securities lending times

The primary source of global securities finance news and analysis

Issue 248 17 March 2020

Full steam ahead

IHS Markit made some major additions to its suite of services in 2019 and has begun this year with a bang in both its data analytics and fintech offerings

HSBC to combine markets and securities services

HSBC is set to combine its global markets and securities services (excluding issuer services) divisions, which is due to be complete in May.

As part of the restructure, co-heads of securities services Allegra Berman and Richard Godfrey will report to Greg Guyett, co-head of global banking markets for an interim period only.

Upon completion in May, the combination of securities services and global markets will be formed into a new unit named 'markets and securities services'.

From this point, Berman and Godfrey will report to Georges Elhedery and take on newly expanded positions in addition to their current roles.

Berman will become head of institutional sales for markets and securities services, while Godfrey will lead a new product area, named securities financing.

Godfrey will do this alongside Hossein Zaimi, global head of equities, which will comprise of equity prime financing, rates and credit repo activities and collateral treasury.

The restructure will also see derivatives clearing services move under securities services. Additionally Najib Lamhaouar, global head of over-the-counter clearing and exchange-traded derivatives, will report to Berman and Godfrey and join the securities services executive committee.

Issuer services will remain a private side activity and become part of capital markets to align with other issuer client activities. Under the issuer services division, Giovanni Fenocchi, head of issuer services, will report to Alexi Chan and Ray Doody, co-heads of capital markets, effective in Q2 following completion of "all necessary due diligence".

In a joint memo, Guyett and Elhedery, say: "This combined entity will provide a number of significant opportunities, including enhancing our institutional client relationships and expanding our prime financing business."

Additionally, a joint statement from Berman and Godfrey state: "We are delighted and excited to be brought together with global markets in the creation of the new markets and securities services unit. Recognising increasing client demand for comprehensive and seamless solutions and services, this alignment of products and capabilities

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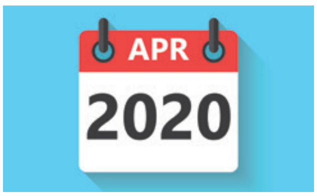

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Published by Black Knight Media Ltd

2725655.1.1.GBL

HQLA^{X} receives new investment

HQLA^{X}, which went live in December 2019, has just received new investment from Dutch bank ING.

ING's blockchain team had worked with the securities lending platform HQLA^{X} in developing the initial version of the application which uses blockchain to facilitate efficient and high-speed trading of high-quality liquid assets (HQLA).

"The successful commercial launch of HQLA^{X} is a big milestone for the implementation of blockchain in the securities lending market and proof that blockchain can bring tangible benefits to the industry," says Mariana Gomez de la Villa, head of ING's blockchain team.

ING and HQLA^{X} partnered in 2018 to carry out the first-ever live securities trade on a blockchain platform. Together with Credit Suisse, they swapped €25 million worth of HQLA using the collateral lending application of HQLA^{X} on R3's Corda distributed ledger platform.

HQLA^{X} CEO Guido Stroemer adds: "HQLA^{X} and ING have been actively collaborating throughout our transition from a proof of concept in 2017 to a production platform today.

"We look forward to a bright future of further collaboration, most immediately as we work with ING to enable decentralised node hosting."

HSBC to combine markets and securities services

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under one umbrella will help improve the client experience and better position us to capture increased market share and client revenue growth."

"This unit will enable global banking and markets to focus on supporting our institutional clients across the entire investment value chain – from research, market analysis, financing and execution to investor servicing, valuation, reporting, custody and clearing."

Discussing issuer services, it was outlined in the statement that "the issuer services business is ideally positioned to provide solutions for both client groups and by putting this business alongside the origination teams in global banking, it will only help increase client cross-product and cross-business referrals, which is the key for growing our revenues in this client sector".

Berman and Godfrey added: "Aligning issuer services with global banking, and securities services with global markets will create a clear separation between the private and public side divisions of global banking and markets respectively."

The recent plans to change the structure follows the announcement by HSBC's group executive, Noel Quinn, that HSBC will adjust its headcount in line with how the business is progressing as well as factors relating to the economic environment.

As part of its 2019 results, the bank revealed it could face 35,000 job cuts by 2022, taking the headcount from 235,000 closer to 200,000.

At the time of the announcement, Quinn said: "We have already begun to implement this plan, which my management team and I are committed to executing at pace."

KDPW has now received CSDR authorisation

The Polish Financial Supervision Authority (PFSA) has authorised KDPW, the Polish central securities depository (CSD), under the Central Securities Depositories Regulation (CSDR).

Under the single passport system, the authorisation confirms that KDPW meets the EU's legal requirements for CSD.

It will allow KDPW to provide services under EU standards across the EU, including recording and safe-keeping of financial instruments as well as settlement of transactions.

Maciej Trybuchowski, CEO of KDPW, comments: "PFSA's decision is essential for entities active on the Polish capital market, including banks, brokers and trading venues for whom KDPW is a key service provider in securities registration and settlement."

"To meet the CSDR requirements, KDPW has developed and implemented a range of system modifications in its key areas including IT systems, operating links with other CSDs, and corporate affairs," Trybuchowski adds.

CSDR aims to provide common European requirements for CSD services and to improve securities settlement, including harmonisation of settlement rules on the European markets.

Cappitech collaborates with AccessFintech

Cappitech has partnered with the financial technology company AccessFintech, to deliver greater governance and risk controls for market participants by providing their combined solution to clients across the market.

According to AccessFintech, one of the key enhanced services is its exception management solution across trading workflows, as well as Cappitech's platform which offers multi-jurisdiction transaction reporting and analytics.

The new partnership will cover the regulatory evolution from the European Market Infrastructure Regulation through North America and Asian governance, to the second Markets in Financial Instruments Directive (MiFID II) and the Securities Financing Transactions Regulation.

The data distribution capabilities of AccessFintech will help to drive the regulatory processing provided by Cappitech, which will offer banks a "seamless way of accessing new technologies" using the same workflow engine.

AccessFintech recently launched its Global Exception Network with a settlement workflow solution with Citi, Credit Suisse, Goldman Sachs and J.P. Morgan.

Cappitech highlighted that it is addressing regulatory challenges to help reduce operational risk and costs while simultaneously providing instant intelligence on business operations for users.

Roy Saadon, CEO of AccessFintech, comments: "I am excited by our alliance – the technology delivery of our products with those of Cappitech's is seamless across the whole lifecycle. We want to

eliminate context switching; the industry has too many screens, too much switching. We want to provide a much smoother interaction and a frictionless flow of data. I believe there is a huge appetite for this new type of collaboration, with shared domain and knowledge transfer."

Ronen Kertis, CEO of Cappitech, adds: "We have a similar approach, and moreover a similar user experience, making it attractive for our clients to be able to access both suites of solutions."

The collaboration is an extension of the firms' existing partnership to deliver MiFID II solutions to the market, announced in 2017.

Consolo set to launch CPD accredited online training

Consolo, the London-based securities finance consultancy firm will be launching its bespoke CPD accredited online training next month.

Consolo plans to provide an opportunity for new users to sample the online offering as well as discuss bespoke training opportunities for teams around the world.

Consolo will be present at the Securities Finance Technology Symposium on the 7 May 2020 in London. The firm is also set to make an appearance at the International Securities Lending Association's (ISLA) trade conference in Vienna later this year.

"We believe the online courses will fulfil the needs of all our students including those seeking access to competitively priced niche education services that are specific to our space" says Sarah Nicholson, director at Consolo.

Nicholson adds "The addition of online training capability recognises the difficulty firms can have in releasing multiple staff to attend full-day events. Now, staff can meet continued professional development needs at times that fit the business".

Bank of Japan shines new light on securities financing

The Bank of Japan (BoJ) has undertaken new initiatives to increase securities financing market transparency by collecting and publishing monthly transaction data in a new, more granular way.

The country's central bank says it wishes to contribute to the global effort to shine a light on securities finance markets following the 2008 financial crisis, which has also produced the EU's Securities Financing Transactions Regulation that is set to come into force in April.

The BoJ first published its new statistics in January, which covered Japanese securities finance transactions (SFTs) between December 2018 to November 2019.

Until now, transparency into Japan's securities financing markets was offered via the central bank's annual 'Tokyo Money Market Survey', along with the Japan Securities Dealers Association's monthly report 'Balance of Bond Transactions with Repurchase Agreements'.

The BoJ notes in a research paper on its first data release that these existing formats lack the necessary granularity or offer an accurate reading of key figures such as monthly outstanding balances.

The bank says that the key difference is that the new reports collect data on individual transactions, which will allow it to compile and release data on other areas, such as outstanding balances of transactions where the cash leg is denominated in a foreign currency.

Other new statistics include information about counterparty jurisdiction, original maturity, which is calculated as the difference between the ending date and the starting date of the transactions, and daily data on repo transactions.

December 2018 to November 2019 market data

The BoJ's data for the period shows that for cash lending, the average month-end outstanding balance in securities financing markets in Japan was JPY164 trillion (US$1.52 trillion).

Of that total outstanding balance of SFTs, the outstanding balance of transactions denominated was JPY148 trillion ($1.37 trillion) (approximately 90 percent of the total outstanding balance), indicating that, unsurprisingly, transactions in Japanese yen make up the bulk of SFTs in Japan.

Of the transactions denominated in Japanese yen, the average month-end outstanding balance was JPY89 trillion ($823.52 billion) for repo transactions with Japanese government securities, and JPY45 trillion ($416.4 billion) for securities lending transactions with Japanese government bonds (JGBs) (accounting for approximately 60 percent and 30 percent, respectively).

This indicates that transactions with JGBs make up the majority of SFTs where the cash leg is denominated in Japanese yen.

Elsewhere, the new reports for the first time collect data on counterparty jurisdiction under the headings of 'US', 'Europe', and 'Other' for transactions where counterparties are residents outside Japan.

Over the same one-year period, reporting financial institutions borrowed an equivalent of JPY130 trillion ($1.2 trillion) from residents in Japan, and an equivalent of JPY72 trillion ($666.2 billion) from residents outside Japan.

Borrowing from Europe accounts for 44 percent of all foreign currencies borrowed. BoJ notes that this is mainly because financial institutions headquartered in Europe conduct many transactions between their Japanese offices and those located overseas.

Coronavirus leads to another short selling ban

The world's major stock market indices have shown a noticeable dip since the start of the coronavirus, the Association of Southeast Asian Nations (ASEAN) markets have seen considerable declines in stocks which has led the Indonesian Stock Exchange (IDX) to ban short selling.

The IDX has been keeping a watchful eye on the global spread of the coronavirus since its outbreak. However, after the announcement of the countries first reported cases on Monday and the Jakarta Composite Index's (JCI) collapse, the exchange implemented the short selling ban in order to calm the markets.

Since the beginning of 2020, the JCI has dropped by 13.44 percent. This level of decline has also been experienced by many of the global exchanges, most significantly throughout Asia.

According to Bloomberg, the highest decrease was experienced by Thailand, followed by Indonesia, the Philippines, Vietnam, Malaysia and Singapore with decreases of up to 15.15 percent.

