securities lending times
The primary source of global securities finance news and analysis
Issue 251 28 April 2020

Just the eye of the storm?

Securities lending and short selling markets were hit by extreme volatility and earned the ire of regulators in Q1. But, the worst may still be ahead

CSDR Looms

ICMA has vowed to keep pushing for changes and delays to "harmful" buy-in rules, despite EU regulators playing hardball

Revenue Round-up

The first of the lenders' Q1 revenue reports are in after weeks of coronavirus-fuelled volatility, and some fared better than others

Market Analysis

BMO's Christopher Kunkle shares his thoughts on the current US market upheaval and how the pandemic is affecting securities lending

SWAPTIMIZATION

Automating Swaps Work Flow

© 2020 EquiLend Holdings LLC.

EQUILEND

securities lending times

GIVE MORE VALUE TO YOUR CLIENTS & GET THEM LISTENING TO YOU MORE

Securities Lending Times is now offering companies the opportunity to partner with us and promote your podcasts to a wider audience.

Let us help you grow your audience.

For more information contact **Justin Lawson** on **020 8750 0929** or email **Justinlawson@securitieslendingtimes.com**

CSDR: ICMA vows to continue push for buy-in amendments, despite ESMA brush off

The International Capital Market Association (ICMA) has pledged to continue lobbying efforts to achieve meaningful revisions to the settlement discipline of the Central Securities Depositories Regulation (CSDR) despite EU regulators' latest dismissal of its concerns.

The trade body's senior director for market practice and regulatory policy, Andrew Hill, tells SLT: "ICMA will remain committed to advocating for constructive revisions to the settlement discipline package; partly because our members demand it, but also in line with our mission to promote resilient and well-functioning international debt capital markets."

Moreover, Hill argues that the disruption to businesses caused by the COVID-19 pandemic coupled with lingering ambiguities around certain requirements of the regime means "it is unrealistic to think that the market will be anywhere near ready for implementation of the buy-in regime by February 2021".

The story so far

CSDR's settlement discipline regime aims to reduce settlement fails in a variety of markets by imposing mandatory buy-ins and cash penalties for failed trades.

In January, a joint letter was sent to the chair of the European Securities and Markets Authority (ESMA), Steven Maijoor, by a large group of industry bodies, including ICMA.

They outlined, in detail, several areas of concern relating to CSDR's settlement discipline regime.

Continued on page 6

Inside this issue

Latest News
10 COVID-19 has exposed defective regulations

Latest News
12 EU repo market performed under pressure, report shows

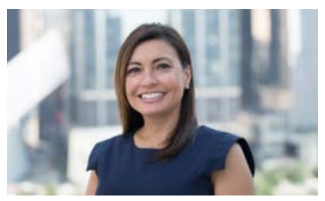
Malik's Memo
16 Cryptoassets are property
In a ground-breaking case, the High Court of New Zealand has ruled cryptoassets are legally considered property. Market FinReg's Seb Malik reports

Revenue Round-up
20 Securities lending Q1 results
In the wake of the coronavirus-fuelled business disruption and market volatility, the first of the Q1 revenue reports show that some did not escape unscathed

Market Analysis
18 Has the boat steadied in the US
Head of agency lending at BMO Global Asset Management, Christopher Kunkle, shares his outlook and wisdom on the US market upheaval

Buy-side Review
23 Setting out the stall
In a second look at the SWIFT UTI exchange model, SimCorp details the results of its webinar with buy-side members on whether the solution appeals to them

Industry Appointments
28 Comings and goings across the securities financing market



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

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

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

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

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

Marketing Director: Steven Lafferty
Stevenlafferty@securitieslendingtimes.com

Published by Black Knight Media Ltd

Copyright © 2020 All rights reserved

BEYOND

GLOBAL SECURITIES FINANCING

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

ISF
PART OF GLOBAL INVESTOR GROUP
AWARDS 2019
WINNER

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

Collaboration || Financing || Solutions

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

CREATIVE FINANCIAL SOLUTIONS
THAT GO BEYOND

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

www.cib.natixis.com

GROUPE BPCE

Canadian pension plans bank record returns

Data from RBC Investor and Treasury Services' (RBC I&TS) All Plan Universe shows that Canadian defined benefit pension plans achieved their second-highest annual return in more than a decade due to an upsurge in Canadian and global equity markets.

According to RBC I&TS, the pension plans returned 14 percent in 2019, including a 2 percent return in Q4 and 1.7 percent in Q3.

Canadian equities value increased 3.1 percent in Q4 and were up 4 percent for the year, while global equities returned 6.8 percent in Q4, contributing to a 20.7 percent uptick for the year.

Meanwhile, Canadian bonds decreased 1.6 percent in the final quarter of 2019, but were up 10.3 per cent for the year.

Commenting on the latest data, RBC's head of asset servicing David Linds, says: "Over the past 10 years, the average Canadian defined benefits plan has generated an annualised return of 8 percent on its assets. These results are quite impressive, though we can't discount the impact of global uncertainty and trade tensions in the years ahead.

"While the performance of equity markets suggests that investors expect to see continued growth, plan sponsors need to continue building robust strategies to prepare for higher volatility as earnings and fundamentals begin to slow."

CSDR: ESMA chair shuts down hopes of further delays

Continued from page 3

The group explained that the rules framework was not fit for purpose and had the potential to radically damage market liquidity and, by proxy, stability. Several areas of ambiguity yet to be clarified by the European Commission also meant that firms were highly unlikely to be able to meet original September deadline.

In February, ESMA responded by recommending to the commission that the regime be pushed back to February 2021, to allow for vital technical amendments to be made. The new timetable is now awaiting approval by the commission and is widely expected to be accepted.

Since then, Maijoor has personally responded to the letter in mid April and made clear that industry stakeholders can expect no further leniency on the matter.

In his written response, seen by SLT, Maijoor says that the entry into force of the settlement discipline regime has already been delayed by two years from the publication of the regulatory technical standards (RTS), in addition to the latest push back.

He further outlines that ESMA will not look at the need for further amendments until after the regulation is live in February.

Highlighting a suggestion made in the January letter that the buy-in rule should be made mandatory to avoid an asymmetrical market dynamic that could unfairly penalise the failing party, Maijoor countered that the evidence the associations had referenced was not enough to sway regulators at this time.

