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Trade takeover

As Mike Norwood takes over as global trading product owner at EquiLend, he talks through the challenges of the day and the growth of electronic trading

Malik's Memo

An era of automated electronic contract formation has begun with the benefits set to extend to securities lending and its GMSLA

Pan[illegible]iscussion

ISLA's CS[illegible]ing group ass[illegible] current st[illegible] pla[illegible] for CSDR i[illegible]e of a furth[illegible]y and l[illegible]ering t[illegible] issues

News In-Brief

Catch up on the essential securities finance headlines of the past two weeks in a new, easy-to-digest format

South Korea short selling ban extended to 2021

South Korea's financial regulator today confirms that the pandemic-inspired short selling ban that was due to expire on 16 September will now be extended until 15 March.

The Financial Services Commission (FSC) cited concerns over fresh market volatility caused by a resurgence in COVID-19 cases in the country as justification for the six-month push back.

Additionally, the regulator — which has traditionally taken a hawkish view on short sellers at the best of times — is set to ratchet up penalties on illegal short selling activities. Specific details on what this means in practice are not yet available.

The East Asian nation imposed a ban on constituents of the KOPSI, KOSDAQ and KONEX indexes in March as equities prices tumbled in reaction to the initial spike in COVID-19 infections that was significantly disrupting the length and breadth of the economy.

South Korea has so far been hailed as a success story in the global battle against the pandemic but, as the country and the world re-opens from lockdown, domestic infection rates are spiking to their highest levels since mid-March.

According to Worldometer's COVID-19 tracker, South Korea is currently recording several hundred new cases of COVID-19 a day, compared to only a few dozen per day at the beginning of August.

Commenting on the FSC's decision, the Pan Asia Securities Lending Association (PASLA) warns that "regulated, transparent and covered short-selling is an important characteristic of developed equity markets globally".

The trade body adds that an active short selling market helps to create liquidity, reduce costs for market participants, manage risk in investors' portfolios and encourage good corporate governance.

"Over the long term, we believe that markets in which participants can express different views will be more resilient, more attractive to global institutional investors and better positioned to support economic growth and prosperity," PASLA states.

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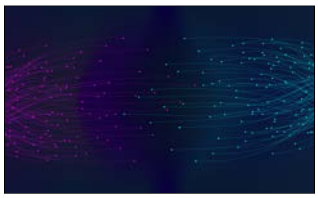

Publisher: Justin Lawson
Justinlawson@securitieslendingtimes.com
+44 (0) 208 075 0929

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

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

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

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

Marketing director: Steven Lafferty
design@securitieslendingtimes.com

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South Korea short selling ban extended to 2021

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In the same market note, the FSC confirms that the buyback limits for listed companies will also be extended during the additional six-month period.

Elsewhere in the note, the regulator also commits to improving the accessibility of retail investors to the short selling market. Again, specific details on this matter are not yet forthcoming.

Meanwhile, the blanket ban on short selling has unsurprisingly had a dampening effect on South Korean securities lending revenue.

IHS Markit data reveals that South Korean lending revenue for July only reached $14.9 million, down 54 percent year-on-year and representing the market's lowest value for any month this year.

Cappitech facilitates the first data porting for CME clients to REGIS-TR

Cappitech, a provider of regulatory reporting, has completed the first vendor-led porting of all relevant trade reporting data from CME's outgoing trade repositories (TR).

Earlier this year, the US derivatives exchange CME Group was forced to begin winding down its NEX's Abide regulatory reporting and TR product suite after failing to offload the businesses.

Reporting to REGIS-TR, the data from this first group of clients purposely represented several different financial institutions types and asset classes, ensuring that the porting will work across the industry, says Cappitech.

Unlike porting from an existing TR to another TR where only open positions need to be ported, the European Market Infrastructure Regulation (EMIR) requires a full history of both open and closed positions to be ported in the case of a TR winding down.

Consequently, all CME-held open and closed trade data since 2014, when EMIR came into existence, need to be ported, totalling billions of records. This is "a massive undertaking," Cappitech explains.

The Israeli-based firm is therefore offering to transfer CME clients' data to REGIS-TR or other TR and make any necessary amendments to the reporting to align it with the new TR's requirements.

Ronen Kertis, Cappitech CEO and founder, comments: "The extraordinary high volumes of data means that slots for this porting need to be booked in advance and can only be achieved over weekends when markets are closed.

Porting slots prior to the 20 November deadline when CME will cease its TR activities are already being filled quickly, Kertis adds..