In a statement released by the exchange, the IDX explains how it coordinated with the Financial Conduct Authority (FCA) and the government to formulate initiatives and incentives to be provided to anticipate the impact of the coronavirus on activities in the Indonesian capital market.

The decline in the last week of February 2020 was the biggest contributor to the drop-off in the index of the world's major exchanges in ASEAN. The highest decrease was experienced by the Philippines, Indonesia, Vietnam, Singapore and Malaysia with weekly decreases of up to 7.9 percent.

Many market commentators doubt that this measure will prevent further decline.

Further to the exclusion of short selling transactions, the IDX says it will not publish a list of securities that can be traded in short selling. The time limit on the ban has yet to be determined, and investors are being urged to continue investing based on in-depth analysis.

In the midst of the JCI movement and the world's economy, the IDX has confirmed that it will strive to strengthen the role of exchange members through strengthening market supervision, the supply of market products, and conducive trade arrangements.

Turkey halts short selling

The Turkish Capital Markets Board (CMB) has placed a temporary ban on securities lending on Friday 6 March, thereby prohibiting investors from short selling stocks traded on the Istanbul Stock Exchange.

Turkish regulators were reacting to a more than 10 percent fall in the country's stock market and a significant weakening of the lira, sparked by an airstrike in Idlib, Syria, which killed 34 Turkish soldiers.

Geopolitical concerns are also being compounded by the on-going battle against the coronavirus which is spreading the potentially deadly disease COVID-19 around the world.

The CMB said that the one-day ban applied all shares listed on the exchange and would prop up the faltering stock market. The regulator has taken similar steps previously during times of market volatility.

The securities excluded from margin trading and short selling are subsequently subjected to the regulations of the temporary list until the end of the three-month period.

A consolidated table of the measures relating to margin trading & short selling in the equity market has been posted on the Borsa Istanbul website.

GLMX joins UnaVista partner programme

GLMX, the technology solutions provider for securities financing transactions, has joined UnaVista's partner programme to simplify Securities Financing Transactions Regulation (SFTR) reporting requirements for market participants.

The new regulation, which is set to come into play in April, is designed to increase transparency but presents a complex reporting challenge for firms. GLMX connects directly to the trade repository on behalf of clients, in order to streamline SFTR reporting.

Some 25 independent software vendors (ISVs) within UnaVista's partner programme are now looking to include SFTR services as part of their offering to clients. Partner firms include Calypso Technology, EquiLend, IHS Markit, MarketAxess, Message Automation and Murex.

"With the rollout of SFTR starting next month, firms need to prepare to meet their reporting obligations," says Michael Leach, managing director of global business development at UnaVista. He adds: "Our collaboration with GLMX simplifies how their clients' data is routed to UnaVista, helping to ensure that securities financing transactions are reported accurately and efficiently."

"The digitisation of repo transactions and associated data is a prerequisite for effective SFTR reporting, which is accelerating the shift towards electronic trading for securities financing transactions," adds Phil Buck, managing director, Europe, at GLMX.

Seb Malik
Head of financial law
Market FinReg

UK regulatory dynamism

With Britain now having formally left the EU and the transition period due to expire at the end of the year, the question of regulatory divergence is dominating trade negotiations.

The EU is adamant that it will prevent a regulation-slashing, low tax "Singapore-on-Thames" competitor access to the EU market. The EU's price for a free trade deal will be continued regulatory alignment.

With this backdrop the Bank of England's executive director of prudential policy, Victoria Saporta, delivered an insightful speech entitled, the ideal post-EU regulatory framework.

The key question is: What is the ideal institutional structure that would allow the UK to update, change and simplify these regulatory rules?

Note that her discussion is on the structure, not the political policy decision on whether to remain aligned to the EU. Saporta opines that the future UK regulatory structure should be built on three pillars:

- Dynamism
- Time-consistency
- Legitimacy

Dynamism means "adjustments made to regulation over time to incorporate updated international standards in a timely manner, including to adjust for any unintended consequences of regulation".

Time consistency calls for stable regulation that is immune from the vicissitudes of the political zeitgeist or electoral considerations, thereby creating a stable, consistent environment conducive for investment. Time inconsistency leads to an unstable financial system.

Legitimacy refers to the mandate received by the regulator. "It ensures there is democratic control over the shape of the regulatory regime; e.g. the objective or objectives of the prudential regulation, the types of firm in scope, the issues the regulator must have regard to in making policy. Second, it makes it possible to hold the regulator into account."

Should this model be adopted, by outsourcing large swatches of regulation to the Financial Conduct Authority (FCA), rather than primary legislation sponsored by the treasury, it would signal a significant departure from the status quo.

With the Securities Financing Transactions Regulation (SFTR) go-live weeks away, readers will be only too aware that large swathes of the UK's regulatory system emanate from primary legislation in the form of EU regulations or derivatives (transposed into domestic law). The FCA is often relegated to copying and pasting verbatim primary legislation into its COBS handbook.

This primary legislation approach anchors regulation in law at the expense of dynamism. Legislation typically takes years to enact whereas delegating regulation to a regulator allows for a faster response to actual market events.

To take a contemporary example: It is my view that the SFTR go-live should be delayed by six months due to the coronavirus epidemic. Yet the European Securities and Markets Authority (ESMA) is powerless to effect such a change because the regulation stipulates the start date in law. This lack of dynamism – the lack of ability to react to events in a timely manner – is the price the EU must pay for being a supranational entity where legal certainty across 27 jurisdictions is paramount.

To remedy this legislative straight jacket, ESMA regularly oversteps its mandate in its guidance and question and answers by overruling awkward parts of SFTR and other regulations. The commission, turns a blind eye, perhaps appreciating the smoothing-over effect of ESMA's, arguably illegal, legislative overreach.

A dynamic regulator – in other words a regulator that has been empowered by legislation to issue legally binding rules, on balance, is probably the best model for the UK. But great care must be taken to prevent a return to the Financial Sservices Authority of old. The regulator must ensure it maintains genuine independence and has the ability to resist lobbying of a powerful industry with trillions of dollars backing.

Full steam ahead

Paul Wilson
Global head of securities finance
IHS Markit

IHS Markit made some major additions to its suite of services in 2019 and has begun this year with a bang in both its data analytics and fintech offerings

Are you observing any shifts or changes in the securities finance market?

There's been an undeniable growth in lendable assets as evidenced in our dataset (see figure one, overleaf) which has exceeded the landmark value of $25 trillion. Thanks to the plethora of supporting evidence in favor of securities lending, the primary question beneficial owners ask is shifting from "should we lend" to "why aren't we lending".

Although the market is growing, demand has failed to keep pace with the increase in market valuation. Market participants continue to innovate, developing new approaches and broadening collateral options which is helping achieve revenue generation in excess of $10 billion in 2018 and 2019. Of course, that revenue is distributed across more participants and across a broader asset base, generally resulting in lower returns on the lendable pool of assets.

Taking a closer look at the demand or borrow level, we see a different story. Figure two below shows the on-loan/borrowed value for US equities from all participants and what is notable is the increasing divergence between the on-loan value and the exchange short interest.

This suggests that more borrowing is taking place via different methods such as broker-dealer internalisation, swap transactions, retail brokers, hedge funds lending their longs and so forth. The demand side has become very focused on the type of borrow source, collateral flexibility, asset quality (high-quality liquid assets), supply stability and risk weighted asset/credit quality of the lender. While fee is a factor, these factors are becoming more material to the overall cost of a borrow than say a few basis points here-or-there on the borrow fee.

Beneficial owners and other lenders are starting to respond by being far more interested in analysing their portfolios and assets and contemplating how they can better position themselves with the demand side. A high credit quality lender, with high-quality stable assets and flexible collateral should (theoretically) achieve above-average securities lending returns. Data and metrics will enable them to demonstrate this as well as validate that their returns are commensurate with all these factors.

There is strong evidence supporting the increased awareness around peer-to-peer (P2P) lending. P2P does have the potential to disintermediate but could also deliver benefits to everyone in the securities lending value chain.

IHS Markit seems to have been growing and expanding its product range quite extensively. What are some of the things you are working on?

IHS Markit is bringing new products and services to the securities lending market, using our information, analytics and expertise to pave the way for greater insight. Innovation is key. We believe in enhancing our products and reducing the workflow of our clients whilst providing additional data points that help in generating alpha.

Last year was a busy one for the securities finance product team, who brought in a variety of new developments and enhancements every quarter. Our development strategy follows three main themes:

- Data – We recently passed the $25 trillion of lendable assets milestone, thanks to new data contributors and a market lift. New contributors were responsible for approx. 11 percent year-over-year growth in data. Our intra-day capability expanded considerably with more than a 50 percent increase in volumes
- Better user experience – We enhanced client experience by rebranding our tools, launching a relevant insightful home page and implementing new features, including: a new interactive quote page and a complete overhaul to our performance benchmarking tools with additional metrics and analysis.

Figure 1 *Source: IHS Markit Securities Finance*

Global securities lending global lendable assets

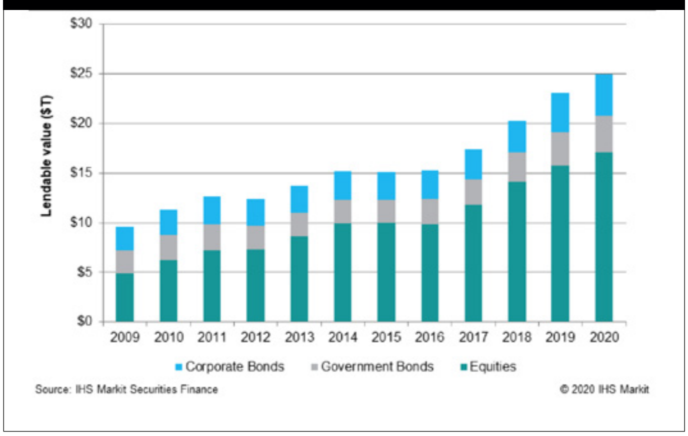

Figure 2 *Source: IHS Markit Securities Finance*

US equity short interest value vs on-loan value

- Additional data points – we launched HQLA flag classifications that evaluate if an instrument is qualified as HQLA in accordance with Basel III requirements. We added stability metrics that highlight and score the level of stability at an asset and fund level across both lendable and on-loan balance. We also announced a collaboration with Credit Benchmark to ingest their credit consensus ratings of unrated sovereigns, funds and public and private companies and subsidiaries. The new credit rating data point can be leveraged for fee modelling, optimised management of capital and RWA, understanding the available supply and loan volumes from underlying funds based upon credit scoring and incorporate the credit scores with other proprietary IHS Markit metrics.