Tailor-made solutions in Prime Finance.

Visit us at **www.zkb.ch**

We are the perfect choice when it comes to prime finance. Our central Prime Finance Desk will deliver a bespoke solution that is sure to lead you to your desired goal in the shortest time. Nowhere else will you find more expertise than on +41 (0)44 293 62 62 or at primefinance@zkb.ch.

"In our view, it is premature to consider further action at this point in time, in the absence of concrete evidence following the implementation of the buy-in requirements," Maijoor writes. "ESMA is committed to monitoring the situation and will assess the need for any further action following the implementation of the settlement discipline regime."

Finally, in response to the claim that the RTS contained several ambiguities that made it impossible for firms to build their solutions with confidence they had correctly interpreted the scope of the regulation, Maijoor explains that further clarification is being drafted.

He writes: "On the other various issues raised in your letter concerning the buy-in, such as the pass-on mechanism, the asymmetry of buy-in costs and the topic of cash compensation, discussions at expert level are ongoing, with a view to clarifying the respective matters through supervisory convergence measures when needed."

The latest move

Reacting to the chair's letter, Hill says: "We are naturally disappointed with the regulators' response to the industry's ask, but not surprised. The seeds to this problem were sown by the European Parliament back in 2013, and rolling this back is a legislative challenge, no matter how bad an idea or how damaging we all think it might be.

Hill explains that ICMA is being actively encouraged to not give up its lobbying effort most enthusiastically by its buy-side membership, which is the very demographic CSDR is aimed to protect.

"Unfortunately, the notion of mandatory buy-ins for non-cleared markets was conceived in a vacuum," he explains. "While nobody doubts the good intentions underlying it, the fact remains that the investors it is intended to protect were never consulted, and now they are the ones who are going to suffer most."

"We remain supportive of settlement discipline and measures to improve settlement efficiency. We have always maintained that a suitably calibrated cash penalty mechanism could help to that end.

"However, we remain deeply sceptical of a mandatory buy-in regime, which we believe will do more harm than good."

Hill says ICMA will continue to make the arguments outlined in the January letter but adds that the recent COVID-19-fuelled market turmoil acts as a good case study of just how damaging a mandatory buy-in regime could be.

At the height of last month's volatility, the number of settlement fails spiked at the same time as market liquidity evaporated. If CSDR's rules had been in play, many failing parties would have found themselves forced to absorb heavy losses to make their counterpart whole, in a scenario that would have left both entities out of pocket.

Hill says: "The recent market turmoil should give regulators cause to consider the fragility of liquidity in stressed markets and to ask whether further measures to reduce market liquidity will be counterproductive."

"The recent crisis aside, settlement efficiency rates in Europe are around 96-98 percent, depending on the underlying asset class," he adds. "We would all like to move that into the 99-100 percent range, and measures such as cash penalties could help get us there. But you have to ask whether the costs to market efficiency and

transform|business

A range of apps that will transform
your securities finance business

2016 and 2017
Best Software Provider

www.tradingapps.com

J.P.Morgan

EXPERIENCE

One collateral platform to manage tri-party and margin

Optimized globally, across trades, assets and custodians

Delivered by a trusted partner

Put our experience to work.

Contact your J.P. Morgan representative to learn how we can help.
jpmorgan.com/securities-services

J.P. Morgan is a marketing name for the Security Services businesses of JPMorgan Chase Bank, N.A. and its affiliates worldwide.

JPMorgan Chase Bank, N.A. is regulated by the Office of the Comptroller of the Currency in the U.S.A., by the Prudential Regulation Authority in the U.K. and subject to regulation by the Financial Conduct Authority and to limited regulation by the Prudential Regulation Authority, as well as the regulations of the countries in which it or its affiliates undertake regulated activities. Details about the extent of our regulation by the Prudential Regulation Authority, or other applicable regulators are available from us on request.

The products and services described in this document are offered by JPMorgan Chase Bank, N.A. or its affiliates subject to applicable laws and regulations and service terms. Not all products and services are available in all locations. Eligibility for particular products and services will be determined by JPMorgan Chase Bank, N.A. and/or its affiliates.

© 2020 JPMorgan Chase & Co. All rights reserved.

liquidity resulting from a mandatory buy-in regime justify the incremental improvement we are working towards."

Moreover, the coronavirus factor has also scuppered the timetables of businesses and regulators alike with several regulatory frameworks pushed back to allow firms to make up for lost time during country lockdowns.

Hill suggests that CSDR may fall foul of this same problem, regardless of firm comments made today by ESMA or elsewhere.

SLT understands that other associations that were signatories of the January letter are also planning further lobbying activities and the group remains in regular contact on the matter but no joint activates are currently underway.

COVID-19 has further exposed defective regulations, says ISLA CEO

In light of the current market stresses, some regulations drafted to limit the risk exposures of funds and banks must be revised to avoid becoming yet another constraint on market liquidity, says the CEO of the International Securities Lending Association (ISLA).

Andrew Dyson has used his Reflections of the CEO blog to question whether rules limiting certain funds types from lending, such as UCITS, or the recent spate of short selling bans, are examples of regulators overstepping.

To the question of whether these rules have gone "too far", Dyson argues: "There is some evidence to suggest that in order to meet today's policy and economic aims, notably in a post-Brexit world, certain rules and regulations will need to be revisited."

The need to amend stringent rules around UCITS funds' ability to engage in securities lending has long been expounded by ISLA and other industry representatives.

Dyson further notes that the current liquidity crunch highlights the vital role that UCITS could play in easing that market stress if they were allowed.

"The absence of market liquidity that could come from UCITS funds through securities lending, will in our view be a material factor in limiting the success of the renewed efforts to develop a wider Capital Markets Union across Europe," he explains.

On the recent short selling bans, which first came in March across certain markets in Europe and Asia, and were renewed last week, ISLA's CEO argues that it is "crucial" that investors are able to trade freely in the best interests of their clients.

"In our view, banning short selling removes an important outlet for investors to express sentiment, hedge positions and add to efficient price discovery," Dyson adds.