"Vendors and TRs need to be fully engaged with clients to ensure this can be completed in time," he explains. "Last weekend, our porting went smoothly with a great job performed by the REGIS-TR, CME and Cappitech staff and we have a clear plan for further porting the reminder of our clients during the upcoming weekends."

Lars Holst, CEO of GCEX, one of the clients involved in the initial port, says: "Porting went very smoothly from CME to REGIS-TR and Cappitech was vigilant in providing the transparency we needed throughout the process. We are happy that this huge undertaking is now successfully behind us."

Meanwhile, Thomas Steimann, CEO of REGIS-TR SA, says: “The successful porting of the first tranche of accounts from CME last weekend represents an important milestone and, in this regard, I very much look forward to the continued development of our long-term strategic partnership.”

SIX reports strong H1 figures

SIX has reported a total operating income of CHF 624.1 million ($686.2 million) for H1 2020, marking a 7.6 percent year-on-year increase despite global market turmoil and volatility.

The Swiss financial infrastructure operator also saw a 32.7 percent increase in earnings compared to last year before interest, taxes, depreciation and amortisation (EBITDA) to CHF 151.6 million ($166.7 million).

It revealed a group net profit of CHF 184.2 million for H1 2020 ($202.5 million).

SIX attributed these increases to its diversified portfolio and the completion of the 10.1 million Worldline shares sale in April.

Although securities and exchanges reported a year-on-year increase of 59.4 percent owing to higher trading and post-trading activities, this was offset by a 30.2 percent decrease in SIX’s banking services business unit, partially due to the COVID-19 lockdown.

It was also noted that operating expenses saw a small uptick of 2 percent owing to higher merger and acquisition (M&A) activity, as well as increased revenues.

SIX’s recent M&A activity includes the acquisition of Bolsas y Mercados Españoles (BME) earlier in June to strengthen its diversified European presence as the third largest European financial market infrastructure group.

The planning of the operational integration of BME into SIX is underway, with several board changes in July.

In addition to this, SIX will also be focusing on implementing a new strategy for the financial

information business unit, including analytics and alternative data that covers environmental, social and governance criteria.

SGX partners with Cassini Systems ahead of UMR

The Singapore Exchange (SGX) and Cassini Systems, a provider of pre- and post-trade margin and collateral analytics for derivatives markets, have partnered to provide a free service for market participants to prepare them for the Uncleared Margin Rules (UMR) requirements.

SGX aims to leverage Cassini's domain expertise to provide market users with complimentary analysis to determine their average aggregate notional amount (AANA).

The AANA represents the gross value of open, non-centrally cleared derivatives positions, international regulators use the AANA to determine whether a firm falls in scope for each phase of UMR.

Phases five and six of UMR will come into effect in September 2021 and 2022 respectively.

By September 2022, more than a thousand firms will be impacted by UMR, says SGX's head of FX KC Lam who explains that for this reason "it is important to start planning now".
In-scope entities are subject to a mandatory exchange of initial margin (IM) with their counterparties for their bilateral over-the-counter (OTC) agreements of more than the $50 million IM threshold per counterpart.

SGX and Cassini are offering the service in advance so firms potentially meeting the $50 billion AANA threshold can take steps now to assess their status, adjust their positions and look for alternatives to certain non cleared products.

The partners also confirmed they plan on educating and raising awareness among market participants on the process for complying with UMR, through webinars in the coming months.
Liam Huxley, CEO and founder of Cassini, explains: "Those firms that conceivably could fall

in scope for phase five should immediately begin efforts to understand their AANA and strategise on how they might identify opportunities to re-allocate their portfolio, reduce their margin obligations to potentially achieve substantial cost savings and delay falling in scope while still meeting their trading goals."

He adds that "if they wait until it's time to report the information to the regulator, it's often too late to make these adjustments".

ISLA: SBL was stable and resilient in H1

The securities lending industry showed itself to be stable and resilient in the face of extreme trading conditions in H1, says the International Securities Lending Association (ISLA).

In its 13th market report, the association says that the market's infrastructure was tested to its extremes, with at times more than 40 percent additional trading volumes and thousands of attendant margin movements. Despite this "the operational framework around the industry performed well," ISLA argues.

"Taking stock on the first six months of this year and how securities lending fared during this period, the overall feeling from across our industry is one of stability and resilience" ISLA adds. Elsewhere, ISLA notes that overall securities lending activity returned to normal levels around July, with outstanding on-loan balances closing the six month period at €2.2 trillion, down from €2.3 trillion reported at the end of December.