Looking ahead, we have a number of exciting developments planned, including:

- Ingesting corporate actions data, we will be providing clients with notifications on upcoming corporate events like AGM/EGM, dividend offers, stock splits and consolidations, rights issue offers, etc. This will help clients identify trading opportunities and build compliance alert tools.
- We will be rolling out a compliance app/tool further improving our market leading solutions for beneficial owners. This customisable tool can undertake more than 50 individual tests across a beneficial owner's lending parameters, including asset classes, countries, borrowers, limits and security restrictions.
- ESG - our beneficial owner product offering, which has evolved considerably during 2019, is becoming more than just a benchmarking tool, enabling compliance alerts that helps our clients govern their lending programme and activities within their environmental, social and governance (ESG) guidelines and management of programme's risk appetite and value at risk
- We will be developing an enhanced risk web portal that will help our clients understand and analyse the risk associated with their programme; this will take into account both loan and collateral portfolios and evaluate outcomes under a variety of stress scenarios. Our model also allows for 'what-if' analysis, which is useful when our clients are considering making programme changes such as broadening collateral or adding in term trades.

At IHS Markit, innovation is key and we aim to harness new tools, new sources of data, analytics and expertise to forge solutions to the securities lending industry.

ESG is all over the headlines, what are you seeing from your clients in this regards?

ESG has been at the top of the agenda for many beneficial owners over the past few years. To meet investor's changing needs, industry associations across Europe are issuing various principles and framework documents in tackling the approach to sustainable finance investment strategies. How does this affect securities finance? For many years, there have been mechanisms in place to help investors meet the governance element of ESG. This includes, executing voting rights to influence change or signal approval of the management of a given company. Agent lenders use various methods to ensure that securities on loan are recalled in a timely manner, so that beneficial owners can execute their voting rights. The programme management of the beneficial owner is crucial in ensuring that they instruct their agents in a timely manner to recall securities where they wish to vote, ensuring their core investment activity is not affected.

According to academic research published in 2014, lenders tend to reduce the amount of lendable assets around proxy vote record dates, however, this behaviour is less pronounced in securities with higher fees suggesting that in many cases the value of lending revenues is deemed to exceed the value of the vote. The researchers use control variables to determine the impact of lending and likelihood of the vote being contentious, which are summarised in their conclusion: "These results show that recall is higher for firms with a higher proportion of investors with stronger incentives to monitor and exert governance, for stocks where governance is more valuable and for proposals where the returns to governance are likely higher." (Aggarwal et al, 2014)

Will this change in future?

In short, yes. Beneficial owners will ensure that the companies they invest in comply with their ESG strategies - proxy voting being one of the primary weapons in their armoury. This requires that more robust programme management is put in place to deal with the potential increase in recall instructions, particularly those who adopt a case by case policy to vote.

ESG will also affect collateral management, with beneficial owners not wanting to be exposed to securities that do not mirror their investment strategies. Again, there are already mechanisms in place to exclude securities within their collateral schedule, but this will no doubt grow over time and this has the potential to move collateral to a tailored segregated model.

What's the latest news with SFTR and are you seeing new areas of interest?

On 6 January, the European Securities and Markets Authority finally released its long-awaited level three guidance for the Securities Financing Transactions Regulation (SFTR). In the level three guidelines there was an updated validation rules and a statement on legal entity identifiers. With only a few weeks left to go before the phase one go-live of the SFTR reporting obligation for investment firms and credit institutions on 13 April, we see the securities finance market speeding up its preparation for the oncoming industry challenge. With the buy side gearing up to its phase two go-live date in October, most sell-side institutions have now decided on how to proceed with their path to SFTR regulatory compliance.

More than 70 major institutions have now selected the IHS Markit SFTR solution, including 19 of the 20 top brokers and 16 of the 20 top lenders; this ensures extensive market coverage for our clients reconciling their transactions and collateral with their peers and improving data quality and completeness before reporting to their trade repository of choice. The geographical split is far reaching with clients all across Europe, as well as in the US and Asia. In collaboration with Pirum Systems, we also recently launched a UTI Connect tool, aimed at facilitating the exchange of unique trade identifiers (UTI) with firms which may still not be on our platform in order to achieve true interoperability. The UTI exchange is the cornerstone of the SFTR regulation, which we are fully committed to support at IHS Markit, whatever your firm's target operating model or project path. Through its sleek and advanced platform, UTI Connect is the perfect tool to achieve UTI exchange in order to enable trade repository pairing.

Since late September 2019, we have opened our user acceptance testing environment to clients. More than 60 different entities are now sending SFTR files daily. In the past week, 1,500 files have been sent on a daily basis culminating in approximately 3 million records a day with 9 million error messages processed. Where trades could be paired (i.e. same set of trades submitted by both IHS Markit clients), there were more than 800,000 paired trades in the past week and north of 500,000 messages have been reported to TRs.

All eyes are now turning to the buy-side, which must provide some trade-related pieces of information to the sell-side as early as April 2020. The choice stands between direct and delegated reporting, with both its restrictions and advantages. A dozen major international buy-side institutions have already signed up or are in the process of signing on for the IHS Markit solution with many more in earlier discussion.

The UTI exchange is the cornerstone of the SFTR regulation, which we are fully committed to support

Paul Wilson
Global head of securities finance
IHS Markit

ESG: The buy-side perspective

Natalie Turner reports

Can lenders strike the right balance between ESG investing and facilitating sustainable principles in their lending programmes?

The concept of investing sustainably has moved from the sidelines to mainstream across financial markets in recent years, with environmental, social and corporate governance (ESG) principles now being integrated into many securities lending programmes.

As a result, agent lenders that until now only had to manage scheduled corporate actions and a handful of collateral parameters within their client's lending programmes are now facing demands for much more bespoke services that are tailored to individual lender's ESG requirements.

Efforts to create standardisation of what is or isn't ESG friendly with lending programmes are already underway but the securities finance industry is also facing a much bigger challenge from those that argue the entire industry falls foul of responsible investment standards.

Despite the positive endorsements from the likes of the European Securities and Markets Authority, which produced a report late last year that dismissed concerns that securities lending and short selling are linked to anti-ESG practices and "short-termism", the buy side is yet to agree on how to harmonise their investment strategies and ethical responsibilities.

To some extent, regulators in the EU and elsewhere are taking the matter out of investors' hands by taking an increasingly proactive stance on handing down rules and guidance on what it considers to be ESG friendly investments or not.

"The authorities are focusing more deeply on 'strategic steering' and general business model analysis," explains Michael Huertas, co-head of the Europe financial institutions regulatory group at Dentons. "Not only will supervised institutions need to focus on compliance and governance requirements, but they will need to be prepared to explain and defend their decision-making and how they arrived at a particular decision."

Peter Paul van de Wijs, chief external affairs officer at the Global Reporting Initiative (GRI), which help businesses and governments manage their ESG-related strategies, says that, for a majority of investors, "ESG data is hugely important for decision making on their investment strategies. Clients of asset owners increasingly want their money sustainably and responsibly invested," he explains.

"The demand for comprehensive ESG data is one of the drivers GRI is seeing that is pushing the growth in ESG disclosure by businesses", says Wijs.

"To put in context, 93 percent of the world's largest 250 companies report their sustainability performance – of which three quarters use GRI," he adds.

The increased scrutiny of firm's governance and investment decisions has garnered a wide range of responses due to the subjective nature of the process. One of the more radical consequences came from Japan where the country's $1.6 trillion Government Pension Investment Fund (GPIF) partially suspended its securities lending programme in an effort to meet its perceived stewardship responsibilities to maintain control of the stocks in its portfolio.

In December 2019, GPIF announced that while shares were lent, the original stockholder does not continuously have full shareholder rights, and therefore cannot be a good steward when it comes to ESG shareholder activism. Nothing was said about short-selling in their original statement but subsequent statements by the fund's chief investment officer, Hiro Mizuno, strongly implied that a dislike of the practice was central to the decision.

Despite some initial shock and fretting from market participants about the risk of a domino effect by other lenders, none are yet to follow suit in foregoing the revenue from lending due to concerns around governance responsibilities.

However, Andrew Dyson, CEO of International Securities Lending Association (ISLA), admits that the move "raised important questions around ESG" and that the link between short sellers and long-term investors is being put under increased scrutiny.

Luckily, for the industry, many buy-side participants see the introduction of ESG as the natural evolution of the existing rules-based framework that the industry is built on. Mick Chadwick, head of securities finance at Aviva Investors, explains: "Our belief is that there's no innate contradiction between securities lending and good stewardship. Indeed, we've long recognised that an orderly securities lending market is an essential component of an orderly, liquid and sustainable capital market more broadly."

Chadwick says that ESG principles underpin all aspects of Aviva's investment decision-making process and that securities lending is no exception.

Elsewhere, Matthew Chessum, investment director at Aberdeen Standard Investments, reinforces this point, arguing that "ESG investing and active engagement are all key considerations that are strongly embedded within the investment management process within Aberdeen Standard Investments". He also agrees that ESG in particular underpins all of the investment activities, including securities lending.

"As the securities lending programme is closely aligned to the overall investment strategy within a fund all securities lending activity has been designed to work in tandem with the funds ESG principles," he adds.

The original G

So far, ESG in securities lending has predominantly, focused on the ability to recall on-loan stocks in order to participate in votes and other corporate actions, along with creating collateral profiles that exclude exposure to controversial sectors, such as arms dealing. This makes sense as it builds upon existing infrastructure in any major lending programme.

"Historically, much of the focus on ESG within securities lending has been on the 'G' component. It's important that securities lending market participants have a voting policy in place in order to reconcile any potential conflicts that may arise between lending and voting securities" Chadwick states.

Chessum also explains: "Active engagement and our stewardship responsibilities have always been very important factors in the fund management process and these have always been supported through a funds ability to recall on loan positions at any point in time."

Meanwhile, for collateral, ESG demands are driving a shift away from omnibus account structures to segregated ones that allow for more effective management.

Chadwick warns against taking a one-size-fits-all approach to managing collateral and says that Aviva's collateral is managed on a fully segregated basis.

Embracing change

According to Chadwick, the growth of ESG in securities lending programmes is only going to increase in the years to come. However, industry participants can play a guiding role in ensuring the integration is a smooth one; and that means standardisation is essential.

Aviva Investors is among the founding members of ISLA's Council for Sustainable Finance (ICSF), which came together for the first time earlier this year. The council's aim is to develop a set of Principles for Sustainable Securities Lending (PSSL) that can be used as a universally accepted template for incorporating ESG into lending. Currently, a significant portion of buy-side members do not have a defined ESG policy and therefore the production of such a resource at this pivotal moment could help avoid a lot of debate and uncertainty in the future.

"I would encourage all beneficial owners to refer to the Principles for Sustainable Securities Lending (PSSL) that the ICSF has just released and I would also encourage them to join in the more broader ESG conversation where lending is concerned and become members of this movement," says Chessum. "Beneficial owners need to remain on the front foot if they are to continue to offer real ESG products to their underlying investors."

One last push

Jonathan Lee
Senior regulatory reporting specialist
Kaizen Reporting

Although there is plenty of work left to do before SFTR's go live in a few short weeks, Kaizen Reporting recommends a "keep calm and carry on approach" as the best way to avoid undue panic

The beginning of 2020 has moved very quickly, where are we now with regards to the implementation of SFTR?

Like many new regulations, there is a significant element of too-little-too-late with regards to testing, controls and the quality of implementation of the reporting. Many organisations have been thrown by the Settlement Finality Reporting Requirements from the final guidelines published on 6 January. There remain a number of uncertainties which have not been resolved by the publication of the guidelines.

