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Does securities financing have a UTI problem?

The need to exchange UTIs under SFTR has proved to be a tough nut to crack. Could a little-known SWIFT message be the answer?

Regulatory Riddle

Calypso Technology explores three different options for managing the combination of independent amount and initial margin

Total Coverage

deltaconX reviews its suite of regulatory services including its SFTR platform which will be ready to go live in April, despite the delay

Data Analysis

Today's economic turmoil is very different to the previous crisis, but there are still lessons from 2008 that can be applied now

Broadridge: Friedhoff retires, Crowther steps up

Broadridge, the New York-based financial solutions provider, has promoted Darren Crowther to general manager of its securities finance and collateral management business.

His step up follows the retirement of Jerry Friedhoff (pictured), a household name in the securities finance world, who had led Broadridge for just shy of eight years.

It is understood that Friedhoff retired on 3 April, following a three-month transition period with Crowther, who took over in January.

As general manager, Crowther is responsible for all aspects of managing Broadridge's securities finance and collateral management business, supporting its global client base and driving its continued growth strategy. He reports to Samir Pandiri, president of Broadridge International.

Crowther joined Broadridge as head of client services and implementations through the acquisition of 4sight in 2016, of which he was a founding member.

He went on to become vice president, solutions - securities finance and collateral management.

The deal brought 4sight's securities finance solutions into Broadridge's enhanced suite of services, including its FinancePro product and the purchase of Anetics in 2015.

At 4sight, he served in a number of leadership roles since it was formed in 2003, including his most recent of vice president of solution delivery, which he held from 2011 until the acquisition in 2016.

Of the recent role changes, a Broadridge spokesperson says Crowther "was instrumental in growing the company and subsequently Broadridge's securities finance and collateral business unit".

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Eurex Repo sees double-digit trading growth

Eurex has revealed its March figures and overall performance for Q1.

The report highlights strong growth across European equity index derivatives, over-the-counter (OTC) clearing, and Eurex Repo's GC Pooling and Repo markets.

Eurex Repo reported that the average monthly outstanding volume across its GC Pooling and Repo markets increase by 39 percent and 29 percent respectively in March, compared to the same period in 2019.

The Deutsche Boerse subsidiary saw overall volumes in OTC clearing attracted an average daily cleared volume of €144 billion in the first three months of the year, up 12 percent from €128 billion in Q1 2019.

These figures include strong growth in the interest rate swaps (IRS) product, which reached an average daily volume of €16 billion – up 40 percent from €11 billion in Q1 2019.

Notional outstanding volume was €17,575 billion in March 2020, of which 40 percent was in IRS.

The volume of traded contracts in European equity derivatives for March grew 91 percent year-on-year from €101.2 million in March 2019 to €193.2 million last month.

Meanwhile, volumes of European equity derivatives fell back to 32.6 million.

ISLA publishes SFTR best practice guide

The International Securities Lending Association (ISLA) has released a new best practice guide for the Securities Financing Transactions Regulation (SFTR) that consolidates its findings to date.

The key objective of SFTR is to regulate the structured reporting of transactions to enhance transparency across EU capital markets.

Firms will have to declare all in-scope instruments to an authorised trade repository in addition to any requirements under the European Markets Infrastructure Regulation and the second Markets in Financial Instruments Directive.

The first phase of SFTR is officially set to come into force on 11 April for investment firms and credit institutions but EU regulators have granted a three-month reprieve so that those entities can begin reporting in July along with phase-two entities (central counterparties and central securities depositories).

The grace period was offered in response to concerns that the disruption to businesses brought on by the COVID-19 pandemic meant that many firms would not be able to meet the April deadline.

The association's new SFTR guide, which is available for all members, is based on the findings and outputs of its working groups and ISLA-led initiatives.

It includes guidelines on the regulatory technical standards, corporate actions and life-cycle events as well as SFTR market impact reports.

ISLA notes that “in due course, all current and legacy ISLA best practice documents including SFTR: corporate actions best practice found within industry guides and best practice will be migrated to the handbook.

These general best practice guides will be open to both members and non-members but the regulation specific guides are reserved for members.

The SFTR guide may also be updated as new interpretations and guidance become available.

Lending revenue down in Q1 despite demand surge, says IHS Markit

Equity lending revenue for Asia and Europe in Q1 had their worst performance in several years, while North American revenue was only propped up by a few significant market events, according to IHS Markit.

The data provider’s figures show that global securities lending revenue for Q1 decreased by 5.5 percent year-over-year (YoY) despite an increase in borrow demand for some asset classes, most notably exchange-traded funds (ETFs), and the increased market volatility brought on by the COVID-19 pandemic.

However, this data “belies the evolving mix of demand drivers and spread incomes”, says Sam Pierson, securities finance director at IHS Markit, in a research note.

“After reaching an all-time low in mid-January, equity utilisation increased by a third to end March at 5.6 percent,” he adds.

ETFs and general collateral equities have been the primary beneficiary of increased borrow demand and revenues during the virus-related 2020 economic slowdown, the data shows.

Pierson explains that part of the uptick in borrow demand for ETFs in was likely driven by short term unwinding create-to-lend trades, which is reflected in increased borrow demand for ETF shares, beyond changes in short interest.

Driving the increase in utilisation, global equity lendable assets declined at a more rapid pace than loan balances, causing the largest one 30-day increase in utilisation since May 2011, he says.

IHS Markit data shows that the peak in utilisation was on 23 March, reversing the past 12 months during which lendable asset growth dramatically outpaced borrow demand.

Despite an uptick in global utilisation for the month, global lending revenue for March was down by 18 percent YoY.

However, Pierson suggests that the about-turn in utilisation decline last month may set the table for increasing returns to lendable assets in Q2.

Broken down by region, European equity revenues fell by 22 percent YoY in Q1 to total $282 million, the lowest take-home since Q3 2014.

Pierson explains that, compared with Q1 2019, loan balances and fees are down, depressing revenues, while lendable assets have increased, pushing down on utilisation.

North American equity revenues came in at $884 million for Q1, a decline of 9 percent compared to Q4 2019.

Of this, Pierson says that the major event last month from a revenue perspective

was the McKesson exchange offer for shares of Change Healthcare on 9 March, which generated just over $33 million in reported revenue.

Meanwhile, Asia equity revenues totalled $427 million in Q1, a 22 percent decline YoY and a 2 percent decline from Q4 figures, making it the worst lending revenue quarter for Asian equities since Q2 2017.

Pierson notes that while revenue was lacklustre, largely due to a lack of regional specials, Asia equity lendable assets reached an all-time high of $2.1 trillion in early January, having broken the $2 trillion mark in late December 2019.

Commenting on the global revenue data, Peirson says: "There has been a dearth of emergent equity specials during the sell-off, however, given the speed of the decline it makes sense that demand for liquid hedges has led borrow demand.

"Going forward the lack of initial public offerings with lockup expiries will be felt in YoY comparisons, however not all demand drivers for 2019 have dried up, with the cannabis sector still seeing outsized fees and revenues."

COVID-19 delays UMR

The Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) have agreed to extend the deadline for completing the two final implementation phases of the margin requirements for non-centrally cleared derivatives by one year.

The deferral is in response to the worldwide market disruption brought on by the coronavirus pandemic.

In light of the current business pressures on in-scope entities, the decision has been made to provide additional operational capacity for firms to respond to the immediate impact of COVID-19 and facilitate covered entities to act diligently to comply with the requirements by the revised deadline, BCBS/IOSCO say in a statement.

The extension confirmation comes shortly after the International Swaps and Derivatives Association (ISDA) wrote to BCBS/IOSCO on behalf of its members and those of many of 21 other associations to request the implementation timeline of the Uncleared Margin Rules (UMR) to be reviewed.

Covered entities with an aggregate average notional amount of non-centrally cleared derivatives above €8 billion will be subject to the requirements on 1 September 2021. The final implementation phase will take place on 1 September 2022.

