governance. Despite the size of their holdings, the impact on the market appears to have been muted as most borrowers have been able to cover their exposure to this lender adequately.

Leung: GPIF's decision to pull out of its securities lending programme was disappointing, however a keen securities lender would see it as an opportunity. It was only noted as a suspension and not a withdrawal from the industry as a whole, which implies they would be open to re-entering the market at a future stage. It is widely proven with supporting empirical evidence that securities lending and short selling play a vital role to properly-functioning and efficient markets. The impact of their suspension is more psychological than economical. While overall lendable supply has dipped as a result from their absence, the rates (particularly on specials and a broader level) have not shifted significantly since the announcement.

Do you foresee other Asian funds following suit to GPIF?

Leung: From our discussions with existing clients, they acknowledge GPIF's high profile departure has not gone unnoticed, but they have fallen short of questioning their own participation in lending as a whole as they are soundly aware of the benefits that a transparent, well-function securities lending programme can deliver. Dialogue and communication with clients are key at this stage, and we expect the industry as a whole to be able to deliver the right type of solution for each participant.

Chua: Investors are increasingly reviewing the relevance of ESG principles to securities lending programmes, particularly how certain aspects (proxy voting, short selling) align to their stewardship responsibilities. The divergence of views today amongst participants, however, speaks to the lack of a uniform standard. Many investors understand that it is not a binary decision and it is possible to have effective ESG goals and still participate in securities lending. We believe that this topic is likely to remain at the forefront of agent lender and beneficial owner discussions for 2020.

2020 will see big moves in Europe to harmonise markets and improve data quality and transparency under SFTR. Could a similar framework exist in Asia? Would you want it to?

Leung: Given Asia's level of market sophistication in the region and that almost every major market has a requirement for reporting over-the-counter derivatives, it stands to reason that each market is watching this space very closely. They will be learning from Europe's experience in implementing the Securities Financing Transactions Regulation (SFTR), how it impacts markets and market participants before making their own SFT reporting decisions based on best practices tailored for their own market idiosyncrasies. From previous experience, the more developed markets such in Japan as well as Australia are likely to take the initial lead, followed by Hong Kong and Singapore.

David Lai: Securities financing is employed in various degrees of volumes in each of the region's markets, and four of the 10 biggest stock exchanges reside in Asia Pacific (based on market capitalisation in USD, May 2019).

Therefore, it would stand to reason that there will eventually be calls for a similar framework in Asia to facilitate greater harmonisation and transparency.

Since securities lending in some Asian countries has been more recently established than in other countries, we believe that having a similar framework would help to further educate the region on the role securities financing plays in today's global marketplace and highlight the region's growing importance to global securities financing.

> *The emergence of the coronavirus appears to be having a widespread impact on social and investor sentiments. Geopolitical instability will also continue to be a factor*

Jansen Chua
Head of securities finance, Asia Pacific
State Street

Chua: SFTR is specific to one regulatory regime (Europe). So, it is unlikely to be replicated across Asia, which has multiple regulatory regimes to consider. While many would welcome the transparency that SFTR is bringing to the market, a much simpler version with fewer requirements would be the model adopted by Asian regulators.

What other challenges do you see on the horizon for the securities finance industry in Asia in 2020?

Chua: The emergence of the coronavirus in its latest form appears to be having a widespread impact on both social and investor sentiments. Geopolitical instability will continue to be a factor. With the US-China trade war still ongoing, tensions on the Korean Peninsula and the US election year are likely to materially impact the performance of stocks regionally. From a market perspective, the continued low interest rate environment will present a challenge to those investors reliant on returns from cash collateral. Continued regulatory implementation will add to the cost of running securities financing programmes.

Lai: One challenge for 2020 is to further expand the universe of acceptable collateral types. As demand for diversification continues to increase, along with the desire to utilise/monetise unencumbered assets, we are working closely with our clients and their counterparties to identify additional opportunities.

This follows the 2018 launch of international pledge in Asia Pacific, which our agency securities lending team completed independent of the industry initiative, and the 2019 introduction of expanded Korea collateral schedules to include Korean treasury bonds within our South Korean equity collateral programme.