His stance echoes the view of ISLA's Council for Sustainable Finance, which published its first position paper earlier this month that highlighted a significant body of research suggesting short selling bans do not achieve their aims and undermine market stability in the long term.

Turning to banks' ability to lend and share liquidity with one another, Dyson notes "there is no doubt that banks are better capitalised and able to withstand the on-going yet unprecedented events".

"However", he adds, "examined through a different lens, I believe aspects of the current regulatory agenda potentially look out of step with the needs of today's markets".

Unlock the potential of your portfolio

RBC Investor & Treasury Services' industry leading securities finance program helps our clients generate additional returns within an established risk management framework.

#1 Custodial lender globally
Global Investor / ISF 2019 Beneficial Owners Survey

To find out more, visit **rbcits.com.**

© Copyright Royal Bank of Canada 2019. RBC Investor & Treasury Services™ (RBC I&TS) is a global brand name and is part of Royal Bank of Canada. RBC I&TS operates primarily through the following companies: Royal Bank of Canada, RBC Investor Services Trust and RBC Investor Services Bank S.A., and their branches and affiliates. In Luxembourg, RBC Investor Services Bank S.A. is authorized, supervised and regulated by the Commission de Surveillance du Secteur Financier (CSSF), and jointly supervised by the European Central Bank (ECB). In the United Kingdom (UK), RBC I&TS operates through RBC Investor Services Trust, London Branch and Royal Bank of Canada, London Branch, authorized and regulated by the Office of the Superintendent of Financial Institutions of Canada. Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available on request. RBC I&TS UK also operates through RBC Europe Limited, authorized by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Additionally, RBC I&TS' trustee and depositary services are provided through RBC Investor Services Bank S.A., London Branch, authorized by the CSSF and ECB, and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available on request. RBC Investor Services Bank S.A. maintains a representative office supervised by the Federal Reserve Bank of New York. RBC Investor Services Trust (Australian Branch) is licensed and regulated by the Australian Securities and Investment Commission, Australian Financial Services licence number 295018. Details about the extent of our regulation by the Australian Securities and Investment Commission are available on request. RBC Investor Services Trust Singapore Limited is licensed by the Monetary Authority of Singapore (MAS) as a Licensed Trust Company under the Trust Companies Act and approved by MAS to act as a trustee of collective investment schemes authorized under S286 of the Securities and Futures Act. RBC Investor Services Trust Singapore Limited is also a Capital Markets Services Licence Holder issued by MAS under the Securities and Futures Act in connection with its activities of acting as a custodian. RBC Offshore Fund Managers Limited is regulated by the Guernsey Financial Services Commission in the conduct of investment business. Registered company number 8494. RBC Fund Administration (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of fund services and trust company business in Jersey. Registered company number 52624. RBC Investor Services Bank S.A. is a restricted license bank authorized by the Hong Kong Monetary Authority to carry on certain banking business in Hong Kong. RBC Investor Services Trust Hong Kong Limited is regulated by the Mandatory Provident Fund Schemes Authority as an approved trustee. Royal Bank of Canada, Hong Kong Branch, is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission. ® / ™ Trademarks of Royal Bank of Canada. Used under licence. This material provides information on the services and capabilities of RBC I&TS. It does not constitute an offer, invitation or inducement with respect to any service or financial instrument. RBC I&TS' services are only offered in the jurisdictions where they may be lawfully offered and are subject to the terms of applicable agreements. This material is for general information only and does not constitute financial, tax, legal or accounting advice, and should not be relied upon in that regard.

Dyson references the September repo rate spike last year which many argue was an extreme example of market events colliding with clumsy attempts by regulators to keep banks at arm's length, and resulted in banks unable to share vital liquidity over the third quarter-end.

The severe spike in the overnight repo rate in September 2019 roused the Federal Reserve to engage in large financing operations which it had only just started to step back from as the pandemic upended money markets once again.

Finally, Dyson used the blog to take aim at incoming regulatory frameworks such as the Central Securities Depositories Regulation's buy-in regime, due February 2021, which he describes as being "clunky at best".

He adds: "Whilst I note the aspirational direction of CSDR and understand the implementation of fines for failed trades as prudent and appropriate steps, I don't necessarily see other significant and incremental benefits for our markets."

EU repo market performed under pressure, report shows

European repo markets managed to weather the COVID-19 crisis relatively well despite several operational and technical challenges, according to data from the latest International Capital Market Association (ICMA) report.

ICMA says the market functioned "relatively well through the COVID-19 crisis so far, although this is in the face of a number of constraints, not least on banks' capacity to intermediate at a time of heightened demand, and which again highlights the dependence of market functioning on central bank intervention".

The association adds that the disruption in late February and March has also thrown out a number of technical and operational challenges, including collateral bottlenecks, increased settlement fails, and challenges managing intraday liquidity and collateral.

ICMA's European Repo and Collateral Council (ERCC) conducted a snap repo survey at

the end of March to ascertain changes in banks' balance sheets during the crisis, which gathered data from 22 participants, down from its usual 60+ respondents.

The data suggests that most larger banks did increase their balances through March, although many smaller banks simultaneously reduced their repo footprint, in some cases dramatically.

Banks further report that, in light of the heightened volatility, it was more a case of risk-weighted assets (RWA) limits becoming the binding constraint on business, rather than the leverage ratio, particularly for one-directional business flows (such as net borrowers of cash), ICMA says.

Meanwhile, buy-side participants reported increased reliance on the repo market as outflows drove the need to generate cash against holdings, as well as to meet margin calls against derivatives positions as volatility increased.

Buy-side data suggest that while they were successfully able to manage their liquidity through the early part of March this, unsurprisingly, became more challenging as banks reduced their repo capacity.

While collateral faced challenges due to limits on banks capacity, survey respondents also note that as market conditions worsened, lending securities became a "second-order priority" as they coped with more immediate demands.

This included sovereign wealth funds and central banks and therefore affected the supply of high-quality assets, as well as lower-grade securities.

Elsewhere, ICMA's report notes that the launch of the European Central Bank's Pandemic Emergency Purchase Programme (PEPP) on 18 March "marked the nadir of the crisis" and followed a record day of volumes for very short-dated German general collateral.