However, a review using this timeframe belies the true scale of upheaval the market endured during that period.

DataLend figures show that the value of securities in lending programmes fell significantly at the end of February and into March, as equity markets reacted to COVID-19 concerns.

Between 19 February and 23 March, the S&P 500 fell by more than 33 percent, which ISLA says highlights the intrinsic link between lending pools and market valuations.

Exclusive: Introducing Raising Castle

The new fintech firm has hit the market with an ambitious suite of services starting with a fully-customisable trading dashboard that connects to the market's various service and data providers to integrate an approach of AR trading dedicated to OTC Markets

A new EU fintech firm, Raising Castle (RC), is launching a suite of web-based services that aims to disrupt what it describes as an inefficient and fragmented global securities finance and repo markets.

The firm is the creation of start-up veteran Arnaud Lamour, securities lending and collateral management specialist Bernard Brion, and former-Societe Generale (SG) head of trading, James Wolff.

Lamour has previously founded and run several companies including French consulting firm, ALFI, which he sold in 2015. He now serves as RC's CEO.

Brion, who is RC's chief technology officer, has spent the past six years as a managing partner with STEPS PARTNERS. He also brings experience from eight years in the securities finance and collateral management business of Caceis and the six years prior with ALFI, as a manager.

They are joined by Wolff who was a BNP Paribas Securities Services securities lending trader from 1997 to 2005 before moving to SG Securities Services as head of principal and agency trading until April 2019. At RC, he is head of client development.

The trio has come together to create a suite of solutions that will tackle the technology-related inefficiencies and challenges they faced during their careers.

RC's development pipeline will eventually lead to the launch of three distinct but complementary offerings dubbed the SecFinLab, SecFin Access and SecFin Exchange.

The existing roadmap will see the three main modules released mid-2020, mid-2022 and December 2022 respectively, with a number of other additional functionalities peppered along the way.

Although the suite will be web-based to avoid implementation hurdles, RC will not be cloud-hosted.

According to Wolff, the prospect of being cloud-hosted had raised concerns with prospective clients that had expressed doubts regarding the cybersecurity capabilities of cloud providers and the potential it to cause compliance headaches.

RC aims to bring a change in this activity's approach by allowing players to focus on their market expectations

SecFinLab

SecFinLab is the firm's initial offering and includes a web-based, fully-customisable dynamic Trading Book dashboard bolstered by machine learning and artificial intelligence capabilities.

RC will provide generic templates but the dashboard it is meant to be adapted and re-built to best serve each user's specific needs by filtering by geographic region, asset class or any other metric that a trader might need to see.

SecFinLab will have connectivity to all the market's service and data provider and allow traders the flexibility to build a unique tool with widgets that bring together all data sources into a single window to track trading activity.

SecFinLab's other modules will include a trade workflow interconnected with back office and counterparties, a FastPush module for locate screens, mass booking and fast returns. With artificial Intelligence and full connectivity to data providers SFL aims at making trading simpleand intuitive, accelerate transaction processing from pre to post-trade.

With those powerful algorithms and easily scalable screens, SecFinLab aims at bringing collateral management at the heart of trading and regarded as a source of revenues.

"Traders spend about 70 percent of their time looking for information and improving systems and other administrative work which represent a lot of time when they aren't focused on seeking trading opportunities. We believe traders need to be put upfront to access their full value," Wolff explains.

To begin, he adds, SecFinLab will first be targeted at buy and sell side securities finance players (banks and agent lenders) then tier-two clients including pension funds, insurance companies, asset managers and smaller banks.

SecFinAccess

The second module of RC's offering is currently scheduled for release beginning 2022 and will offer remote access to a specific dashboard tailored by each market sector.

"If you're an agent lender with 100 clients and 10 of those are asking for instant trading and collateral modifications, reporting, that's where we come in," Wolff says

SecFinAccess will allow those underlying beneficial owners to set up their own dashboards to steer and review their securities lending activity related to their portfolio in real time. Lenders will

also be able to instantly implement or amend restrictions, such as for what collateral is acceptable.

Wolff says this tool will become increasingly attractive to lenders as they become more proactive in their programmes and seek to implement environmental, social and governance (ESG) standards.

SecFinExchange

Due in Q4 2022, SecFinExchange will, as the name suggests, turn RC's network into a peer-to- peer exchange. The Exchange will be aimed at clients that are active every day in the market and will organise a dynamic order book.

