securities lending times

The primary source of global securities finance news and analysis

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Viewing the ultimate beneficial owner

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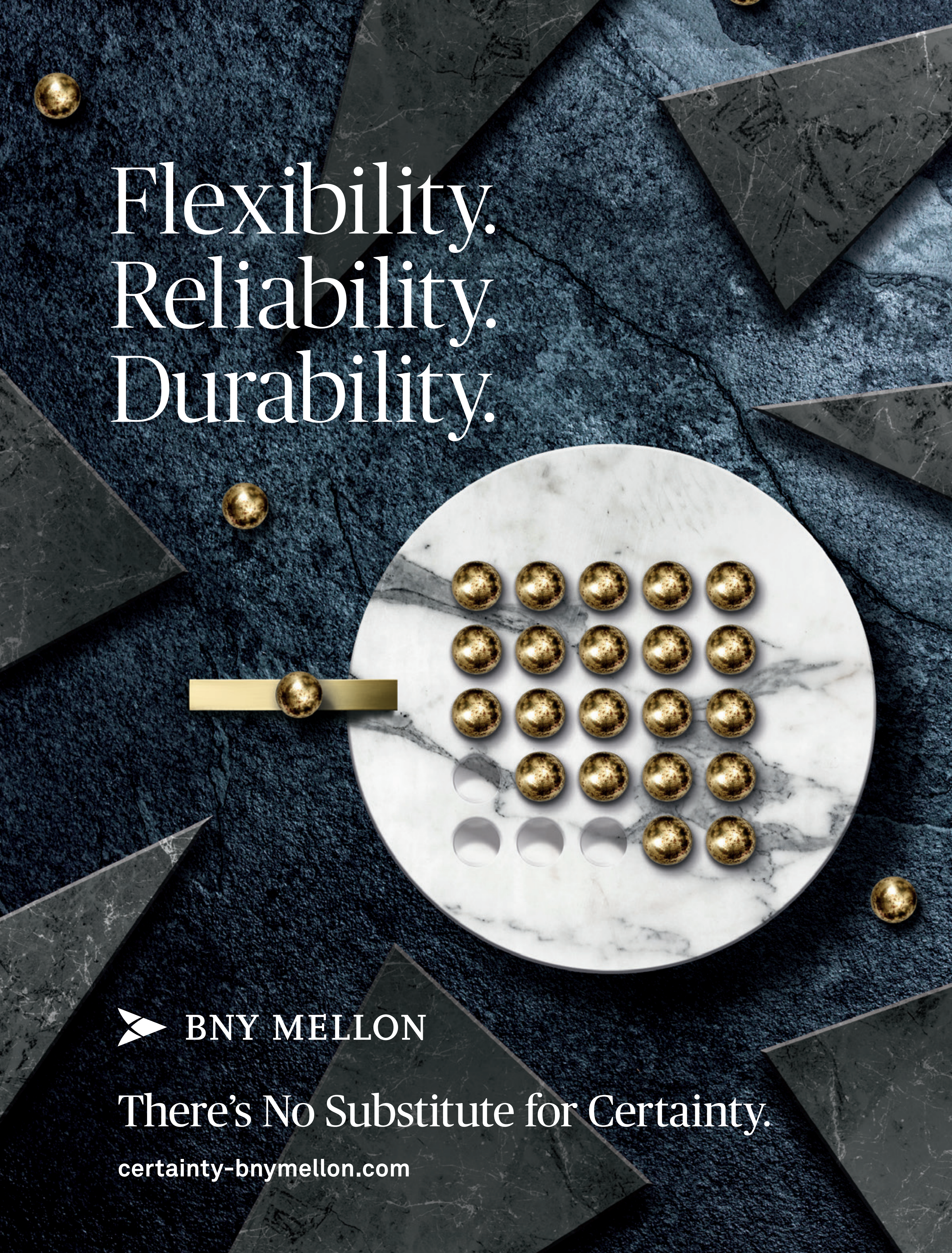
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ISDA and ISLA deliver CDM framework

The International Securities Lending Association (ISLA) and the International Swaps and Derivatives Association (ISDA) will be increasing their engagement to expand electronic contract opinions and to apply the Common Domain Model (CDM) to help facilitate greater automation in the derivatives and securities lending markets.

The expansion is in response to the increasing number of derivatives, securities financing that are being executed and confirmed electronically.

The pandemic has heightened interest in e-contracts, particularly with the closure of offices and the introduction of remote working. This has highlighted challenges and inefficiencies associated with the physical delivery of signed paper documents and notices.

The ISDA e-contract opinions will be updated to cover securities financing transactions (SFTs) as well as derivatives, and will be made available to members of both associations.

The e-contract opinions assess the enforceability of electronically executed and confirmed contracts under the laws of various jurisdictions. Thirty seven jurisdictions are currently covered, with a further 10 commissioned this year.

ISLA will join ISDA's CDM Governance Executive Committee, which oversees strategy for the adoption of the CDM, as well as the Architecture and Review Committee, which is responsible for developing technical guidance and reviewing proposed changes to the model.

The CDM establishes a single, common digital representation of events and processes that occur during the lifecycle of a trade, and is aimed at enhancing consistency and facilitating interoperability across firms and platforms.

Scott O'Malia, ISDA's CEO states: "Our member firms are increasingly looking to automate legal and operational processes in order to cut costs and improve efficiency. By working together to develop cost-effective and scalable mutualized solutions, we will be able to provide real and lasting value to our memberships."

Andrew Dyson, CEO at ISLA, adds: "As markets progressively coalesce and our members look to derive trading and post-trade efficiencies across previously separate products, it is important that their associations respond to these important changes.

"By collaborating with ISDA, we aim to deliver a CDM framework that will help our collective member firms realize the very real benefits that will be derived from a cross-industry approach."

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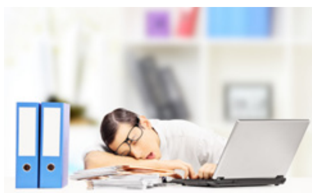

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Tel Aviv Stock Exchange launches a central blockchain securities lending platform

The Tel Aviv Stock Exchange (TASE) has launched its much-anticipated central blockchain securities lending platform in Israel, which will enable capital market players to directly lend among all the major financial instruments.

According to TASE, the Blockchain Securities Lending (BSL) platform aims to address the fragmented, inefficient and opaque nature of the securities lending market in Israel, which until now did not have a central marketplace.

Securities lending is at present executed using inter-bank mechanisms within, and if necessary outside, banking group limits. As a result, the market has not been fully exploited to satisfy the potential needs of economic agents.