Snowdon: While not necessarily a challenge, regulation is a fundamental part of every market players' agenda. It is likely that both global and converging local regulation will continue to transform the industry, despite the fragmentation it has across APAC.

April 2020 sees the first phase of SFTR go live. SFTR is a global regulation that mandates enhanced reporting of securities lending transactions for in-scope entities. This should help the industry better prepare for imminent challenges and better position market participants for a more flexible and efficient future.

Regulators introduced Resolution Stay Protocol requirements following the global financial crisis, in order to ensure benefits for the securities lending industry. Further requirements will be put in place to ensure the benefits of lending continue to accrue, whilst delivering a higher chance of positive resolution should a borrower default occur in the future.

Alongside growing cost pressures and lower yields, another challenge is the continued rise of responsible investing, which is the integration of ESG factors into investment processes and decisions.

Sustainability is a core element of ESG investing. It is also a benefit that a securities lending programme brings to capital markets generally, and to investors' returns specifically. Incorporating their securities lending programmes with ESG principles is important to investors as they become more involved in expressing their values through voting. On the surface, securities lending can appear to run counter to ESG principles, as when a security is on loan the investor loses the right to vote. However, securities lenders have been successfully balancing the returns from securities lending with the requirement to exercise good governance for many years.

In partnership with a supportive, client-focused securities lending agent, the right balance is achievable, and will come from an agreed approach between the agent and the asset owner or manager using technology, market insight and strong relationships with borrowing counterparties.

Leung: The COVID-19 outbreak has provided a stark reminder to ensure that participants have strong business continuity procedures and technology in place, such that securities lending programmes and client experience will not be affected adversely due to the pandemic. We have seen a reduced trade flow in some of the major markets since then, and while we foresee it is a temporary lull, we have yet to see how it will impact the wider securities lending industry as a whole.

Several Asian markets took steps to further develop their securities lending and short selling markets in 2019. How important have these developments been in improving the overall region?

Snowdon: In Australia and Japan in particular, borrowers are looking to reduce the number of intercompany transactions by using a domestic entity to borrow local securities, rather than their European or US entity. This trend is expected to continue in the region, and will allow increased opportunities to expand distribution and generate additional revenue for lenders.

The trend of lending to non-traditional borrowers is growing in APAC, as we are increasingly seeing hedge funds borrow directly from lenders which offer opportunities for clients who want to utilise a different risk-reward profile, thus causing disruption to the usual value chain.

The Pan-Asia Securities Lending Association (PASLA) has been liaising with regulators and authorities to develop a working offshore model and increase usage of the operational, yet seldom used, onshore model. The upcoming model is expected to be a simplified bilateral one that is more transparent and inclusive.

Leung: With Philippines adding new short selling rules and Indonesia looking and potential CCP models, it is important the PASLA community continues to bring more countries into the fold. Each come with their own unique regulatory challenges which the PASLA committee has been working in partnership with regulators and industry bodies to overcome.

The elephant in the room continues to be China and its gradual easing and opening of its financial markets, particularly in providing a viable SBL framework that international investors can take part in. Industry players must be nimble and reactive to any possible (and sometimes sudden) changes the CSRC will announce as the onshore market has been under the microscope for the past few years given its potential and presents a significant opportunity.

Lai: We have seen encouraging steps on short selling, from revised guidelines to new approvals. Individual regimes also issued clarifications on various functions including collateral valuation and tenors.

In Australia and Japan, in particular, borrowers are looking to reduce the number of intercompany transactions by using a domestic entity to borrow local securities, rather than their European or US entity

Mark Snowdon
Head of capital markets
Asia Pacific
Northern Trust

These updates are encouraging as they allow for the increased understanding of the role that securities lending plays in the region's markets. We continue to see new entrants which is encouraging and can be partly attributed to the increased information about, and understanding of, the role securities lending plays in regional markets.

Every year, the developing markets of Asia are catching up with the more established markets. Which Asian markets do you expect to shine in 2020?