How would you describe the overall markets preparedness?

Banks' readiness for the Securities Financing Transactions Regulation (SFTR) reporting varies significantly. No bank is fully prepared to report on a complete, accurate and timely basis at this stage.

A worrying number of smaller institutions are only now coming to terms with their reporting obligation. A subset of these have still not recognised that they have an obligation. The very smallest organisations of all are unsure of which way to turn, finding a lack of delegation options and questioning the merits of having to make such a large investment to support the reporting of very low volumes.

What are the key concerns your clients have and how easily are these addressed?

System deficiencies are a major concern. In general, firms know what they are required to report but continue to have to work with legacy systems that make this extremely difficult. Making the distinction between modifications and corrections is one of the more universal problems. Likewise, many firms routinely cancel and book new transactions in relation to a variety of lifecycle events such as collateral substitutions, re-pricing, loan reallocations, re-rating and fee updates rather than providing modifications and collateral updates in keeping with the SFT contracts that have been legally agreed.

Firms also respect precise rules and guidelines for reporting and some aspects of the final guidelines are not. For example, how to categorise and report commodities securities financing transactions and how to report trades that face the European System of Central Banks under the Markets in Financial Instruments Regulation's transaction reporting rules. There is also reluctance to adopt an approach in areas such as bilateral margining (a fundamental part of the repo business) where no worked examples or clear guidelines currently exist.

Many of these challenges will be addressed through industry best practices, the European Securities and Markets Authority's (ESMA) Q&As, system enhancements and the ultimate replacement of aged legacy securities financing transactions systems. In the meantime, there needs to be an understanding that this remains a work in progress (projects cannot down tools entirely on go-live date), firms will continue to prepare enhancements in systems and processes and ensure they maintain documentation around their future enhancements.

SFTR is designed to enhance the transparency of the securities financing markets, how will it achieve this and to what benefit?

SFTR will help Europe meet its obligations under the G20 Financial Stability Board (FSB) mandate. It is also likely to allay many fears surrounding collateral reuse, the size, nature and limited risks around shadow banking and perhaps around any firm or individual's ability (or motivation) for attempting to manipulate securities financing transactions markets. The high-level published details about the size, scale and nature of securities financing transactions markets are perhaps likely to be of limited interest outside academia.

Hopefully, with a level of comfort around the risk limiting aspects of operating in the securities financing transactions market, coupled with an understanding that collateral reuse and shadow banking are not toxic, will limit the regulators' appetite for introducing more punitive regulation in future.

With any SFT trades happening after Saturday 11 April, 2020 due to be reported on, how smoothly do you envisage this going?

Easter is cancelled! We envisage a quiet first day with limited reporting required for SFTs concluded between Saturday 11 April and Monday 13 April. Nevertheless, go-live is likely to be somewhat traumatic with banks' internal systems struggling and reports failing trade repository validation rules. Trade repositories may also face challenges in ingesting production volumes for the first time.

Keeping calm and carrying on will need to be the order of the day. An element of patience and persistence will be required to get initial reports across the line and to understand how to generate, share and ingest unique trade identifiers (UTIs). Operations staff will also need to quickly come up to speed with how to receive and interpret the trade repository feedback with regard to accepted, rejected and alleged transactions and how to handle reconciliation breaks most efficiently and effectively.

When do you think we will see the first fines?

Fines seem unlikely until several years into the SFTR reporting obligations going live. In practice, there are likely to be a number of low-hanging fruit for national competent authorities wishing to bring enforcement actions with systemically significant counterparties either partially or completely failing to report whole businesses post go-live. In these circumstances, the honesty and diligence with which these organisations deal with deficiencies in their reporting will be key to whether any punitive action is taken.

One area where you could potentially see some concessions are for the commodities financing industry. There are a great many more unknowns in this space and demands from ESMA for a level of flexibility in interpretation that market participants are extremely reluctant to give. There has been a great deal of lobbying from this industry ever since the consultation on the guidelines was published early last summer and they may, possibly enjoy some success.

Do you feel there will be issues around the providing of UTIs on time and what is the best course of action for any delays with these?

I think there is a lot of scope for misinterpretation of who is responsible for generating UTIs and a lack of market utility-based infrastructure (at low cost) for sharing them. Therefore, there will be many duplicate reports, where both parties have reported with different UTIs. There will be many delayed reports, where UTI recipient counterparties are left waiting for the UTIs until after the T+1 deadline has passed. There will also be reports made destined for rejection where compliance departments have insisted on reports being submitted by close of business T+1, regardless of whether the mandatory UTIs have yet been populated.

I think there is a lot of scope for misinterpretation of who is responsible for generating UTIs and a lack of market utility-based infrastructure

Will there be any delays to the second, third and fourth rounds of implementation?

SFTR reporting has already been subject to significant delays, with the original expectation when the regulation was published back in 2015 that this would go-live for banks and credit institutions before the end of 2018.

For the second round of implementation, many market infrastructures are planning to go-live with the banks ahead of schedule in April 2020. The buy-side will put broker-dealers under growing pressure to offer fully delegated reporting solutions for October but seem highly unlikely to be successful in achieving any postponement. As for the non-financials, it seems likely that they will press for equal treatment (fully delegated reporting), regardless of their size (where it is already mandatory for small and medium sized non-financial counterparties).

Have you any tips for the smooth implementation and running of a business reporting and moving forwards with this regulation?

Maintaining known issues logs and resolution plans, procedures around all reporting processes and building effective controls for completeness, accuracy and timeliness will be key to a successful delivery. There is an element of reporting being a numbers game; ensuring that your most prolific activities are completely and accurately captured before devoting too much time to edge cases. While the utopia of perfect reporting on day one may not be attainable, resources will need to be retained to ensure a positive evolution in the quality of SFTR reporting going forward.

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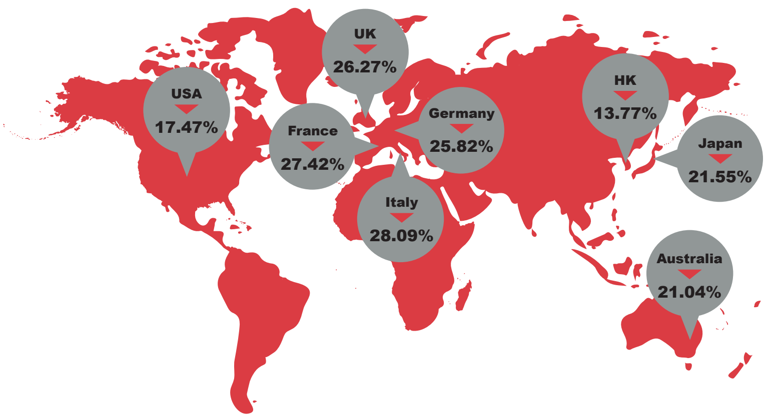

Main index changes 2 Jan 20 – 12 Mar 20

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In picture

Brooke Gillman
Managing director, head of client relationship management
eSecLending

eSecLending addresses the market from deterrents for beneficial owners to the ever increasing engagement in ESG

What are your expectations for 2020 and what factors could affect performance?

It is very difficult to predict how 2020 will rank from a revenue performance perspective at this point, given the recent extreme market declines and sharp increase in volatility. We will need to wait to see how markets play out over time and whether volatility remains high and sustained and whether that translates into renewed directional short interest on specific securities. The US election is also a variable that could cause volatility to increase this year and potentially lead to higher lending revenues. If new markets open in 2020, that could also be a big driver of revenue for those lenders that can capture first mover advantage.

While revenue trends are uncertain, costs for agents running securities lending businesses are growing due to new regulatory reporting requirements (i.e. SFTR) and increasing costs for indemnification and higher capital allocations. Agents need to become more automated and efficient to adapt to these changing cost factors.

Lastly, we anticipate beneficial owners will continue to shift their acceptable collateral profiles in 2020, incorporating non-cash collateral to include main index equities and global sovereign debt so they can remain competitive versus other lenders as borrowers continue to shift their collateral preferences.

Is there anything dissuading beneficial owners from engaging more with the industry? Are these easy to overcome?

The most significant deterrent some beneficial owners may be experiencing today is the lack of demand for certain asset classes. Securities lending is always a secondary investment decision that is driven by revenue opportunity. If lending returns for their specific portfolios are not enough, given time allocation and risk/return analyses, they may choose to pause their decision to lend in certain assets classes until the revenue picture improves.

Are you having discussions around ESG with your clients and is this affecting your lending strategies?

Many of our clients have been heavily engaged in ESG investment principles for some time and have integrated these factors into their lending programs. We are actively engaged with some clients about their ESG policies and how best to incorporate these principles into their programs. The new ISLA Council for Sustainable Finance (ICSF) is doing a lot to guide beneficial owners on industry best practices and I believe their new Principles for Sustainable Securities Lending will be a valuable reference tool for clients when considering how best to meet the evolving needs of their investment strategies.

Which frontier markets are of most interest to your organisation?

We are excited about multiple frontier markets that are currently in scope for securities lending and borrowing arrangements and we are actively engaged with industry associations, local market exchanges and regulators to assist in establishing laws and frameworks to support the activity. Some markets are becoming relevant due to their addition into the MSCI and FTSE Emerging Markets indices. Our current focus is on markets such as Saudi Arabia, China, Philippines and Indonesia, but there are many other markets that we are actively monitoring and working on as demand evolves.

Ready and waiting

John Kernan
Head of product and business development
REGIS-TR

REGIS-TR's John Kernan speaks SLT about how market participants are progressing with a matter of days left until phase one of SFTR reporting start date, 11 April 2020

What is your perception of overall market participant readiness for SFTR?

It's difficult to discuss all market participants as if they are a homogenous group. We have been replying to request for proposals from all of the tier-one banks for well over a year already but this is obviously not reflected through all tier two and tier three participants who do not have the same level of resources available and have to juggle implementation of the Securities Financing Transactions Regulation (SFTR) with other key projects. Also, the phased nature of SFTR implementation means that different reporting start dates apply determined by your counterparty classification, i.e. what sort of financial entity you are.

As the first phase reporting start date draws nearer, we are now seeing a healthy acceleration of account opening requests.

You have been in this role since before EMIR went live in February 2014, are you seeing any similar trends?

The market is in a similar, potentially worse, situation than when the European Market Infrastructure Regulation (EMIR) went live. REGIS-TR was one of the first trade repositories to be authorised by the European Securities and Markets Authority (ESMA) in November 2013. Market participants considered that this was a very short window to select their TR before the reporting start date. Other TRs were authorised even later. For SFTR, given the current date, TRs will evidently be authorised much closer to the reporting start date, primarily because ESMA introduced stricter criteria in terms of system readiness and testing and, as a consequence of the well-documented delays with the technical specifications from ESMA themselves, this has really shortened the window.

That said, REGIS-TR has now been in operation for more than six years as one of the leading TRs in Europe and has processed nearly 20 billion individual EMIR trade messages. Processes, procedures and product evolution has matured over this time. As the majority of our SFTR participants already use us for EMIR, it is far less of a leap of faith for them in appointing us as their preferred provider. Also, as a proven existing EMIR TR, the application process to ESMA is actually streamlined and, in terms of documentation requirements, less onerous.