Andy Hill, senior director at ICMA and the report's author, says: "While we appear to be through the worst of the turbulence, it will be important to remain vigilant in monitoring how the market continues to perform, and how it

The Xconnect Factor

MAKING LIQUIDITY STACK UP

We have cash investors ready to finance your long inventory so give us a call... and come in from the cold.

+44 (0)207 866 0615 / 0616
www.xconnecttrading.com

Securities Finance Specialists

fulfills its multiple roles in underpinning the smooth function of the financial markets.”

ISDA releases IM survey

The International Swaps and Derivatives Association (ISDA) has released the results of its survey, which analyses the amount and type of initial margin (IM) and variation margin (VM) posted for non-cleared derivatives.

The need for IM has grown with the implementation of the Uncleared Margin Rules (UMR).

The last two UMR phases were recently delayed by 12 months and will now come into effect in September 2021 and September 2022 respectively.

ISDA found that the 20 largest market participants (phase-one firms) collected approximately $173.2 billion of IM for their non-cleared derivatives transactions at year-end 2019. This represents a 10 percent increase compared to the $157.9 billion of IM that phase-one firms collected at year-end 2018.

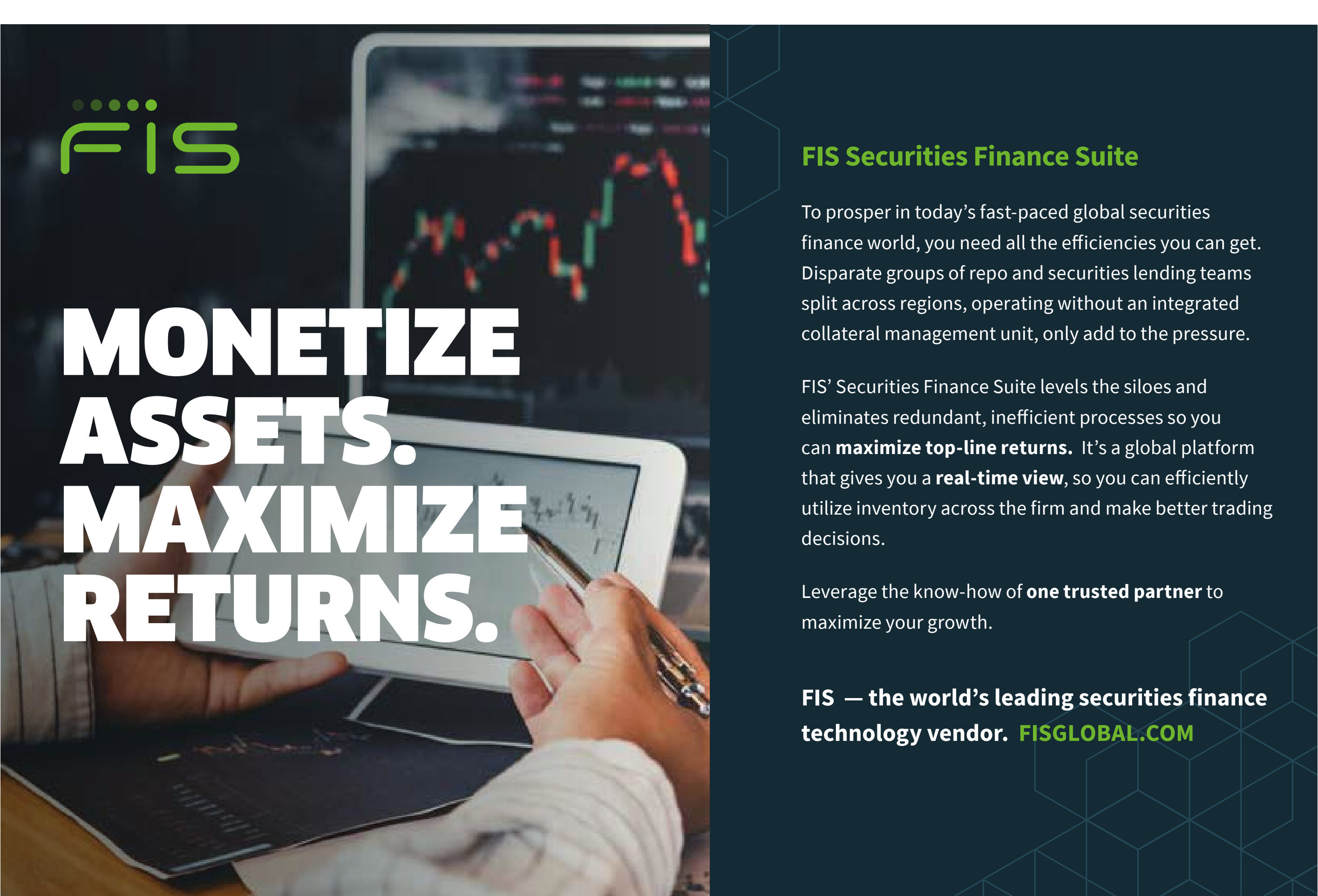
In total, the survey collected responses from 27 firms, including 20 phase-one, four phase-two and three phase-three firms, which collected about $183.7 billion of IM and $944.7 billion of VM at year-end 2019.

A further $68 billion of IM was collected from counterparties and for transactions that are not in-scope of the margin rules.

The amount of regulatory IM increased as margin rules for non-cleared derivatives have phased-in since September 2016.

The majority ($105.2 billion) of the IM collected by phase-one firms was required under global margin regulations and came from phase-one, phase-two, phase-three and phase-four firms currently in scope of the margin rules.

This represents an increase of 25 percent compared to the $83.8 billion of regulatory IM collected at year-end 2018.



Calls grow for SRD II delay

Eleven trade associations have jointly written to the European Commission requesting a 12-month delay to the timetable for implementing the second Shareholder Rights Directive (SRD II), currently scheduled to come into force in September.

SRD II will impact securities lending by changing corporate governance rules, including requiring asset managers to disclose to institutional investors their use of proxy advisors and their policy on securities lending to the regulator.

Under the new rules, any lent shares under a securities lending agreement would also have to be recalled for voting at general meetings.

Among SRD II's primary aims is to crack down on the misuse of voting rights, which have in the past been abused in several ways including via the borrowing of shares ahead of key corporate action dates to influence a company's voting results.