Broadfield: Although Japan is an established market, we see significant enough growth opportunities to warrant a continued focus and expansion of our lending product in the market across all lendable asset classes. The Hong Kong lending market has been heavily impacted by the macro factors mentioned earlier; however, we remain positive that we will see a recovery and a return to increased activity. South Korea consistently offers high returns, in spite of increased onshore supply, and we expect this to continue throughout 2020.

For 2020, we would say that it is less about which market will shine and more about how the traditional agency lending product will evolve to meet client needs.

Snowdon: Since China A-Shares were added into MSCI benchmark indexes in 2018 and the number of these shares subsequently increased in 2019, China has stood out as one of the key opportunity markets for the securities lending industry. Both borrowers and lenders look to leverage opportunities in China, such as the development of links between onshore and offshore exchanges via Stock Connect. Hong Kong, however, faces various restrictions on who is authorised to engage in securities lending and therefore, the activity is only minimally utilised in the market. Although it is currently allowed under Stock Connect, only exchange members are permitted to participate, eliminating some of the largest asset holders such as custodians and asset owners.

The Australia market looks set to continue to grow in 2020, with Australian superannuation funds currently managing around AU$2.7tn of assets. As these assets grow and the industry consolidates, many superfunds have started to consider securities lending as an integrated investment solution. Securities lending is seen as a means to achieve increased returns with low risk, during a period of increased regulations and rising cost pressures.

Leung: In 2020, we expect the major players in Japan, Hong Kong and South Korea to continue punching above their weight, however, it will be nascent markets like Philippines and Indonesia, where if a viable market structure is achieved for international investors, can present significant first mover advantages for participants who are best equipped to capitalise on lowly tapped markets such as these. Beneficial owners will be well aware of which service provider is able to differentiate themselves with innovative ways to access new markets.

Chua: In absolute terms, returns are likely to be highest in Japan and Hong Kong. The Korean market continues to show higher returns than the previous years.

Several Asian markets have seen the introduction of emerging technology, such as blockchain, for

We have seen encouraging steps on short selling, from revised guidelines to new approvals. These are welcome as they allow for the increased understanding of the role that lending plays in the region

David Lai
Asia Pacific agency securities lending product manager
J.P. Morgan

Brian Leung
Vice president, trading,
agency securities lending
Deutsche Bank

South Korea and Malaysia are experimenting with blockchain solutions. The potential for this technological breakthrough is huge

securities lending. How big a part can technology play in developing interest in SBL and help interconnections across Asia?

Chua: The potential for technology to increase efficiency and enhance returns is enormous. However, some fundamental issues (such as market liquidity, infrastructure and regulatory environment particularly for cross-border investments) remain the same with several regional markets. These issues will continue to detrimentally impact the growth of securities financing activities in such markets.

Lai: Technology is critical to efficient markets, and securities lending is no exception. Whether it's at a client level, with better performance and analytic tools, or an industry/infrastructure level, with emerging technologies that can improve the flow of data, information and governance, we continuously seek better execution and access to data that supports transparency and liquidity.

Snowdon: Advanced technology is transforming financial markets globally, and the Asian securities lending industry is no different. Technology provides the opportunity to enhance entire lifecycles, from trading strategies through to operational efficiencies.

There is a potential for blockchain technology to drive both small-scale benefits for lenders and borrowers, and major industry-wide improvements. We expect the practical application of technology to strengthen competitive advantage for performance, efficiency and better client experiences.

With our experience and expertise in pioneering blockchain technology, we believe it has the potential to drive major industry-wide improvements and could significantly change the securities lending market. Blockchain and distributed ledger technology will allow automation so people can focus on the tasks that will bring the real value to the client. This will provide potential opportunities to achieve industry cost-efficiencies across the value chain. As confidence continues to grow in the technology sector, future opportunities are likely to develop in a wide range of areas.

Leung: Blockchain has already had a tremendous impact on the financial industry and the securities lending industry is no exception. Having a ledger that tracks the lending of securities that has been transferred multiple times between counterparties is ideally the most elegant solution which could in theory reduce costs, increase efficiency and execute transactions instantaneously between two parties.

