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Issue 252 12 May 2020

SFTR health check

With very little time remaining until the 13 July go-live, sell-side firms must use the breathing-space to complete their testing.

On Trend

John Kernan explains how REGIS-TR is using podcasts to interact with clients remotely and keep them up-to-date on market events

New Age

IG Group's Max Hayden discusses the launch of IG Prime, which aims to act as a challenger in the prime brokerage market

Malik's Memo

Seb Malik, of Market FinReg, reviews the market's concern at ESMA's proposal for new reporting rules for third-country firms

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Trading Apps welcomes fresh talent to begin anew

Trading Apps has completed an internal acquisition process as of Q1, thereby putting an end to speculation of an external sale.

The leadership team of Laura Allen as managing director, Stefan Bates as chief technology officer (CTO) and Matthew Phillips as head of delivery, have been joined by two new directors Ciaran O'Donnell (CFO) and Den Leonard, a newcomer to the sector who has taken up a position as executive chairman.

Leonard sold his business to a private equity investor 12 months ago and has been appointed to support the Trading Apps management team with the next chapter of the company's progression.

Meanwhile, Carol Kemm has been enticed out of retirement to join the firm as a consultant director to bring her considerable experience as a key figure at FIS Global One for 18 years, to bear on Trading Apps plans for expansion.

Kemm tells SLT that she is eager to apply her knowledge of middle and back-office functions in securities lending businesses from her time with Global One as well as her relationships with its customers. To this end, Kemm says she is able to "act as a bridge" between those areas and Trading Apps' well-developed front-end expertise.

Allen adds: "The engagement of Carol Kemm is a pivotal moment for Trading Apps. Carol brings a wealth of experience and a broad network which will strengthen our product and reach."

Following the sale of its agency securities finance business to BNY Mellon in December 2018, Trading Apps has focused on broadening its functionality and evolving its technical architecture.

The appointment of Kemm comes as part of this repositioning and Allen tells SLT that the firm has been working hard in the past year to create new functionality to improve clients' operations and connectivity.

Continued on page 6

Inside this issue

Latest News

06 **OCC to overhaul SBL infrastructure with DLT**

Malik's Memo

17 **ESMA's disproportionate approach**

Market FinReg's Seb Malik unpicks the concerns related to ESMA's proposal for new reporting rules for third-country firms

New Age

22 **Enter, IG Prime**

Max Hayden, IG's global head of prime brokerage, discusses the launch of IG Prime, which aims to act as a challenger in the prime brokerage market

Tick Tock

19 **SFTR health check**

Delta Capita, a firm that's been very active in the SFTR testing space with its industry-standard test pack, talks to SLT about how it helps securities finance firms and where the test pack might go next.

On Trend

24 **REGIS Radio**

John Kernan of REGIS-TR explains how his firm is using a weekly podcast to interact with clients remotely and keep them updated on the week's events

Buy-side Review

27 **CSDR is all about best practice**

Daniel Carpenter head of regulation at Meritsoft, discusses CSDR and ESMA's stance on the buy-in regime

Data Analysis

30 **Difficult choices in difficult times**

COVID-19 has been a wrecking ball smashing through carefully constructed economies. Now, governments have the unenviable task of picking up the pieces

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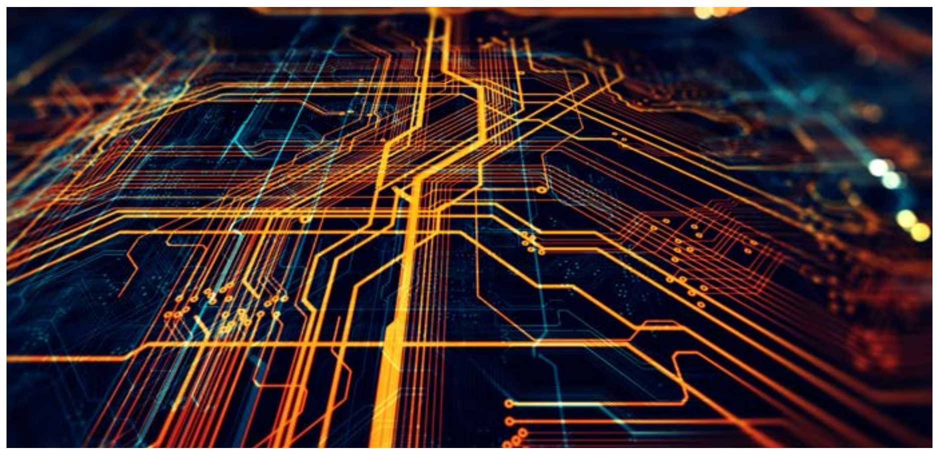

IHS Markit acquires Catena Technologies

IHS Markit has acquired Catena Technologies, a global regulatory trade reporting firm based in Singapore.

The acquisition marks a "logical extension" of IHS Markit's strategy to provide comprehensive solutions that enable its customers to fulfil global regulatory compliance needs, according to John Barneson, senior vice president and head of platforms and regulatory compliance at IHS Markit.

As part of IHS Markit, Catena will be able to offer customers a single-vendor solution that integrates transaction reporting with other post-trade and compliance workflows.

Catena's CEO, Aaron Hallmark, highlights that this capability will enable customers to streamline their trade-reporting processes, reduce costs, and focus on strategic initiatives.

Catena was founded by its chair Randall Duran in 2002 as a fintech consultancy and transformed to become a software-as-a-service (SaaS) provider of trade reporting solutions in 2014.

Its TRACE Reporting platform automates and manages trade reporting, providing cross-asset coverage, valuation and collateral reporting, and reconciliation, covering G20 jurisdictions including the second in Markets in Financial Instruments Directive reporting, among others.

Julian Chesser, head of Asia Pacific for MarkitSERV at IHS Markit, says: "The MarkitSERV team has been working closely with Catena for several years to help investment firms and banks overcome the numerous data and technology hurdles they face in trade reporting."

"Bringing the expertise and technology from Catena into MarkitSERV and our other compliance platforms will enable us to provide even more comprehensive and efficient trade reporting services to customers globally", Chesser adds.

IHS Markit's MarkitSERV provides end-to-end trade processing and workflow solutions that support all participants in over the counter trading from post-trade notices of execution, trade confirmation and allocations to clearing and reporting.

The financial impact of the transaction will be non-material on IHS Markit earnings or earnings guidance. Terms were not disclosed.

Trading Apps welcomes fresh talent to begin anew

Continued from page 3

There is a renewed sense of excitement within Trading Apps, having gained fresh investment, the firm says it will continue developing leading-edge software to provide bespoke solutions that set it apart from other vendors with "out-of-the-box" solutions.

Trading Apps is expected to make a series of further imminent announcements regarding key appointments and also technical developments that will make their solutions more accessible and attractive to any securities finance participant.

OCC to overhaul securities lending infrastructure with DLT system

OCC, the world's largest equity derivatives clearing organisation, has set its sights on becoming the first central counterparty (CCP) to fully leverage distributed ledger technology (DLT) for its securities lending clearing system.

The Chicago-based CCP is set to develop and implement a DLT solution to replace its ageing securities lending infrastructure with a "future-fit CCP securities lending model" as part of a radical overhaul of its entire technology infrastructure known as the Renaissance Initiative.

The system will be developed by Axoni, a New York-based technology firm that specialises in multi-party workflows and infrastructure, and build on its flagship distributed ledger protocol, AxCore. It is also slated to be hosted in the cloud.

For Axoni the project comes shortly after it went live with a platform that manages equity swap transactions for several leading sell-side and buy-side firms.

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The platform was developed as part of a collaborative effort with 15 major institutions from both sides of the street and it saw its first live trade processed between Citi and Goldman Sachs in February.

Ishan Singh, vice president of solutions at Axoni, says the new OCC project will be among the largest his firm has undertaken and marks its first foray into the securities lending market.

Development is slated to begin imminently with the eventual deployment set to be "rolled out in various phases," OCC says.

The vision of the initial roll-out is to establish a private, permissioned distributed ledger network for cleared securities lending transactions, governed by OCC, with the potential for peer nodes at clearing member firms.

OCC says this will enable participants to have a real time, accurate copy of contract and activity information, thereby reducing the need for manual reconciliation.

Matt Wolfe, OCC vice president, securities finance, says the solution will be "more modular and flexible" to allow OCC to introduce new products and services much more quickly in the future.

Clients will be able to connect to the ledger and have the transactions and contracts automatically synchronised to their system, as opposed to the more costly and error-prone paradigm of independent processing that exists today, he adds.