The new platform will function as a one-stop shop for all securities lending activities, permitting access to larger securities volumes within shorter timeframes, even operating in shorter-term positions, the exchange says.

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

Earlier this year, TASE partnered with Blockchain Technology Partners (BTP) to put the finishing touches on its distributed ledger technology (DLT) project.

In March, TASE members were given access to an initial testing environment, in order to test lending transactions in the new platform and adapt their systems in preparation for the production phase.

The use of DLT as the basis of this new trading platform will harness some of the blockchain's primary advantages and features, such as direct peer-to-peer transactions, Smart Contract, and enhanced security through immutability. All of these are expected to benefit TASE, its custodians and their clients by reducing costs, increasing security and enabling the market to exploit its full potential.

Orly Grinfeld, EVP and head of clearing at TASE, says: "The Tel Aviv Stock Exchange is proud to present this first-of-a-kind lending pool, a safe, cutting-edge and state of the art platform.

"The blockchain technology will present a new level of safety for securities lending and will support growth for transactions based on this new platform. TASE is a global financial innovation leader, and strategically pursues the technological advancement of the capital market."

ESMA confirms preparations for further CSDR delay

The European Securities and Markets Authority (ESMA) has confirmed it is working on a proposal to possibly delay the entry into force of the Central Securities Depositories Regulation (CSDR) settlement discipline regime until 1 February 2022.

The delay is due to the impact of the ongoing COVID-19 pandemic on the implementation of regulatory projects and IT deliveries by central securities depositories (CSDs) and came as a request from the European Commission.

ESMA's proposal would be an extension to the delay foreseen in the ESMA final report on the regulatory technical standards (RTS) on postponing the date of entry into force of the Commission Delegated Regulation (EU) 2018/1229 (RTS on settlement discipline) until 1 February 2021.

ESMA explains that this was endorsed by the European Commission on 8 May 2020 and it is subject to the non-objection of the European Parliament and of the Council until 8 August 2020.

The RTS on settlement discipline covers measures to prevent and address settlement fails including rules for the trade allocation and confirmation process, cash penalties on failed transactions, mandatory buy-ins, and monitoring and reporting settlement fails.

In terms of its next steps, ESMA says it aims to publish the final report on further postponing the date of entry into force of the RTS on settlement discipline by September.

Following the endorsement of the RTS by the European Commission, the Commission Delegated Regulation will then be subject to the non-objection of the European Parliament and of the Council.

Commenting on ESMA's proposal, the International Securities Lending Association (ISLA) says: "From an ISLA perspective, we have already shared these recent developments with our CSDR working groups and streams, and will continue to monitor the situation closely as we appreciate the sensitivities around managing further implementation delays for our member firms and the broader industry."

The announcement from ESMA follows Euroclear's recent memo to clients highlighting that ESMA is expected to publish an amendment proposing the delay to the current February 2021 deadline, after the summer holiday period.

Of the proposed delay, Paul Baybutt, senior product manager at HSBC Securities Services, comments: "While a level of uncertainty will continue until the proposal is approved, a further delay would be welcomed by the industry, giving more time to address the open issues and ensure the effective implementation of the regulation."

Short sellers hold Tesla positions

Tesla's share price surged in the run up to its Q2 earnings amid speculation the company was about to be included in the S&P 500.

This prompted a large number of short sellers to exit their position at a loss, but now Ortex analysis has found the most stubborn of short sellers are helding their positions.

The Ortex platform shows 11.3 million Tesla shares are still held in short positions and upward price movements may be being driven by a short squeeze.

Speculation about the impact of inclusion in the S&P 500 may be overstated, creating an opportunity for short sellers to take advantage of a "hype premium".

Peter Hillerberg, co-founder of Ortex Analytics, comments: "It is highly likely that what we've seen over recent weeks is at least in part a "short squeeze" whereby the Tesla share price has been pushed higher by short sellers closing their positions.

"For high-conviction short sellers, this will just have been a further signal to hold tight and wait for an opportunity to take profit."

In a note published before Tesla's Q2 earnings announcement, Ortex estimated that Tesla's inclusion into the S&P 500 could equate to around $40 billion of buy orders.

However, it also pointed out that these orders would represent a "modest" three days of trading volume and that speculative buying was likely to be more significant than the index inclusion itself.

RMA cancels conference due to COVID-19

The Risk Management Association (RMA) has decided to cancel the annual securities finance and collateral management conference due to uncertainties around COVID-19.

The association has chosen to devise a virtual experience to replace the 37th annual conference which was due to take place in Amelia Island for the first time later this year.

The RMA explains in a statement that it wishes to ensure the health and safety of all its members, and are vigilant of the additional challenges that everyone is facing working from home.

The association says that switching to a virtual format for the industry-wide conference sponsored and developed by securities lending and borrowing professionals is the best option after taking feedback on board from everyone involved.

Fran Garritt, director of securities lending and market risk for the RMA states: "No one is more disappointed than me that we won't be able to gather together and discuss industry issues, best practices, and network during these difficult times."

Over the coming weeks, Garritt will be working with the securities lending council to devise a virtual experience to keep everyone up to date on industry issues.

Hillerberg adds: "A surge in speculative buying could be a signal for new short sellers to take a position and seek to take advantage of the "hype premium" which has characterised so much of Tesla's price movement in recent years.

"It remains to be seen whether the short sellers that have maintained their position will benefit from their resilience, but whichever way you look at it, the battle of wits between Tesla and its short sellers is far from over."

GPFA aims to increase peer-to-peer activity

The Global Peer Financing Association (GPFA), a non profit association, has been formed with four pension plans, all aiming to increase peer-to-peer trading activity in the securities lending and repo markets for the benefit of asset owners.

The four pension plans, California Public Employees' Retirement System (CalPERS), Healthcare of Ontario Pension Plan (HOOPP), Ohio Public Employees Retirement System (OPERS), and State of Wisconsin Investment Board (SWIB) came together to create GPFA alongside sponsorship from eSecLending, Osler, Hoskin & Harcourt and Credit Benchmark.

GPFA is interested in expanding membership to include other global pensions, asset managers, insurance companies and other beneficial owners who share a common interest in the business of peer-to-peer securities lending or repo.

Jerry May, senior portfolio manager at OPERS, explains: "GPFA has developed a framework of resources to help other peers understand and navigate the approval process as well as the ongoing administration of trades for those that do not have internal resources to support securities lending or repo activity directly."

Dan Kiefer, investment manager at CalPERS, highlights: "By transacting with our peers, we have been able to increase revenue generated from our securities lending and repo activities while also expanding sources of liquidity for our plan."