Vietnam mulls legalising short selling

The Securities and Exchange Commission is preparing to allow securities companies to undertake repos and reverse repos with all types of investors in transactions in listed securities and unit trusts.

Brokerage firms, investment advisors, underwriters, fund managers, providers of credit for securities business, and derivatives business operators will be allowed to conduct repos on the same basis as securities companies.

Read full article online

Wirecard to be cut from DAX 30

German fintech giant Wirecard is the first DAX 30 member to be removed due to insolvency following a multi-billion euro fraud.

The payment processor joined Germany's premier index in 2018 by usurping Commerzbank but was now itself be replaced on 24 August by Delivery Hero SE. The fall from grace comes after a group of activist short sellers uncovered prolific accounting fraud and brazen attempt at embezzlement by Wirecard management.

Read full article online

Clearstream selects WM Gruppe for SRD II

Clearstream has selected WM Gruppe to meet requirements under the second Shareholder Rights Directive, which comes into force on 3 September.

As part of the agreement, Clearstream will be able to access the WM-SRD-Hub technology platform for its three central securities depositories LuxCSD, Clearstream Banking S.A. and Clearstream Banking AG.

Read full article online

Central banks to cut 7-day US dollar liquidity timetable

The European Central Bank, the Bank of England, the Bank of Japan and the Swiss National Bank are in consultation with the Federal Reserve are further reducing the frequency of their seven-day US dollar liquidity operations due to a lack of demand. From 1 September, operations will be cut from three times per week to once per week.

The enhanced schedule was implemented during the worst of the pandemic-fuelled market turmoil in Q1.

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SteelEye unveils auto-trade reconstruction capabilities

The new technology product aims leverage artificial intelligence, machine learning, and advanced data relationships to reduce the timeline of trade reconstructions from days to seconds.

According to SteelEye, the platform captures a firm's structured and unstructured data across any asset-class, communication type and system.

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SimCorp-deltaconX solution gets full marks

PGGM, one of Europe's largest pension funds, has endorsed the SimCorp-deltaconX cloud-based Securities Financing Transactions Regulation solution after a month of reporting.

Since the regulation went live in July, PGGM, which boasts assets under management of €252 billion (as of December 2019), processed more than 320 trades and 590 valuations.

Read full article online

Seb Malik
Head of financial law
Market FinReg

Contract automation drive brings cautious optimism

We are entering an era of automated electronic contract formation with the benefits set to extend to securities lending and its Global Master Securities Lending Agreement (GMSLA).

I have been following the International Swaps and Derivatives Association's (ISDA's) master agreement for some time and noted its recent acceleration of automated contract formation. ISDA and the International Securities Lending Association (ISLA) have agreed to collaborate with the latter committing to "work to model and code specific securities financing transactions components for inclusion in the [Common Domain Model], creating greater alignment between derivatives and securities lending markets."

I welcome this move. ISDA has been leading the way with the rolling out of a digital clause library that contains 42 standardised amendment clauses, selected following analysis of 50,000 samples from 3000 ISDA master agreements. In tandem, ISDA Create — a new platform that allows firms to negotiate and execute derivatives documentation online — will allow lawyers to digitally create contracts by clicking on clauses in a checkbox exercise.

These twin projects come under the purview of ISDA's standardise to digitise policy. Standardisation, the creation of a Common Domain Model (CDM) and standard amending clauses are a sine qua non for digitisation. As ISDA's CEO explains: "The CDM establishes a standard set of digital representations for events and processes that occur throughout the lifecycle of a trade. Aligning our documentation and definitions with these standards is critical to enable scalable automation."

ISLA is set to port these concepts over to the GMSLA. The benefits are obvious. Days spent reviewing and amending documentation are whittled down to hours, drastically shortening negotiating times with concomitant cost savings.

My concern has been a whiff of complacency. I have no doubt the number of ISDA master agreement negotiator lawyers will diminish proportional to the adoption of digital contract formation. And this is understandable.