Wolfe tells SLT: "This innovative technology has a lot of potential to improve the accuracy, automation, and efficiency of client systems, so many CCPs are looking at DLT use cases.

"OCC believes that we will continue our leadership position by implementing the first large scale securities lending system using DLT."

User feedback

OCC worked with Axoni to develop a proof of concept system early in 2019.

This was demoed to more than two dozen industry participants from retail brokers to large agent lenders and the feedback from those presentations was "consistently positive".

OCC says that in an anonymised survey after the presentation, 70 percent of the respondents said that they were either "extremely likely" or "most likely" to adopt such a DLT solution.

Crucially, OCC will be introducing the new system in a way that is backwards compatible with legacy systems so that no firms will be forced to change.

"They will be able to migrate to the new technology on their own schedule, which helps to alleviate any reservations that clients may have," Wolfe explains.

ECB steps-up liquidity support with new operations

The European Central Bank (ECB) is set to conduct a series of seven additional longer-term refinancing operations, called pandemic emergency longer-term refinancing operations (PELTROs).

These operations, the bank says, will provide liquidity support to the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective backstop after the expiry of the bridge longer-term refinancing operations that have been conducted since March.

The first operation will be announced on 19 May, allotted on 20 May and settled on 21 May.

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The PELTROs will be conducted as fixed-rate tender procedures with full allotment.

Operations allotted on a near-monthly basis will mature in Q3 of 2021.

The interest rate will be 25 bps below the average rate applied in the Eurosystem's main refinancing operations (currently 0 percent) over the life of the respective PELTRO.

Counterparties participating in PELTROs will be able to benefit from the collateral easing measures than came in on 23 April and will remain in place until the end of September 2021.

ECB says the operations provide longer-term funding to counterparties with decreasing tenors, starting with a tenor of 16 months in the first operation and ending with a tenor of 8 months in the last operation.

The new operations appear to come as an alternative to expanding its €750 billion Pandemic Emergency Purchase Programme which the ECB has been resistant to inflate further.

However, the PELTRO option has its own drawbacks.

Andrew Hill, senior director at the International Capital Market Association explains that while the PELTROs should help to support short-term financing for the peripheries, it does not quite deliver when it comes to settling nerves about longer-term borrowing costs and sustainability, where an expansion of the PEPP would have been helpful.

"We should not forget that the ECB potentially still has the Outright Monetary Transactions (OMT) 'bazooka' in its arsenal, which allows it to do whatever it takes to support the eurozone," Hill explains. "While it will be reluctant to reach for it, and activating it may not be that straightforward, the longer the EU dawdles on its projected Recovery Fund, the more necessary it may become."

The new operations are only the latest adjustment to come from the control room of the ECB, as part of the central bank's efforts to keep liquidity steady amid the COVID-19 disruption.

In April the ECB offered a temporary reduction in capital requirements for market risk by allowing banks to adjust the supervisory component of these requirements.

AFME warns ESMA to not be overzealous in MiFIR reforms

The Association for Financial Markets in Europe (AFME) has responded to the European Securities and Markets Authority's (ESMA) consultation paper on the provision of investment services and activities in the EU by third-country firms under the second Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments (MiFIR).

The changes to MiFIR and MiFID II regimes include new reporting requirements from third-country firms on an annual basis in accordance with Article 46 of MiFIR, and also grants ESMA the power to ask third-country firms in its register to provide data relating to all orders and all transactions in the EU, whether on their own account or on behalf of a client, for in the past five years.

AFME explains that the equivalence framework should be proportionate in the requirements imposed on third-country firms so as to avoid discouraging firms from utilising the framework, to the detriment of EU professional investors and eligible counterparties and markets.

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According to the association, a well-calibrated equivalence framework is one which is proportionate in the requirements imposed on third-country firms, given that one of the purposes of the equivalence framework is to avoid the complexities of third-country firms seeking authorisation within the EU.

This will enable EU professional investors and eligible counterparties to access international capital and liquidity, investment and funding opportunities, AFME says.

"Not only is this complementary to the EU's objective to increase the size and capacity of capital markets through the Capital Markets Union, but it also allows for better prudential risk management and transmission of shocks across different regions through access to a greater pool of liquidity," it adds.

The current volatility in financial markets, caused by the global COVID-19 pandemic, further illustrates the importance of access to deep pools of liquidity across markets.

However, in its response, AFME suggested that ESMA's information requirements appear disproportionate not just in relation to the authority's tasks under MiFIR, but also in relation to the activities provided by relevant third-country firms.

"Many of the specific information requirements make no reference to an EU nexus and/or do not contain a materiality threshold, making compliance unduly onerous for third-country firms", AFME notes.

For further analysis of the proposal see Malik's Memo on page 17.

ISLA bolsters pledge GMSLA with new legal opinions

The International Securities Lending Association (ISLA) has released four additional bankruptcy remoteness opinions to support the collateral pledge version of its Global Master Securities Lending Agreement (GMSLA).

The GMSLA Security Interest over Collateral was first released in 2018 and can be used for securities lending transactions where the collateral is provided by way of security interest.

This is necessary for certain highly-regulated fund types to participate in securities lending such as UCITS.

The new opinions, provided by Freshfields Bruckhaus Deringer, assess the nature of the borrower's rights in the pledged collateral and the impact on those rights of the insolvency of the custodian and the lender.

The additional legal review was requested by the ISLA Legal Steering Group, chaired by Jamie Pullen of Bank of America, as confirmation of the bankruptcy remoteness of the posted collateral would benefit users of the agreement, the association explains.

The agreement and the new legal opinions are available to all ISLA members.

ISLA members can also access various supporting security agreements and legal opinions.

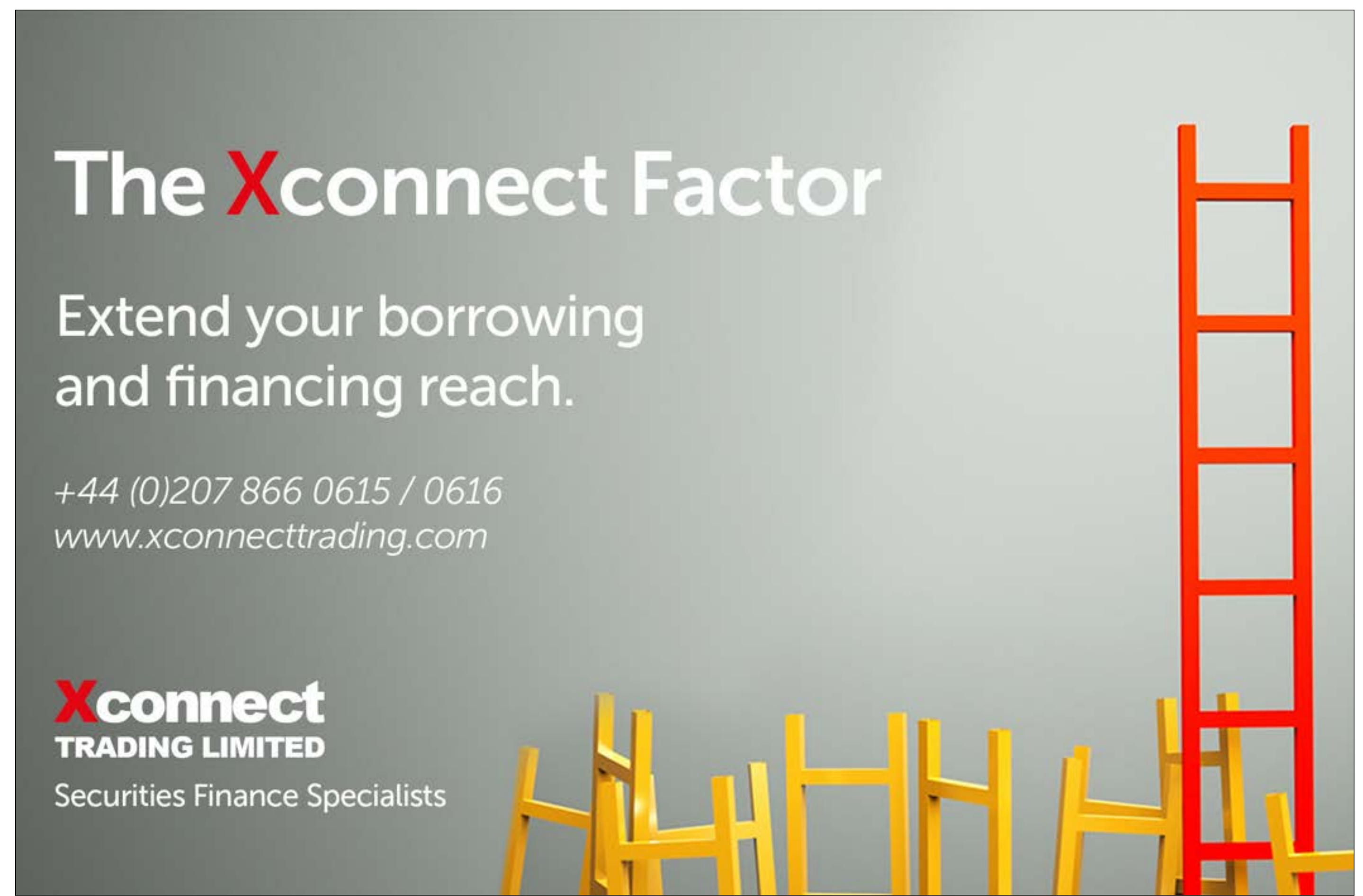
To view the supporting triparty control agreements, ISLA says that members need to contact their triparty business representative directly.