"There are several benefits we appreciate from our involvement in peer transactions," states Christopher Benish, managing analyst at SWIB. "We are diversifying our counterparts and including these highly credit worthy entities while also benefiting from lower costs, increased transparency on the trades and greater information sharing amongst the group.

"We also like the predictability of demand where balances are more stable than with traditional banking counterparts over month-ends and quarter-ends."

Rob Goobie, assistant vice president of collateral management, derivatives & fixed income at HOOPP, states: "We see GPFA as a central connection point to foster collaboration and information sharing within the buy-side community."

BlackRock posts record securities lending revenue

BlackRock has recorded its highest ever quarterly securities lending revenue, which builds upon its strong start to the year.

Securities lending earnings hit $210 million in Q2, an increase of $52 million from BlackRock's above-average Q1 haul. The second quarter's year-on-year revenue increased by $60 million.

The asset manager says the uptick primarily reflects higher asset spreads and average balances of securities on loan. Before its latest report, BlackRock's highest quarterly revenue was $183 million, which was achieved in Q2 2018.

Elsewhere, BlackRock also reports its lending business performance alongside the revenue from investment advisory, administration fees.

Overall, revenue from the cluster of services increased $63 million from the second quarter of 2019, which, BlackRock says, was primarily driven by "organic growth and higher securities lending revenue, partially offset by the negative impact of equity beta and foreign exchange movements on average assets under management (AUM) and strategic pricing changes to certain products".

Meanwhile, Q2 revenue was down by $89 million from the prior quarter, due to the "impact of first-quarter global market declines and foreign exchange movements on average AUM, partially offset by higher securities lending revenue and organic growth".

Northern Trust sees revenue boost

Northern Trust received a considerable increase in securities lending revenue in Q2 of $27.3 million, a bump in revenue from $21.8 million from the same period last year. According to the US bank, securities lending fees increased primarily due to higher spreads.

Q1 was previously marked Northern Trust's best quarter for securities lending revenue since Q1 2018 when it chalked up $26 million, with Q2 2020 now taking the lead.

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.

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 earnings represented 4 percent ($87.2 million).

Elsewhere, the bank reports its second quarter net income of $313.3 million, a drop in earnings compared to the same period last year of $389.4 million.

Meanwhile, Northern Trust reported $12.1 trillion assets under custody and administration for Q2 compared the $11.3 trillion in same period in 2019.

Broadridge selects Pierpoint as training provider

Broadridge's Securities Finance and Collateral Management (SFCM) appoints Pierpoint Financial Consulting as its training provider.

Broadridge associates will have access to Pierpoint's courses within securities lending, repo and collateral management. These courses are delivered through a combination of online on-demand courses through to live and soon-to-be-launched recorded live events.

Pierpoint courses draw on recognised subject matter experts both inside the firm and from leading service providers.

Darren Crowther, general manager, SFCM at Broadridge, comments: "Delighted to partner with Pierpoint and Roy Zimmerhansl to provide our entire global team with securities finance training across the year.

Building our team's business knowledge as part of the education program is a key step in providing our clients with a great product and services."

Zimmerhansl noted that "Broadridge has shown a real commitment to invest in, and further develop their team's understanding across the securities finance spectrum through training".

He adds: "We have worked closely with Darren Crowther to craft a bespoke programme to meet the Broadridge teams requirements."

RMA and EquiLend to aid Latin America's securities lending market

The Risk Management Association (RMA) and EquiLend have joined forces with international market participants active in the region to produce the second annual Latin America Securities Finance User Guide.

The document is a comprehensive resource for agent lenders, broker-dealers, central securities depositories (CSDs), central counterparties (CCPs), exchanges, beneficial owners, hedge funds, lawyers, regulators and consultants interested in the Latin American securities finance markets.

Fran Garritt, director of global markets risk and securities lending, RMA explains that "EquiLend and RMA intend for the work to serve as a users guide to the region, offering local insights and market expertise for both domestic and global participants".

The user guide looks at the current and future state of the Latin American securities finance markets, it also covers the various markets' securities finance infrastructure, regional innovations and illustrative market data.

Brian Lamb, CEO of EquiLend, says: "We are seeing positive momentum in the burgeoning securities finance markets of Latin America and are excited for the growth taking place across the region.

"As the regulatory environment, technological infrastructure and market participation advances across Latin America, countries across the region are increasingly recognising the benefits of an active securities finance industry."

Garritt adds: "The guide is meant to be a 'living document' that will encourage productive discussions on how foreign investors can comfortably execute their investment strategies, and allow the industry to address issues that will transform Latin America into an increasingly robust securities lending market."

SFTR reporting starts strong

Almost all reported transactions were accepted by trade repositories (TR) in the first weeks of reporting under the Securities Financing Transactions Regulation (SFTR), according to the International Securities Lending Association's (ISLA) regulatory chief.

Adrian Dale, head of regulation and market practice for the trade body, notes that 95 percent of transactions are being accepted by TRs, which he says is "a testament to the extraordinary industry preparations".

Since 13 July credit institutions, investment firms, central counterparties and central securities depositories have been reporting SFTs.

ISLA estimates that securities lending trades alone accounted for some 1 million of all transactions reported in the first week.

"These are however only the first days of reporting, and so not unexpectedly tweaks will need to be made," says Dale.

"For example, some firms data outputs will require refining, whilst others are ironing out reconciliation breaks caused by different treatments of life cycle events, also referred to as 'event choreography'," he adds.

Seb Malik
Head of financial law
Market FinReg

Best execution – please?

Last issue I wrote about the second Markets in Financial Instruments Directive (MiFID II) and absence of routes to effective remedy. While the Securities Financing Transactions Regulation (SFTR) has just gone live, MiFID II is heating up once again. A slew of reports and legislation has, or is due, to be released.

When I wrote my last piece - MiFID II: A damp squib, I was quite unaware that only a few weeks earlier, the High Court had released a judgement that included a comprehensive review of the very points I had argued in my article. Readers will be reassured that the England and Wales High Court's findings are entirely the same as mine, these can be located on Bailii's website in commercial court decisions.

I recently met with the CEO of the rapidly expanding fintech – SteelEye and we lamented the lack of enforceability of best execution and availability of APA data (which must be made available for free after 15 minutes but rarely is).

Regarding best execution this is the obligation that broker crossing networks, systematic internalisers, and investment firms must take "all sufficient steps" to obtain the "best possible result" for clients when executing orders. For professional clients, best possible result is defined by six concrete factors: price; costs; speed; likelihood of execution and settlement; size; nature of order; and any other relevant consideration.