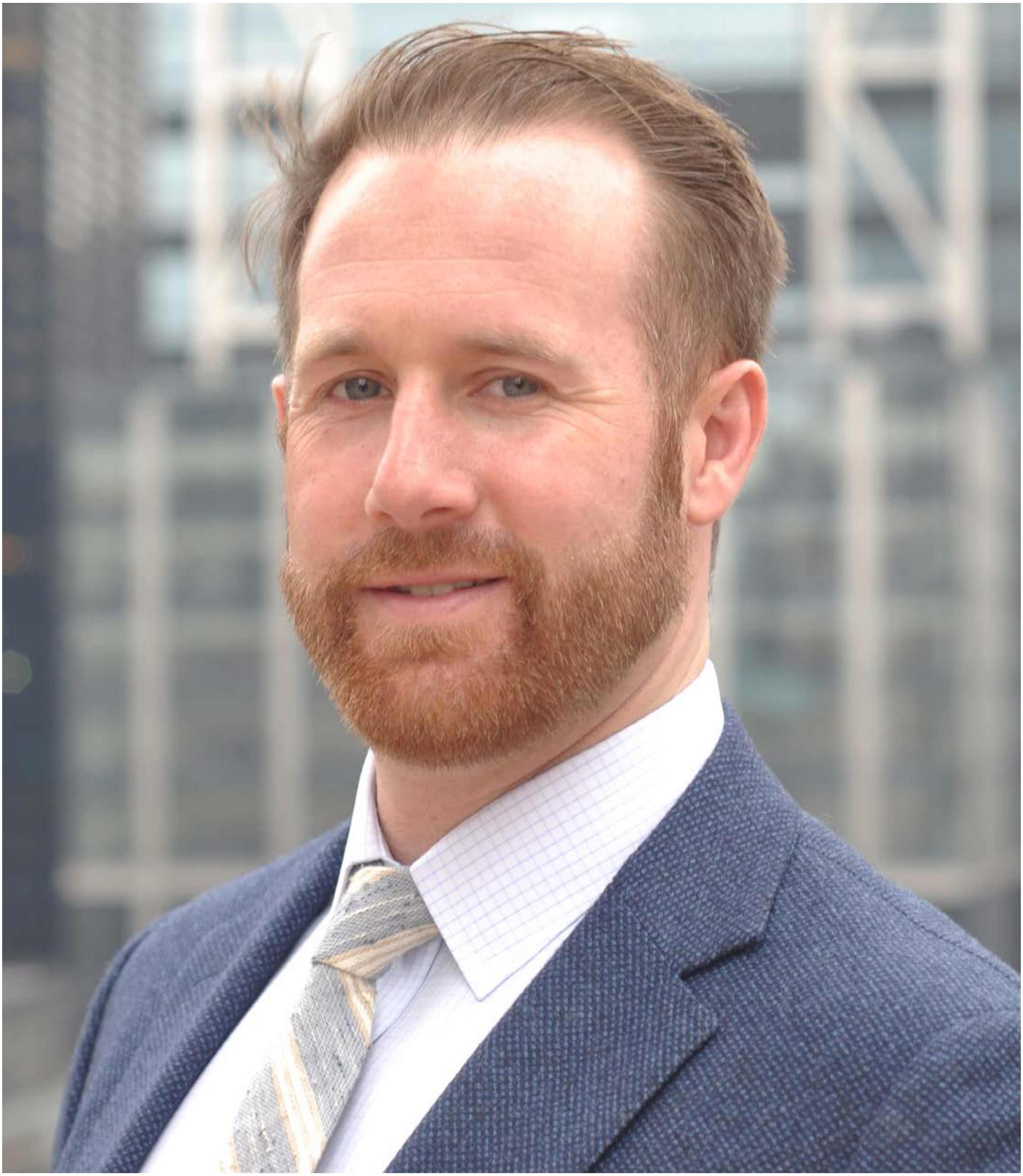
But while I partake in the romp of enthusiasm one should guard against throwing caution to the wind. Automated contract formation, much like the derivatives they govern, is a double-edged sword that requires careful handling. Used correctly, legal risk can be reduced and efficiency increased, yet used recklessly without sufficient human oversight, scrutiny and probing, digital contract formation will prove harmful and, in extremis, ruinous.

Why? Because master agreements are not without flaws and clauses are sometimes the result of imperfect compromises between lawyers from different member firms with competing interests. The human mind is not omnipotent and will often fail to envisage scenarios that seem remote at the time of contract execution. The chances of idiosyncratic scenarios being detected and mitigated are increased if a contract is individually negotiated by a lawyer based at a contracting firm who is better placed to understand the nuances of the firm, its risk profile, risk tolerance and trading objectives. This discerning mind, nuance and sensitivity risks being sacrificed at the alter of digitisation and efficiency. Sensible firms will retain careful human oversight during master agreement formation and reap the rewards of digitisation. It is equally true that some firms will become complacent, and come to rue the penny pinching if disputes occur later.

I recently spoke to a former head of research of ISDA who explained how every time he landed at London Heathrow he was haunted by the famous Hazel v Hammersmith and Fulham London Borough Council [1992] where the law lords voided ISDA-negotiated interest rate swap agreements ab initio due to lack of capacity to contract.