The triparty agents that ISLA has worked with are BNY Mellon, Clearstream, Euroclear and J.P. Morgan.

BIS: The rules are working but the war isn't over yet

The majority of post-crisis regulation may be in place and working, but now is no time to declare victory in the war on risk, warns the Bank of International Settlements (BIS).

In a new paper on post-crisis international financial regulatory reforms, BIS reviews how successful the regulatory frameworks that followed the 2008 financial crash have been at enhancing banks' and central



counterparties' (CCPs) ability to weather market shocks.

"The post-crisis regulatory reform package has unquestionably increased the shock-absorbing capacity of the financial system," the paper states. "By improving the quantity, quality and robustness of banks' required capital and by formulating integrated and stricter principles for CCPs, it has raised loss-absorbing resources for previously covered risks."

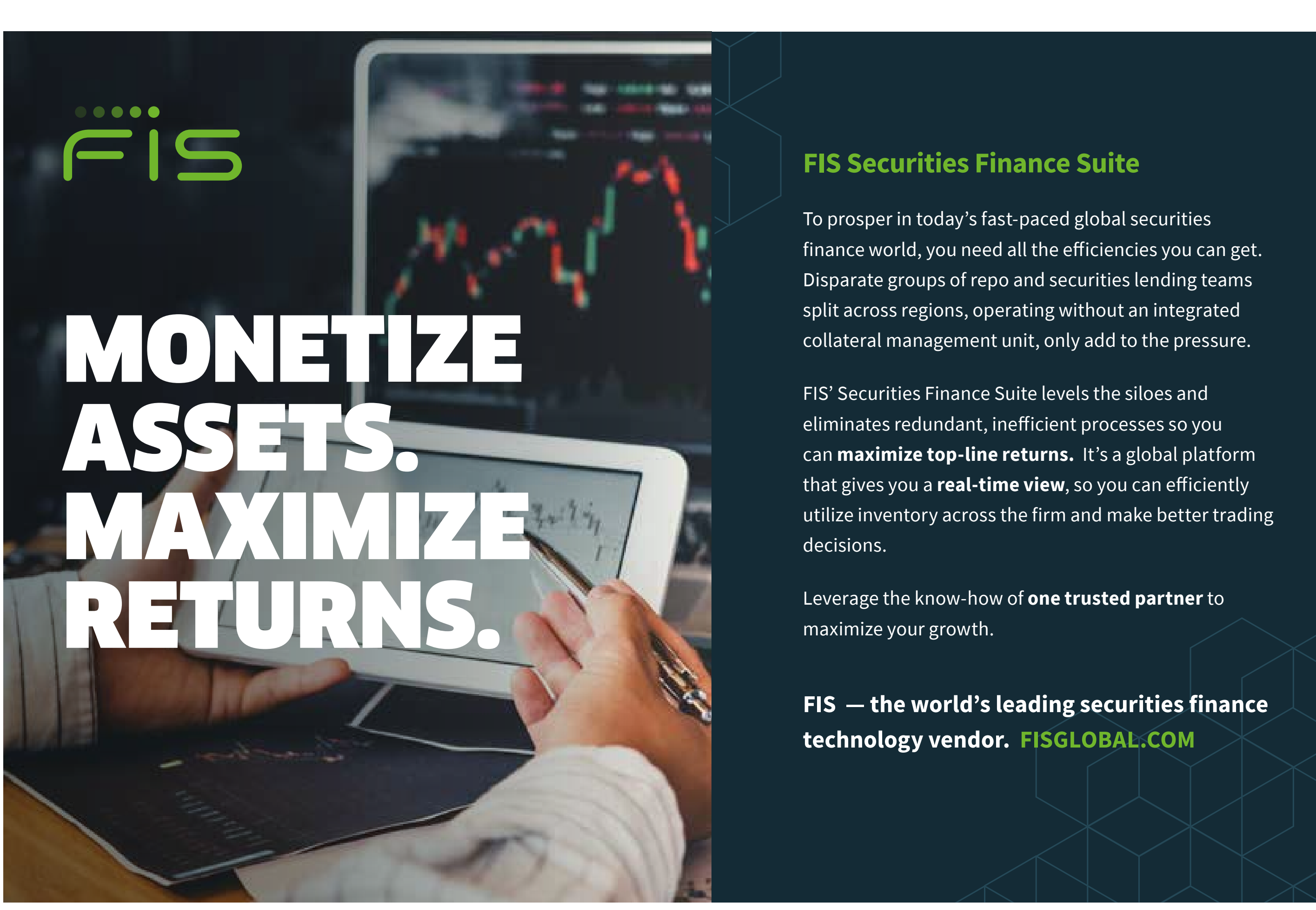
The report's authors go on to say that the consensus within the international regulatory and supervisory community is that the priority now is ensuring the final pieces of the puzzle are slotted into place, adding that stakeholders must not give in to growing calls for rules to be watered down.

"With the memory of the Great Financial Crisis fading, and after a long and exhausting deliberating process, the pressure to dilute the agreed standards has naturally grown. This is one reason why we have stressed the importance of maintaining a conservative approach to regulation."

The paper was published in April but was written before the COVID-19 pandemic hijacked the regulatory calendar and derailed multiple timetables for regulatory implementation, including Basel III – a key focus area for the authors – which was pushed back by a year.

The extreme market volatility caused by the virus has been an unwanted test of the very frameworks the paper reviewed, including the liquidity coverage ratio (LCR) and net stable funding ratio that came as part of Basel III's bundle of liquidity-enhancing reforms.

The International Capital Market Association declared in a report released last month that repo markets 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".



US money markets also muddled through under the circumstances, although this was in large part due to frequent and liberal injections of cash by the Federal Reserve throughout the troubled period, which included the first quarter-end of the year.

In both markets questions around how to wean financial institutions off their over-reliance on central banks during periods of volatility remain unanswered, although some form of re-writing of rules like LCR is widely touted as part of the solution.

More seeds to sow

The BIS paper concedes: "It would be imprudent to declare victory, even once the agreed implementation of the regulatory package is finalised. The new regulatory apparatus is not perfect; none can be."

Addressing this the paper highlights what it describes as "barren patches" in the regulatory forest, to denote areas that require further attention.

Chief among these foliage-challenged areas, according to the paper, is the lingering concern that banks and CCPs may overstate their capital strength by not correctly accounting for provisioning and charge-off practices, i.e. bad debts.

Moreover, the paper highlights the differential regulatory treatment of "functionally similar transactions", such as foreign exchange (FX) swaps and repos where accounting standards imply that swaps do not appear on balance sheets while repos do.

Owing to such differences in accounting treatment, regulatory standards treat the two transactions very differently despite their economic equivalence, the paper notes.

"Most notably, borrowing through swaps rather than through repos vastly reduces the capital requirement in the leverage ratio," the authors explain. "This inconsistent treatment can be a source of regulatory arbitrage, with banks seeking to lower their capital requirements by ramping up FX swap transactions without reducing risk-taking."

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ESMA's disproportionate approach

The European Securities and Markets Authority (ESMA) is consulting over its enhanced powers requiring third-country (non-EU) firms to provide large swatches of detailed data in order to maintain registration. Their consultation has been met with concern from the industry who fear the proposed regime is disproportionate thereby discouraging foreign firms to the ultimate detriment of the EU and its citizens.

Previously, non-EU firms had a legal right enshrined in the Markets in Financial Instruments Regulation to access professional clients per se in the EU market subject to three conditions: The commission had adopted an article 47 equivalence decision; the firm was authorised in its home country; and, ESMA had established cooperation agreements.