However, the associations say that prior concerns around their members' ability to meet this deadline have been compounded by the widespread disruption caused by the COVID-19 pandemic.

Consequently, they say it will be "difficult, or nearly impossible, to meet the implementation deadline of 3 September".

Among the bodies to sign the letter, which was sent last week, are the International Securities Lending Association, the Association for Financial Markets in Europe, and the Securities Market Practice Group.

The group explains that 12 months are needed "in order to ensure that the SRD II implementation does not coincide (with further adverse impacts on all stakeholders) with the highly active period of annual general meetings and dividend distributions".

The precedent for such action by EU regulators has been reinforced several times since the pandemic began including most recently with the Securities Financing Transaction Regulation, which was pushed back by three months due to pandemic-related disruption.

Transforming the world of Securities Finance.

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

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

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

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

Seb Malik
Head of financial law
Market FinReg

Cryptoassets are property

In a ground-breaking case with profound ramifications, the High Court of New Zealand (HC NZ) ruled this month that cryptoassets are legally considered property. Building on findings from B2C2 Ltd v Quoine Pte Ltd in the Singapore International Commercial Court in 2019, as well as lightly argued points from an English High Court case, the HC NZ considered all legal argument.

The heart of the HC NZ's argument was that cryptoassets fit the definition of property in common law, as discussed by Lord Wilberforce in the House of Lords in National Provincial Bank v Ainsworth 1965: 1) the asset must be definable – capable of being distinguished; 2) It must be identifiable by third parties; 3) the right or interest in question must be capable of being assumed by third parties; and 4) the asset must have some degree of permanence or stability.

Why is this judgement important? The lack of legal certainty concerning the nature and legal status of cryptoassets is preventing institutional investors from investing. Custody remains a huge concern – would investors get their money back if a custodian went bankrupt? If cryptoassets were legally termed property then they would fall under the ambit of property legislation with its rights in bankruptcy, the rights of liquidators on corporate insolvency not to mention their ability to be held on trust. If not, then investors would not have their cryptoassets segregated and would stand in line with other creditors according to their seniority. BNY Mellon stated in October 2018: "The lack of clarity in terms of regulatory categorisation of these assets and the potential for unforeseen regulatory action in relation to cryptocurrencies presents another challenge for custodians looking to develop a proposition in this market."

The UK Jurisdiction Taskforce's stated in November 2019: "[P] roprietary rights are of particular importance in an insolvency, where they generally have priority over claims by creditors, and when someone seeks to recover something that has been lost, stolen or unlawfully taken. They are also relevant to the questions of whether there can be a security interest in a cryptoasset and whether a cryptoasset can be held on trust."

In concluding, justice Gendall ruled that "cryptocurrencies…are a species of intangible personal property and clearly an identifiable thing of value".

His conclusion drew from, and agreed with, the Taskforce's assessment that "cryptoassets are therefore to be treated in principle as property".

The implications of such a ruling are many. Cryptoassets held at a custodian or exchange are held on trust – an express trust, and the exchange or custodian is a trustee with the investor the grantor.

Hence, in the event of bankruptcy, the crypto assets of the custodian or exchange will not be pooled and distributed to the line of creditors rather, the assets will be returned directly to the investors. In the event of fraud, on a pro-rata basis.

This court judgement and the Taskforce's authoritative 2019 report have set the legal groundwork for further refinement. They are essential reading for all involved in the sector.

I suspect well-capitalised custodians will welcome this ruling as the legal landscape clears. This year will be the year of a COVID-19-induced deep recession. But the turmoil will eventually end. In Q2 2021, I expect cryptoasset custodians to aggressively pitch to institutional investors for business. In the meanwhile they would do well to build out solutions.

Seb Malik
Head of financial law
Market FinReg

Are you ready to report for SFTR?

COME AND TALK TO US

www.regis-tr.com commercial@regis-tr.com

REGIS-TR is a leading European trade repository offering reporting services covering all the major European trade repository obligations. Our unique expertise in Securities Finance and Regulatory Reporting makes us the natural choice as your TR partner for SFTR. Scan the QR code to find out more …

Has the boat steadied in US securities lending?

Natalie Turner reports

As head of agency lending at BMO Global Asset Management, Christopher Kunkle shares his outlook and wisdom on the current US market upheaval and how the pandemic is affecting securities lending

The coronavirus pandemic has massively affected global stock markets, but how is it hitting securities lending businesses?

For the past couple of years, US equities and other financial activities in the US have been fairly robust and even overseas markets have been stable. Now, COVID-19 is hurting infrastructure and people's ability to work. It's damaging confidence in small-and-medium-sized-entities, and even large firms have had a massive impact on business in the US and globally.

From a securities lending perspective, the question is how this affects the ability to lend securities for agent lenders and their clients. At the same time, is the ability to borrow securities being undermined? A capital utilisation impact on a borrower will affect their needs and demands for financing and short coverage and other activities.

For the European stock markets specifically, this is happening right through the middle of the yield enhancement season and dividend season in Europe, which is approximately January through to May.

I think, for the most part, agent lenders' clients and borrowers are getting through this with a lot of communication. Borrower demand is down a bit as they are having to be careful from a capital perspective. This will affect lenders differently depending on what's in their portfolio. Some may be down significantly while others may be only slightly affected. I can't speak for every business in the country or in the world but the effects of the pandemic are across the board. It is affecting securities lending from the borrowing and the supply side.

For BMO, the areas we look at most importantly right now is liquidity in our reinvestments, which are holding up in addition to counterparty credit risk. I'm assuming some people have had tighter issues than others, but that's just an assumption.

For the most part, there hasn't been any mass default issues around borrowers. While some borrowers may be in rougher shape than others, most are getting through for their financing and demand needs.

I can't speak for Europe, but in the US things are pretty stable in the borrowing network. Demand for general collateral has been even further down since the middle of March.

At the beginning of the year there were plans for a busy regulatory schedule including potential changes to SEC Rule 15c3-3. What has the pandemic done to these plans?

In Europe, prior to the pandemic, there were a variety of regulatory efforts that the market was working diligently to meet, but many of those have been delayed.