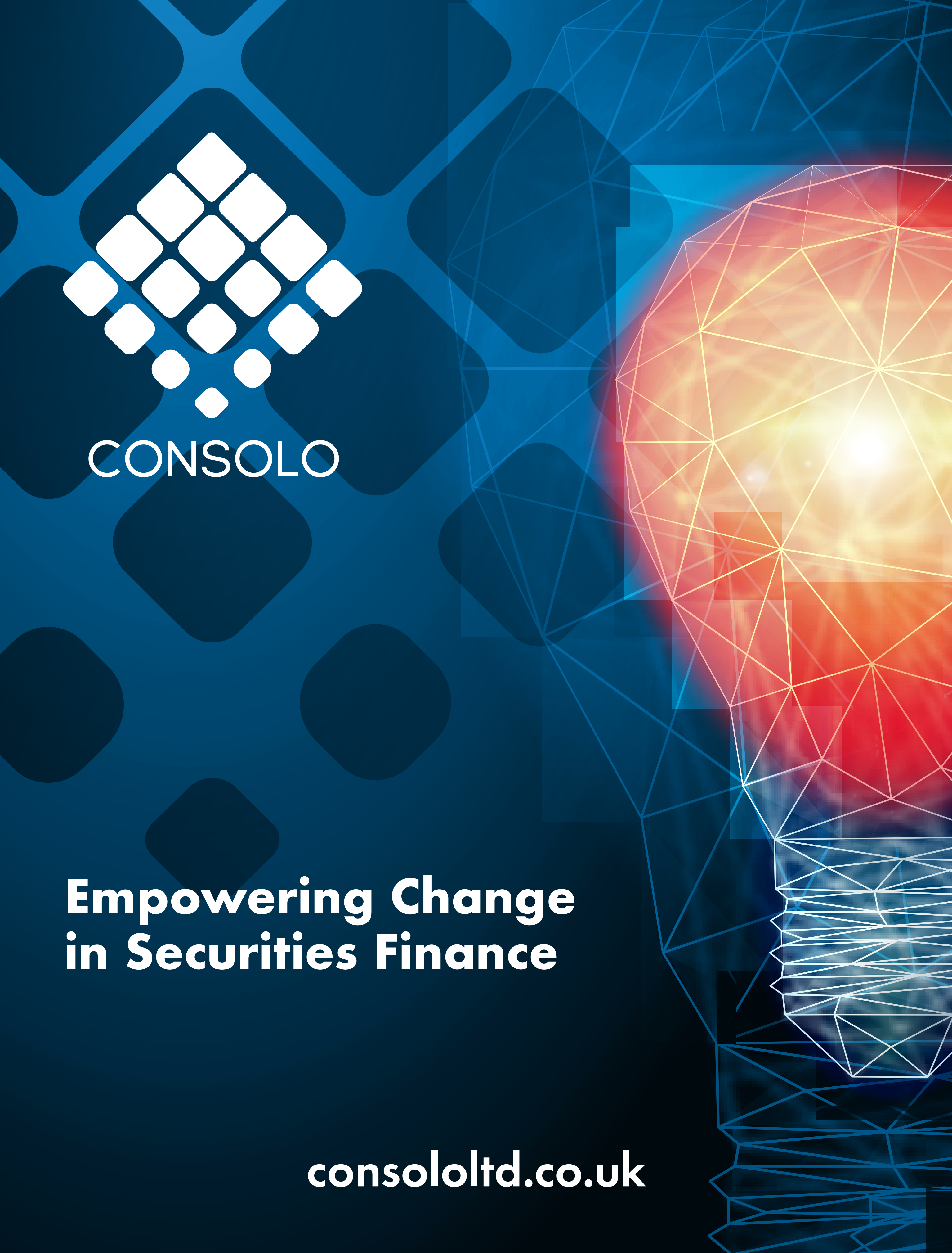
Scott O'Malia, ISDA's CEO, says: "We greatly appreciate the decision by the BCBS/IOSCO to defer implementation of phases five and six of the initial margin requirements.

"This will enable the hundreds of buy- and sell-side firms that would have come into scope to focus their resources on ensuring business continuity, managing risk and supporting their customers."

The delay was welcomed by other industry participants including the European Fund and Asset Management Association, which said the extension will help the financial industry to focus on its clients in these unprecedented times.

LCH EquityClear goes live with new post-trade platform

LSEG Technology, London Stock Exchange Group's technology solutions provider, has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implemented a new clearing platform for LCH's EquityClear service.

EquityClear, which connects to 16 trading platforms and 19 central securities depositories (CSDs) across Europe, settling in 18 currencies, can now process trades on an instant basis.

LSEG Technology noted that the risk management and trade processing platform offers an efficient, resilient and scalable solution for a variety of clearing, operations and risk management processes.

The platform delivered to LCH is configured to clear and risk manage 20 million trades (40 million trade sides) per day at a throughput of 1,600 trades per second.

Ann Neidenbach, global head of LSEG Technology, says: "The platform is designed to be scalable, highly efficient and resilient. This was a complex project, requiring extensive planning to meet the challenges of safely delivering critical market infrastructure."

Alex Krunic, head of equities at LCH, adds: "With the migration to the Millennium Clearing and Risk platform, LCH EquityClear is demonstrating its commitment to our members and the market by investing in a state-of-the-art resilient technology platform. "The platform offers next-generation clearing, operations and risk functionality for EquityClear, increasing operational efficiencies and enabling enhanced risk management for the service."

OCC sees an SBL increase

The Options Clearing Corporation (OCC) has seen back-to-back record-breaking months of US equity options, with cleared securities lending volumes also on the rise.

Its total cleared contract volume was 670.6 million contracts in March, up 62.8 percent from the same period a year earlier.

This exceeds the previous record of

568.9 million cleared contracts set the month prior.

For OCC's securities lending central clearing business, the average daily loan value last month was $76.17 billion, a 2 percent increase compared to March 2019.

New loan activity also increased by 4 percent year-on-year with 122,267 transactions recorded last month.

The monthly increase marks the end of a period of decline in lending activity that OCC had reported in the opening months of the year.

ICMA achieves highest membership in a decade

The International Capital Market Association (ICMA) has recently welcomed 13 new firms, bringing its total membership to 595 firms across 62 countries.

The trade body has so far brought on 30 additional members since the start of the year, taking its membership to its highest level in a decade.

Cantor Fitzgerald (London), Morgan Stanley Europe AG, Pirum Systems (London) and Tradeweb Europe are among those to join ICMA recently.

Other new members include BCS Prime Brokerage (London), China Securities Depository & Clearing Corporation, Eurobank SA, Etrading, Ferrovie dello Stato Italiane, Poste Italiane, and REYL Group.

ICMA has proved to be an outspoken advocate for its securities financing members in recent months, having successfully lobbied for much-needed delays to the Securities Financing Transactions Regulation and the Central Securities Depositories Regulation.

Hazeltree and HedgeLegal release UMR guide

Hazeltree and HedgeLegal, a specialist in trading document negotiation, have produced a guide on the final phases of the Uncleared Margin Rules (UMR) for the buy side.

The 'Clearing up the Uncleared Margin Rules', guide aims to help hedge funds and asset managers understand their obligations under phases five and six of UMR, which are currently slated for implementation in September 2021 and September 2022.

The paper explains the decisions that managers will need to address when assessing whether their funds fall within the new rules for swap dealers IM and how to prepare for changes.

"The onset of UMR represents a significant and complex event for buy side firms," says Joseph Spiro, director of product management from Hazeltree.

"This guide adds clarity to complicated topics and is a great resource as hedge funds and asset managers consider their impending needs."

The paper says UMR will impact funds in two main ways. First, swap dealers and funds will both be required to post initial margin (IM) to one another.

Second, IM can no longer be transferred directly between counterparties and re-hypothecated; it must now be held in segregated accounts with an unaffiliated third-party custodian where it cannot be re-hypothecated, insulating it from the risk of counterparty default.

Further, the paper explains that requirements for how IM is to be calculated and the types of collateral that can be used are prescribed by UMR.

While the UMR will only apply to new transactions that are entered into after a certain date, this fact may create multiple workflows for managers monitoring their new and legacy transactions.

Seb Malik
Head of financial law
Market FinReg

Economic impact of coronavirus

Black Swans are gaining colour and markets are failing to adjust. As I write, markets are some 30 percent off their peaks and star hedge funds (Renaissance) have struggled to adjust. It is said traders live and die by volatility yet struggle to successfully transition from low volatility to high.