And how does the current situation compare in terms of the account opening process to EMIR?

With EMIR, we received somewhere in the region of 80 percent of the total account opening requests in the two weeks before reporting start date. Feedback from the other EMIR TRs also reflects this. This created a big challenge in ensuring everyone was set up in time, with the necessary credentials, to start complying with the regulation on day one.

As executive responsible for business development and sales, I am not going to complain if we receive a deluge of last-minute requests for SFTR. Nevertheless, planning and testing is key to mitigating potential operational issues once participants are sending through live data in production.

What sort of questions are you receiving from market participants right now?

We continue to receive a lot of requests from smaller market participants looking for our interpretation of the regulatory text itself. We have to be careful with this as we cannot offer legal advice in this regard as it's incumbent on the participant themselves to seek their own legal counsel. That said, we try to help where it is appropriate, and one of our core strengths over the years has been service support. What this demonstrates, though, is that – even given the likely applicability of a later phase reporting start date for these types of participants – many are still in the initial stages of planning and analysis, given that questions of this nature would normally arise during the early stages of any SFTR project. We are also receiving a lot of questions surrounding delegation.

Do you believe that delegation will be a common model for market participants?

Yes, definitely, and in lots of different flavours. For example, some participants will delegate intra-day lending activity whilst reporting repo and other activity directly. Others will opt for 'assisted' reporting where they themselves maintain the direct account with the TR for all activity. And others will delegate everything to their custodian, lending agent or technology provider.

The questions we are receiving in this regard are normally around how best to oversee the activity and comply with national competent authority (NCA) expectations that any participant who delegates still has a robust oversight process in place to monitor their activity. Actually, it's quite simple, depending on their requirements, participants can fully delegate and still operate their own account (and maintain a direct relationship) with us. Or, they have the option of a low-cost, read-only non-reporting entity account which can facilitate this.

I am inclined to think that some of the delay in account opening requests is due to some market participants not fully appreciating that – even with full delegation – they still retain legal responsibility for the accuracy of their data and need (and need to be able to demonstrate) a proper process in place to manage this. This is a fundamental aspect of their operational readiness.

If I am a market participant and I was not aware that I need an account with a TR, what can I do?

Stay calm, even if you are in phase one. Contact us without delay, one of our experts can walk you through the various account models and the necessary documentation to become a participant. If time is really tight, we can pre-review soft copies of your account opening documentation to ensure everything is in order before you formally submit.

If you weren't aware of the need to have a TR account, it's possible that you are using an intermediary. That's good news! All of the leading intermediaries are already testing with us (on your behalf). The non-reporting entity account opening process is streamlined and easy to set up. If your data is being submitted from day one, perhaps your NCAs will grant you some grace for setting up your oversight process? Nevertheless, as we did before with EMIR, we will ensure that all of our participants receive the support they need to be compliant from day one.

The market is in a similar, potentially worse, situation than when the EMIR went live

John Kernan
Head of product and business development
REGIS-TR

In focus

Dan Copin, group head of securities finance and repo, with Donia Rouigueb, head of sales for securities finance and repo at CACEIS, cast a spotlight on the market, their position and the views of their clients

Crédit Agricole and Santander completed in December 2019 an agreement to combine CACEIS and Santander Securities Services. What opportunities will this create for the securities finance and repo business?

Dan Copin: The rationale behind our activity merger with Santander's S3 is the combined synergy potential including that for securities financing and repo. It also sees us enlarge CACEIS' network to Southern Europe as well much of South America. Sales staff joining CACEIS in these markets can now leverage the CACEIS Group's shareholder structure, global network and extensive service offering to gain access to prestigious firms who's doors may previously have been closed – and this is great news for our securities lending business.

However, not all markets currently offer such strong opportunities for developing our securities lending business. In Spain, the largest market to come with the S3 merger, securities lending has not been permitted since 2007. Industry efforts over the past few years are making positive headway, especially with the current stable government, and players are hopeful that the ban will be lifted shortly. If it is lifted, then business opportunities will really open up with the many players in the Spanish market, including CACEIS. Even though we are still in the early stages of the activity merger, we are already looking to grow our expertise and take advantage of the business development opportunities.

We should also mention our 2019 acquisition of Amsterdam-based KAS Bank, the Dutch pension fund servicing specialist. Pension funds are actually less complex than many of the other types of fund for which we perform securities lending services, so the vast amount predominantly pension fund assets was easily transferred to our lending pool.

What trends are you seeing in the securities finance market?

Donia Rouigueb: In terms of financial markets, we saw equities bullish in 2019 and rising in volatility this year due to the global excess of cash although we expect central banks to cut rates as markets have dropped since the coronavirus came onto the scene. This volatility translates into higher securities borrowing and lending (SBL) activity driven by hedge funds and consequently prime brokers and there is currently high demand (and high fees) for healthcare equities in the US and Canada, aerospace, industry and consumer company equities in Europe and a growing demand for ETFs. The outlook for 2020 sees SBL fees increasing in line with rising M&A activity, tender offers, stock buy-back and scrip dividends across all regions, with moderate-to-good revenues. Fixed income, on the other hand, continues to experience strong demand for eligible collateral and high quality liquid assets (HQLA), whereas spreads are under pressure but demand for these assets remains high especially from CCPs as they can be lent out on a term structure.

In terms of regulatory influences on trends, Securities Financing Transactions Regulation (SFTR) and Central Securities Depositories Regulation (CSDR) have the most significant impact as they increase costs for managers (e.g. reporting) and so drive the trend to outsource such operational duties to a depository. Despite the heavy regulatory burden, the greater transparency has been beneficial, in effect legitimising the securities lending business and attracting previously wary managers who need its potential to enhance yields to keep up with competitors. Indeed, we are currently noting a trend in which managers that exited the securities lending market over fears about its image are now returning due to this regulatory-driven legitimacy.

Thanks to multiple clarifications from ESMA and other regulatory bodies, we have all the answers at our disposal, so if for example a new institutional client needs to know precisely how our lending programme fits within the confines of Solvency II, we have the expertise to answer every single aspect, leaving no room for doubt about potential issues arising.

What are your expectations for 2020 and what factors could affect performance?

Copin: SFTR, which comes into force in April for banks and October for funds, fund management companies and institutional players, is presently having a fundamental effect on managers' operational structure. As players contemplate reducing transaction volumes to compensate for rising transaction reporting costs, they need more securities lending assistance from their service provider. Whereas previously they could just send instructions to the service provider and deal with the post trade part in-house or with their depositary, SFTR reporting will require huge internal IT investment that only few players such as depositaries/custodians are able to spread across multiple clients. This leaves a choice between investment heavy "in-house+parts you're obliged to delegate" or "delegate everything". Due to IT development costs and the need for a strong balance sheet to finance it as well as short- and medium-term processing difficulties for structured operations on one side and the legitimising effects on the other, we see a growing trend for delegation to a service provider. And from a structure point of view, those specialised in managing reporting and post trade constraints are depositaries such as CACEIS.

At recent conferences ESG has been a hot topic, is this the same with your clients and how will it affect the securities lending business?

Rouigueb: Judging by recent industry forums, ESG is the hot topic and we are definitely seeing an uptick in ESG-related demands from clients, so being in a position to provide ESG-compliant securities lending services is clearly an advantage. There are several positive market initiatives such as ISLA ESG council or label which help define best practices for lending securities and being compliant with ESG principles. However, there is a major challenge that needs to be addressed – automatically returning securities (except those cases where it is materially impossible to do so) in time for general assemblies. This can not only affect the client's market yields but also requires robust systems to handle the multiple countries and various general assemblies that need to vote based on information at the correct value date, so it represents a technical challenge to be overcome whilst optimising the rest of the process.

Geographically what regions or countries are performing better than others? Where does your focus currently lay?

Rouigueb: In the Asia Pacific region, we see fast-paced growth in China for corporate bonds and equity and there is growing interest for India and other South Asian regions. North America remains a key player, especially for US treasuries. And finally, Europe plays an important role despite the significant reduction in spreads led by the current excess of liquidity.

What regulations do you feel are affecting the industry and stifling growth?

Copin: We have already mentioned the pros and cons of SFTR, but the European Central Securities Depositories Regulation (CSDR), which has been delayed until February 2021 may cover securities lending so could potentially bring additional costs and therefore be a sensitive topic. Nevertheless, we are coming to terms with recent regulations and there is no major piece of regulation in the pipeline that the industry could not handle.

Recent regulatory measures have definitely led to a rise in data

ESG is the hot topic and we are definitely seeing an uptick in ESG-related demands from clients, so being in a position to provide ESG-compliant securities lending services is clearly an advantage

Donia Rouigueb
Head of sales, securities finance and repo
CACEIS

volumes but we are now seeing a greater 'selectivity' of those flows, with clients and service providers looking to drastically increase the basis point lending yields due to their increased balance sheet or reinsurance costs, rather than just being content with achieving a positive repo yield, no matter the size. There are clearly regulatory constraints but there is an overarching goal to increase flow quality and quantity to gain market share without impacting financial institutions' and institutional players' balance sheets or solvency capital requirements.

What benefits are these supposed to bring to the industry and is there any light at the end of the tunnel?

Copin: Regulations bring a level of transparency to the securities lending business which has long been considered opaque, and transparency promotes good practice so is also beneficial for clients. Even when regulations are challenging, the securities lending industry keeps on managing to reinvent itself, turning challenges into opportunities. Rising yields and portfolio optimisation will continue to be the mantra.

The industry will see the biggest challenges and shake-ups on the post trade side, where companies will be forced to take a hard look at the financials surrounding performing it in-house. It will be necessary to take into consideration the cost of IT investment required to meet industry standards as well as the financial and reputation costs of fines for non-compliant reporting. With a part of the post trade side to be delegated as required by regulations, companies will need to either invest heavily or reorganise and outsource.

There is a light at the end of the tunnel, so long as the regulatory tsunami has ceased. In the decade or so since the 2008 crisis, much headway has been made in increasing liquidity and transparency in the markets. Over-the-counter (OTC) businesses have been challenged and adapted in order to encourage this trend. The lending business remains profitable and brings value to portfolios, but the increased costs and added complexity of monitoring the activity, clients need to rely on a strong partner that is well equipped to service their needs.

The value in engaging a partner like CACEIS is that once the decision to outsource has been made, we can handle everything from the IT investment to the reporting compliance. We have the experience necessary to assist clients in carrying out their operations and the scale which means we are perfectly placed to mutualise all the costs involved.

There is a light at the end of the tunnel, so long as the regulatory tsunami has ceased. In the decade or so since the 2008 crisis, much headway has been made in increasing liquidity and transparency in the markets

Dan Copin
Group head of securities finance and repo
CACEIS

The evolving role of collateral

Philip Simons
Global Head of Sales, Fixed Income
Derivatives Funding & Financing
Deutsche Börse Group

Discussions around collateral use and re-use has always been central to the CCP debate. As central clearing takes a more prominent place in the market, Eurex Clearing discusses its role in manage its member's risks and increasingly large collateral pools

In a poll of the audience at Eurex's recent derivatives forum in Frankfurt, a clear majority of respondents stated that the optimisation of margin requirements is the biggest challenge currently being faced in collateral management. This is not at all surprising given the current market environment. Indeed, optimisation will become an even greater challenge as we approach the next phase in the implementation of the Uncleared Margin Rules (UMR) and as volatility returns to the market – something we have had a taste of in recent weeks. Greater volatility will mean, for many market participants, more frequent and larger collateral calls across multiple relationships and this will only make the optimisation challenge even greater.