More recently in the infamous Lomas v Rix, lengthy and complicated litigation ensued arguing over whether payment was ever due if a counterparty was subject to an event of default in one transaction, who was never-the-less owed money by the non-defaulting counterparty on a net-basis but that the latter – not wishing to pay, refused indefinitely to serve a notice of default. This had the effect of something of a legal limbo. ISDA intervened in the case, and in the aftermath rushed out an amending clause to add a time limit.

ISLA's membership must ensure the lessons of Lomas v Rix are at the fore as they embark on standardisation and digitisation. This project will lead to huge efficiency savings for most – but will cause large losses for the reckless who blindly rely on them.



The EquiLend trading product takeover

Natalie Turner reports

As Mike Norwood takes over as global trading product owner at EquiLend, he talks through the challenges of remote working, how trends around the growth of electronic trading in securities finance have been over the last several years and what the future holds for innovation in securities finance technology

Tell us about yourself and what role you have taken on most recently.

I have recently taken over as global trading product owner at EquiLend. My responsibilities are the strategic direction of NGT and of our collateral trading product.

In terms of driving that forward, I am making sure that we are engaged with clients, making sure we have a handle on development enhancements, the strategy of where we are taking our product and our platform, and how we integrate with our clients and other EquiLend products as well.

It's an exciting role for me. I've had the luxury of stepping into a successful product that is in really good shape. Roughly 63 percent of trades executed across the industry come through NGT today, which is a great spot to build from. Part of my initial remit is looking at how we can improve those figures, how we can continue to deliver additional value to our clients and how we can make the platform even more successful starting from a very strong position.

Previously, I was running the North American post trade group for EquiLend, responsible in the region for unified comparison, recalls, returns our other post-trade services, as well as supporting our Securities Financing Transactions Regulation (SFTR) service launch that we had in July.

What was your background prior to EquiLend?

I spent 12 years at Brown Brothers Harriman, all within the securities lending business. I worked across operations, recalls, settlement, and non-cash collateral. I then became a business analyst working with the trading team to actually implement some of the EquiLend products and other vendor products. Ultimately, I ended up there as head of product development and business technology, where I was responsible for setting our technology road maps, managing vendor technology relationships, and overseeing all product development activities.

What plans do you and EquiLend have in place for NGT in the coming year?

Given the industry adoption of NGT in the general collateral space in particular, an area of focus for us over the next year will be expanding automation and straight-through processing (STP) in the hard to borrow and fixed income spaces in particular.

Understanding that the impediment here is largely behavioural rather than technical, we plan to provide additional functionality that allows users to implement necessary controls and validations against hard to borrow securities in order to make it more appealing to take advantage of the existing functionality.

On top of that, we will introduce more transparency into the platform, giving users statistics and analytics around what is happening with their indications of interest (IOIs), availability workflows and orders. There are still too many trades being done manually for our market to be as efficient as it can be.

For us to help increase this efficiency, we are working with our users to understand what tools they require to embrace automation and focus on value-add activities. Beyond NGT, we also plan further enhancements to our collateral trading product, including STP capabilities and support for equity-for-equity baskets.

How has remote working affected your securities finance trading business and your transition to this new role?

Coming into the new role, NGT was already well established and widely used in the industry. We've seen volumes increase significantly on the platform since the pandemic. Just in March this year, there was a 50 percent increase in the notional value traded over NGT compared to last year. So it is a unique time to take over as product owner.

Firms are adjusting to this new environment and adapting to working from home. One way to achieve that is to rely on our automated tools, relying on that STP to get through as they adjust to dealing with fewer screens and constrained resources. Multi-tasking can be more difficult remotely, so allowing STP processes to run in the background and handle the bulk of trade executions frees you up to focus on your more value-add activities such as conversations with your counterparts, managing book levels, and staying on top of what's happening in the marketplace.

How much has electronic trading in securities finance grown in recent years and what is it looking like today?

As of July, notional balances traded over NGT are up about 15 percent over the past two years. It has trended up steadily for several years. We are up 25 percent in terms of trade count over that same period. The performance of NGT throughout the pandemic has proven the value of electronic trading, both in regular periods and in times of market stress.

What are EquiLend's market engagement initiatives?