The announcement of Deutsche Boerse's partnership with HQLAx to develop a blockchain-operated solution for the securities lending market also signifies the growing shift towards this technology. Asia is definitely watching this space closely, where similar to regulatory changes, it is expected the more developed markets to follow first, given their market structure and sophistication.

We have also observed individual firms in markets like Korea and Malaysia experiment with their own blockchain solutions. The potential for this technological breakthrough is huge, though one should temper timeline expectations given historical lead-times for rolling out market developments in the region and it the regulators' historical trend as followers instead of innovators.

CSDR and the global impact

Iain Mackay
Global product owner, post trade
EquiLend

With any industry-mandated regulatory change, the impact on market participants could be both an opportunity cost and financial one if the measures are not carefully considered. What are the effects of CSDR outside of the issuing territory and what considerations are required to stay ahead of the pace of change?

All change from the top down

It was intended to be a big year for the financial sector with two broad regulatory mandates for change due to come into effect. Wholesale market discipline measures such as the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR) have well-intended aims, and the clear benefits are obvious to many across the industry. The CSDR legislation applies to all trades settled with a European entity. However, with any pan-European measure comes a broader impact outside of the legislative arena, which has perhaps been less carefully considered.

As a technology provider for global market participants, EquiLend has been carefully preparing our offering and our clients for the global impact of these changes. The financial penalties element of CSDR was recently delayed until early 2021, which should be viewed as an opportunity to get ahead of the change that will inevitably come.

What is CSDR?

CSDR has two key phases under one legislative agenda. The entire regulation seeks to streamline efficiencies across European central securities depositories as well as in the European settlement regime. In summary, all EU-based CSDs and any securities settling in the EU will be subject to:

- Shorter settlement periods
- Settlement discipline, including mandatory cash penalties and buy-ins for settlement fails
- Daily reconciliation of securities for internal and
- Counterparty reporting
- Dematerialisation of most securities
- Enhanced regulation for CSDs, including reissuance of licences to standardise terms and conditions, daily reconciliation, choice of client segregation, public disclosure transparency and further detail in record keeping and reporting

Phase one sought to implement T+2 settlement across European entities, which was successfully ushered in back in 2017. Phase two seeks to increase the safety and clarity of CSD operations, but there remains some concern around the introduction of the mandatory nature of buy-ins for settlement failure strangling liquidity and further compressing margins. The potential impact of a settlement failure could have wide-scale financial consequences for each counterparty in a chain of trades.

Industry awareness

Since the light was allowed in on capital markets post-2008, legislation has almost become an industry in and of itself. The European Market Infrastructure Regulation in 2012 and the second Markets in Financial Instruments Directive in 2018 remain relatively evolving pieces of legislation, each with their own complexities and nuances for market participants. 2020 is unusual in that until recently, two wide-reaching regulations were set to be enforced: SFTR and CSDR. The overwhelming nature of the systems and processes required to meet the enhanced reporting requirement for the regulatory showstopping SFTR has meant a lesser focus on CSDR for some market participants. It is safe to say an accurate appreciation of the administrative burden of CSDR has been underestimated in some cases.

Even for European entities, a lack of clarity remains in some areas, none more so than: who will shoulder the administrative burden and the costs of settlement failure, the borrower or the lender?

Time zones and market latency

CSDR currently enforces T+2 settlement for European-settled CSDs. In phase two of the regulation, settlement fails will see mandatory cash penalties or enforced buy-ins in place. The immediate impact of settlement schedule standardisation is disincentivisation to trade with EU-settling entities.

Without cash penalties, there is settlement leniency within a trading cycle for non-EU located entities. The impact of penalties for settlement failure will be greater felt in the Americas, reducing firm's settlement window for EU-settled trades significantly ahead of EU market close.

Asia Pacific markets could see some benefit of this market latency with only a few hours from the EU/UK close to the open in the Pacific region. There are concerns, however, that unless EU-originating trades are picked up early, time will be lost, creating a further threat to settlement.

Future trade with European-settled CSDs

Future trade with European-settled CSDs will, if mandatory buy-ins are enforced, require clean data. At EquiLend, we continually strive for the highest accuracy and transparency of client data. We are working with clients to engage with their workflow process and data output ahead of CSDR to identify common issues resulting in settlement threat or failure. In this way, our clients can double-down on the benefits of the NGT securities finance platform by identifying failures early while the majority of trades progress without issue.