Optimisation from a CCP perspective

From the point of view of a central counter party (CCP), our role is to manage risk and part of this involves collecting margin from our clients and members. If you look at the total collateral that is currently placed at CCPs globally, it's in excess of a trillion dollars. So, as a major CCP, we have huge amounts of collateral to manage and our primary concern here is to ensure the safety of this collateral – both cash and securities – and maintain the integrity of the system. Roughly speaking, around half of this collateral is cash. What we do with this cash is very important; we don't want to give it back. For example, reverse repo transactions – to the same members that posted it with us as this could cause an issue in the case of a default. This is one of the reasons we are strong advocates of CCPs having banking licences at Eurex, with such a licence, we can deposit this cash with a central bank. We also accept a broad range of collateral. This is important as not only does it help our end clients stay fully invested, but it can also help us, as a CCP, to diversify our risks; we would not want all of our clients to provide exactly the same collateral as we need to manage both wrong way and concentration risks. So, when we think about optimisation, from our perspective it is the safety and integrity of the collateral that we're being given that is crucial.

Technological change: automation and digitisation

There are several aspects to the use of the latest technology in our business. We are a real time risk manager and our clients are constantly executing new trades. All these trades need to be collateralised before we will accept them and, while clients are carrying out new trades, the market is moving and the value of all their existing trades thus also changes. This means we use very sophisticated technology to calculate the value of new trades in connection with the value of trades that the client already has in their portfolio against the value of their collateral – all in real time.

Going forward, one very exciting area in terms of margin and collateral optimisation is the digitalisation of collateral. You can envisage a situation where, in a closed environment like a CCP, you could effectively digitalise the securities that you have there and that this then allows you to utilise them without having to physically move the securities. Of course, this will likely have to take place in a highly controlled and regulated environment. There's a company we partner with called HQLA^{X} that has already taken steps down this path, and we're excited to explore this innovative area with them.

Opportunities for the buy-side

Collateral transformation is an interesting area for the buy-side. We have many buy-side clients that have high quality liquid assets in their portfolio, and other clients – for instance, EM funds – who have assets that, as a CCP, perhaps we don't accept as collateral. So, there's a huge opportunity for buy-side firms that own high quality collateral to generate extra alpha. For firms that don't have the right quality assets, rather than having to divest, they can instead borrow those securities and then place them at the CCP. I think collateral transformation within the clearing and collateral management space is a huge opportunity to boost efficiency for many buy-side firms as relationships that were previously bilateral are brought into the CCPs.

In a similar vein, the potential to reduce fragmentation within a single currency that is accompanying the growth of central clearing across multiple asset classes – for example repo, futures and over-the-counter (OTC) derivatives – presents a great opportunity to bring together formerly disparate pools of collateral. Where there are properly correlated risk offsets, the potential for optimisation by reducing the amount of margin required is huge; as well as the operational benefits, if you only need to use one pool of collateral then you only get one margin call, and so on. The chance to unite these things is going to be a big opportunity for buy-side firms to increase efficiency.

Collateral and the growth of ESG

Clients want us, as a CCP, to be able to accept as broad a range of collateral as possible; we constantly have clients coming to us asking us to add this or that security. This is clearly going to happen increasingly often with respect to new environmental, social and corporate governance (ESG) products. From our perspective, we need to look at the risks associated with any collateral. For instance, how liquid is it and could we easily dispose of it at a fair price, if need be?

An interesting example of this came recently at a meeting with the German Finance Agency. They were about to issue some green bonds and wanted to make sure that these would be deliverable into the normal Bund futures basket, so they came up with a really good design for how this could work. The issue here was that you had a bond issue that isn't particularly large – something that could negatively impact liquidity – and they effectively made it fungible with regular Bunds, so it still has the advantages of that big pool of liquidity.

Comparing the US and European landscapes

The US is a few years ahead of us in the implementation of mandatory clearing and we have a little catching up to do. They have very clearly

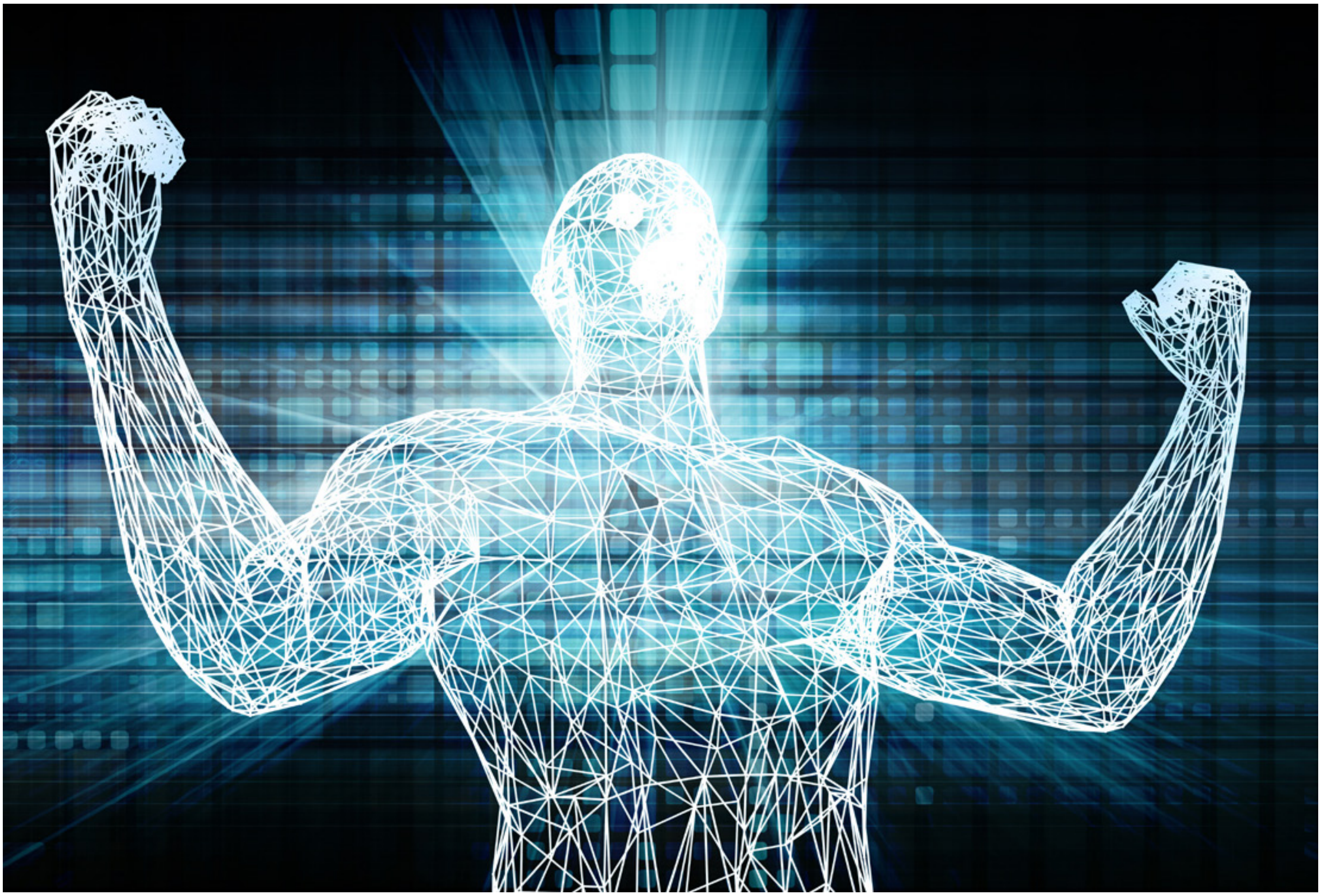
defined rules, while we have the issue of 28 different regulators working together. They also have a more positive interest rate environment.

We're in danger of lagging behind and we need to be more innovative to compensate. But there are certainly opportunities to do this: for instance, at Eurex we created total return futures, where we looked at the total return swaps market and decided with our members that a futures version of this was needed. There's more innovation still to come, but a lot of resources have so far been tied up with addressing regulatory compliance and this has certainly slowed things down.

Another thing that's missing in Europe is getting direct access for the buy-side to things like repo and securities lending. While Eurex Repo and Eurex Clearing do have well established models in place, what would really benefit the marketplace is a European version of the US Fixed Income Clearing Corporation (FICC) model, which has been incredibly successful over there; this is something that Eurex, with a number of key market participants, is working to develop.

Regulatory issues

The amount of new regulation over recent years has been challenging for many market participants from a resource point of view, and it would be nice to have a pause in this respect. However, we accept what this regulation is designed to do, and that there may well be even more regulation coming. In this respect, one development we would like to see is permitting the reuse of cash from UCITS funds which would be a massive help to many market participants.



From revolution to evolution

Matthew Benz
General counsel
HQLA^X

HQLA^X gets down to the nitty-gritty on how DLT technology integrates and is synchronised with the laws and regulations that apply to their scheme

HQLA^X may have started with the revolutionary idea that distributed ledger technology (DLT) could help improve collateral mobility across a fragmented securities settlement ecosystem, but implementation of that idea has been more about integration, synchronisation and evolution.

As our CEO Guido Stroemer recently stated: "It's not only about developing and applying innovative technologies to help solve for pain-points in the markets, but it is also about synchronising these new technological constructs with existing legal and regulatory constructs."

Put another way, compelling use-cases around transfer of ownership/pledges at precise times during the day mean next to nothing if they can't actually be followed.

This requires that our DLT-driven Digital Collateral Registry (where ownership of baskets of securities can be exchanged at precise times), is synchronised with other parts of our operating model (the front-end Eurex F7 Trading System, where trades are initiated, and the Trusted Third Party (TTP), which connects the custodians and triparty agents holding securities to the Digital Collateral Registry) and integrated with the broader financial ecosystem.

That synchronisation starts with the rule book for the HQLA^{X} scheme, to which all participants sign up. The scheme can be compared to a new network of roads for securities lending transactions to travel more quickly and efficiently towards settlement than is currently possible. Like any set of roads, rules are needed to clarify the rights and responsibilities of the participants that use them, as well as the entities that have built and are tasked with ensuring that they run smoothly and safely for all.

Grown and developed with Clifford Chance, whose expertise includes technology agreements and securities markets, the rule book sets HQLA^{X}'s and the TTP's responsibilities to participants with respect to the operation of the scheme and vice versa. It covers: governance, payment, operations, default and liability – describing how the DLT technology integrates and is synchronised with the laws and regulations that apply to the HQLA^{X} scheme.