The recent market rally off the bottom has been hailed by some as nascent signs of bottoming. I recall the dead cat bounce rallies in Q3/4 2008 when a similar flash of false exhilaration broke out only to witness subsequent steep drops with the S&P eventually bottoming at 676, wiping out a decade of gains.

Policy responses will be monetary, fiscal and prudential intervention. Given the unprecedented nature of intervention, I doubt the S&P500 will drop that far but further drops are likely. I see no reason why a grind down to 2000 is not possible. The risk is to the downside. Just take a look at the Organisation for Economic Cooperation and Development's annualised GDP impact estimates: Germany, Spain, Poland c. -30%; US, UK, Italy and France c.-25%. Even China and India will print -20%.

I, for one, do not buy the recent rally. It will fade and as macro indicators all head south, fear will dominate gain. The grind down will be choppy in a repeat of the risk on, risk off of 2008. For this reason spot VIX (50 as of writing compared to median of 12) and its term structure remains elevated. The market is expecting further volatility.

As for monetary responses – ultra-low interest rates have been symbolically slashed further to zero (Bank of England 0.1 percent). The quantitative easing printing press has been cranked up again allowing governments to resume asset purchasing, thereby priming banks with cash. On 7 April, the European Central Bank (ECB) adopted an unprecedented package including widening the criteria (i.e. quality) of collateral they would accept for their various liquidity providing facilities and lowering the collateral valuation haircuts by 20 percent (effectively the ECB is absorbing market risk). Significantly, the ECB will accept corporate and household loans as collateral as well as issuing a waiver to accept Greek sovereign debt. Capital and liquidity requirements have been lowered. The net effect is that banks have access to liquidity which they can further on to the real industry via loans. In the UK the government will guarantee 80 percent of any loan to a small-and-medium-sized-enterprises under its Coronavirus Business Interruption Loan Scheme.

Fiscal responses remain uncoordinated. As demand plummets, in the ordinary turn of events, mass unemployment ensues. To help retain jobs in the UK, the Exchequer (Ministry of Finance) is paying 80 percent of workers' wages with the hope that employers will retain workers, and has introduced a mortgage and house rent payment holiday (moratorium) for three months.

Finally, regulators have delayed implementation for many regulations thereby providing relief for businesses to focus on their core business.

It remains to be seen how united Europe can remain as it charts its way through this crisis given a complete lack of fiscal centralisation. For the first time in the EU's history, member states are openly flouting fundamental democratic values with brash indifference to formal censure from the Commission. Given this febrile atmosphere the chances of meaningful fiscal coordination in the EU remain remote.

COVID-19 is the greatest threat to human life and living standards in our lifetime. I would like to end my memo with an urge to readers to strictly adhere to their national guidance regarding staying at home. If every single citizen stayed at home for two weeks, coronavirus would be snuffed out. It is in large part due to the violators that the disease (and therefore deaths) continues to propagate.

Seb Malik
Head of financial law
Market FinReg

Does securities financing have a UTI problem?

Drew Nicol reports

The need to exchange UTIs under SFTR has proved to be a tough nut to crack. Could a little-known SWIFT message be the answer?

Of all the thorny issues the Securities Financing Transactions Regulation (SFTR) has thrown up so far, few have proved as fiendishly tricky as the need to exchange a unique transaction identifier (UTI). Under SFTR, a UTI, as the name suggests, is a one-off alphanumerical code of up to 52 characters that must be generated by one counterpart and sent to the other at the trade matching phase. This code must then be included in transaction reports both counterparts send to a registered trade repository on a T+1 basis.

We have faced UTI requirements before. They first appeared among the data points for reporting over-the-counter derivatives under the European Markets Infrastructure Regulation (EMIR). But, SFTR is different. The need to exchange UTIs for all trades involving both securities and cash almost instantaneously adds several layers of complexity to the challenge posed by EMIR's reporting regime.

Several vendors offering SFTR reporting services include UTI generation and exchange tools among their product suites, but difficulties remain if trading counterparties are not using the same vendor solution. Meanwhile, a firm that decides to go-it-alone is faced with the unenviable task of negotiating bilateral agreements with each of its counterparts. An in-house solution would also require a firm to manually share or receive UTIs by email or phone for each trade.

Many of the tier-one banks will now be well down the path of building pipes to one or all of the SFTR vendors in order to best serve their beneficial owner clients and access the largest number of borrowers possible. For them, the UTI exchange issue may have only been given the briefest of attention several months ago before it was swept up in the full SFTR solution package they signed up for.

For others, including the smaller players, the debate on what the best model is for the industry as a whole is far from over.

Last week, in Denmark, an alternative method for UTI exchange went into pre-production testing. Advocates of the solution say it will commandeer SWIFT's existing messaging infrastructure to provide a way to automatically swap UTIs quickly and cheaply with the minimal technology lift required.

The project is being spearheaded by the Danish Bankers' Association (DBA) in collaboration with the country's central securities depository (CSD), VP Securities. The idea to use SWIFT messages to meet SFTR's reporting requirements was originally pursued by the association as a solution for bilateral repos but it is now being eyed for other trade types under the remit of SFTR, including securities lending.

What's on offer?

Following the discovery of a UTI indicator field in the SWIFT Standards Release in 2019, DBA's SFTR taskforce approached VP Securities to see if there was a way to use this framework to create a rapid and automated solution for SFTR's reporting requirements.

This led to the formation of a way to exchange UTIs between the generating and receiving counterparties via the ISO MT548 or sese.024 match confirmation messages, which are being sent back to both instructing counterparties upon trade match in the CSD.

The solution would entail the generating counterparty entering the data into the designated SWIFT field and sending that to the relevant CSD, which would then pass that onto the UTI-receiving counterpart. It would also be possible for the CSD to act as a service provider and generate a UTI on behalf of the counterparties, thereby removing the risk of UTI-duplication.

The association says this method is viable with all ISO and proprietary instruction formats such as ISO 15022 and the newer ISO 20022.

The solution began pre-production testing last Monday and is expected to go live in June.

One of the solution's most outspoken advocates is Line Vesth, a post-trade regulation and financial infrastructure specialist, who serves as a senior specialist at Nykredit, a Danish asset manager, and sits on the SFTR taskforces of DBA and the International Capital Market Association (ICMA).

"This solution is potentially ground breaking because it removes the need for third-party vendors and manual file-exchange, which is obviously not so great for those that have built a whole platform for UTI exchange and plan to use it as a cash cow, but for the whole industry it could solve a huge problem," she says.

It also side-steps the potential for a "data security catastrophe," she adds. "If there's a breach somewhere along the line or your vendor or file exchange via unsecured channels is compromised, for example, then your client's data could be exposed and shared. It could be a data security disaster."

According to Vesth – who also helped DBA with its work implementing EMIR's UTI requirements – the infrastructure being proposed only requires the counterparties, sub-custodians and global custodians to make a "minor refinement" in their systems to add new functionality to implement one existing field within the normal settlement instruction infrastructure.

"A lot of our counterparties are fed up. They don't want to do any more work but we are just stressing that this is such a small tweak and it would reduce a quite significant cost from their bottom line," she says. "The cost difference between a vendor solution and what we are proposing is significant."

Problem solved?

Not quite. The main snag is that one of the solution's primary selling points – the leveraging of existing messages to avoid a major technology investment – may, in reality, only apply to bilateral repos.

By virtue of the UTI needing to be exchanged at the trade level, the only SWIFT message it could hitch a ride on for a stock loan transaction is called ISO MT518, which is SWIFT's confirmation message for trades involving securities.

If you've never heard of it don't worry, you're not alone. Few in the securities lending world seem to know it exists, let alone use it. And herein lies the problem. Although you would be hard-pressed to find a financial entity that doesn't use SWIFT messages to some degree, the application of this channel for UTI exchanges under the terms required by SFTR represents a major IT project. It would require a firm to incorporate the facility to accept and send a new type of message and then get its traders to shift to a new method of communication with their opposite numbers.

Moreover, these technical and cultural challenges are compounded by the fact that what may work well in the insular trading environment of Denmark – which has a single CSD that's willing to do the essential work required – may not apply in the much larger and more complex European securities finance market as a whole.

The nuance in trade flows such as the difference between principal lending versus agent lending structures, plus all the other links that could exist in the chain including central counterparties, makes the SWIFT model proposition more difficult to imagine taking hold right away.