Back in 2014, the UK's Financial Conduct Authority (FCA) noted in their Thematic Review entitled, "Best execution and payment for order flow" that, despite MiFID II best execution requirements, most firms are not doing enough to deliver best execution through adequate management focus, front-office business practices or supporting controls". They noted further that a one basis point of cost saving could translate into a £262 million in additional client returns.

Under MiFID II, best execution sits within a framework, as I explained in summary in 2017:

1. It starts with client onboarding. All clients must now be categorised into retail, professional, or eligible counterparties – implications for best possible result definition.
2. There must be a suitability test to understand the client's needs, investment objectives, risk tolerance, ability to bear loss etc. (precise details differ according to retail/pro.)
3. The firm must understand the client's execution priorities, perhaps on a class of instrument basis and document these ideas in an order execution policy document which must be agreed prior to order execution. This links in to the above 7 best possible result discussion and is an opportunity to define the relative importance.
4. For over-the-conter and bespoke instruments, the investment firm (INVF) must check the fairness of the price by gathering market data and comparing the price, perhaps augmented by FV calculations.
5. INVFs must monitor the effectiveness of the order execution and execution policy, in particular whether execution venues included in the order execution policy provide the best possible result with the client.
6. There must be a client limit order policy to handle unexecuted orders in equities.

In the aforementioned High Court case, target Rich International argued that the popular forex broker FXCM was liable because it had breached MiFID best execution and order execution policy obligations.

It was argued that "the [FCA's] conduct of business sourcebook (COBS) rules were implied into the agreement as a matter of law, and that this was necessary to give effect to MiFID under European law. The same argument was said to create parallel duties of care in tort."

Both arguments were rejected.

For this reason, it is critical that firms realise that none of MiFID II is directly enforceable unless the provisions are expressly copied into the contract. Firms ignore this at their peril: as the judge held, "Over the last decade, the English and Scottish courts have been presented with a number of cases in which claimants who allege that they have been the victim of regulatory misconduct have sought to advance causes of action against authorised entities for breach of FCA rules."

It is, perhaps, disappointing that the claimant brought this case to court in the first place as it was hopeless.

As for the industry, it bemoans regulation and prefers self-regulation. Regarding best execution, the acid test is this: firms should insist on express terms in their contract that bind the broker to the order execution policy and best execution provisions. If brokers agree, then the industry can rightly claim self-regulation is appropriate, and vice versa.

In the coming months, I will be contacting buy-side trade bodies to draft joint letters to the Commission urging the instatement of civil liability for MiFID II breaches – as was originally intended.


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Money isn't everything

Drew Nicol reports

Lothian Pension Fund is a long-term lender that has now decided on an ESG-focused strategy that priorities principles over profits. And it thinks more beneficial owners will follow suit

In many ways, the UK's Lothian Pension Fund (LPF) represents the typical beneficial owner. It is Scotland's second-largest pension scheme with more than £8 billion in assets under management and has engaged in securities lending for more than a decade. The fund's management still sees the benefit in lending out a portion of its portfolio to generate what its chief investment officerBruce Miller recently described as the "significant fee income" that it brings, which boosts the fund's long-term performance. According to its latest annual report, the fund earned £577,000 from "securities lending and sundries" in 2019/20 down 38.8 percent from the £577,000 recorded a year earlier. Part of the reason for this is that global lending revenue has dropped off in 2019 and so far in 2020, compared to the bumper year seen in 2018.

Figures from DataLend show that macro market uncertainty and skittish hedge funds resulted in securities lending revenue falling by 13 percent year-on-year for 2019. Global revenue hit $8.66 billion in 2019, representing a decline in revenue across all regions and in both the equity and fixed income markets.

Despite LPD following the global downward trend, a double-digit revenue loss might spur some lenders to re-evaluate their collateral profiles or seek new ways to return to form and become more attractive to borrowers. In reality, although the fund would undoubtedly welcome increased profits, it is among a growing demographic of beneficial owners that no longer measure the success of their securities lending programmes purely, or even primarily, by revenue.

As of June, LPF decided to prioritise its environmental, social and governance (ESG) principles above profits by installing an automatic-recall facility with its custodian, Northern Trust, that would allow it to leverage 100 percent of its shares during voting at annual general meetings (AGMs). “As a responsible investor, it’s vital that we use our votes to make the maximum impact we can on behalf of our stakeholders. If this means sacrificing fee income because it’s the right thing to do, then we’ll do that,” LPF’s CEO Doug Heron explained at the time.

“This is a progressive move by the investment team at LPF, but we believe that it will set the standard for the management of stock lending going forward.”

For beneficial owners, the relationship between ESG and securities lending can be complex as each lender explores, forms and refines what responsible investing means to them.

This has occasionally led to clashes of interests, mostly around an asset owner’s dislike of short selling, which securities lending facilitates. The most prominent example of this was seen in December 2019 when the world’s largest pension fund, based in Japan, withdrew its global equities from its lending programme due to poor visibility of the end borrower and a lack of control over their use of the assets.

More recently, UniSuper, one of Australia’s largest superannuation funds, suspended its securities lending programme to stifle supply to short sellers amid the coronavirus fuelled market sell-off in March. It is yet to re-engage its programme.

For LPF, however, the concerns were not around short sellers, but the need to do its duty in bringing its full voting powers to bear on ESG-related corporate actions. As beneficial owners begin to define what they require to appease their ESG principles we will likely see new features such as an automatic re-call service appear as the unlikely bedfellows of securities lending and ESG get comfortable.

> *As beneficial owners begin to define what they require to appease their ESG principles we will likely see new features such as an automatic re-call service appear as the unlikely bedfellows of securities lending and ESG get comfortable*

To discuss the move in more detail and the possibility of a new emerging trend for beneficial owners, SLT spoke to David Hickey, who leads LPF’s ESG strategy, to find out how the fund arrived in this position and what is next.

How active was LPF in voting during AGMs in the past and what drove the demand for an automatic recall facility?

Until recently, we’ve always kept back 5 percent of our stock from our lending programme to ensure we could vote at every AGM. In the past two years, there has been a lot of focus on the volume of voting and it has been decided that the better standard is to vote with all your holding.

Until now, recalls were very manually intensive. They involved monitoring data services to be alerted to voting opportunities. We would then have to notify our custodian to recall the stock in time for that AGM. After the vote, we’d have to let them know that the stock was available to lend again.

A lot of local authority pension schemes are short of resources as it is and we certainly don't have resources to go through hundreds of stocks and do manual recalls. So, we approached Northern Trust at the end of 2019 to see if there was a better way. At the time, Northern Trust didn't have any form of automatic recall process so they went away and built one for us, which took several months.