Pre-booking tools

EquiLend NGT offers automated matching of multiple fields including settlement location and market field at the point of trade, ensuring trades are booked correctly at the point of trade and enabling an increased settlement ratio of same-day trades. Additionally, clients also can automate their returns and recalls from OneFile submissions, gaining further efficiencies in their workflow.

Post trade tools

Aside from manual bookings, settlement failures due to incorrect settlement instructions are the most common reason for failing trades. EquiLend's Post-Trade Suite can facilitate risk management and eradicate settlement failure with automatic population and reconciliation at point of source.

EquiLend Unified Comparison offers a two-fold benefit in post trade:

- **Risk management**: By monitoring settlement and future settlement of trades through Unified Comparison, clients gain a greater awareness of problematic trades and can address these issues immediately.
- **Automatic SSI reconciliation:** EquiLend Unified Comparison facilitates automatic SSI reconciliation either from client OneFile submissions or against the EquiLend Settlement Instructions Repository.

Now and next

The modernisation of a complex industry inevitably comes at a price. The global benefits derived from the operation of the capital markets merit the increased scrutiny of recent years, although the process has not been simple nor inexpensive. However, both the financial and effort cost must be shouldered in order to deliver greater benefits of increased market transparency. Understanding the need for regulation drives beneficial, sensitive legislation from which the wider markets can benefit, both during and after any volatility.

The impact of penalties for settlement failure will be greater felt in the Americas, reducing firm's settlement window for EU-settled trades significantly ahead of EU market close

Iain Mackay, global product owner, post trade, EquiLend

Japan: Opportunities and risks

David Lewis
Senior director
FIS

Japan is not a new market but it represents a wealth of untapped opportunities for those seeking a specials-driven securities lending arena

March 2020 was to mark the 17th annual conference on Asian securities lending by the Pan Asia Securities Lending Association and the Risk Management Association, but sadly, this was not to be.

Due to the World Health Organization declaring the coronavirus outbreak a global emergency, the event will now be held in Tokyo, Japan in 2021. In an increasingly risk-averse world, this seems like an eminently sensible decision – and so, the rest of the world's markets have been forced to wait another year to gain some valuable exposure to the fascinating market that is Japan.

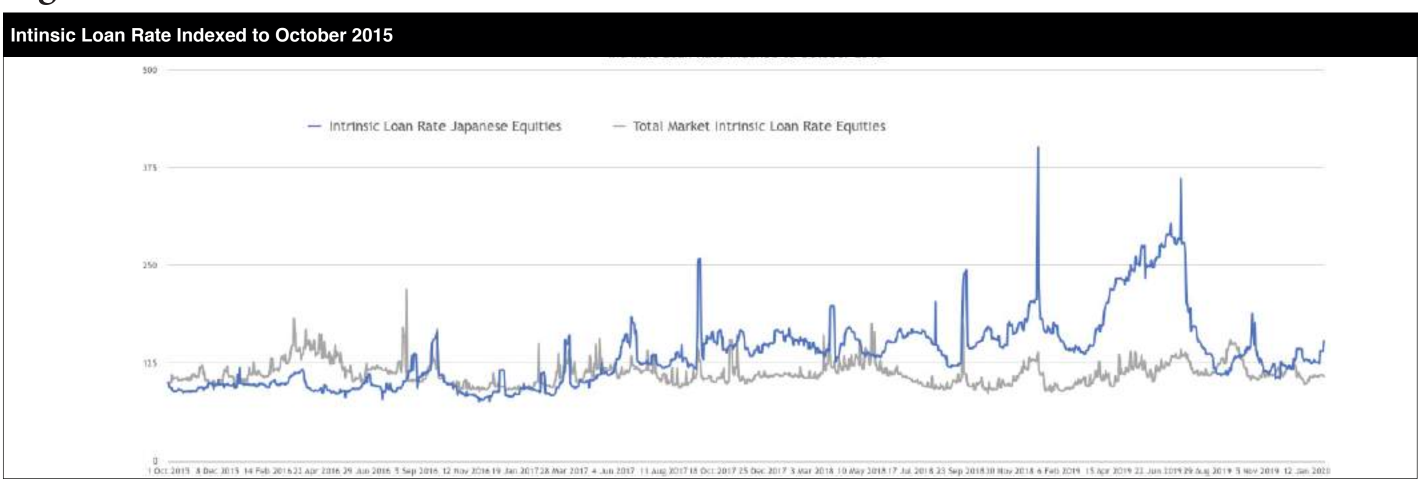
Japan cannot be described as a "new market" by any stretch of the imagination, but that certainly does not mean the market is devoid of opportunity. There is more to securities lending activity in the world's third-largest economy than the recent decision of the Government Pension Investment Fund (GPIF) to cease lending – a move that has gained a significant amount of attention and provoked some heated debates on the pros and cons of securities lending and its association with short selling. It should be remembered that this decision only affected the overseas equity holdings of the GPIF; domestic equities were not being lent by the fund prior to this decision.