But, the existence of these hurdles is neither surprising, given the lack of industry-wide effort to overcome them, nor a death knell to the idea; and Vesth is undaunted.

Vesth stresses that she has no commercial interest in getting others to pursue the SWIFT solution. She simply sees it as her duty to make as many of the entities living under the shadow of SFTR aware that other options to exchange data exist.

"I have my own business sorted as the bulk of our transactions are in the Danish market, and very few counterparties are not on this solution," she says. "But I am a die-hard idealist, and I believe in what the regulator is hoping to accomplish with these requirements, which is less opacity based on reporting by leveraging the infrastructure and foundations which are already in place and functioning well."

As well as being an idealist, Vesth is a realist. She emphasises that the SWIFT model, at least in its current form, is not a panacea for every entity and transaction captured by SFTR. But, she argues, it should not be dismissed out-of-hand because every model that exists today has its flaws.

"Although I understand why some players have their doubts, I will be happy to show our results when we have the data to substantiate why this solution is the lesser of all the evils associated with exchanging UTIs," she states.

The technical issues for adopting this solution are far from insurmountable. However, the real enemy this option faces is more existential: time.

Has the horse bolted?

Despite the efforts of the solution's advocates, which includes presentations by Vesth to her peers at ICMA in December and by VP Securities to the Securities Market Practice Group (SMPG) in March, Vesth admits that very few are aware it exists. But, it has caught the attention of some outside of Denmark.

Neil Davies, who leads Clearstream's SFTR activities and also sits on the taskforces of ICMA and the International Securities Lending Association (ISLA), stumbled upon the work of DBA and VP Securities last year while looking into the same SWIFT Standards Release.

"While a SWIFT-based solution is probably not feasible in all UTI-sharing scenarios, it does seem strange that the de facto means by which financial institutions share information isn't going to be playing a more significant role when it comes to passing UTIs around," he notes.

However, Davies says his initial curiosity was stifled when he encountered a lack of appetite by others in the industry to explore a new UTI-exchange model this late into the implementation process of firms' SFTR solutions.

Setting aside concerns around the complexities that would come from applying a single SWIFT model to all the variations in which an SFT can occur, Davies says the real issue is that this proposal had simply come too late.

Davies explains: "The problem is that most of the vendor solutions that incorporate a UTI-sharing capability come at a significant cost (building new pipes then ongoing charges) and so now many people are saying that it's a shame we don't have a common way of doing it that's less expensive."

"If people had come to this conclusion a year ago we could have maybe more widely embraced a SWIFT-based solution for some flows, but because it wasn't a priority until recently it's now too late," he laments.

With reporting under SFTR due begin in July, Davies says: "You would really need ISLA and/or ICMA to steer people in this direction if there is an appetite for it to gain traction."

To this point, the head of ICMA's SFTR taskforce, Alexander Westphal, says that although the association is happy to provide a platform for viable solutions to be discussed, it cannot push its members towards what is ultimately a commercial product, at the expense of others.

Meanwhile, Adrian Dale, who leads ISLA's SFTR efforts, adds that his association also welcomes discussion with market participants, trade associations and vendors to further improve communication between counterparties.

"Many regulations, especially SFTR and the Central Securities Depositories Regulation (CSDR) as it relates to securities lending, have undoubtedly heightened the demand for standard approaches in our market," Dale says. "Standards are required not only to support regulatory obligations but also to improve settlement efficiency and exposure management."

How did we get here?

Vesth concedes that the solution is coming at the 11th-hour but notes that the discussions around the most efficient way to exchange data and report transactions will not cease when phase one and two reporting starts.

"We're annoyed at ourselves for not thinking of this two years ago because everyone has been discussing it. It's just a matter of not having the right people in the same teams at the right time."

Here, she hits upon the first half of the answer to the question of why a potential remedy to a problem that had vexed the entire European SFT market for years was only discovered a few months ago: a breakdown in communication.

Why didn't SWIFT announce its plans to include a UTI indicator field way back in 2019? To this, Vesth says: "They [SWIFT] are just a service provider for messaging, but they don't tell us all the ways we can exploit that. It's for the industry to figure out all the applications for these tools."

So why didn't that happen until late last year? "The problem is that the people in the industry discussion groups are not necessarily the same people in the regulatory projects," she explains. "The people in the SFTR project groups had the knowledge of what we needed to exchange a UTI but they were not in the groups discussing the SWIFT formats. It's a problem with project management within banks."

It is worth noting that SFTR does not exist in a vacuum. Associations and their members have faced a deluge of challenges in recent years. Ranging from other regulatory frameworks, such as CSDR, all the way through to adapting to new market trends – think environmental, social and governance (ESG) financing – and, now, global pandemics. In this context, it is easy to see how the relatively mundane issue of exchanging UTIs could fall through the cracks.

What's next?

The viability of the SWIFT model rests primarily in the hands of the CSDs and the international CSDs (ICSDs). If they do not make the technical adjustments needed the whole project falls at the first hurdle. Here, Vesth says she's hit a wall.

"We started approaching the ICSDs but I'm having a really difficult time instigating a dialogue with some of them," she says. "They say they have SFTR sorted and they don't want to hear from me."

As a result, DBA has had to change tack. Similar to the way banks are being pushed to by their clients adopt ESG policies into every aspect of their investments and processes, Vesth says she is now encouraging firms to pressure their CSDs into making the UTI amendments.

Efforts are already underway to stimulate this process. When a delegation from VP Securities presented the SWIFT model at the SMPG meeting in South Africa earlier this year it also encouraged those present to make the amendments to the SWIFT messages mandatory for all members. SMPG's membership is mostly made up of banks and investment companies but does include some CSDs and ISCSDs, such as Clearstream and Euroclear.

A voting process on the matter among SMPG members will finish in June. If they vote in favour of making the changes mandatory for members then it will either be put into implementation in April 2021 if it's fast-tracked or November 2021 under a regular timetable. Regardless of whether the vote goes in her favour or not, Vesth says she is "positive" that eventually the data will prove her point once Denmark is shown to be outperforming other markets in areas such as matching rates.

"I really think this is what the regulator intended when they outlined this requirement but they can't say it because it would be messing with the capital markets, and the prerogative of private companies to choose their own path to compliance," she emphasises. "SWIFT is already the standard message communication system to exchange data between financial counterparties, and standardisation and harmonisation of communication is the cornerstone of the reporting regimes we are facing across many of the regulations coming into force these years.

"I strongly believe this approach is in line with the regulators' desire for all players to leverage existing infrastructure, instead of taking on new systems and formats, which is just adding to the complexity already associated with transaction reporting."

When independent amount meets initial margin

Alan Sheehan
Director product management
Calypso Technology

Calypso Technology explores the three different options set out by ISDA for managing the combination of independent amount and regulatory initial margin and explains why the simplest approach operationally is likely to work out more expensive for the posting party

The Uncleared Margin Rules' (UMR) documents, at least the early ones, seem to have ignored or maybe conveniently forgotten the fact that non-regulatory initial margin or independent amount (IA) existed.

Certainly, for the first three phases of UMR up to September 2018, no firms paying IA seem to have been pulled into the world of regulatory initial margin (Reg IM). Hence the movement of IA continued as part of the variation margin credit support annex (CSA) processing.

With Reg IM phase five approaching (planned for September 2020 until the recently announced delay to September 2021) the market has realised that firms paying IA will also need to pay (and receive) Reg IM.

Next generation documentation

In November 2018, International Swaps and Derivatives Association (ISDA) published its '2018 Credit Support Deed for Initial Margin' under English Law, and '2018 Credit Support Annex for Initial Margin' under New York Law. This was actually very good timing as the first buy-side firms who were paying IA fell into UMR phase four and had to start moving Reg IM from September 2019.

These ISDA documents are commonly referred to as the 'next generation' (or new generation) versions of the Reg IM documentation. They lay out three different options for managing the combination of IA and Reg IM, in what is known as the margin flow approach. These options are:

- Distinct margin flow (IM) approach
- Greater of margin flow (IM/IA) approach
- Allocated margin flow (IM/IA) approach

Each of these approaches comes with different levels of system and operational complexity, and crucially, a requirement for different amounts of collateral to be posted.