Even with the facility in place, we will continue to hold back 5 percent of our stock just in case something goes wrong.

Securities lending is a buyer's market and beneficial owners are often encouraged by agent lenders to make themselves as attractive to borrowers as possible by not doing exactly this sort of thing. Was this a concern for you?

We predict having this re-call service will cost us roughly 16 percent of our annual revenue but ESG comes before the income from securities lending. Responsible investing and voting have become so important now with the Shareholders Rights Directive and the other ESG-related codes LPF has signed up to, which includes being a member of Climate Action 100+. All this puts pressure on us to act responsibly and disclose how we're acting as an asset owner and doubly-so as a public asset owner.

The benefits of the automatic recall facility far outweigh the negatives. In some ways, through the automatic recall facility, we are able to have our cake and eat it now with only a small knock to our revenue. We are able to maintain a securities lending programme and discharge 100 percent of our voting obligations. While we had to sacrifice an element of our returns, we could have lost all of it if we had to withdraw from securities lending entirely, which was a possibility.

Although new facilities like ours will undoubtedly cause more work for agent lenders, it may also lead to more beneficial owners entering the lending market as these tools will allow them to juggle their ESG responsibilities and lending, much like it allows us to do.

Other than these initatives you have signed up to, where does the pressure to lean into ESG come from?

Most of the pressure we receive is from lobbying groups that have very strong views on what public pension funds should or shouldn't be investing in. There are pressure groups for lots of areas and there's a risk that you can say "yes" to everything and risk being left with literally nothing to invest it. We've taken the stance that there are certain areas that are now commonly understood as being not acceptable and we've created our ESG policy along those lines.

In order to be more clear in what our standards are, we have recently published a Statement of Responsible Investment Principles. This highlights our ambition to vote 100 percent of our shares; to measure the carbon intensity of 100 percent of our assets by 2022; to cease any primary investment in companies that aren't aligned with the goals of the Paris agreement; and to continue engaging with non-Paris aligned companies until 2025 with any companies making little progress towards the goals likely being divested at this point.

With the recall facility and your investment principles clearly defined, do you feel you've reached an optimal place in your ESG strategy?

I was brought on as a European equities manager and my role has evolved to take on more of the fund's ESG strategy. Now I look back at what we were doing five years ago I think that wasn't optimal. Hopefully, when we look back five years from now we will say the same because that means we've continued to evolve and improve. There's no such thing as perfect.

For the recall facility specifically, going forward we will have to monitor it because it hasn't really been tested yet. I'm sure there will be issues that will need to be addressed but that's what you get when you're an early adopter.

How do you rank LPF's ESG development against its peers?

I see us being the Leeds United of ESG. We are towards the top of the Championship, but we're not in the Premiership yet. When I look at the funds that are front runners in ESG, I think of Brunel Pension Partnership, the Church of England's funds and USS.

We are not resourced to keep up with those entities but we do the best we can and try to be strategic to be as effective as possible. We do a lot of collaborative work and I founded a group that brings together Scottish pension funds to discuss issues and help each other.

Education, education, education ...

Justin Lawson reports

Richard Colvill, senior partner and co-founder of Consolo, the business change specialists in securities finance, talks CPD-certified training and SFTR

For those unaware of Consolo can you tell us a bit about the company and what you specialise in?

Consolo has been established since 2015, however, I have been an independent consultant since 2007. The idea of creating a consultancy dedicated to securities finance was born from me wanting to be part of a bigger independent company. I succeeded in doing that over the past few years taking on a partner and several associates.

We are focused on delivering business transformation and project management to established businesses within the securities finance industry. We have had a degree of success in that field over the last five years, and continue to grow where possible.

Tell us a little bit more about your CPD certified training and how this is progressing?

In our capacity as a business transformation and project delivery specialist, we saw a growing need amongst our clients to educate their staff, some of the junior members and perhaps some of their associates outside of the immediate department around securities finance.

We had quite a bit of success in delivering in-house training for these clients. In trying to expand that product, we decided that we needed something tangible other than our time, so the idea of creating the training academy was born in October last year.

Further to taking the idea forward into practice we wanted to add some credibility to it so we joined The Continuing Professional Development Certification Service (CPD), which is a company that has a holistic commitment of professionals towards the enhancement of personal skills and proficiency throughout their careers.

For those companies that are subscribed to them and require that accreditation it gives some much needed kudos to the quality of training, they are the go-to association. We are very pleased to be members. We believe that it strengthens our product, and to be a CPD-accredited member for your training, there is no higher praise in the industry. We believe that our product now has the gold standard when we deliver it.

SFTR, did the delay help and where are we now?

It is important to say that when the delay was implemented at the start of the COVID-19 lockdown that one remembers the work that the various trade associations had carried out. There was the joint venture with the International Capital Market Association (ICMA) and International Securities Lending Association (ISLA) to lobby European Securities and Markets Authority (ESMA) and the policymakers to say that the lockdown would create a lot of trouble for their membership. In the response, although it was not a personal response, but it felt like one in many ways as the timing of it meant it was in direct relation to the letter that was sent by the associations.

When it was delayed by three months, they collapsed phase one which was due to go live in April, and instead consumed it into phase two's date in July.

Many of the participants that we were speaking to were struggling with system development and the business transformation for that. So the three months gave participants some much needed extra time for go-live readiness. I think most people were grateful for it.

What are the biggest problems clients are having to deal with?

In the time since the Securities Financing Transactions Regulation (SFTR) went live there have been mixed messages from contacts in the market with the biggest issue being individual companies' readiness for go live. A lot of tier one banks were better financed and resourced, whereas smaller, more bespoke companies are not as ready.

A lot of people were late in starting their reporting, and where there was reporting, the quality of data was always going to be confused with some mismatching on the data fields. The reports we are getting back is that the completion of that is around sub 10 percent. The matching rates were initially very high in the first few days as people were excited, then as the week went on they dropped right down.

There are still some outstanding issues for SFTR; we did work with ISLA, some of the issues from the members were quite confusing. There was a conundrum about actual contractual versus actual settlement dates. The policymakers, rather late in the timeline, delivered their preferred best practice, which went against the grain of what we had decided collectively as an industry. In light of that update, many participants were unable to implement those changes before going live. We are hearing that some of the participants will never be ready for that due to system limitations, and internal legal and compliance issues. So there is a divide there, and the problem in that respect is that if you have counterparts with different opinions about how they can or will deliver, then that will affect matching rates going forward.