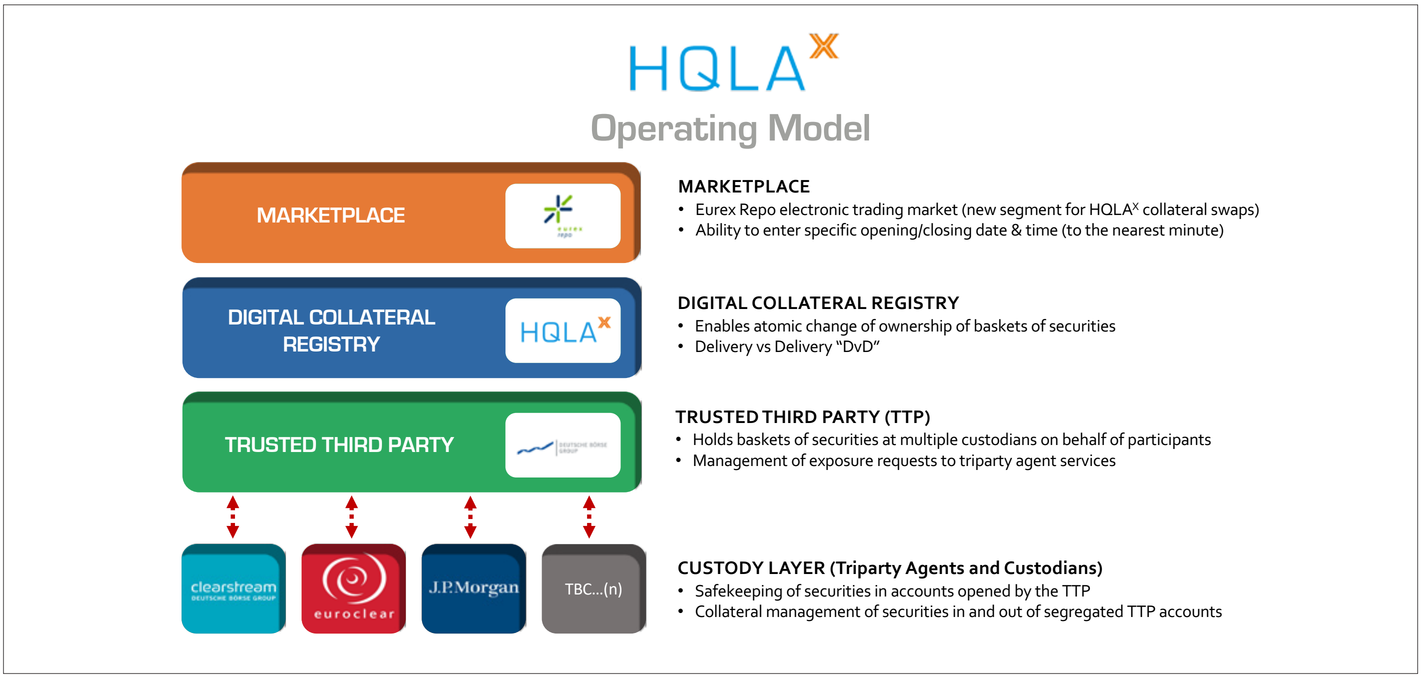
In a rapidly evolving market, synchronisation is not a one-time-only event, therefore the rule book is designed to evolve with the technology and the laws and regulations that it brings together. As the scheme changes – whether through the development of new use cases, or as applicable laws and regulations change – the rule book is designed to adapt.

The rule book has been built to balance the flexibility that HQLA^{X} and the TTP need to ensure the smooth and fair operation of the scheme with the legal and operational clarity that participants require to continue trusting the scheme with their securities lending transactions.

Consistent with our long-standing aim to be a platform "by the markets, for the markets," HQLA^{X} and the TTP take into account feedback from participants when considering changes to the rule book.

HQLA^{X} will continue to expand its product footprint to address specific pain points in the securities lending markets – from the collateral upgrade/downgrade transactions that we enable today to the digital collateral record re-use, intraday trades, delivery-versus-payment (DVP) trades and support for various types of pledges that we envision for tomorrow. But, we are keenly aware that the "new order of things" to which we are committed in the securities lending markets requires synchronising revolution with reality. "New" technology is of little use if there's no "order" about it.

The rule book is where revolution meets the real world, spelling out in concrete terms how the HQLA^{X} scheme synchronises technology and applicable laws and regulations and thereby powers the evolution of the securities lending markets.



Collateral complexities

Efficient collateral management has never been more needed in securities finance. Capco consultants discuss what's driving new demands for collateral and the impact that trend has had on the wider market

You have recently released a research report detailing a need for additional collateral to support the demands of the industry – what is the driver behind this need?

Benjamin Daniel: Working on related projects within Financial Risk Management and Collateral Operations, we have identified a consistent theme regarding client pain-points and the possible drivers for change. We believe it is important to be transparent about the components that are triggering additional collateral demand; and we have further projected this forward to the impending changes and new players in the collateral ecosystem through the implementation of the fifth and six waves of the Uncleared Margin Rules, in addition to the Basel III and IV requirements for liquidity management and reporting, such as the liquidity coverage ratio and the net stable coverage ratio.

Do you feel the securities industry has focused too much on efficiencies and optimisation which in turn has led to this perceived shortage?

Govind Daga: Not necessarily. Through efficiencies and optimisation, firms can better understand what inventories they hold, and therefore manage them more effectively, which should help address that squeeze on collateral availability. The shortage comes from the regulation and the increased bifurcation of the various demands to hold high-quality liquid assets.

Has the change in supply and eligible collateral had an effect on borrowing costs? If so, how?

Daniel: Indeed, a tighter eligibility schedule across the board and a reduced overall risk appetite among industry participants mean that both the supply of collateral and the amount of eligible collateral in circulation have reduced. This will naturally push up borrowing costs, as the collateral that people are trying to source is simply scarcer than before.

Has the collateral space become more sophisticated and is this being driven by regulation or technology or both?

Daga: Through the need to comply with the increasing demands of regulation, firms are inevitably forced to look towards technology for a solution. The two have gone hand in hand, and with the increasing opportunities for efficiencies and optimisation – such as blockchain and so forth – that will only increase.

Equally, firms are looking to get the greatest returns on their inventories and trading books. Therefore, wherever there is a competitive advantage for them, they will look for that optimisation. The creation of X-value adjusted desks puts the onus back on the business units requiring the use of collateral, as they can clearly see the actual cost, and so will be billed accordingly, giving everyone a greater incentive to make efficiencies and become more sophisticated. Nothing comes for free anymore!

In order to remain compliant, competitive and efficient, what areas will firms need to look at prioritising?

Daniel: The main area to focus on is data. Whether it is for the use of collateral, the quality of the collateral inventory (HQLA and liquidity risk management (LRM), or having a consistent taxonomy of traded positions and collateral that can be used to report of different aspects of collateral and liquidity management, that is focus on data is associated with various regulations and the calculations required to ensure compliance.

Are there any other trends in the collateral space which we should be aware of?

Govind Daga: Everything is being driven by centralisation, not just of inventory or sources, but also the usage across desks. Another key trend is linking collateral management to liquidity and capital management. Due to capital constraints and the need to maintain sufficient liquidity buffers, firms are being pushed towards enterprise-wide collateral management across desks, business lines and geographies.

Whilst it is not an unfamiliar trend, it is important to explicitly call out the move to a centrally cleared market and away from bilateral. Managing, pledging and re-using collateral when facing a central counterparty (CCPs) is a different, more complex challenge than doing so whilst facing off to bilateral counterparties. There is greater sensitivity around timely execution of activities, more intra-day activity and more restrictions on recycling high-quality collateral.

Other trends include collaborative agreements with utilities, service providers, cloud providers and tokenised settlement practices.

Has there been any impact yet from the growing clamour to adhere to ESG?

Daniel: This is starting to bubble through and will continue to gain pace. Whenever there is a restriction in the assets available (whether through choice or not), this will place greater demands on those assets available that fit into the environmental, social and governance (ESG) ethos.

With that in mind, it will require effort to put any non-standard arrangements in place. It will also require agreements regarding what is considered 'ESG' for each party - and how this is reflected on internal systems so that ESG acceptable collateral can be flagged and accepted in a timely manner, particularly as we move into a future characterised by faster, more automated optimisation and collateral flows.

Benjamin Daniel,
Senior consultant
Capco

Govind Daga
Senior consultant
Capco

Upcoming Securities Finance Training

Securities Finance Regulatory Update

Date: 26 March 2020
Location: London
Provider: Consolo

A one day dive into the regulation that impacts securities lending. This course covers some of the key existing regulation and the status of any pending regulation

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

Securities Lending & Borrowing - Operational Challenges

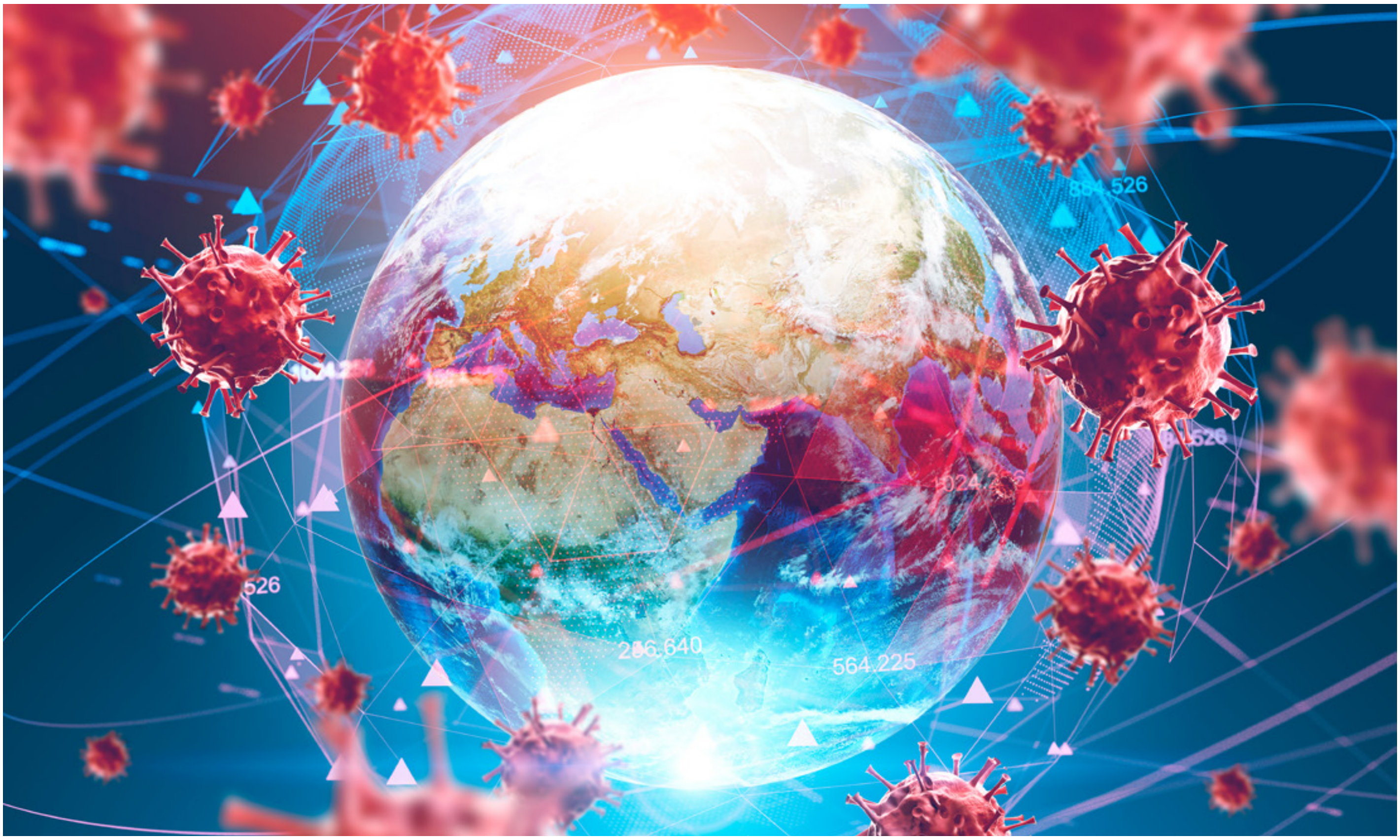
Date: 2-3 April 2020
Location: London
Provider: ICMA