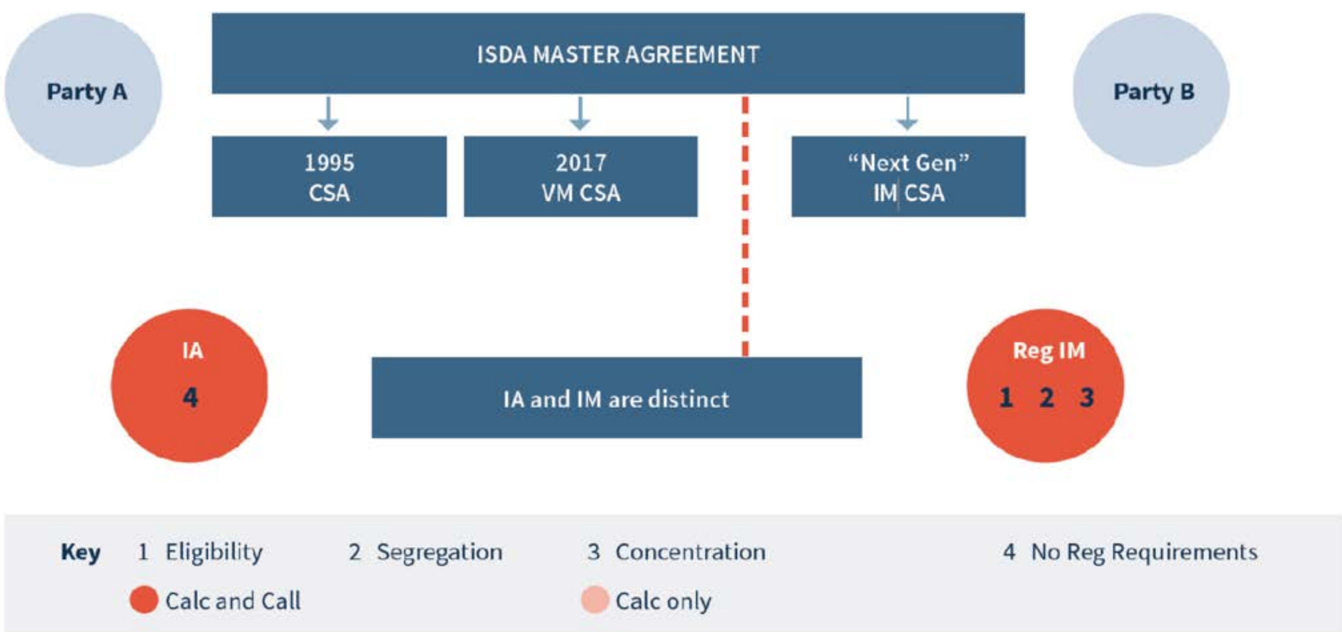
The next section looks at what is involved in each approach.

Distinct margin flow approach

In this model (see figure 1) the Reg IM and IA are managed completely separately, with Reg IM managed in the Reg IM agreement and the IA remaining in the 'other' agreement.

From a system point of view the distinct approach is the simplest as there is no need to consider any other agreements when making the margin call calculations.

Figure 1: Distinct margin flow approach



From an operational point of view participants would have to manage both calls separately, as they will have calls on both the Reg IM and IA agreements.

From a commercial point of view this is the most expensive approach as the IA payer would pay the total of the IA and Reg IM.

As the IA is part of the VM agreement there are no regulatory segregation requirements and settlement of the collateral can continue to be made in cash.

If (for the sake of this article) we assume that there are no legacy VM agreements, the distinct approach would involve participants in the following daily margin calls:
Calls (deliveries/receipts)

- Regulatory IM pledgor
- Regulatory IM secured
- Regulatory VM
- Independent amount

'Greater of' margin flow approach

In this model (see figure 2) participants calculate and move the greater of the IA and the Reg IM.

Participants calculate the IA on the IA agreement, but then 'recycle' this to the Reg IM agreement for inclusion in the margin call calculation.

From a system point of view the 'greater of' approach is more complex than the distinct approach as you need to calculate your IA before making the margin call calculations on the IM agreement.

From an operational and commercial point of view participants would have a single margin call for whichever is the 'greater of' the IA and the Reg IM.

As the IA is not part of the Reg IM agreement, the regulatory eligibility and segregation constraints and the collateral are likely to be part of triparty or third-party settlement arrangements.

Assuming no legacy VM agreements, the 'greater of' approach could involve participants in the following daily margin calls:
Calls (deliveries/receipts)

- Reg IM pledgor
- Reg IM secured (Including IA)
- Reg VM call

Figure 2: 'Greater of' margin flow approach

Allocated margin flow approach

In this model (see figure 3) participants calculate the Reg IM which is then used to offset any IA.

Participants calculate the Reg IM on the Reg IM agreement, but then ‘recycle’ this to the IA agreement where IA will continue to be paid until the Reg IM exceeds the IA.

From a system point of view the allocated approach is more complex than the distinct approach as you need to calculate your Reg IM before making the margin call calculations on the IA agreement.

From an operational perspective, there are likely to be calls on both the Reg IM and IA agreements.

From a commercial point of view, participants would manage the greater of the IA and the Reg IM.

As the IA component remains within the VM agreement there are no regulatory segregation requirements and settlement of the collateral can continue to be made in cash.

Again, assuming no legacy VM agreements, the allocated approach would involve the following daily margin calls:
Calls (deliveries/receipts)

- Reg IM pledgor
- Reg IM secured
- IA Call (reduced by IM)
- Reg VM call

Comparative collateral postings for each margin flow approach

It may be tempting to opt for the distinct approach, given that this is the simplest to implement from a system perspective as specific changes are unlikely to be required.

But this is also the most expensive option, as the following worked comparison example shows (see figure 4, overleaf), and operationally you will need to manage two different agreements.

Figure 3: Allocated margin flow approach

Figure 4: Comparative collateral postings for each margin flow approach

Distinct

	Day 1	Day 2	Day 3	
IA				
IA	95	95	90	
IA Threshold	50	50	50	
Margin Required	45	45	40	Calculate IA
Previous Collateral	0	45	45	
Margin Call Amount	45	0	-5	Settle IA separately from Reg IM
Reg IM				
Reg IM	30	90	60	
Reg IM Threshold	40	40	40	
Margin Required	0	50	20	Calculate Reg IM
IA/IM Offset	0	0	0	
Margin Required (post IA/IM Offset)	n/a	n/a	n/a	
Previous Collateral	0	0	40	
Margin Call Amount	0	40	-20	Settle Reg IM separately from IA
Total Collateral	45	85	60	

Greater Of

	Day 1	Day 2	Day 3	
Step1 - IA				
IA	95	95	90	
IA Threshold	50	50	50	
Margin Required	45	45	40	Calculate IA "recycle" to Reg IM
Previous Collateral	0	0	0	
Margin Call Amount	0	0	0	No IA Call
Step2 - Reg IM				
Reg IM	30	90	60	
Reg IM Threshold	40	40	40	
Margin Required	0	50	20	Calculate Reg IM
IA/IM Offset	45	0	20	"Recycle" IA from IA agreement
Margin Required (post IA/IM Offset)	45	50	40	Calculate the 'Greater of' IA/IM
Previous Collateral	0	45	50	
Margin Call Amount	45	5	-10	Settle the 'Greater of' as Reg IM
Total Collateral	45	50	40	

Allocated

	Day 1	Day 2	Day 3	
Step1 - Reg IM				
Reg IM	30	90	60	
Reg IM Threshold	40	40	40	
Margin Required	0	50	20	Calculate Reg IM "offset" with IA
Previous Collateral	0	0	50	
Margin Call Amount	0	50	-30	Settle 'Allocated' Reg IM
Step2 - IA				
IA	95	95	90	
IA Threshold	50	50	50	
Margin Required	0	45	40	Calculate IA
IA/IM Offset	0	-45	-20	"Offset" Reg IM from IM agreement
Margin Required (post IA/IM Offset)	45	0	20	
Previous Collateral	0	45	0	
Margin Call Amount	45	-45	20	Settle 'Allocated' IA
Total Collateral	45	50	40	

Concluding thoughts

There are a few things to take into account when working out which approach to take.