Once in place, ESMA's hands were tied. As long as the provided application form (detailed in the commission's delegated regulation) was completed, ESMA had to approve the application within 180 days and enter the firm in the register on their website.

But in November 2019, Regulation (EU) 2019/2033 made modifications that, in ESMA's estimation "include a significant reporting flow from third-country firms to ESMA".

ESMA has taken the already significant empowerments and used its discretion to adopt a maximum disclosure approach which risks collapsing the entire equivalence doctrine of the EU.

The EU's equivalence regime covers all aspects of EU law – not just financial services. It "brings benefits to both [EU and non-EU] parties". How?

"It allows authorities in the EU to rely on supervised entities' compliance with equivalent rules in a non-EU country; it reduces or even eliminates overlaps in compliance requirements for both EU and foreign market players…; it allows less burdensome prudential regime to apply to EU banks and other financial institutions with exposures in equivalent non-EU countries"

Hence, equivalence is a calculated, proportionate compromise. As long as third-country regimes are deemed broadly equivalent (thereby reducing regulatory arbitrage and ensuring standards), both EU firms can trade in the third-country and vice versa without having to register afresh and be subject to two broadly identical compliance regimes.

This is the philosophy, but it risks being undermined by an ill-considered piece of legislation and a regulator that, perhaps understandably (inevitably?) cannot resist arrogating maximum power for itself.

The breadth and detail of information ESMA is proposing to collate has spooked the industry. In the words of the Association for Financial Markets in Europe: "AFME considers that the information ESMA proposes to collate on registration is akin to that which would be required of firms seeking authorisation or establishing a branch within the EU."

I concur with their view that the proposed measures go beyond ESMA's legal mandate and "blur the lines of ESMA's, the European Commission's and third-country firms' local regulators' roles under the equivalence framework".

Those who have followed my work will recall how I enthusiastically backed the second Markets in Financial Instruments Directive in 2016 in divergence from the preponderant industry view.

But, ESMA's handling of SFTR and now these ill-considered incremental accretions of power, coupled with an underlying aloof, dismissive attitude towards smaller firms (despite the commission's repeated policy statements to support small and medium enterprises) leave me worried as to ESMA's direction of travel and that of the greater European project.

The UK was always seen as a moderating influence on some of the EU's eccentricities. The UK, perhaps by habit, was suspicious of huge behemoths. With the departure of the UK, EU member states must guard against the accretion of power by unelected agencies.

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SFTR health check

Delta Capita, a firm that's been very active in the SFTR testing space with its industry-standard test pack, talks to SLT about how it helps securities finance firms and where the test pack might go next.

With very little time remaining until the delayed SFTR go-live on 13 July, sell-side firms have some welcome breathing-space to complete their testing.

As a well-known stock loan trader-turned-consultant, why are stock borrow/loan trades so complicated to report?

Jonathan Adams: It is safe to say that a number of securities finance participants that were due to start transaction reporting in April breathed a sigh of relief when the first Securities Financing Transaction Regulation (SFTR) deadline was extended. Why? SFTR is by far the most complex and intricate of all the reporting regimes by virtue of the trade types caught by the regulation. Market participants have to report and match lifecycle events throughout the life of trade. A trade that matched with the counterparty's submission to the trade repository on day one can fail to match on subsequent days over its lifetime. High-quality reporting relies on the technology of both submitting firms to ensure synchrony of their data.

Additionally, the phased compliance dates means that non-reporting participants must provide unique transaction identifiers (UTIs), legal entity identifiers (LEI) and allocations if securities are loaned via an agent lender. Even within an agency lending programme firms have different compliance dates. The combination of principal lending and agency lending by the same organisation complicates matters further.

The testing process must coordinate multiple projects, spanning the market participant, their reporting vendor(s) and their selected trade repository; all three must interoperate.

Whilst there is considerable expertise within the professional market participants, their low volume clients and counterparties may have underestimated this complexity. Some firms such as savings organisations and European corporates with banking entities are managing term multi-collateral trades on spreadsheets and are only now engaging the trade repositories for solutions.

No wonder you got out of trading to become a consultant! David, tell us about the consortium you created.

David Field: We first came up with the consortium idea back in 2018. We had done several SFTR solution design projects advising banks on business impact and vendor selection, that sort of thing. We realised each firm's SFTR roadmap had similar chunks of work that wouldn't be competitively sensitive, so we wondered if there was a smart way to mutualise costs. We tested the idea with a consortium of tier one banks and big agent lenders and they liked the idea of sharing costs to create an industry standard test pack.

SFTR test pack consortium: shared vision, shared costs

As Jon described, securities financing can be pretty complicated when you get into detail, so we needed a comprehensive test pack that firms could use across different business lines such as prime services, securities financing, agency lending and asset management.

We set about creating an automated test data generator (our creative naming department called it "TDG") so we could feed in any particular bank's business mix, whether they are a lender, a borrower, an agent, along with the products they trade, how they collateralise, whether they use triparties, and how they plan to use vendors for UTI communication or reporting delegation. It turned out to be way more complicated than we originally imagined and the full industry test pack superset now contains 64 different trading scenarios, 197 trade types and 55 securities lending life-cycle events. So we reckon we can cater for most firms! Obviously, each firm only wants test data relevant to them, so the TDG filters to deliver a test pack to each firm containing only relevant test cases.

Test landscape: a sophisticated solution for a complex problem

Each test pack contains the test trades and reference data a firm needs for its user acceptance testing (UAT), along with the expected results it should be getting out of its application stack. We worked closely with DTCC to generate trade repository (TR)-ready ISO 20022 expected results, repeatedly validated until ultimately we reached "zero NACK nirvana". This gives firms a well-structured approach to their UAT, providing "safety in numbers" confidence in the quality and completeness of their testing.

We also wanted to provide full regulatory traceability so we built on our securities finance process and data models to suck in 30 different documents including regulatory technical standards/implementing technical standards, the International Capital Market Association and the International Securities Lending Association best practices, the European Securities and Markets Authority (ESMA) guidelines and ISO standards. All told we analysed over 1500 pages of pretty dense regulatory text and linked every test case to the relevant paragraphs. That gives firms a fantastic resource for proving and auditing test completeness.

Along the way we developed our own 'Report Investigator' tooling for investigating TR NACKs which can be hard to understand as they're in XML, and we supply that tooling with the test pack. We can now support bilateral industry testing by providing mirror trade test packs so two counterparts can structure testing with each other all the way through to the TR.

That sounds like it was a lot of work! Does it all come to an end on 13 July?

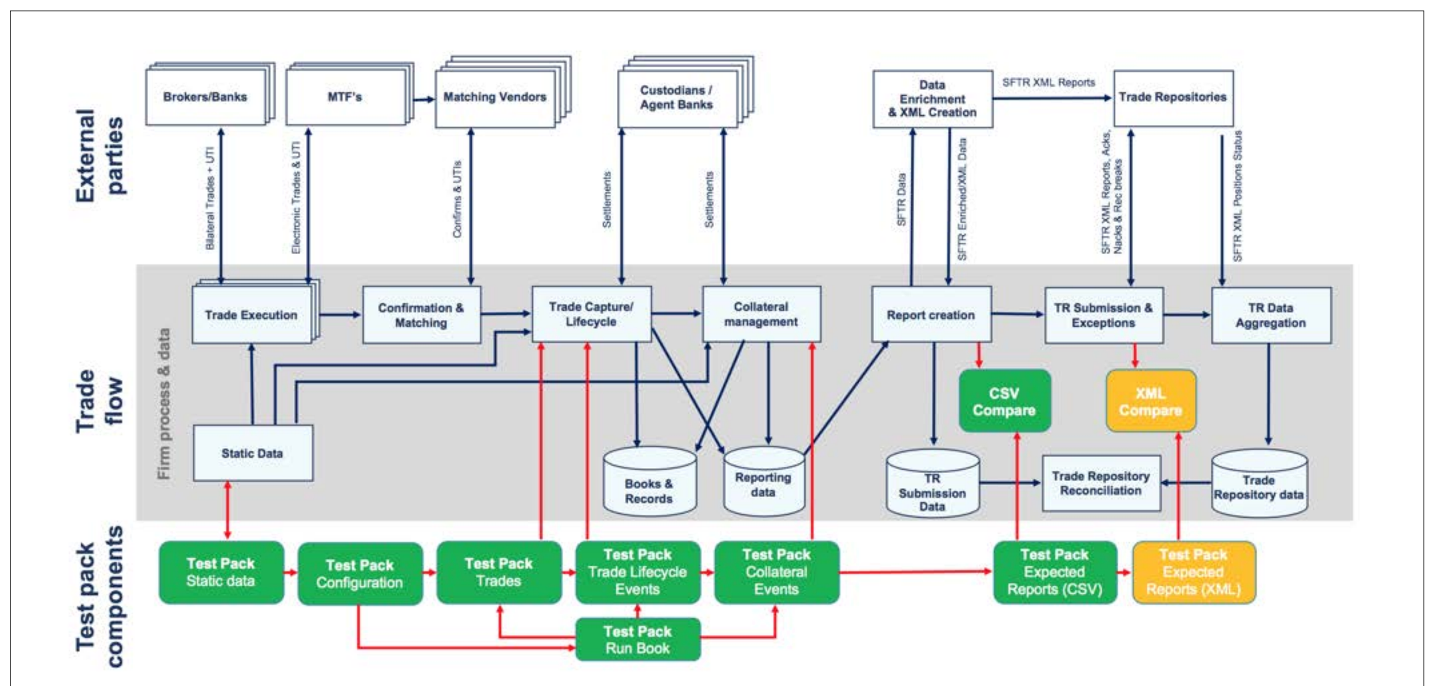
Julian Eyre: Indeed. The sell side should now be focusing on completeness, timeliness and accuracy in time for go live in July; particularly through testing with counterparts and vendors. Delta Capita can help banks with bilateral testing by providing mirror-test packs so parties can test with vendors and TRs simultaneously and consistently, making it much easier to diagnose defects.