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

European Market settlement and infrastructure

Date: 14 May 2020
Location: London
Provider: Consolo

Efficient settlement infrastructure is critical to strong functioning markets and the European landscape has seen some significant harmonisation over the last decade



The spread of uncertainty

David Lewis
Senior director
FIS

In these most uncertain of times, FIS' David Lewis reviews how global markets and specifically short sellers have reacted in the first months of what could be a drawn-out period of market volatility

Certainty counts for a lot in many aspects of our personal as well as our professional lives. Most dimensions of the financial markets adore certainty; it makes for easy forecasting and predictable financial performances of everything from individual companies to entire economies. Recent weeks and months have seen little in the way of certainty; high volatility, even chaos might be better ways to describe the current market behaviours. Every news channel is bursting with the latest information on the coronavirus, market meltdowns, entire countries in lock down and, of course, the panic buying of toilet roll.

Add to this a collapse in oil prices as demand continues to fall and producers battle for market share. We may just be laughing a little less at those stockpiling their garden bunkers.

Short selling activity was somewhat muted at the outbreak of the virus, with most activity focussing on directly affected companies and industries. There was also talk of a possible interest rate cut in the US 'later in the year'. Since then, the issue has escalated across the globe almost faster than the virus itself. We have witnessed major market drops, some falling faster and further than they did in the financial crisis that followed the Lehman Brothers default. Borrowing activity, used as a proxy for short interest covering has jumped as the contagion effect, (no pun intended,) of the virus became clear.

Cruise ship operators have certainly found themselves caught in a perfect storm, with clients stranded in quarantine on several ships around the globe, the situation has gone viral. Carnival PLC, the world's largest leisure travel company, issued a profits warning over five months ago, as the share price dipped from around £42 a year ago to £32 in October 2019. Like the rest of the world, they would have been unable to foresee the impact the coronavirus would have on their business, owing in part to the older age demographic of their typical client representing the group most vulnerable to the virus itself. At the time of writing, the Carnival share price was floating around the £16.65 level, having dropped 48 percent over the last month.

Short interest has remained relatively muted, with the volume of Carnival shares being borrowed rising sharply over the past week, but from a very low level and way below levels seen earlier in the year. Looking at public disclosures from the UK Financial Conduct Authority (FCA) shows only one fund holding a reportable short position of 0.8 percent. However, as a sector, the hotels, restaurants and leisure companies, as defined by the Standard & Poor's global industrial classification model, has seen short interest activity jump. Borrowing volume has risen by 170 percent over the last month and 38 percent over the last week. Volumes increased by 10 percent over the weekend commencing 6 March as the market entered what some have termed 'Black Monday'.

Unsurprisingly, airlines have also come under much greater focus for the same reasons. Short interest volume has soared over the last month, rising up to 136 percent, over the last 30 days, one week and one day respectively. Major airlines have cancelled thousands of flights as bookings, both for leisure and business. Flybe, the regional UK airline, was the first airline casualty partially blaming its collapse on the spread of the novel virus. However, the airline had certainly been suffering from underlying financial health issues well before the virus struck.

Other airlines have suffered major impacts to their share prices. easyJet, one of the largest low-cost operators, had seen its share price hit a 12-month peak of £15.70 as recently as February, up 40 percent from the earlier low, close last week at £9.78, a fall of 38 percent. Short interest in easyJet shares climbed by 99 percent in the last 30 days, although it remains at just two-thirds of the levels seen in the middle of 2019. Ryanair Holdings of Ireland saw short interest in its shares climb much more slowly, adding 28 percent by volume over the last month. Again, levels remained well below previous peaks seen in the last year, with utilization not far into double figures.

Across the Atlantic, American Airlines had seen short interest rising steadily from July 2019 to a 24-month peak at the start of February. However, volume fell back sharply through February, before climbing around 20 percent over the last few days. Volumes still rising remain well below previous peaks. Finally, Delta Airlines exhibited much of the same pattern: growth of negative sentiment through the latter part of 2019, with a drop in February before a jump in recent days.

Uncertainty can often create panic, which, in turn, can lead to irrational decision making. Black Monday certainly saw significant values wiped from some of the world's largest companies as panic selling gripped the markets. The muted response from short sellers would appear to suggest panic has not been present in every segment of the financial markets. Governments are just as susceptible to irrational acts as individuals are. Some might say that the much earlier predicted interest rate cut in the US and the half point cut in the UK, announced ahead of the latest budget statement might be the application of long-term economic tools to address short term issues.

We remain in the relatively early days of the global spread of the coronavirus. Some facts are known with regards to how it spreads and who might be most at risk, but there remains significant uncertainty, not to mention the economic impact it will have on the global economy. Only two directly affected industries have been looked at in this article, but there are very few industries that will escape the grip of the virus completely. While the real impact remains unknown, uncertainty will stalk the markets like a virus.

David Lewis
Senior director
FIS

Comings and goings at IHS Market, Kaizen Reporting and more

Hazeltree welcome Marshall Saffer who has been hired for the newly created role as head of North American sales. Saffer is responsible for unique treasury solutions for hedge funds, asset managers, pension funds, software services and data.

Saffer, who is based in New York, has more than 20 years of industry experience. He joins from MIK Fund Solutions where he served as a chief operating officer and chief revenue officer for over nine years. He also carried out a year's stint as an advisory board member for DataArt.

The new head of North American sales has previously held positions such as senior vice president of business development for VITEOS Fund Services and director for North American sales and relationship management for Financial Models.

Elsewhere, Hazeltree bid farewell to Robert Scherer, director of ENSO/CME Group, who served as director of relationship management for three years. Hazeltree completed the acquisition of ENSO from the CME Group towards the end of 2019.

Scherer comments on his social media page: "I had the honour and privilege of managing a team of very talented individuals and I cannot thank them enough for the hard work and dedication provided, through both good and challenging times.

"While I am very excited about the future, I will not forget the past. I wish everyone the best and hope we will keep in touch."

Options Clearing Corporation (OCC) has announced that two new members will be joining its board of directors.

OCC is set to welcome Kevin Kennedy and Thomas Barrett to replace Tom Wittman and Mark Dehnert who stepped down at the end of 2019.

Kennedy is senior vice president and head of product management for North American market services at Nasdaq.

Barrett currently leads global futures and derivatives clearing services. He also heads the global clearing business in prime services at Goldman Sachs.

"We are pleased that Kevin and Tom are joining our board of directors to add their broad industry expertise as OCC moves forward on its transformation journey," says Craig Donohue, OCC executive chairman.

He adds: "Their insights on the workings of the US equity derivatives market will support our continued efforts to bring operational excellence, growth and innovation to the users of these markets."

In his current role, Kennedy leads the Nasdaq product management team across options, equities, and trade management services. He also serves on the Nasdaq CXC Limited board of directors.

Kennedy has previously served as head of US derivatives at Nasdaq, where he was in charge of the full slate of options and futures products. Before this, he served on the PHLX Board of Governors prior to its purchase by Nasdaq. Barrett joined Goldman Sachs in 2005.

He was named managing director in 2010, and partner in 2014.

Kaizen Reporting has added Patrick Ludden to its team.

Ludden is the latest senior hire following Tony Weedon who joined from J.P. Morgan to bolster the company's offering. Ludden will focus on regulatory reporting for SMEs.

He brings with him more than 25 years experience in finance, operations and technology functions.

Over the past 15 years, he has been working in the reporting space providing project management, programme management and subject matter expertise.

Previous to joining Kaizen, Ludden spent six years providing regulatory reporting expertise to HSBC Global Markets and before that worked on reporting implementation and control projects for other major banks.

Dario Crispini, CEO of Kaizen, says: "We are delighted that Pat is joining the team here at Kaizen Reporting and helping us further enhance our ability to provide expert advice and reporting assurance services to our clients."

Ludden adds: "I am delighted to be joining the talented team at Kaizen at this exciting time. Kaizen has been growing rapidly as more financial institutions have realised the

benefits of its quality assurance services for helping to meet their regulatory reporting obligations. I look forward to helping them to continue to serve the needs of their clients."

IHS Markit appoints Oliver Madden as its new director of sales for its securities finance team based in London.

Madden will be responsible for EMEA business development in the beneficial owner segment and will report to Charlie Bedford-Forde, head of securities finance sales.

Madden joins IHS Markit from ACI Financial Markets Association where he served as president for a short stint back in November. Madden also chaired the global board of education for ACI back in February 2017 for just over 18 months.

Possessing more than 25 years of experience in financial services. Madden previously held director roles and a senior technical sales position in securities lending at RBC Investor and Treasury Services where he served for more than a decade.

Madden began his career at Abbey National Treasury Services, now Santander Global Banking and Markets, working principally in sales and marketing for its securities finance business.

Bedford-Forde commented: "As we continue to expand our global focus on serving beneficial owners, Oliver brings a strong breadth of relationships with firms in the EMEA region. With a deep understanding of the evolving regulatory landscape and governance requirements for beneficial owners, Oliver is a great addition to our team."

Delta Capita appoint Gary Bullock

Delta Capita has hired former-Credit Suisse executive Gary Bullock to head up its post-trade services business line from its UK headquarters in Canary Wharf, London.

Bullock has more than 30 years of industry experience, he has held senior global positions at Morgan Stanley, UBS and Credit Suisse.

Most recently at Credit Suisse, he was responsible for globally group operations and group operations technology.

Bullock comments: "I am delighted to be joining Delta Capita at such an exciting time. They have achieved demonstrable success in establishing credible managed service propositions and are investing heavily in new services covering common banking functions and regulation such as KYC, pricing and risk, structured retail products and post-trade processing."

Founder and CEO of Delta Capita Joe Channer says: "We are delighted that Gary is joining the business. His proven leadership skills and unrivalled experience in post-trade services will ensure we are successful.

"His appointment demonstrates Delta Capita's strategic commitment to becoming a leading operator of critical capital markets infrastructure through the delivery of managed services powered by modern, secure and scalable technology platforms."