Looking at the nation's market overall, there is a significant gap between Japan and the world's two largest economies. By GDP, Japan is a little more than one-third the size of China, the next largest economy, and less than one quarter of the largest, the US. Statistics for the securities lending market show an even greater mismatch.

Based on a snapshot of activity, Japan has just 16 percent of the total number of active securities compared with the US. In terms of balances, Japan is just 6 percent of the size of the US, or about 1/16, and less than 4 percent, or 1/25, of the global market volume overall. However, despite the market appearing to punch below its weight in terms of active securities and balances, it does appear to outperform in returns. Recent statistics show Japanese equities demanding a weighted average intrinsic fee of 85bps from borrowers, whereas US equities were generating rates of just over 61bps. Figure one shows this same comparison over time, indexed to the fourth quarter of 2015, but against global equities rather than just the US.

The plot lines show two general trends of note: first, Japanese equities show greater volatility and are somewhat more prone to spikes than the

Figure 1 *Intrinsic loan rates, Japan and global equities, excluding Asia Source: FIS*



rest of the world, although it is recognised that the larger sample will be dampened, relatively speaking, as a result of a much greater diversity of securities. Second, since the middle of 2017 at least, the intrinsic loan rates achieved by Japanese equities outpaced global equities on all but a few occasions.

This higher fee average concentrated on a small set of securities would tend to support the notion that Japan is a market dominated by 'specials', rather than general collateral (GC) activity. While there may be crowding, risks associated with the size of the market, the rates would certainly appear attractive to those that can lend into that space, especially if they are seeking higher intrinsic rates and avoiding the lower returning GC business. Figure two shows the total on-loan balances, again indexed to October 2015. The plot lines for Japanese equities versus global equities excluding Asia reflects the same spikes in volumes characteristic of a more volatile specials-driven market.