But, I think most people are going to report in what they think is the best way possible. The known issues around legal entity identifier (LEI) and unique transaction identifier (UTI) distributions were always going to be an issue for lenders. Their entrance into SFTR reporting is October this year as phase three participants. To enable these phase one and two participants to be compliant in their reporting, they have the minimum data provision. Where they are trading under an agent lender's construct, if they have any difficulties in providing the beneficial owner breakdown, the borrower cannot report compliantly, so there was always going to be an issue around that.

What next after SFTR?

Like a lot of companies, my focus during the lockdown and furlough, as it has given companies the opportunity to take a long hard look at themselves, and a lot of people are addressing their models. It has given me some much needed time to focus on the inner workings. Recently, we have been focusing our attention to developing the online CPD accredited training academy, which we are very excited about. We have seen a steady uptick from client participation with the online training, and have expanded our suite of offerings there. We are looking to laterally spread across prime services, and will start venturing outside of securities finance. We have taken on new trainers and subject matter experts to provide the on-demand training having initially started with Zoom conference training in several time zones for North America, mainland Europe and Asia Pacific. We had a surprising take up from those places further afield. In light of that, and just to give some broader reach, we are now providing an on-demand set of courses.

We are very excited about the future, and people are definitely buying into the accreditation, so the decision to take that on was important. Our focus firmly remains with that for the foreseeable future.

Viewing the ultimate beneficial owner

Beneficial owner disclosure has recently become a topic that is gaining attention from regulators, issuers, market infrastructures and service providers. Jyi-chen Chueh, operating committee chair for the International Securities Services Association reveals the findings of its recent report on the matter

Natalie Turner reports

Could you tell us a little bit about the ISSA Corporate Actions Working Group and its make up?

The International Securities Services Association, commonly known as ISSA, is an association with more than 120 institutions. Its main objectives are the promotion of industry best practices within the securities services industry, through international coordination and cooperation. Much of this work is completed by ISSA's Working Groups, which look at topics that affect the securities services industry and develop solutions and best practise guidance that can benefit the whole industry.

As the name suggests, the Corporate Action & Proxy Voting Working Group (CA WG) focuses specifically on the areas of corporate actions and proxy voting. The team has already tackled many topics of interest to the industry including, most recently, a report on the beneficial owner disclosure.

What are some of the key issues around disclosing the ultimate beneficial ownership and why is this such a critical requirement?

When securities are held directly or in segregated accounts, the process of identifying the ultimate beneficial owner is relatively simple. However, with the growth of cross-border investments, investors and issuers are typically connected through a chain of intermediaries, which can be relatively long. As such, when a security is held in a commingled account, it will be necessary to look through multiple layers to have transparency and identify the ultimate owner. The disclosure process is key to good corporate governance to meeting regulatory reporting obligations and to detecting and preventing tax evasion as well as other financial crimes from occurring.

The ISSA Corporate Actions Working Group conducted a survey, during the latter part of 2019, on beneficial owner disclosure. Could you explain what the key aim of this was?

The key aim of the survey was to obtain a snapshot of the beneficial owner disclosure processes in place globally. By understanding and identifying common practices, as well as challenges that the industry was facing, it would be possible to provide guidance on how transparency could be further improved.

What were the findings from the beneficial owner disclosure report conducted by the ISSA Corporate Actions Working Group?

The key findings showed that, whilst there were many common practices across different markets, a number of challenges continue to exist with ongoing lack of standardisation across jurisdictions which impacts all parties in the chain, including the complexity of enforcing consistent cross-border practices.

Why has the disclosure of beneficial ownership information received increased attention from regulators, issuers, market infrastructures and service providers?

At a macro level, efficient and accurate disclosure processes and frameworks contribute to the overall agenda of achieving greater market stability and investors protection through good corporate governance and transparency.

Transparent ownership disclosure helps investors and potential investors have better information related to the ownership structure and decision control of the issuer's company.

From issuers, regulators, and other stakeholders' perspective, knowing the correct beneficial owners of securities is a key way to prevent and detect fraud, tax evasion and/or other financial crime.

Do you think the industry needs to draw their attention to automation and standardisation to tackle some of the challenges around the disclosure of beneficial ownership information?

Further automation and standardisation will definitely help to tackle some of the challenges around the disclosure of beneficial ownership information. There will, however, need to be greater harmonisation of practices for this to be truly effective. For this to happen, there will need to be a concerted effort by all parties in the process to achieve this goal.

What other challenges are you seeing around this topic?

Innovation and new technologies will have an important role to play in coming up with more efficient solutions. This creates both an opportunity and a challenge again, given the current disparate practices and the need to gain agreement on standards and standardisation.

What can be done to help with the harmonization of practices across markets and regions in this space?

Continued focus from regulators, issuers and services providers on the topic of beneficial owner disclosure can definitely assist the harmonization efforts. Take the European initiative - the Shareholders Rights Directive (SRD) II - whose main objective is to increase the transparency and the efficiency of information flows between issuers and investors throughout the chain of intermediaries.

This offers a great opportunity for the European markets to come up with common practices and enable greater harmonisation across. Coordination of regulatory requirements and adoption of common technical standards at a cross-border level will be pivotal in its success.

Do you think there is a need for more regulation around the disclosure of beneficial ownership information?

There has already been significant effort made by all players to enable the accurate disclosure of beneficial ownership information and feedback from the market shows that regulation will likely be the biggest influencer of the process in the future too.

How do you expect this space to change over the next two years? What will be the big talking points?

The implementation of SRD II will likely herald the biggest change over the next two years. Assuming that this is implemented successfully across the EU member states, it could provide a set of common practices and levels of harmonisation that could then be utilised to drive change in a number of other markets where there is currently a lack of automation and standardization.

How will ISSA help drive change in this market?

ISSA has recently established a new working group – The New Norm – which is focused on lessons learned in securities services from the current pandemic. A number of topics which are corporate action and proxy voting related have been identified. The ISSA CA WG is now looking at best practice and guidance notes to help our members and the broader industry to implement improved practices and processes.

Jyi-chen Chueh
ISSA operating committee chair and executive sponsor of the ISSA Corporate Actions and Proxy Voting Working Group

UnaVista on SFTR

Natalie Turner reports

Catherine Talks, product head, SFTR, at UnaVista, discusses the turn-out of the SFTR go-live and whether COVID-19 has made an impact on the results

SFTR is live. How has it been so far?

The SFTR go-live has been very positive. The industry has had a high acceptance rate with many firms achieving 100 percent acceptance rate within the trade repository (TR). Those firms that are seeing rejections are very actively engaged and resolving any of the issues creating the validation breaks at the trade repository.

The industry has been very engaged in the process which is apparent in the acceptance rates we are seeing.

Were all your clients / market participants ready?