But testing doesn't end in July. Attention is now turning to the buy side who start reporting in October. The buy side might have less complexity as many outsource securities lending transactions to an agent lender, but most still need to report repos.

As reporting matures, we anticipate that more edge cases - infrequent trade or event types – will come into focus. Then, 24 months after initial go-live a number of reporting fields will suddenly start being reconciled at the TRs, such as the general collateral indicator field, the SBL loan value field, and attributes like minimum notice period and earliest call back date. This could result in lots of new breaks. Plus, we can reasonably anticipate amendments to the regulation as ESMA and national competent authorities learn from the initial SFTR experience.

Ongoing regulatory changes need to be managed to ensure continuous compliance. We expect market participants to increasingly seek to reduce cost by engaging external service providers where there is no advantage to keeping activities in-house. The ongoing compliance requirements for SFTR are a good example. We have designed a Continuous Compliance Service based on our standard test pack to help align the industry through a controlled and transparent regression test strategy.

The collaborative SFTR consortium-led approach worked well and has really set an industry precedent. We believe there is a real opportunity to deliver similar benefits through consortium collaboration on the update to the European Market Infrastructure Regulation, known as EMIR Refit, and other future regulations, building on our award-winning Traceability Model and automated Test Data Generator.



Enter, IG Prime

Max Hayden, global head of prime brokerage at IG Group, discusses the launch of IG Prime, which aims to act as a challenger in the prime brokerage market

Drew Nicol reports

How has the prime brokerage space evolved since the 2008 financial crisis?

Following the crisis, all the major players in the prime brokerage space had to re-evaluate their businesses in order to regain market share. It was during this time that the tier one investment banks realised the true cost of offering these services and extending leverage. From that analysis, they became more precise in their understanding of the value of certain accounts and business lines, when compared to other areas of the firm.

This opened the door to a series of new entrants to come in, being banks which were not historically focussed upon this sector, as well as new enterprises, which became known as the mini prime community. Mini primes operate by effectively intermediating on another prime brokers' services to smaller hedge funds, or hedge funds that are finding it difficult to get access to certain products due to their size or their ability to meet certain revenue levels.

That was a very successful model for some firms and started to gain traction around 2012. Now, we are moving into the next stage of the evolution of this industry which is the response to a perceived void that has arisen between the tier one investment bank community that provide prime and everyone else.

The mini primes created a service that was desperately needed after the financial crisis, but their very nature means that they encounter

the same regulatory requirements from a capital perspective as the larger firms. Over time this has proved to be an equivalently expensive business for them and the introspective review of what's needed to participate in this market from a capital strength perspective is starting to reveal itself. This is why we have seen some firms consider their future in this space.

The point we are at in the cycle presents an opportunity for a firm like IG and others, which have financial robustness, a large workforce and global reach, to step into the gap others leave.

The void that is being forged between smaller clients and the big hedge fund constructs is a natural fit for firms like us that can go in either direction of the midpoint but also have what is needed to participate in a financing/prime style set of business activities.

Where does IG Prime fit into this new prime brokerage market landscape of bulge bracket primes and mini primes?

At IG we don't consider ourselves as a mini prime, although that's an area we can compete in. Mini primes predominantly access the balance sheet of larger prime brokers to fund their business services, which isn't something IG needs to do, as we are a FTSE 250 company with a multi-billion dollar market cap.

We want to position ourselves as a firm that's convenient and efficient to interact with by leveraging our fintech lineage but also, from a financial perspective, we want to be seen as very robust and credible.

In response to the greater demand for synthetic financing compared to traditional cash prime brokerage, we decided at IG to launch our initial products and services as a synthetic prime broker, which we believe proves to be more flexible for our current and targeted clients. This strategy is supported by a number of established firms investing in their own swap platforms to take advantage of this market pressure.

What is IG Prime's offering?

When you come on board as a client you get two accounts. The first is a trading account and that is a synthetic prime solution. With that, you get real-time margin calculations, the ability to trade via voice, with direct market access, etc. It is multi-asset, so you get equities and indices, foreign exchange, listed derivatives, crypto, and commodities all in one account, long and short. Alongside that, we provide a safe custody to hold physical positions if you don't want them financed and the value of these holdings can serve as collateral to cover your synthetic margin requirements. So you can optimise your pool of investments form a capital perspective.

And IG is mainly targeting hedge funds and family offices?

From an international perspective, the hedge fund industry is now mainstream in the way that the major institutions invest. The barriers to entry apply to both a massive alternative fund construct or a small new entrant, with the product demands becoming quite similar across the range.

Due to our retail businesses, we are very familiar with how to support clients which require high-end, high-touch and personalised relationships, which in turn lends itself to supporting family offices. The family office community is gradually moving into a space where the product demands are similar to that of the hedge fund sector and also IG's execution products also sit very nicely with how the proprietary trading firms are evolving and what they require of their service suppliers.

We believe that smaller hedge funds, proprietary trading firms and family offices would prefer to start a relationship with a prime broker, which has the ability to not only develop new products as they evolve but also to have an extensive offering from the get-go.

So is this the best time or the worst time to launch a new PB product suite?

The IG ExCO team challenged the prime brokerage business with this very question. We concluded that it's a very good time to launch because going back to the financial crisis, there were countless examples of clients transferring between prime brokers, either voluntarily or involuntarily.

We want to be viewed as an organisation which is there for clients in difficult times, both reliable and willing to develop our product and accommodate customers when the markets are volatile and uncertain.

REGIS radio

Drew Nicol reports

John Kernan of REGIS-TR explains how his firm is using a weekly podcast to interact with clients remotely and keep them updated on the week's events from SFTR to the Premier League

Among other things, you are responsible for business development at REGIS-TR. Traditionally, that involves a high degree of personal interaction. How are you managing to keep close to your clients during this time of social distancing?

There are a number of elements to this. Firstly, our customer service and client relationship management teams are all working remotely and are all contactable as if we were in a business-as-normal situation. The relationship management team are putting aside a couple of hours a day to go through their client lists and call each of their clients to touch base.

Then, we have always valued social media as a highly-effective tool for building virtual communities. Since we launched our corporate LinkedIn account, we have published a stream of thought leadership blogs and other useful information. We built out our REGIS-TR social media following organically from zero to the 1,300 followers we have today. It might not be the biggest number in the world, but we are in a niche space and our following is very relevant and engaged. So, we already have the foundations to be able to build upon and use this channel to distribute useful tools and information for our clients.

For example, last month, through our LinkedIn page, we distributed a video training guide for our Securities Financing Transactions Regulation user interface. This was produced in 'chapters' and

so can easily be used as a practical tool and can be consumed at home at our clients' leisure. We will also be releasing versions in multiple European languages shortly, to stay true to our international client base.