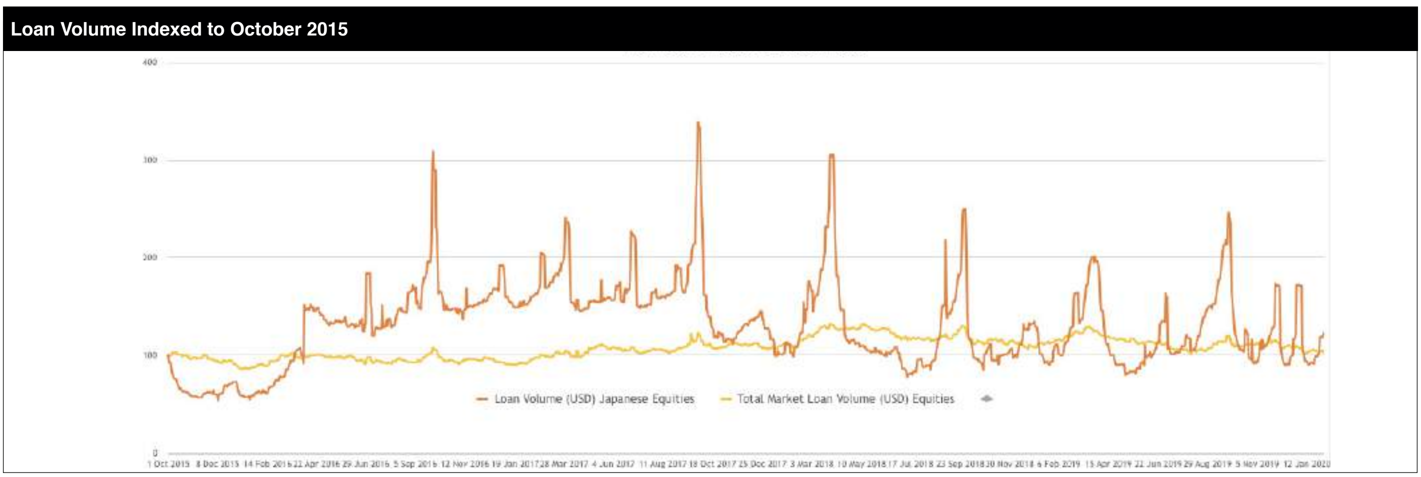
From a regulatory standpoint, there have been several moves recently to review the securities lending market in Japan, including around transparency. The Tokyo Stock Exchange has suggested that sharing the short selling data it holds could help investors gain trading opportunities and understand the short selling market better. This approach, suggesting that short selling data can help investors make better-informed decisions, could be viewed as contrary to the position of GPIF, which would certainly seem to be against short selling in any situation.

However, concerns around the opacity of the market would have been likely increased by the recent publicity surrounding the actions of GPIF. As the world's largest pension fund, at some $1.4 trillion of assets, its decision certainly carries some weight, but given the levels of supply globally, the direct effects, and therefore any intended curtailment of short selling in assets it holds, may be less than hoped for.

What is more important is the indirect effect, as other asset managers are prompted to consider their own strategies considering GPIF's action. A quick search on the internet around this issue returns a multitude of articles and comments from analyst and funds responding to GPIF's action. This is not an isolated event, of course. This action is, according to GPIF, directly related to the desire to comply with the fund's environmental, social and governance (ESG) objectives, and is part of a wider change in the tone of the markets globally. Recently, the International Securities Lending Association founded its Council for Sustainable Finance and, on 6 February, the European Securities and Markets Authority (ESMA) issued its Strategy on Sustainable Finance. ESMA is aiming to undertake its regulatory and supervisory roles under the umbrella of its sustainable finance objectives. These objectives include increased transparency, analysis of the financial risks of climate change and reporting on the risks of investing in green bonds and other ESG-compliant products, among many others.

Given that ESMA's remit stretches right across the investment chain from issuers to investors, it seems likely that the securities finance industry will come in for yet more analysis and action. SFTR will surely bring about a significant increase in transparency across the securities finance market, but the question remains as to what that data will be used for and how that might combine with the rollout of ESG objectives aimed at improving the sustainability of finance.

Figure 2 *Loan volume, Japan and global equities, excluding Asia Source: FIS*



Upcoming Securities Finance Training

SFTR Analysis

Date: 19 March 2020
Location: London
Provider: Consolo

SFTR is the biggest regulatory change for securities lending in decades. This course will provide you with a good understanding of the regulation and what is needed to ensure compliance

Securities Lending & Borrowing - Operational Challenges

Date: 2-3 April 2020
Location: London
Provider: ICMA

Securities Lending & Borrowing has been an important activity within the securities marketplace for many years. This course will tackle common operational challenges

Collateral Management

Date: 30-31 March 2020
Location: London
Provider: ICMA

The use of collateral, for many years associated mainly with repo and securities lending transactions, has seen a rapid growth within the financial marketplace

Securities Operations Foundation Qualification (SOFQ)

Date: 4-6 May 2020
Location: London
Provider: ICMA

The Securities Operations Foundation Qualification (SOFQ) is an introductory level programme intended for anyone entering a career in the securities operations area of the financial markets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Broadridge appoints Chris Perry as president of financial solutions

Broadridge's board of directors has appointed Chris Perry as president of Broadridge financial solutions, effective 2 March. Perry currently leads Broadridge's global sales, marketing and client solutions organisation.