I'm trying to connect with clients in my new capacity to understand their needs and understand any challenges they may have in optimising their use of NGT. I want to know ways we can improve and continue to deliver value. Personally, I helped implement NGT from a client perspective in my previous role. I am familiar with the technical challenges. From a business perspective, we are working with traders to identify ways that we can make their lives a bit easier as no one expects remote working to go away any time soon, unfortunately. There's a benefit to working from home in terms of flexibility, but it can make it harder to do some things, so engaging and determining what we can do to help during this time is something I'm focused on. For the trades that are done off the platform in a manual way, either over the phone or via chat, we are assessing how we can help make negotiations of those transactions easier with automation.

We are committed to continuing to improve STP rates across the industry and evaluating whether there are any structural impediments to transacting over our platform, and if there are, what can we do to help resolve that.

For example, we have had significant success in terms of reducing break rates for trades that have been agreed over NGT. Historically, the break rate for trades negotiated manually, off-platform, that we see in our post-trade suite is between 25-30 percent. If you look at trades that are agreed on NGT and submitted to post-trade, the break rate is less than 1 percent. That is a drastic improvement.

However, by day three of a transaction, that 1 percent break rate can increase to a 20 percent break rate, and that's down to the manual processing that currently exists once a trade has actually been executed.

We aim to bring those same efficiencies to the post-execution space, including lifecycle events such as rate changes, loan and return matching pre-settlement, rebooks, allocations, all the way through to corporate events.

The current post-trade paradigm in the securities finance market, which is focused on manually fixing breaks, is a very inefficient use of resources. We are working on bringing to the lifecycle management space the same efficiencies we brought to the market with the launch of NGT.

SFTR's initial go-live is in the rearview mirror. What's next?

We still have to get through the October implementation of SFTR, ensuring that the bilateral reporting works successfully, and making sure that we are partnering with our clients to address any concerns they have around the initial go-live of SFTR. We must work together to iron out any kinks in the process and reduce breaks to as low a level as possible. Beyond that, it's how we make incremental improvements to the NGT platform for us to allow clients to receive additional benefits and put additional volume through it by reducing some of the technology hurdles they may face.

We are excited for what's to come in 2021, where the new normal lands in terms of remote working and in-office working, and for the process transformation we will be rolling out for the market in the coming year.

ISLA INTERNATIONAL SECURITIES LENDING ASSOCIATION

ISLA CSDR working group panel discussion

SLT catches up with some of ISLA's CSDR working group to assess the current state-of-play for CSDR in the wake of a further delay and lingering technical issues with the regime

Panellists

Adrian Dale
Head of regulation and market practise
ISLA

Anna De Winton
Senior manager, global markets tax projects
BNP Paribas

Kristian Hayes
Vice president, EMEA projects and Solutions
State Street Global Markets

Andy Krangel
Director, agency securities lending product development
Citi

CSDR has been delayed again but the industry's concerns remain unaddressed. Until regulators are willing to grasp the nettle on the flaws with the settlement discipline regime a delay alone will not solve the problems. Do you agree?

Adrian Dale: With COVID-19 and its associated historically unprecedented impacts to markets, economies and our daily lives, the delay is of course very welcome. However, by itself, it won't solve the array of fundamental problems which made it impossible to implement without negative impact. Also, while taking a break from a problem and returning with a fresh perspective can sometimes be helpful, that doesn't apply to the Central Securities Depositories Regulation (CSDR) as the foundation of the settlement discipline regime is the root cause.

It may be that we see proof of how difficult it is to make 1+1=3 when we consider how long markets have been waiting for regulatory clarifications. So yes, I do agree with your statement and sincerely hope that the level one text can be revised to align with the recent suggestions submitted to the European Securities and Markets Authority's (ESMA) CDSR review.

Anna De Winton: We were very pleased to see the latest proposals for a delay, but just a delay without changes to the regime will not ultimately deal with industry concerns. We are hopeful that the authorities will take this opportunity to really re-examine whether all the measures as originally proposed meet their objectives, and make changes. The regime needs to genuinely improve discipline, whenever it is enacted.

Kristian Hayes: Yes, I would agree. At this point in time, I think it is fair to say that the scope of securities financing transactions impacted by the regime is all-encompassing. However, many would argue that there is a strong case for securities lending activities (loan/return/collateral) to be declared out-of-scope simply due to: The way lending activity is instructed in the market (often outside the defined T+2 market cycle); the fact that the majority of market-facing instructions are being managed through a clearing account at a bulk (multi-allocation or fund) level, as opposed to single-allocation or fund level; and the mechanisms we already have available and in place to mitigate and punish failing activity. These include rate increases, lending restrictions and client sale fail cost claims, etc.