Also, especially at this time of year, we would be participating in industry conferences and events, giving speeches, speaking on panels and – most valuably of all – just talking with our clients over a coffee at our exhibition stand. We really wanted to maintain this relationship with our community, even more so during this time. To fill this gap, we recently launched a podcast, so that we can keep the conversation flowing and stay engaged with our network. Ideally, we would have taken more time refining the format and content but the self-isolation presented the perfect time for us to take the leap and deliver this new format to our customers, the REGIS-TR RoundUp weekly podcast.

In summary, we recognise that communication is critical and we are trying to leverage as many channels and tools as possible to provide information to our customers in a manner which can be easily consumed remotely.

Is it difficult to keep what can be a dry subject interesting? Does it lend itself well to the podcast format?

We want this to be relevant and informative but also authentic and easy to listen to. I tend to think of it this way, I listen to a lot of football podcasts. I don't really subscribe to the ones that go into heavy tactical detail. I am interested in that, but I tend to consume that information in written format. My favourite football podcasts are the ones that make me feel like I am back in London, down the pub with my friends, discussing the game over a pint. In essence, the ones that make you feel like you, the listener, are part of a community.

We wanted our podcast to replicate the chats we have with customers outside of the confines of a meeting, i.e. professional, but also light-hearted and relatively informal. That's why my production team are reasonably relaxed in the edit and why we don't cut all of the 'off-piste' chat. For what we are looking to achieve by this, and by sticking to a 15-minute length, I think the podcast format lends itself very well to the subject. After all, podcasting is really just talking.

I read somewhere this week that Amazon is out of stock of microphones due to high demands from people taking home office as a chance to launch either a personal or professional podcast. So we must be on-trend!

So what can we expect to hear in future REGIS-TR RoundUps?

We will continue with regular features giving feedback on trending client queries, SFTR, BREXIT, EMIR Refit and so on. We will look to involve more external expertise, as we did with Dario Crispini, CEO of Kaizen Reporting, who appeared on our fourth episode. We have a weekly editorial meeting every Wednesday to discuss what has caught our eye, what could be interesting for our customers. We might also use the channel to produce some 'virtual panels' to discuss key reporting topics.

And, how do you plan to extend your audience?

We take the view that if we are able to provide relevant content in an interesting manner then our audience will grow organically. We're pretty relaxed about it. We've been going for four weeks now and we are pleased with the number of downloads, and the feedback we received has been positive.

Of course, we've done some promotion through our own and our group's social media channels. We've also agreed for our podcast to be hosted on the SLT website and, in less than a week, we got 200 downloads through this, so that's hugely encouraging.

The pod is available through Apple, Spotify and most other major platforms and so is widely and easily accessible.

Will you continue with the format once self-isolation finishes and we are all back in the office?

Yes, for sure. I listen to a lot of podcasts doing my daily commute. I also think that it's great to have a mix of different channels and formats in our communication portfolio. I am looking forward to recording some features with the industry when – at some point in the future – we are back at conferences. Maybe even the rescheduled SLT Symposium in September.

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Why the CSDR buy-in regime is all about best practice

Daniel Carpenter, head of regulation at Meritsoft, a Cognizant company, discusses the challenges of CSDR and ESMA's stance on the buy-in regime

Natalie Turner reports

In a joint letter sent to the ESMA in January, a collection of trade associations asked for a phased-in approach to CSDR as well as a deferral of mandatory buy-ins. Following the most recent announcements, what will different houses have to prepare for ahead of the February 2021 deadline?

Institutions have been aware of the Central Securities Depositories Regulation (CSDR) for many years. A lot of houses were initially resistant to the penalties but accepted them later down the line, agreeing that perhaps penalties were acceptable and that there was a reason for having a settlement discipline that enabled transparency. This would introduce a process that discourages people from not settling their securities transactions on time.

This means that projects that had been put on hold have had their delivery schedule revised for the February 2021 deadline. Market participants must now deliver their own penalty processing projects. As this stand, there is an acceptance that market participants are moving forward with this.

Houses also now have to deal with the buy-in aspect of this legislation. Buy-ins involve a more complicated process than penalties. There is potentially more risk associated with Buy-ins which require more external processing and communication.

Further definition of the requirements and associated clarity in certain areas of this element of the legislation is still needed. As things stand, there is only one company that has declared itself as a buy-in agent. This begs the question of whether other players will enter the market as alternative buy-in agents for the industry.

With more projects to run and more regulatory delivery requirements, houses need a system that bridges those penalty processing and communication needs through to buy-in completion. In addition, they also need a fail-safe management system. Most houses, amid the current crisis, have to be ready for CSDR by December this year. We are now in May, so if houses have not defined their requirements yet, and started their projects, they do not have long to meet this target deadline.

With concerns expressed over the impact CSDR will have on liquidity and market prices, what can the various houses do to potentially mitigate any such impact?

With houses both buying and selling, they have two goals: they have a commitment to deliver cash or deliver both stocks and cash, and therefore, also have a binding transaction to complete.

Houses should take a holistic view at both their receivables and their payables especially those that are going to fall within the CSDR regime (the European process side). In this situation it is likely that, if houses feed all transactions into a single fails system, they should be able to predict and communicate the outcomes for tomorrow to minimise failed trades and associated costs.

CSDR specifically defines different rules for how to treat illiquid and liquid securities. Typically, market participants are less worried about the liquid

securities. After all, the more liquid the security, the easier it is to transact. However, illiquid securities are the real concern. There may only be one or two houses that source securities that trade infrequently. As a result, sourcing a buy-in will be limited and consequently risk falling foul of Best Execution rules.

The CSDR buy-in provisions are due to come into force from 1 February 2021. Do you think the pandemic will have any impact on this?

It does not look likely the date will change with regards to buy-ins as the European Securities and Markets Authority (ESMA) made its announcement during the pandemic.

ESMA knew what was happening when it made the announcement a couple of weeks ago, but still confirmed the deadline. Based upon our current engagements and projects we are delivering; market participants are anticipating no change in dates and must plan towards the deadline of 1 February.

The chair of ESMA recently stated that, despite industry concerns, no amendments will be made to the settlement discipline regime until after the go live date. What does this mean for market participants?

In my experience, regulations change both during initial phases and post introduction. Regardless, at the outset, houses will be looking at buying or building a solution or process that can handle the regulation as it stands today. They will also be looking to ensure that the external or internal partner they are working with has the flexibility to change their system or solution, as necessary.

Houses will be looking for some form of contractual commitment from their vendor that demonstrates an understanding that houses are delivering a solution for which requirements may change. By going with a vendor, houses get certainty that they are obtaining one solution for the whole of the market.

Crucially, the solution will be future-proofed and will be supported and developed by leveraging multiple business input and rule interpretations, as well as the vendor's own expertise. This will provide houses with the certainty that they are partnering with vendors who will provide them with security.

Will the new CSDR take away incentives to lend securities in securities lending and repo markets?

From a technical perspective, having transparency over what houses do and do not have will enable them to make decisions about what to do next.

Each house will evaluate its own lending position and approach based on its business practices, as well as its own liquidity needs. I do not envisage that securities lending or repo activities are going to stop as, for many houses, this is a core part of their business practice.

They will need better technology and processes to not only help minimise risk, but to identify persistently failing counterparties. Stronger technology and processes can also prevent houses from having to borrow stock to cover their own fails.

Given the concerns that have been raised around CSDR, do you foresee the UK making any amendments that brings it into UK law when Brexit is complete?

CSDR is an EU regulation. If you are trading in the UK, or in any country in the world, and it is going through and settling in a European security, you must comply with the regulations of that jurisdiction. CSDR is just one of many extraterritorial rules being introduced globally.

If the UK goes ahead, I do not envisage it is going to request any changes to CSDR, as it is an introduction of a practice improvement to protect parties and deter malpractice. The UK is a key player in the global capital markets and has been part of the designing of this legislation.

It is, therefore, unlikely the UK stance will change. As recently seen in response to another EU rule SFTR, the Treasury will allow trade repositories to register in the UK at the conclusion of the transition period. The UK may take a similar stance when it comes to CSDR.

Why won't ESMA change CSDR after the industry has requested it?

CSDR has been introduced because of best practice. ESMA is encouraging best practice so that market participants are prepared carry out their work on time. The authority is trying to level the playing field and balance the books for all market participants.

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Difficult choices in difficult times

David Lewis
Senior vice president
FIS, Astec Analytics

COVID-19 acted as a wrecking ball smashing through carefully constructed economies. Now, governments have the unenviable task of picking up the pieces. But, who should be saved?

There are countless examples of the conundrum where the challenge is to save everyone, but you have limited resources to achieve it. There are three people in a crashing plane but only two parachutes or a sinking ship without enough lifejackets. Or a global economy without enough cash.