As part of his new role, Perry will expand his current responsibilities to take a 'stronger role leading Broadridge's top clients and partners, overseeing Broadridge International, and coordinating Broadridge's overall growth strategy'.

He assumes the title of president from Broadridge's CEO Tim Gokey, who remains CEO and a director of the company.

Perry has more than 25 years of experience in banking, brokerage and financial information services.

He joined Broadridge in 2014 and oversees all client and market-facing activities globally and is responsible for delivering the company's annual sales targets spanning all business units and product lines.

Prior to Broadridge, Perry held leadership roles at Thomson Reuters, and its predecessor, Thomson Financial.

At Thomson Reuters, Perry served as global managing director of risk for the financial and risk division, where he was responsible for overseeing governance, risk and compliance, as well as pricing and reference services.

Former Northern Trust securities lending head for Asia Pacific (APAC) Andrew Geggus has resurfaced at BNP Paribas in London.

Geggus relocated to London from Hong Kong earlier this year to take on the role of global head of securities lending trading for the French bank.

A spokesperson for BNP Paribas tells SLT that Geggus will lead the development of the bank's agency lending business with a particular focus on its offering to asset owners and asset managers.

Geggus reports to Eric Deudon, global head of market and financing services.

He left Northern Trust after six years in which he went from serving as a fixed income and equity securities lending trader for Europe, the Middle East and Africa, based in London, between 2014 and 2017, to take on the top job for APAC in Hong Kong in 2018.

He also brings experience from a role as a quantitative equity research analyst for GSA, which focuses on systematic trading across liquid equity, futures and foreign exchange markets globally.

REGIS-TR's growth spurt continues with a new head of business development

REGIS-TR has promoted Nick Bruce to vice president, head of business development

Bruce (pictured) has served as a business development manager (BDM) for the European trade repository since September on a consultancy basis, but will now be employed on a permanent basis from 1 March.

Before REGIS, Bruce had served as head of business development, sovereigns, at HSBC Securities Services for 15 years from 2004. He also brings experience from senior client-facing roles at State Street and Deutsche Bank Securities.

Bruce's immediate focus will be on the Securities Financing Transactions Regulation, due to come into force in April, as well as looking into portability for the European Market Infrastructure Regulation and ways to further develop partnerships with leading market intermediaries.

A spokesperson for REGIS tells SLT that Bruce will work closely with Tomas Bremin on the product management side "so as to champion client-driven product innovation and ensure that we remain competitive in all aspects of service delivery".

Bruce was initially brought on to fill the gap left by the departure of Fabian Klar, who left his role in business development in April 2019 to take on a role at deltaconX.

In his new position, Bruce will continue to oversee REGIS' sales and relationship management team, including Lucija Basic, who joined the Frankfurt team in December 2019. He is also responsible for Nishith Nirav, who also recently shifted from a temporary to full-time basis in his business development officer role.

Bruce, based in London, will report to John Kernan, REGIS' head of product management.

Elsewhere, REGIS is also looking to build out its technical writer team, among other areas.

Transcend, a US collateral management optimising technology provider, has hired Lis Hadingham from CloudMargin.

Hadingham joins Transcend's sales team where she will help drive the company's expansion and global growth.

Based in New York, Hadingham will report to Transcend's head of sales BJ Marcoullier.

Transcend says it chose Hadingham for her more than 20 years of experience in the securities finance industry, which includes an extensive background in collateral management and financial technology sales.

For CloudMargin, Hadingham was involved in launches and leading its sales and business development initiatives in the Americas.

Before that, Hadingham held senior roles at FIS (formerly Sungard) selling collateral management and securities finance software solutions, and at Citibank's capital markets group focusing on equity finance sales for repo and securities lending.

Hadingham also spent 14 years at J.P. Morgan Chase helping to expand the bank's collateral solutions.

"I'm thrilled to join the Transcend team of experts in helping evolve the industry's capabilities in global inventory optimisation, regulatory reporting and operational efficiency," says Hadingham.

Of Hadingham's appointment, Marcoullier adds that her extensive experience will play a pivotal role in supporting Transcend's growing roster of clients and products.