In the US, we are proactively working towards equities as collateral in securities finance transaction. Equities as collateral is something that the Securities and Exchange Commission (SEC) has been reviewing working with the Risk Management Association (RMA) and SIFMA. However, the SEC has gone into a "high-priority item" methodology within the COVID-19 pandemic so 15c3-3 will probably not be reviewed during this timeframe.

A temporary repo facility was put in place by the Fed recently, do you think this will be effective?

I think it will keep knee-jerk reactions from occurring. The various facilities that are now in place help create liquidity and if an agent or short-term fund feels it's in a jam you have a place to get a fair price. Short term investment and funds are already benefiting from the facilities.

The US banks just got through Q1, how was that? Liquidity problems?

For the most part, from a securities lending point of view, we are getting through it fine, a couple of organisations that have affiliated money market funds unrelated to securities lending may have needed some support. Most banking operations get affected when rates go lower. It makes it harder for banks to earn revenue, trading revenue, transaction revenue, but the banks are fairly healthy and the Fed are putting in these facilities to help out where needed.

The US Fed has injected a lot of cash into the market to steady the boat, did that help?

It is steadying the boat, but the boat is still going to jibe left and jibe right periodically. The Fed's support helps the mentality of the general public and the traders, which avoids a knee-jerk reaction when they're nervous of something caused by coronavirus.

You had a period of time a few weeks ago, when people were uncomfortable with money markets. A couple of places have had to put restrictors on money markets, that's a knee jerk reaction, that's fear, that's what this pandemic is doing. The Federal stimulus creates facilities to mitigate these hysterical periods by keeping liquidity up at a fair price.

Comparing the coronavirus pandemic's effect on the market to the financial crisis in 2008, are we seeing a similar trend? What kind of recovery can we expect?

A lot of firms are in a much stronger place than they were in 2008. On the surface this is a health crisis, whereas 2008 was a credit/liquidity crisis.

There was one major default during that crisis and a few near misses. A lot of regulatory work has gone on since then to avoid a repeat of that situation and you're seeing the benefits of that work now as banks are being tested.

If the election goes ahead at the end of the year, how will it affect the markets?

I think the US has a Republican president who is seen as very business friendly, then you have a Democratic contender who's moderate, and not overly progressive. I think both of them are safe candidates for future business and stability.

Joe Biden is not ultra-progressive and will probably not scare Wall Street as he's more middle of the road. I believe that either candidate will continue institutional business in a somewhat stable manner.

The SEC has gone into a high-priority item methodology within the pandemic so 15c3-3 will probably not be reviewed

Christopher Kunkle

Securities lending Q1 results

Drew Nicol reports

In the wake of the COVID-19-fuelled disruption and volatility, the first of the Q1 revenue reports show that some did not escape unscathed

Data from IHS Markit shows 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.

It goes without say that all revenue figures come in the context of the intense market volatility and disruption brought on by the COVID-19 pandemic.

All regions saw a decline in equity revenue for Q1 and, notably, global lending revenue for March alone was down by 18 percent YoY.

- European equity revenues fell by 22 percent YoY in Q1 to total $282 million, the lowest take-home since Q3 2014.
- North American equity revenues came in at $884 million for Q1, a decline of 9 percent compared to Q4 2019.
- 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.

However, according to IHS Markit's Sam Pierson, the drivers behind this downturn was a complex combination of evolving borrower demand and spread incomes.

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

In this context, it's interesting that all bar one of the financial entities that reported securities lending data saw modest growth in revenue for the first quarter of 2020.

BlackRock

BlackRock's securities lending revenue for the first quarter of 2020 increased by 6.8 percent year-over-year.

The asset manager's lending business achieved $158 million in earnings for Q1, compared to 148 million during the same period last year. This represents BlackRock's best first-quarter revenue in several years.

Between 2013 – when BlackRock first started to report securities lending revenue individually from related services – and 2019, its average Q1 revenue was $132 million, with a low of $105 million in Q1 2014 and a high of $155 million in Q1 2018.

Earnings from securities lending in the last quarter were, however, down from the $169 million reported in Q4 2019.

BlackRock's lending business performance is also reporting alongside revenue from investment advisory, administration fees. The group's combined revenue was $3 billion, up from $2.8 billion in Q1 2019.

Overall revenue from fees for these services was also down compared to Q4 when the asset manager earned $3,089 million.

In its report for the quarter, BlackRock says the year-on-year growth for this services grouping was primarily driven by organic growth, the net positive impact of market beta and foreign exchange on average assets under management (AUM).

It adds that the earnings increase came despite the impact of recent market volatility, and the effect of one more day in the quarter, partially offset by strategic pricing changes to certain products.

Meanwhile, the quarter-to-quarter drop off was driven by the impact of lower average AUM related to recent market declines and the effect of one less day in the quarter, partially offset by the impact of organic growth, BlackRock adds.

Overall, BlackRock saw revenue increase 11 percent year-over-year driven by higher base fees and 34 percent growth in technology services revenue, reflecting the impact of the acquiring eFront, a financial services provider, and continued momentum in the growth of Aladdin, the flagship risk management platform managed by BlackRock Solutions.

BNY Mellon

BNY Mellon posted modest growth in its securities lending revenue for Q1, compared to the same period in 2019.

Revenue for the bank's agency lending business, which sits under its investment services business, came in at $46 million for the first three months of the year, up 5 percent from $44 million reported in Q1 2019.

Securities lending revenue for Q1 was also up 15 percent from Q4 2019.

BNY Mellon's agency lending business reported a market value of securities on-loan of $389 billion, up from $377 billion in Q1 2019 and $378 billion Q4 2019.

These on-loan figures do not include securities for which BNY Mellon acts as agent on behalf of CIBC Mellon clients, which represents $59 billion in Q1, down from $62 billion during the same period 2019.

Elsewhere, BNY Mellon's clearance and collateral management business saw earnings increase 9 percent in Q1, compared to the equivalent period in the year prior.

Revenue for the past quarter hit $300 million, up from $276 million in Q1 2019 and $280 million in Q4 2019.

In its report, BNY Mellon says both increases primarily reflect growth in collateral management and clearance volumes and higher net interest revenue.

Northern Trust

Northern Trust achieved a 3 percent bump in its securities lending revenue in Q1, compared to the same period last year.