Firstly, adopting the simplest margin flow approach (distinct) will be the costliest route for the posting party.

Commercially speaking, 'greater of' and allocated approaches are the same, and both are cheaper than the distinct approach, for the posting party.

With the distinct and allocated approaches, participants must manage calls of both Reg IM and IA. Using 'Greater of', on the other hand, creates a single Reg IM margin call only.

Using the 'greater of' approach means that the IA is treated as Reg IM and must comply with the associated eligibility, concentration, haircut and segregation rules. This is not the case with the distinct and allocated approaches where the IA component falls under the VM agreement.

There is an additional complexity with the 'greater of' approach, as the IA is added to the Reg IM post threshold. This could see participants moving Reg IM sooner than would be the case in a distinct or allocated approach.

The decision as to the 'best' option will depend on individual circumstances: The 'greater of' approach appears to provide the best solution as commercially it is both the cheapest, and it removes the need to manage collateral on the IA agreement. It does come, however, with additional complications regarding the posting of Reg IM.

Additionally, being able to offset IA and IM becomes much more complex if the IA and Reg IM CSAs are not managed in a single solution.

As a final thought, firms looking to reduce the commercial impact of having to move both IA and Reg IM by using the 'greater of' or the allocated approach, must ensure that their systems are able to manage the additional complexity in the calculations - especially as our clients are telling us that they are being asked to support all of the approaches.

Covering all bases

Fabian Klar
Director sales and customer relations
deltaconX

deltaconX discusses its suite of regulatory services including its SFTR platform which is ready to go now, regardless of the regulation's delay

Tell us about deltaconX and what your main focus is for 2020?

Our current focus is clearly the delivery and the go-live of our Securities Financing Transactions Regulation (SFTR) reporting service. Although the European Securities and Markets Authority (ESMA) has requested the competent authorities not to prioritise their supervisory actions and has clarified that no trade repositories (TR) will be approved prior to 13 April, we are still working on our delivery for the beginning of April. We have taken this decision because we have the capabilities to deliver our SFTR solution even in these difficult times due to the COVID-19 pandemic and because we do not want to delay all additional projects for 2020.

In addition to SFTR, we have planned various system enhancements for 2020 to support our clients to make regulatory reporting even easier and to improve the data quality. We plan to release an enhanced reconciliation management functionality and various features to further improve the exception management processes for our clients.

We plan to offer new connections to other reporting channels (TRs, approved reporting mechanism, approved publication arrangement, etc) and source systems and to enlarge the geographical scope by offering services for additional reporting regimes in North America and the Asia Pacific (APAC) region.

We are also monitoring closely what happens in different regions, that have still not introduced any transaction based regulatory regimes, but already announced that they will in the future, like South Africa, Indonesia and Argentina.

Tell us about your centralised deltaconX regulatory platform?

The deltaconX regulatory platform supports its clients to unify, standardise and automate reporting processes across various regulations by connecting multiple internal and external sources to one single platform and to transform the reported data into the different reporting formats. All reported data is pre-validated, and we offer a large variety of exception management, data enrichment and management and reconciliation management functionalities as well as further functionalities, like automated delegated reporting, unique transaction identifiers (UTI) generation and sharing, legal entity identifier repository, etc.

Currently we offer reporting solutions for EMIR, FinfraG/FMIA, MiFIR/MiFID II, REMIT and SFTR (see table) as well as a market surveillance module to comply with requirements from the market abuse regulation. We will enlarge the geographical scope during 2020 and 2021 to also cover reporting regimes in North America and the APAC region.

Regulation table:
EMIR: European Market Infrastructure Regulation
FinfraG/FMIA: Financial Market Infrastructure Act (Switzerland)
MiFIR/MiFID II: Markets in Financial Instruments Regulation/Directive
REMIT: Regulation on Wholesale Energy Market Integrity and Transparency
SFTR: Securities Financing Transactions Regulation

How does the COVID-19 pandemic influence your daily business?

As we at deltaconX are experts on cloud-based regulatory reporting we are well prepared and used to work remotely since our start in 2013.

The fact that our solution is hosted in a private cloud, gives us and our clients the flexibility to work remote and still comply with the regulatory requirements even in such an extreme situation like the current COVID-19 pandemic. Beside the platform itself, we also use virtual meetings and file sharing applications, so that although people are not physically meeting in the office, our service continues as "business as usual".

We understand you have partnerships with global leading system vendors and reporting channels, how do these partnerships work?

2019 was an exciting year for deltaconX. We have been able to convince some of the most prestigious system vendors like Finastra, Murex and SimCorp that a collaboration will bring significant advantages to them and their underlying customers. Also, KRM22, which is running a global risk platform, has signed a partnership agreement with deltaconX.

We have different partnership models in place with those vendors:

White labelling

For Finastra and SimCorp we provide them with a white labelled reporting platform. This means that deltaconX will technically run the reporting engine, while it will be branded under our partners Corporate Identity. These collaborations have a number of benefits for the underlying clients:

- Clients of these partners will benefit from standard integrations between the different source systems used and the reporting platform
- deltaconX and its partner will monitor the regulations and will take care of all necessary changes that will occur in the future
- Clients will benefit from the combined expertise in regulatory reporting from our partners and deltaconX
- Budget certainty: All necessary changes or adaptations are included in the software-as-a-service-fee, so that clients

have a clear view of the costs in order to comply with its reporting obligation
- Total cost of ownership will be reduced significantly due to very reduced implication of internal staff and the centrally managed platform
- The contractual relationship will improve customer efficiency, as the contractual relation is between the already used source system vendor and the client

For all partners the cooperation is rolled out with SFTR, and will be expanded to further supported regulations.

Carsten Kunkel, head of SimCorp's global regulatory Centre of Excellence: "SimCorp's SFTR cloud solution, launched in partnership with deltaconX, provides unparalleled transparency and control of the data that firms will need to report shortly. The partnership with deltaconX delivers many benefits to our clients, including the ability to more readily and flexibly load third party data, including triparty agent collateral reports. At the same time, the solution is one of an increasing number of managed services from SimCorp, where we take on greater responsibility for regulatory compliance and maintenance. This frees our clients from the burdensome task of keeping regulatory solutions in sync with regulatory change. As a result, SimCorp clients are now ahead of the curve, with a cloud-based managed service that is more intuitive and automated, and enables standardised integration with deltaconX's regulatory platform. Ultimately, we are confident that our strong offering and the partnership with deltaconX, provides a cost-effective full-service solution that will enable our clients to get back to the business of alpha generation."

Connectivity agreements

With Murex and KRM22 we have connectivity agreements in place. The difference to a white labelled solution is that clients are signing an agreement with deltaconX directly. Beside this difference the clients still benefit from all the above-mentioned advantages.

What are the current trends that you are seeing in the regulatory space?

SFTR is certainly the hot topic for 2020 for those entities that are active in the securities financing area. It is a very complex regulation and especially the collateral reporting and the linking of collaterals to the reported trades is quite challenging. If market participants still have resources or are not impacted by SFTR, we recommend to actively work on the data quality for the existing reporting regimes like EMIR and MiFIR/MiFID II.

For those regulations that are targeting the activity in the financial markets, we see the trend to relieve the non-financial counterparties from the reporting obligation and to shift these obligations to the financial counterparties. The main reason for this shift is to increase the data quality and to introduce reporting standards. Under MiFIR/MiFID II the reporting standard is ISO 20022, for SFTR the reporting must be done in ISO 20022 XML as well.

For EMIR, ESMA has published a consultation about the new regulatory technical standards and implementing technical standards on 27 March, including the introduction of the ISO 20022 XML standard after the entry into force of EMIR REFIT. The authorities are of the opinion that the introduction of the ISO 20022 standard will significantly increase the quality of EMIR reporting which is, even after six years of the reporting regime being in place, still "not satisfactory" for ESMA and the national competent authorities.

We at deltaconX support the opinion of the authorities that such standards will help to significantly increase the reporting quality, but we also realise that it is quite challenging, especially for small-and-medium-size financial institutions to implement such a standard. This is where we can support you, as implementing such standards is our expertise.

How do you view SFTR and the industry's preparedness?

This very much depends on the activity the market participants are conducting and the type of market participants you are looking at.