We have reached out to those firms that we thought should be reporting and believe that everyone we identified as a phase one or two reporting firm is reporting correctly. This is very positive and has been a hugely successful exercise. We have not been made aware of firms that are not reporting.

Have any questions or concerns arisen since SFTR go-live?

There aren't specific concerns that have been raised to the trade repository (TR), firms have been focussing on reviewing and resolving any validation breaks at the TR. It is likely that firms will begin to review the TR reconciliation processes and start to investigate and resolve breaks that they are seeing.

Has the pandemic created any problems throughout this process?

Initially after the outbreak of COVID-19 we saw a reduction in the firm's testing in user acceptance testing. This was expected as firms started to establish what their working from home practices would entail, ensuring business continuity. Very quickly following this, we saw the amount of testing increase and firms getting into production ready states.

Did CME leaving the TR space create any issues?

The TRs have established processes for moving clients between repositories. CME have allowed plenty of time for firms to review different TR offerings and select a new repository and then undertake the portability processes. There has been some additional work to onboard firms as a result but the process is well established and the engagement from the TRs, CME and their clients has been really positive.

Describe what the matching rates have been like so far?

The matching rates were anticipated to be lower at go live due to the different phases of reporting (reports facing phase three and four firms will not pair until those firms start reporting). We are anticipating that those reporting in the phase one and two go-live in July will begin analysing the TR reconciliation statistics and working through any differences and breaks with their counterparts, which will lead to increasing pairing and matching in the future.

Catherine Talks
Product head, SFTR
UnaVista, LSEG


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Sleeping at work

David Lewis
Senior director
FIS

David Lewis, senior director at FIS, discusses the recent upheavals and changes amid the coronavirus, and how short sellers had readily been taking positions as the pandemic gripped the market, identifying what happened when changes in spending patterns began to emerge

To say that the first half of 2020 has seen an unprecedented level of change would be to make one of the greatest understatements of recent times. Everything has changed in some way shape or form, and not all in the same direction.

During a recent meeting, socially distanced, of course, a friend that works in the film industry asked me whether it was socially acceptable to admit that changes arising from the COVID-19 crisis had benefitted him. It is easy to understand where he was coming from. Few would want to appear happy that recent events had occurred at all, but some benefits are bound to accrue for some, even if that is just more time at home with family and less time commuting. Such changes are bound to bring social benefits for some and costs for others, even if many feel now that they are sleeping at work rather than working from home.

The differences between those that benefit from the recent upheavals and those that have lost or will lose out is rarely more vivid than in the commercial performance of different industries. Much has been written about the negative impacts to airlines and cruise providers, but what of the winners, if one is permitted to call them that?

In the same way that environmental, social and governance (ESG) issues are influencing and driving changes in investment strategies, there has been a significant shift in consumer spending patterns. Lock down in the UK has, of course, been a nightmare scenario for many businesses, and especially those that rely on footfall in towns, at stations and airports, for example. Witness the collapse and closure of retail stores, coffee shops and cafes affecting the very small to the very large – your local café to John Lewis superstores.

Contrast this with online shopping, which, generically speaking has risen significantly during this period. Angus Thirlwell, the CEO of Hotel Chocolat, the luxury chocolate producer and seller with over 170 locations and more than 70 stores across the UK, observed that the trend toward online shopping they were expecting to play out over the next three years has been compressed into the past three months – and he is not expecting it to revert. Speciality chocolate is not alone. Wallpaper, fences, plants and paint have all been flying off the shelves at B&Q, part of the Kingfisher Group PLC, which also owns Castorama in France.

Kingfisher reported a 25 percent jump in sales this June compared to the prior year as people flooded to their stores and online sales to spend on their homes. With the collapse in some spending opportunities, such as for holiday travel, consumers have been looking for places to spend their money. The huge increase in working from home has meant that the DIY market has boomed. With few expecting a major return to office work in the short or medium term, this trend is potentially one that will continue for some time to come.

Short sellers had readily been taking positions as the pandemic gripped the market, but as changes in spending patterns began to emerge, those positions quickly became much more specifically targeted. The sudden and near complete closure of all commercial activity in many countries around the world put the brakes on all spending as economies ground to a halt. Short positions made good returns in many sectors as shares fell across the markets.

As Figure 1 (overleaf) shows, short sellers also took positions in Kingfisher in the first quarter of the year, rising almost 40 percent by volume between January, and the peak volume in late March. Over that same time period, Kingfisher shares plummeted from £2.20 to a low of £1.24 on 17 March, bringing those holding short positions a return of up to 44 percent.

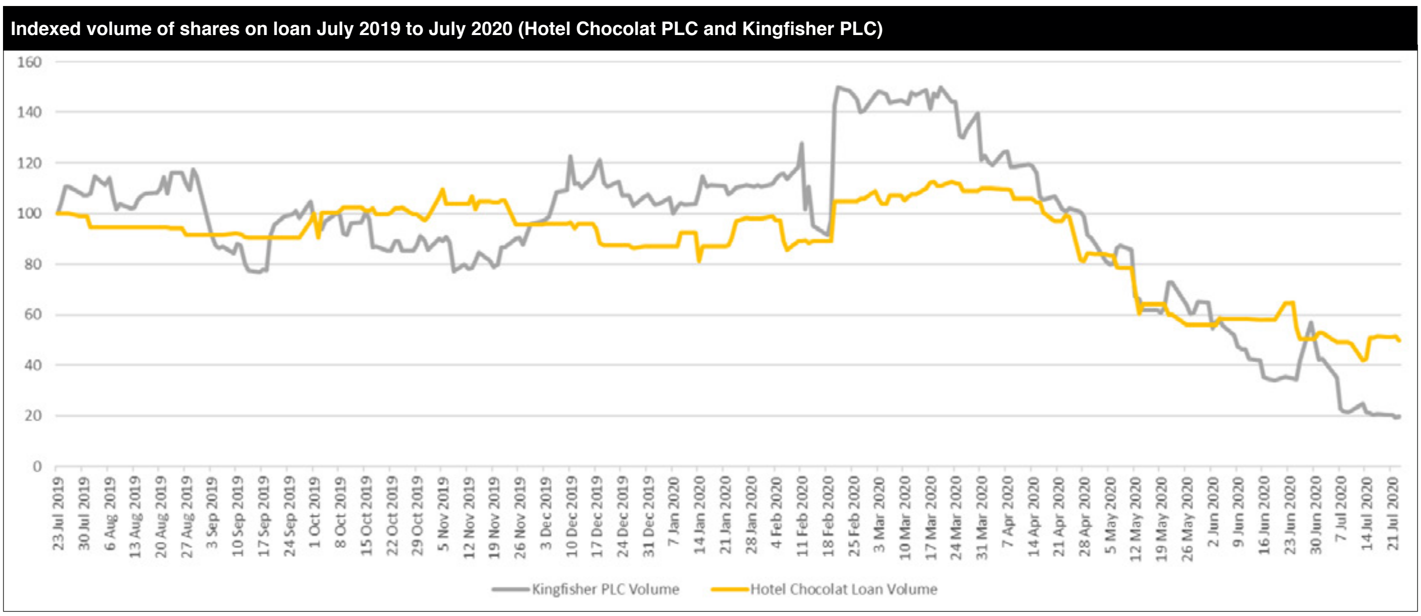
Perhaps sensing a floor or accurately predicting the shift in consumer spending as the work from home orders continued, short sellers began closing their positions and brought their exposures down by more than 86 percent by late July. Kingfisher shares peaked in the third week of July at £2.58, including a jump of 10 percent that week as the new sales figures were released. This represented a new 12-month high and a rise of some 108 percent since March.