The US bank reported earnings of $23.4 million from the first three months of 2020, up from $22.7 million in Q1 2019 and $22.6 million in Q4 2019.

Q1 marks Northern Trust's best quarter for securities lending revenue since Q1 2018 when it chalked up $26 million.

It is a return to form for the bank, which saw its securities lending revenue underperform mildly in 2019 in line with the overall market's lacklustre performance compared to 2018's bumper year.

Northern Trust averaged quarterly revenue of $21.8 million in 2019, compared to an average quarterly return of $25.5 million in 2018 and $24.1 million in 2017.

Securities lending sits under Northern Trust's Corporate and Institutional Services (C&IS) Trust, which offers asset servicing solutions to buy-side institutions.

In 2019, C&IS Trust, investment, and other services fees brought in $2.2 billion, of which securities lending earning represented 4 percent ($87.2 million).

The bank says annual securities lending revenue decreased $14.8 million, or 15 percent, from 2018 to 2019, as a result of lower spreads and loan volumes.

Meanwhile, Northern Trust reported $10.9 trillion assets under custody and administration for Q1 2020, representing a 10 percent decrease from Q4 2019's figure of $12.1 trillion.

Total fees from custody and fund administration were recorded at $394.9 million for Q1, down 1 percent from Q4 2019 but an increase of 5 percent in Q1 2019.

According to the Northern Trust, corporate and institutional services custody and fund administration fees decreased primarily due to unfavourable currency translation, partially offset by favourable lagged markets and new business.

State Street

State Street recorded its lowest quarterly securities finance revenue in six years for Q1.

The bank earned $92 million from its securities finance activities in the first three months for the year, marking the first time it has failed to break into triple digits since 2014.

Revenue for Q1 was down 22 percent compared to same period last year, which the bank says was due to lower spreads and enhanced custody balances.

Its first-quarter results were also down 17 percent on the $111 million it earned in Q4 2019 as a result of lower spreads and balances, the bank says.

In its first report for 2020, State Street explains that its securities finance revenue drop-off was due to, among other factors, the value of equity and fixed-income markets, market interest and foreign exchange rates, the volume of client transaction activity, competitive pressures in the investment servicing and asset management industries, and the timing of revenue recognition with respect to software and processing fee revenues.

State Street also attributed these factors to the negative growth in its Q1 revenue from servicing fees, management fees, trading fees.

The last time the Boston headquartered bank failed to earn at least $100 million from its securities financing business was Q3 2014 when fell just short with $99 million. In Q1 of the same year it only took home $85 million.

At the time the bank said the Q4 decline was due to a seasonal decline in securities finance and a summer slowdown in trading services. Meanwhile, its Q1 2014 revenue was actually up 20 percent from Q4 2013, which the bank attributed to new business in its enhanced custody business.

More broadly, the bank chalked up modest growth in its overall fee revenue for Q1. Despite being offset by the securities finance decline, total fee revenue hit $2,399 million in Q1, up from $2,368 million in Q4 2019 and $2,260 million in Q1 2019.

Setting out the stall

Gernot Schmidt
Product manager, director
SimCorp

In a second look at the SWIFT-based UTI exchange model, SimCorp details the results of its webinar with buy-side members on whether the solution might solve their needs for bilateral SFTs

With the SFTR go-live getting nearer, much discussion has taken place on how the buy-side can best navigate the path to compliance with the Securities Financing Transactions Regulation (SFTR). Data has formed one of the more significant challenges for the most part. However, while many firms have focused on the overwhelming 155 fields of data and figuring out the complex ISO 20022 format of the reporting, another equally important workflow has been left largely overshadowed until now. This workflow is, of course, the now much talked about handling and exchange of the Unique Transaction Identifier (UTI), which is still bamboozling investment firms and credit institutions.

While not in the majority rearview mirror, exchange of UTIs has been debated by pockets of the buy-side industry over the past two years, with much of the discussion centring around how counterparties to an SFT can efficiently exchange UTIs and with minimal effort. As UTIs need to be consistent across reporting on both sides of the transaction, they represent a bigger challenge then under the European Markets Infrastructure Regulation (EMIR), for good reason. The market for SFTs is more complex and fragmented than derivatives, with very little electronic trading which makes daily operations and exchange of information more difficult.

In a recent webinar held by SimCorp, with clients PGGM and Nykredit, where this topic was explored, two fundamental questions arose, in trying to tackle best practice: Who generates the UTI and how to exchange the UTI.

Who generates the UTI?

In considering who is responsible for creating these UTIs, whomever that party is, the UTI needs to be the same for both parties. The waterfall model proposed by the European Securities and Markets Authority is relatively clear, but the complexity lies in the implementation for bilateral SFTs. Without a venue or central counterparty involved as an intermediary, both parties to a bilateral SFT trade need to have an agreement in place on who generates the UTI and how it is shared with the other party.

This is the same rule as under EMIR, where buy-side firms typically agreed with their sell-side counterparties on who will generate the UTI. Ideally, similar agreements can be reached for SFTR, too. Still, it leaves the buy-side with the challenge of how to efficiently receive the UTI from their counterparty.

How to exchange the UTI?

SFTs such as repos and buy sell-backs comprise of multiple counterparties, using a variety of triparty vendors, and continue to be traded mostly manually, via chat or phone. This makes the communication and re-keying of long UTIs, error-prone and arduous at best, and creates operational risk such as the non-receipt of a UTI or delayed reporting, at worst.

Today, there are two options the buy-side are considering to counter electronic UTI exchange for SFTR but they come with significant costs and operational risks.

Exchanging .csv files by email

In the recent webinar, when we asked participants how their firms planned to exchange UTIs with counterparties, for bilateral SFT, the votes were split almost evenly between exchanging an individual UTI during trade execution by email (and/or chat and phone), and a combination of this, with the use of a dedicated UTI exchange platform. Although cheap, emails are difficult to automate at scale and require clear agreements between counterparties about the exchange format and timing. It also carries significant operational cost and burden, involving entirely manual processes for exception handling, especially if exchange formats cannot be unified across counterparties.

UTI exchange platforms

Several vendors are offering UTI exchange platforms, but connecting is laborious and unless access is sponsored by the sell-side counterparty, expensive too. The lack of integrated exception management workflows also carries additional costs and risks. Lastly, the market for these platforms is fragmented without interoperability, so one platform will only help to exchange a UTI with a subset of counterparties and not all.