As SFTR will be introduced in different waves (as it looks as of today in three rather than in four waves) the level of preparedness is certainly the highest for the credit institutions and investment firms falling into the first wave although it has been merged with the second wave now. However, we believe that the level of preparedness is also depending on the type and complexity of the SFTs the market participants are exercising.

Every type of transaction has its own complexity, meaning the more different transaction types you are actively trading the more complex the reporting will be. But also, the transaction types and the way they have to be reported is different depending on how these transactions are executed.

The more intermediaries are involved the more market participants are dependent on the preparedness and the business models of all these intermediaries like lending agents, brokers, central counterparties, triparty agents, etc, and their respective preparedness. We see that not all these intermediaries are already as far as we would have expected them to be less than one month before the original go live date.

Buy-side firms are, in our opinion, in a “wait-and-see” mode. Many of those firms have done the general analysis but are still uncertain on how they will operationally implement SFTR. Some are still of the opinion that delegating this reporting is the best way as those firms are generally trading with sell-side firms which will have the reporting obligation anyway. However, they should not forget the complexity of the compliance oversight process if they delegate to multiple counterparties. Others are currently in the implementation phase and hoped to benefit from the experience of the sell-side and consulting firms. Now that the delay between the first and the third wave will only be three months instead of originally six months, this might cause some shortage in the availability of experienced and well-educated consultants.

We suggest the wave one market participants not to slow down their projects due to the granted grace period, but they should continue their efforts to the best possible and should prepare themselves to be ready to report, once this is technically possible.

What concerns your clients the most about SFTR and how do you assist to overcome these concerns?

Reporting itself is extremely complex regarding the timing and content of different reports and under which conditions these rules need to be applied.

One of the biggest concerns is certainly the collateral reporting. You have different timings and ways to report and link collateral reports depending on whether the information is available at trade date or only at settlement date, or if you collateralise on net exposure basis or on trade basis. We are consulting our clients on how and when collateral reports need to be provided and how these reports are linked to the transactions.

The UTI generation and sharing is still one of the biggest concerns for the market participants. We offer a UTI generation functionality to our clients and also a functionality to share UTIs and transaction data with non-clients via email reports.

Reporting in ISO 20022 XML including the different action types is also a concern for many market participants. Our deltaconX regulatory platform can be accessed via different connectivity channels and file formats. The conversion into the ISO 20022 XML format is automatically handled by our platform. The deltaconX regulatory platform does not require the client to use action types, but those action types are derived by the platform itself.

In addition, many clients have a strong experience in regulatory reporting, and they know that data quality is one of the biggest concerns. Therefore, they are looking for a flexible solution which helps them to actively manage exceptions, to do some data mapping and to support them in their reconciliation processes. We at deltaconX are 100 percent focussed on regulatory reporting since 2013. Our main target is to make the reporting processes as simple and straight forward as possible for our clients, so we have a variety of features that help clients managing their regulatory reporting obligation in a cost, time and resources effective way.

After SFTR, which regulation do you feel will be the next big thing?

It is difficult to say which regulation will be the next big thing as not all the market participants are affected by each regulation in the same way.

For us at deltaconX we believe that SFTR will still keep us busy for quite some time as it is phased in and like in each regulation, we expect some changes to come up in the following months. We should also keep in mind that SFTR is a direct result from the Financial Stability Board recommendations, so similar reporting regimes will also be introduced in other parts of the world. As Europe has taken the leadership in developing a regulation for the SFT market, it will certainly be used as the benchmark for other countries, so we see ourselves very well positioned for the global role out of SFTR. This also fits in our general roadmap in which the geographical expansion is anyway foreseen.

In addition, the introduction of EMIR 3.0 including the ISO 20022 Standard will certainly have a strong impact on market participants and us as well.

COVID-19 re-writes global shareholding disclosure rules

Gaurav Chandra
Product manager
AxiomSL

Asset managers need to adjust compliance protocols on-the-fly. AxiomSL investigates the challenges they face

Global shareholding disclosure (GSD) rules have been a focal point for global regulatory authorities trying to implement safeguards in response to market shocks resulting from the novel coronavirus pandemic (COVID-19). In recent weeks, more than a dozen different rule changes, affecting everything from short-sales to overall ownership reporting have been implemented, forcing asset managers to adjust their compliance protocols on-the-fly.

The regulatory objective behind GSD rules is to increase market transparency of major holdings in public issuers whose shares are traded on regulated markets. All told, roughly 95 different regulatory jurisdictions around the world enforce some form of GSD, and each one does so with their own set of rules, many of which vary widely from one jurisdiction to the next.

In the current market crisis, many of these rules are changing quickly to lower the ownership threshold at which holdings need to be reported to local and federal regulators. Short selling has been a particular focal point, with several jurisdictions issuing outright bans on short sales and others requiring more onerous reporting of significant trades.

AxiomSL has been continually updating its software to automatically adjust to these rapidly changing reporting requirements and is proximity tools have been actively alerting clients when holdings are close to triggering a new monitoring obligation.

Tracking GSD rule changes:

Following is jurisdiction-to-jurisdiction a rundown of the major global rule changes that have gone into effect in response to the COVID-19 pandemic:

- EU: The EU passed – with immediate effect on 16 March – emergency legislation that requires short-sellers to report a transaction if their net short position reaches or exceeds 0.1 percent of the issued share capital.
- South Korea: A six-month ban on short selling of all listed securities in South Korea was introduced on 13 March. The action followed a series of limited bans that were introduced first on 9 March and then extended on 12 March.
- Belgium, France, Greece, Italy, Spain, UK: Temporary short selling bans were issued on all listed securities in these jurisdictions on 18 March, following a series of limited bans that were introduced on 13 March and 17 March.
- Italy: In addition to its temporary short selling ban, Italy updated its GSD reporting thresholds for significant holdings for the next three months, starting on 18 March. The rule is valid for significant holdings of 1 percent or more for 38 companies with equity listed on the Mercato Telematico Azionario, and 3 percent or more for 10 small-to-medium sized entities. Asset owners were given 10 days to report these holdings.
- Malaysia: The Securities Commission Malaysia and Bursa Malaysia announced on March 20 that short-selling will be suspended until 30.
- Jordan and Philippines: The Amman Stock Exchange and Philippines Stock exchange was shut down until further notice on 17 March, halting all trading activity in the country.

Gaurav Chandra
Product manager
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Critical response

David Lewis
Senior director, Astec Analytics
FIS

Today's economic turmoil is very different to the previous crisis, but there are still lessons from 2008 that can be applied now

The world has changed. The word 'unprecedented' does not seem quite strong enough to describe the times we are living and working through now, and it is also only partly true. While the cause of the current crisis is new, the response from the financial markets and those that manage and regulate it, is certainly not without precedent.

Consider the last major financial crisis, one so dramatic in its impact and reach that it is simply referred to as "the financial crisis," eclipsing the depression of the 1930s and other crises since. While the defining moment of the crisis was financial, in the collapse of Lehman Brothers, as opposed to an environmental virus affecting human health, namely COVID-19 or the coronavirus disease, the responses from and impact on many quarters has been remarkably similar.

The immediate impact of the Lehman Brothers default was measured in a matter of days, yet the impact of that single event still affects the markets and regulations as we see them today. With COVID-19, the financial contagion was much slower to spread across the world. This can be largely explained by the more easily quantifiable and understood near instantaneous impact of a major bank failure, compared with the relatively unknown potential for virus contagion across humans originating in a little-known part of the world. Once the true potential impact became more obvious, the ripple effect quickly became a tsunami crossing the world.

Both crises have caused a rush to quality and a shedding of risk assets as markets around the globe plunged, with some close to eroding the whole of the post-financial crisis bull run period. Markets across the world demonstrated a master-class in proving that uncertainty is one of the biggest threats stock markets face. Prime money fund assets in the US plunged by 11 percent in the second week of March, having varied by little more than 1 percent over the prior three months, with investment rushing towards government-issued securities and other safe-haven assets. The rush to quality had begun, just as equities were sold off significantly and treasuries were bought up as Lehman Brothers folded.