The current crisis, brought about by the outbreak of a novel virus, has created almost unimaginable personal difficulties across the entire world, seemingly irrespective of education, wealth or location. These unprecedented problems have confronted the world's politicians and leaders with issues they would not have dreamt of, perhaps even six months ago. The differences in responses and approaches across the world are stark, but one common thread may be apparent: when resources are finite, which parts of your economy do you save?

In the financial crisis of 2007 and the years that followed, the term GSIFI – or Global Systemically Important Financial Institution – was born. When the financial system was under threat of collapse, providing financial support for a handful of the central counterparties to halt the contagion threatening thousands of others seemed the right thing to do. When the world economy is at risk, and there is only so much assistance to go around, the choices may be more difficult.

Saving people's homes from repossession would involve buying up mortgage-backed debt, guaranteeing loans and encouraging lenders to increase their capacity for debt forgiveness. This has been a characteristic of the financial responses from some governments and no doubt welcomed by millions of registered voters across the spectrum, and not just a few speculators who bought up risky debt only to then see it soar as the authorities stepped in. However, when it comes to industries to save, should the government support the independent coffee shop, or the global airline?

Airlines are a key example: the market demand for their service, whether it be for holidays or business travel, disappeared almost overnight. Thousands of planes stand idle and tens of thousands of staff are furloughed or laid off. The crisis has already claimed some casualties, with Flybe Group PLC in the UK among the first, although it was arguably already close to failure. Virgin Australia has opted for voluntary administration, having failed to win government backing to keep it flying, in the hope that the business can be resuscitated in the future.

As the pandemic unfolded, it was logical to take short positions in any security that was travel or hospitality related while taking long positions in home entertainment, streaming content or delivery services. Short sellers were quick to act, increasing their positions in airlines around the world. The graph below shows a sample of four airlines that were chosen, in part, due to their differing situations and outcomes. Delta Airlines has seen significantly less activity from short sellers, despite its share price collapsing almost two-thirds from the 12-month high of over $63 to a low of around $19 in mid-March. This was followed quickly by a spike to over $31 as a lifeline of $5.4 billion was announced as part of the $2.1 trillion US CARES Act. The boost did not last long, however, as the market digested the reality of how long the support may last. The shares fell back to around $22 the following week.

American Airlines share price dropped almost 75 percent from the 12-month peak of $34.99 to a low of just $9.09 and followed the same flight path as Delta, gaining over 50 percent on the announcement that the US government was going to grant them $4.1 billion, topped up with a low interest loan of $1.7 billion as part of the CARES Act. Again, it was a short respite only as the shares were back at around $10 apiece at the end of the following week.

Norwegian Airlines, the Oslo-based economy provider which had been expanding rapidly into a global player had already been the target of short sellers before the pandemic began. With its wings severely clipped, Norwegian has retreated to the Scandinavian short-haul market and grounded the majority of its fleet potentially until Q2 2021. Seeking a debt for equity swap of around $1.2 billion, the airline is trying to set itself up for government support in the

future. The share price has suffered significant turbulence in the last year, collapsing from as high as $5.4 to closing at just $0.56 as of the week ending 24 April.

Finally, Virgin Australia, which has suffered the publicity hit from a double whammy of its association with a billionaire (part) owner and seeking government assistance to survive. Short interest activity jumped alongside that of the other airlines, both in this sample and across the wider industry, as the company took the option to enter administration, sacrificing short-term position for what it hopes will be long-term survival.

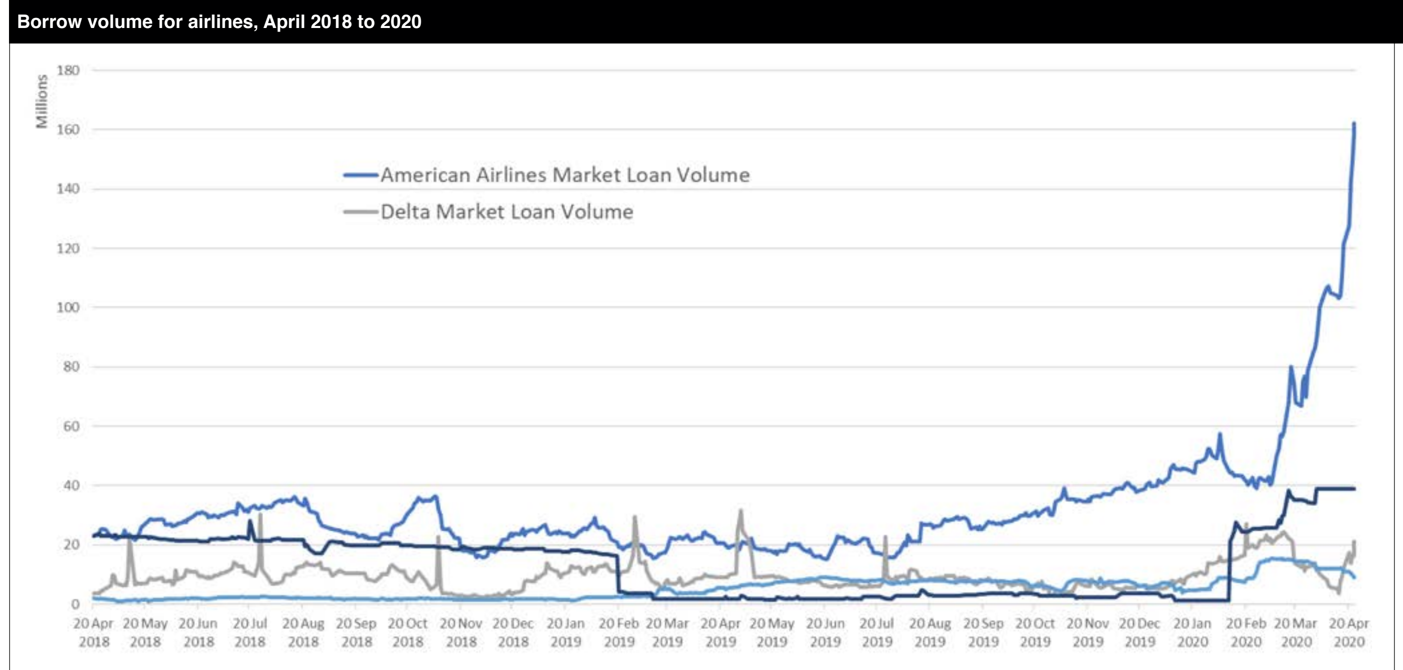
With significant programmes of financial support from governments, some industries will survive, perhaps not in the form they were, and many might argue that is not a bad thing regarding airlines looking up at the clear blue skies we have now. However, not everyone on the burning plane or sinking ship can be saved, and those in charge must choose between industries with the greatest employment capacity, most tax take, most important for national security, the production of food or medical services.

With government support inconsistent across the world, identifying industries that will be selected for support is hard; different political leanings will no doubt be behind some of the decisions taken so far and perhaps those in the future, and the differing treatment of airline companies illustrates that. The levels of short interest activity have provided some degree of consensus, but it has also proved just how hard it is to predict certain outcomes in very uncertain times. Perhaps "insert the buckle and adjust the strap tight" is the best option for all of us right now.