There is another way…

There is, however, a third option which has emerged over the course of the last few months and that is exchanging UTIs, via an existing settlement infrastructure; SWIFT.

The Danish Bankers' Association, spearheaded by Nykredit, and the Danish central securities depository (CSD), VP Securities, have implemented a SWIFT workflow to exchange UTIs between counterparties, as part of the collateral settlement process. Indeed, the latest SWIFT release includes a dedicated field for the UTI, which would see the CSD pass this field on to the counterparties within SWIFT match confirmation messages, for the exchanged collateral.

This solution, though relatively unknown, proves attractive for buy-side firms, as it allows full automation of the UTI exchange at little extra cost. Many counterparties already have SWIFT settlement processes in place and this approach requires only minor changes to implement. When polled, 79 percent of the participants on the webinar, were in favour of learning more about UTI exchange via SWIFT settlement infrastructure.

Having delivered our clients a live, fully-automated and managed, SFTR cloud solution, five months before the SFTR go-live date, SimCorp and its Regulatory Center of Excellence, is committed to supporting operational efficiency within the buy-side community.

Having taken greater responsibility for regulatory compliance and maintenance, we are invested in our clients' ability to effectively integrate SFTR compliance into their operations, enabling them to focus on their core business.

As part of this commitment, we are confident that by promoting dialogue among relevant market participants, and with significant buy-side engagement, along with the involvement of counterparties and custodians, the SWIFT protocol will become market best practice.

We clear the path

OCC has the largest centrally-cleared stock loan offering in the world with approximately $80 billion in cleared loan balances. Over the last 25 years, OCC has built an innovative and unique U.S. program for securities lending transactions where OCC steps in as the counterparty (with a two percent risk weight) and guarantees the return of stock or collateral. We continue to enhance and expand access to our stock loan program in order to offer clearing solutions and capital efficiencies for our members and the entire securities finance industry.

As the world's largest equity derivatives clearinghouse, OCC is committed to providing market participants with high quality and efficient clearing, settlement and risk management services. As a Systemically Important Financial Market Utility, we work to enhance our resiliency in order to reduce systemic risk, increase market transparency, and provide capital and collateral efficiencies for the U.S. capital markets.

THE FOUNDATION
FOR SECURE
MARKETS

Upcoming Securities Finance Training

Securities Lending Fundamentals

Date: 28 April 2020
8.00 UK BST - 15.00 HKT
Location: Online
Provider: Consolo

This live on-line training course is designed for new entrants to the industry who require an overview of the securities lending transaction and process involved in execution

Repo Fundamentals

Date: 28 April 2020
17.00 UK BST - 12.00 EDT
Location: Online
Provider: Consolo

This live on-line training course is designed for new entrants to the industry who require an overview of the securities lending transaction and process involved in execution

Securities Lending Fundamentals

Date: 29 April 2020
17.00 UK BST - 12.00 EDT
Location: Online
Provider: Consolo

This live on-line training course is designed for new entrants to the industry who require an overview of the securities lending transaction and process involved in execution

Repo Fundamentals

Date: 29 April 2020
8.00 UK BST - 1500 HKT
Location: Online
Provider: Consolo

This live on-line training course is designed for new entrants to the industry who require an overview of the securities lending transaction and process involved in execution

events@securitieslendingtimes.com | find us on twitter @SLTimes_ #SFTS2020

Comings and goings at Citi, FIS, ED&F Man Capital Markets

Curation, a business risk-monitoring services provider, has appointed former managing director of ED&F Man Capital Markets, Victoria Foster, as head of sales with a focus on its new environmental, social and governance (ESG) risk monitoring platform.

Based in London, Foster's position on the executive curation board will primarily be on monitoring risk and opportunities within ESG.

At ED&F Man Capital Markets, Foster served as managing director for over seven-and-a-half years.

Before that, she was MF Global's desk head for equity finance for just over two years.

She also served for 13 years at Morgan Stanley as executive director between 1996 and 2009.

In September 2019, Curation launched its ESG risk-monitoring platform aimed at allowing senior business leaders to follow emerging risks and trends concerning ESG issues.

Speaking at the platform's unveiling, Curation CEO Nick Finegold said: "Our ESG risk-monitoring platform has been specifically designed to allow executives and their employees to effortlessly follow the opportunities and risks presented by climate change."

Also commenting at the time, Mark Lewis, global head of sustainability at BNP Paribas, added: "The curation platform is unlike anything I have seen in the ESG space. It's a unique combination of service and technology dedicated to helping corporates effortlessly map emerging environmental risk and opportunity."

Citi has appointed Yuki Tanoue to become its head of equity trading in Japan.

Tanoue assumed his new position in November 2019 and is managing these responsibilities alongside his role as co-head of prime finance and delta one, which he has held for three years.

Tanoue reports to Seiji Onoue, the bank's (interim) head of equity markets, and continues to report to Toshikatsu Furumi for his role as co-head of prime finance.

He serves alongside fellow co-head, Roland Rolfe.

Prior to joining Citi in 2017, Tanoue served as global prime finance delta one trader for Deutsche bank in just over nine years.

FIS appoints new US senior sales executive

FIS has appointed former-EquiLend sales associate director, Ann-Marie Pearce, to its US securities finance sales team.

Pearce will serve as a senior sales executive based in New York, with a focus on securities finance and collateral management.

She reports to Vladimir Fookson, senior vice president and head of sales for securities finance and processing.

Previously, Pearce was an associate director of sales at EquiLend from January 2017 until September 2019. Between then and starting at FIS, Pearce was not active in the industry.

To her new role, she also brings experience from positions with Jefferies, Fortis Bank (now part of BNP Paribas), ING and Nomura, which she held over a career of more than 20 years.

At FIS, Pearce will rejoin other ex-EquiLend staff including Jonathan Hodder, European head of sales for securities finance and collateral management, and Emmanuelle Charriere, who joined his sales team in February.

asset servicing times

Do you want to read more about post trade?

Read our sister publication
Asset Servicing Times
for all the latest custody,
fund administration
and regulatory news

www.assetservicingtimes.com