While this is a somewhat predictable response from investors, its impact on the securities finance industry cannot be considered in isolation as governments and central banks around the world employ fiscal and monetary policy responses to the unfolding crisis. Lowering of central bank interest rates to historical lows as well as extensive support for industries have been used in conjunction with significant quantitative easing actions. This has been employed most notably by the US government which launched a package of measures totalling some $2.2 trillion designed to support the economy during these uncertain times.

Buying up US treasuries, as the European Central Bank (ECB) found previously with Eurobonds, has a potential to create unintended consequences that can harm some parts of the market while helping others. The US action, designed to spur economic growth through increasing the money supply and thereby making it easier for businesses to borrow money, is undertaken by "buying" mortgage-backed and US Treasury securities from member banks, providing them with credits in return. It is understood that the US Federal Reserve plans to purchase up to $500 billion of US treasuries and up to $200 billion of mortgage-backed securities over the coming months.

However, taking these assets effectively out of circulation can harm those organisations that need to borrow them. Data from FIS' Astec Analytics shows that borrowing of US treasuries increased from around £385 billion at the start of January to a peak of $472 billion in late March, before falling back slightly to around $460 billion at the end of the month. Over the same period, utilisation grew from just under 24 percent to a peak of 28 percent. Adjusting for price appreciation, utilisation grew around 20 percent faster than volume, suggesting the start of a contracting supply base. Indeed, availability of US treasuries peaked at around $1.75 trillion in mid-March, but has since fallen back, dropping some 9 percent to just under $1.6 trillion.

The drop in bank base rates and the reduction in supply both combined with the increased demand to borrow high-quality liquid assets (HQLA), such as US treasuries, to force rebate rates to fall from around 160 basis points at the end of February to just 25 at the end of March. As the Federal Reserve begins buying up bonds, it may well drive supply down by as much as 30 percent, assuming most of its purchased bonds are from lending funds. This would drive utilisation to rise even further and rebates even lower.

The ECB has also launched a quantitative-easing programme, in addition to its Asset Purchasing Programme (APP). This new programme, the Pandemic Emergency Purchase Programme (PEPP), has up to €750 billion at its disposal, and will target the same securities as were eligible under the APP (national, regional and local government bonds as well as certain corporate debt, ranging from one to 30 years maturity). The PEPP will also include Greek government bonds that had previously been excluded. In addition, the assets purchased under the PEPP will be eligible for securities lending operations, potentially easing the supply of euro denominated HQLA in the market.

National governments have also been flexing their bank accounts when it comes to supporting employers and businesses, underwriting wages for both workers and the self-employed. Not everyone is or can be covered; many companies already on the edge have fallen into administration and more will likely follow as the global lockdown continues. Short sellers have been demonised in the press, just as they were during the financial crisis, with short selling bans being put in place by a number of jurisdictions around the world, desperate to be seen to be doing something to shore up their markets. This is despite the abundance of research that proves such moves increase volatility, price bubbles and trading spreads, damaging the very markets they are intended to protect.

If business bankruptcies continue, logic would suggest that there may be enough defaults to begin to threaten the lenders themselves. The extensive support being provided by governments across the globe may be enough to keep us from a bank default and all that might entail, but until then it is important everyone knows where their next piece of collateral is coming from and how expensive it might be to deliver it, and to keep trust flowing around the system as well as HQLAs.

David Lewis
Senior director
Astec Analytics FIS

Figure 1 *Source: FIS Astec Analytics*

Coming and goings at BBH, State Street, LCH and more

Brown Brothers Harriman (BBH) has promoted Marney McCabe and Thomas Poppey to co-head its global securities lending business following Keith Haberlin's side-step to leading the firm's fintech organisation.

Both McCabe and Poppey previously held leadership positions within BBH's lending business and have worked with Haberlin for the past 12 years, which has made the transition for clients "seamless," BBH says.

McCabe has served at BBH for nearly 14 years. Prior to her promotion, she was senior vice president and head of securities lending relationship management for just over two years. She also served as vice president of global securities lending for nearly 12 years from July 2009.

Poppey has been with BBH for just over 12 years, and previously served as head of global securities lending product management.

He also brings experience from five years as a council board member for the securities lending council for the Risk Management Association.

The firm's securities lending business comes under its Markets division which is led by Chris Remondi.

Meanwhile, former head of the security lending business, Haberlin, has assumed responsibility for BBH's fintech organisation, which provides a suite of middle office technology and service offerings to our global client base.

Haberlin has served at BBH for nearly 16 years and held his previous role for more than 12 years. Before that, he was senior vice president head of infomediary for Europe, the Middle East and Africa.

State Street's head of business solutions for Europe, the Middle East and Africa, David Shone, has tendered his resignation to pursue new opportunities.

Shone, based in London, has spent the past few years spearheading the development of the bank's Securities Financing Transactions Regulation (SFTR) solution, which is near completion.

He was initially recruited in 2014 to lead in the creation of a new equity swaps business, but this project was shelved just over two years into development as a change of senior management meant the appetite to take on the risks associated with the equity derivatives market was no longer there.

Since then he has been responsible for leading a team covering securities finance, foreign exchange, global treasury and fund and collateral transformation.

As part of that effort, Shone created a new role of operations test manager held by Amlesh Patel to take over responsibility for overseeing the testing of State Street's SFTR solution.

It is understood that Patel is also set to leave the bank soon.

Until January Shone was also EMEA operations business risk manager but has since passed these duties onto one of his eight-strong team.

Speaking to SLT, Shone says that with the bank's SFTR project near completion, he believes the time is right to look into new avenues for his next challenge.

His last day with the bank will be 5 June, at which point he says he would like to explore opportunities for consulting work focused on the buy-side or with fintech start-ups.

"I'm excited to take what I've learned at State Street from implementing large operating models and building relationships with vendors and apply that experience somewhere new," he says.

"I specialise in strategic transformation and large programmes of change and I've been working with fintechs to create regulatory solutions," Shone explains.

Margin Reform has appointed Stuart Kidd as its new senior consultant to bolster its clearing, margin and collateral practice.

Clearing, margin and collateral come under one of Margin Reform's six service areas which Chetan Joshi, founder and COO, and Shaun Murray, managing partner, lead.

Kidd, who is based in London and reports to Murray, joins from Commerzbank, where he specialised in over-the-counter (OTC) clearing in client solutions for three years.


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Prior to that, Kidd served as a senior manager at Standard Chartered Bank for just shy of a year.

Before that, he held a number of roles at J.P. Morgan for nearly three years, including most recently working as a project manager focusing on uncleared swap margin rules and as an OTC operations manager.

Murray comments: "With collateral now impacting the buy side more than it ever has, being able to support our clients across all facets of their business, to make them more efficient both economically and operationally is vital.

"Stuart joins us to spearhead work with clients who maybe don't understand how to enhance their capabilities, or to compress risk and optimise their portfolios, collateral drag is an economic challenge that needs to be solved."

LCH has appointed Yuktaka Imanishi as head of Japan

Imanishi joins LCH from CME Group, where he served as executive director, optimisation in Japan.

Imanishi, who is based in Tokyo, reports to Kate Birchall, head of Asia Pacific.

He will be responsible for LCH's business in Japan including the central counterparty's office in Tokyo.

Before CME, Imanishi was TriOptima's CEO for Asia Pacific (APAC), with responsibility for its compression and portfolio reconciliation business in the region.

Prior to joining TriOptima, Imanishi held a number of roles at Nomura and other banking groups across Australia, Japan and Singapore.

CloudMargin appoints David White

CloudMargin has appointed former TriOptima senior sales executive David White to the newly-created position of chief commercial officer.

Based in London and reporting to CloudMargin CEO Stuart Connolly, White is responsible for establishing and meeting targeted revenue objectives and overseeing the sales and marketing teams and ensuring cohesive strategies for those areas.

He will also be working with partner firms to create a seamless platform for increased sales cohesion and enhancing the sales management processes, CloudMargin says.

White brings 14 years of capital markets experience in over-the-counter (OTC) derivatives markets and supporting technology.

Most recently he served as head of sales for the triResolve business line of TriOptima, now a unit of CME Group between 2016 and 2019. For the four years prior, he was product marketing executive at TriOptima.

Previously, White spent five years as a consultant and manager at DCG, a derivatives consultancy firm, later known as Sapient Global Markets, specialising in OTC derivatives projects on behalf of tier-one investment bank clients.