David Lewis
Senior vice president
FIS, Astec Analytics

Figure 1 *Source: FIS Astec Analytics*

Borrow volume for airlines, April 2018 to 2020



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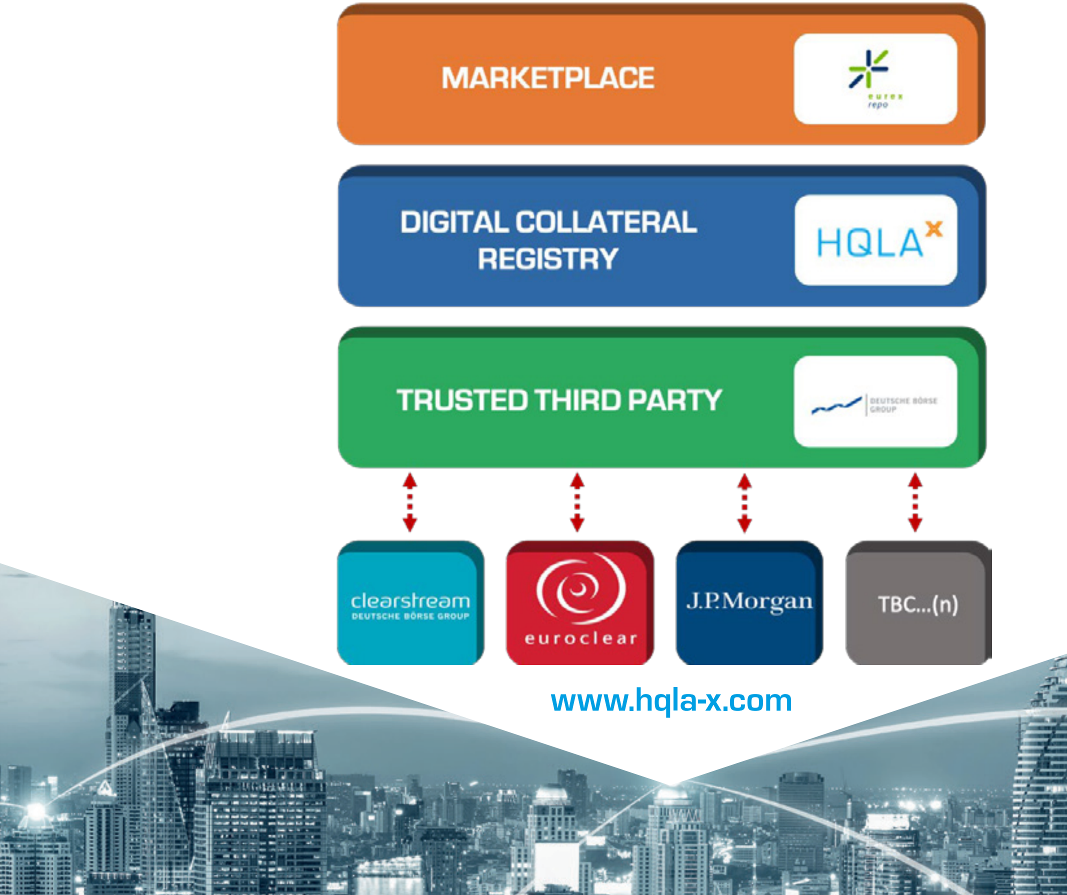

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Date: 19 May 2020 10.00(BST)
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Date: 20 May 2020 17.00(BST)
Location: Online
Provider: Consolo

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: 21 May 2020 17.00 UK(BST)
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

Non- cash collateral Fundamentals

Date: 27 April 2020 17.00(BST)
Location: Online
Provider: Consolo

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Comings and goings at JPMorgan Chase, ABN, FIS and more

Velocity Capital has appointed Anthony Barros as its new executive vice president of securities lending.

Barros will be focusing his efforts on trading relationship development and new business opportunities.

Based in New York, Barros joins from US-based financial service company E*Trade Financial where he served as its vice president of securities lending for nearly six years.

Prior to that, Barros served as managing director for RCap Securities for two years from January 2012.

Barros tells SLT: "I'm excited to be part of the Velocity platform. This dynamic opportunity comes at an optimal point in my career, I will leverage and utilize my securities lending relationships and experience in the continued build-out of Velocity Capital."

Bloomberg has hired former securities finance director, Ravi Kotecha, as its emerging markets workflow specialist.

Kotecha, who is based in London, previously served at Sberbank CIB where he served as executive director for its securities financing, repo and liquidity trading for six years.

He also served as director of global markets trading at Sberbank AG for three years in Switzerland from July 2015.

Kotecha takes on his new role fresh from a year away from the industry where he returned from Moscow to London to "take some time out and focus on being a full-time parent".

He adds: "I'm very much excited to be embarking on this next leg of my career and would like to thank Bloomberg for the opportunity."

Prior to Sberbank, the former executive director served as vice president at Barclays Investment Bank in October 2009 specialising in equity finance and synthetics trading in emerging markets.

He also has several years of experience serving as an equity finance sales trader for Nomura and Lehman Brothers.

Bloomberg has declined to comment on any further details of Kotecha's hire.

JPMorgan Chase has appointed John Jenkin from Credit Suisse to become its head of prime finance technology, based in London.

Jenkin has spent the past eight years in senior roles including his most recent as managing director and lead for flow products and trade management technology for Europe, the Middle East and Africa.

He spent the prior eight years as global head of prime finance technology for the Swiss investment bank.

Jenkin also brings experience from a short stint with Nomura, where he served as IT programme manager in its global prime brokerage division, as well as working for Lehman Brothers as an IT director for a couple of years prior.

Elsewhere, Jenkin has spent the past two years pursuing his own venture, Gwendra, an organisation that helps small financial institutions access advanced analytics, cloud computing and machine learning.

JPMorgan Chase declined to share further details on the scope of Jenkin's role or where he sits in the overall management structure.

ABN AMRO Clearing Bank has brought on former-ING securities finance managing director, Reza Lilipaly, as a business strategy analyst focused on the bank's treasury and securities finance services.

Based in Amsterdam, Lilipaly will operate on a self-employed basis.

His new role sits alongside his responsibilities as the owner of new consultancy firm LTC Management & Advisory, which he formed in March.

Before that, Lilipaly served at ING in multiple roles over 16 years, in what was his second stint with the Dutch bank.

From 2012, he was co-head for global fixed income repo, before taking on the additional role of managing director for global securities finance from April

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2014, until he began a sabbatical in March 2019.

He initially joined as a regional head of ING Global Securities Finance in 2003.

Lilipaly began his career at ING in 1994 when he served as a principal trader in securities lending and repo for seven years.

He left to pursue a short stint as a senior trader in securities lending for AMRO Bank in October 2001 for just over a year before returning to ING in March 2003.

Alexandra Böcking has joined FIS and will be focusing on providing post-trade solutions to the DACH region of Germany, Austria and Switzerland.

Böcking will serve as a senior sales executive based in London, her role will consist of supporting both new and existing clients in lowering their operational risk and increasing efficiency through the latest release of IntelliMatch and XSP for asset servicing.

She reports to Andrew Murray, vice president for post-trade solutions, capital markets.

Prior to moving to FIS, Böcking was director and founder of Caenis Consulting for two years. Before that, she served as a senior account manager at Broadway Technology from 2018.

In 2017, Böcking became a regional manager at CloudMargin, expanding the client base for the cloud-based software as a service collateral management solution CloudMargin.

Before that, Böcking spent four years in various business development and sales roles at TriOptima in Europe, the Middle East and Africa.

She also held roles in over-the-counter (OTC) derivatives at ICE Data Services, and similar positions at TD, Credit Suisse and Mizuho.

Commenting on the hire, Murray says: “We are delighted to welcome Alexandra to our team and this hire continues the theme within the European sales force of bringing in the highest level of talent to enable our clients to be serviced at the level they require.

“Our European sales team continues to grow to meet the high demand for the services FIS offers across the capital markets space. The demand to support our clients in these volatile times brings even more focus on this point and we continue to recruit; successful, ambitious talent who will assist with the growth of FIS.”

Böcking’s move to FIS comes shortly after Emmanuelle Charriere joined as a senior member of its sales team in Europe with responsibility for its securities finance and collateral management business. Charriere was part of the business development team for BondLend, the securities finance technology platform of EquiLend.

HSBC’s planned restructure that could see a loss of up to 35,000 jobs by 2022, has been paused during the COVID-19 disruption.

In March, the bank said it would combine its global markets and securities services (excluding issuer services) divisions as part of its restructure. The plan was announced shortly after HSBC’s review of its 2019 financial performance results.

Following the bank’s latest quarterly results, which reveals that the reported revenue is down 5 percent compared to Q1 2019, the timeline for reforms has been put on hold while the bank deals with the current disruption brought on by the pandemic.

HSBC CEO Noel Quinn, says: “I take the well-being of our people extremely seriously. We have therefore paused the vast majority of redundancies related to the transformation we announced in February to reduce the uncertainty they are facing at this difficult time.”

Quinn notes that the bank would press forward with the other areas of transformation with the aim of delivering a “stronger and leaner business that is better equipped to help our customers prosper in the recovery still to come”.

Prior to the Q1 results, go-live, Colin McLean, managing director of SVM Asset management, had highlighted that HSBC’s planned job cuts are “currently the biggest of the major UK and European banks, but others may be forced to accelerate cost-cutting along with impairment provisioning”.

Highlights from the bank’s Q1 report revealed that securities services revenue came in at $289 million for Q1, compared to $372 million for the same period last year, representing a 22 percent drop.

Commenting on HSBC’s Q1 results, Quinn, says: “The economic impact of the COVID-19 pandemic on our customers has been the main driver of the change in our financial performance since the turn of the year.”

“The resultant increase in expected credit losses in the first quarter contributed to a material fall in reported profit before tax compared with the same period last year.”