Hotel Chocolat had seen short interest quite low during 2018, rising into 2019, but increasing little more than 10 to 15 percent during 2019 itself (see Figure 1). Q1 saw volumes rise a little, and a jump in mid-February coincided with the shares dipping toward the 12-month low of around £1.90, way below the high of £5.20 back in December 2019. However, once it became clear that the consumers' sweet tooth was not to be neglected and comfort was to be had in chocolate, the shares rebounded and short sellers melted away, cutting their positions by over half since March as the shares broke back through the £3 level.

Many expect that the move to home-working – or as some say, sleeping at work – that has affected so many is unlikely to unwind completely, which may well prolong the boom in home improvements. Major gains and losses are also to be expected in other sectors, such as biotechnology and pharmaceuticals, while structural changes in society and work will have major effects on the values of commercial real estate. Other changes seen in the first half of this year may well ring permanent changes to the way we travel, how we shop, work and how we spend our leisure time and hard-earned cash – but chocolate, it seems, can help smooth the way.

David Lewis
Senior vice president
FIS, Astec Analytics

Figure 1 | Source: FIS Astec Analytics



Upcoming Securities Finance Training

European Regulation Impacting Securities Lending

Date: 04 August 2020 17:00 (BST)
Location: Online
Provider: Consolo

This live on-line training course is designed for anyone who needs to know the background, and application of core European regulations

Corporate Events in Securities Finance

Date: 11 August 2020 08:00 (BST)
Location: Online
Provider: Consolo

This live on-line training course is designed for anyone who needs to know the background

SFTR

Date: 06 August 2020 17:00 (BST)
Location: Online
Provider: Consolo

This live online training course is designed for anyone who needs to know the background, structure, reporting obligations and timeline for delivery of the European SFT regulation

Advanced Securities Lending

Date: Get in touch for dates
Location: Online
Provider: Consolo

A two day course that builds on a basic understanding to consider the current market as well as future developments and initiatives European Market Infrastructure

Comings and goings at ESMA, Vermeg and more

Kidwell partners with Pierpoint

Pierpoint Financial Consulting, a consultancy focused on securities finance and collateral management, has partnered with repo industry expert Jeff Kidwell to take the lead on its repo courses.

Kidwell, who is based in Florida, is well-known by the securities financing industry for his expert knowledge of global and domestic repo and securities lending. He has held roles at Morgan Stanley and Cantor Fitzgerald, and was the founder of AVM, LP's Direct Repo.

Working alongside Roy Zimmerhansl, practice lead at Pierpoint, Kidwell will be responsible for the curriculum and teaching the tailored training on the repo courses.

Kidwell, has conducted repo schools internally for his prior broker/dealer employers, and publicly for several industry organisations and regulators.

Commenting on the partnership, Zimmerhansl says: "With many repo sectors forced to adapt to COVID-19 changes, with some of those sectors moving towards more in-house, remote trading, and risk and collateral management, and away from broker/dealer management. What better way to be trained than through these bespoke training courses offered by Pierpoint Consulting, featuring industry experts like Kidwell."

Hudson Fintech, the London-based capital markets technology firm have appointed two new senior executives to support its growth strategy.

Ashley Daffin, joins as director of strategic development, bringing with him over 30 years experience in capital markets fintech, which includes sales roles at HSBC, NYSE and Refinitiv, as well as working with a variety of fintech start-ups on business development.

He is currently the chair of the education committee at the Financial Markets Association (ACI), working with the foreign exchange industry to increase global code of conduct compliance.

Martin Best joins as head of business development, he will be responsible for managing client relationships.

Best, a fixed income specialist, has worked in senior sales and relationship management roles for over 30 years, including fixed income sales at Alpha Bank, Danske Bank, Commonwealth Bank of Australia, LBBW and most recently Rabobank.

Michael Walliss, CEO of Hudson Fintech says: "We are very happy to welcome Ashley and Martin to our growing team. Between them they bring over 60 years of experience in capital markets technology sales and provide unrivalled domain knowledge, business development expertise and a wealth of senior industry relationships."

"As capital markets continue to evolve Hudson Fintech is seeing an increasing demand for our technology solutions, and Ashley and Martin will each play a significant role as we continue to work with a growing list of financial institutions."

Steven Maijoor to step down as ESMA chair.

The European Securities and Markets Authority (ESMA) has started its search to fill the position of chair.

Maijoor is set to step down on 31 March 2021, after serving the maximum 10-year term permitted under ESMA regulations.

Maijoor's successor will be confirmed by the European Parliament and formally appointed by the Council of the European Union.

Based in Paris, the position is a full-time independent professional as the head and external representative of ESMA, with responsibilities including development of the authority's long-term strategy and objectives.

The chair will also act as a voting member of the board of supervisors and the management board.

During the application process, which closes on 2 September, candidates will be interviewed by both the selection board and the board of supervisors before the commission forms a shortlist.

Following council confirmation, Maijoor's successor will begin on 1 April 2021 under a five-year contract.

Collateral management expert leaves Vermeg

Richard Gomm, the head of COLLINE business solutions at Vermeg, parts ways with the Tunisian financial software developer.

Gomm, who is based in London, held the role of head of COLLINE business solutions for just shy of a year whilst simultaneously serving as head of Europe, Middle East and Africa (EMEA) collateral management and a product consultant for more than six years at Vermeg.

Vermeg acquired Lombard Risk incorporating the COLLINE business line in 2018.

The former head of EMEA served at Deutsche Bank from February 2011 to 2014 in collateral management and client clearing.

Before that, he was a business analyst at Newedge and a collateral management analyst at Mizuho International specialising in repo and securities lending management.