Andy Krangel: I do not consider it correct to solely attribute these issues to the regulators. Securities finance settlement rates are far from perfect and the industry can also contribute to ongoing challenges. However, the nuances of the securities finance market and the different reasons why lenders and borrowers participate in the market are not always reflected in how regulation is drafted.

In relation to how securities finance trades the current drafted, CSDR regulation is not really suited to the market practice. However, it is welcome news that the regulators have asked participants for their views again and hopefully a more appropriate set of rules will be introduced.

ISLA's CSDR working group has focused its efforts on opportunities to review how out-dated market practices could be updated. How has this gone and has SFTR helped change practices?

De Winton: The working groups provide a great space for discussion about how practices could improve, and to hear how peers deal with issues that we all have in common. The best practice guides that are being created out of those discussions are really useful output, and should lead to CSDR is being used as a vehicle for driving more efficiency in general. The Securities Financing Transactions Regulation (SFTR) was also a very useful building block in this process as it has led to an increased focus on data quality and early matching.

Krangel: Whenever I participate in an International Securities Lending Association (ISLA) working group it is always pleasing to see how all the participants in the lending chain work together to find the best solution possible for all parties involved. The CSDR working group was another great example of that. It is important that market practices work for all participants, otherwise there will be a reluctance for those with less benefit to work to those solutions.

Having said that, there is always a strong focus on the impact on beneficial owners as ultimately they are providing the market liquidity. To illustrate this one of the key items of focus for the CSDR working group was to look at the reasons behind failing transactions and come up with best practices to reduce that risk.

An example is failing loans. The working group understood that if a lender sold stock after agreeing to a loan it would be unreasonable to expect them to deliver on the loan and then buy them in when they couldn't deliver. The best practice, therefore, focused on giving the borrower reasonable notice so that an alternative position could be located.

Dale: The ISLA CSDR Settlement Discipline (Sep 2019) paper contained approximately 60 proposals for improving practices. Those proposals have been addressed in further CSDR and best practice working groups with outcomes and conclusions being published in the ISLA handbook or related meeting minutes. Many aspects have also been addressed by vendors who either already had solutions in place or developed additional functionality.

SFTR will be helpful with some aspects of settlement efficiency that relate to counterparty reconciliation and notification. SFTR has also clearly increased standardisation and that momentum continues in the work we are doing on digitalising best practice as part of the Common Domain Model pilot, which will take us even further in defining practises that will ultimately solve many of the legacy issues identified.

Hayes: SFTR delivers greater transparency on our activities, which is great, but that does not guarantee that a transaction will settle on the intended date. Our approach has been to encourage member firms to consider how both SFTR obligations and CSDR impact affect their own execution practices (loan and return) and their associated transaction/instruction management controls.

Due to the way our industry currently operates — same day collateralisation, same-day execution, and relaxed fails management — we all appreciate that failing activity cannot be fully eradicated. However, we should all work collaboratively towards identifying trends and making changes to the way we operate, helping to minimise fail risk, fail volume and fail impact.

We know that securities lending fails are typically caused by market mismatches (trade data and standing settlement instructions (SSI) differences), a lack of available inventory on ISD (borrowers do not have inventory to settle returns; lenders do not have inventory to settle loans) or delayed/late collateralisation. So, the key is for every firm to work towards minimising and preventing fails where it is possible.

The CSDR working group is made up of a suitable mix of small and medium-sized enterprises from both the lender and borrower communities. We have worked on reaching an 'aspirational best practice' consensus for the good of all parties while also recognising that every firm has different capabilities. Where possible, we are encouraging firms to be more flexible by utilising automation and vendor post-trade services to improve pre-matching on the transaction date, improve the timing of exposure agreement and collateralisation and move to a T+0 return model.

ISLA, ICMA and other industry stakeholders have repeatedly voiced reservations around the mandatory buy-in element of the regime. What should be done (either by regulators or market participants) to put this issue to bed?

Hayes: We need to continue to highlight the fact that the vast majority of securities lending-related fails do not actually cause any party significant harm or risk. This raises the question of why would either party (lender or borrower) wish to arrange a buy-in? From my perspective, if our members are managing their activities and their fails proactively, we should not see a high volume of fails that would age for more than three business days. Therefore, we should see a low volume of fails that could then lead to a mandatory buy-in.

Krangel: From a regulatory perspective the view of the working group was securities finance transactions should not be subject to mandatory buy-ins. This was articulated in the ISLA response to the regulator's recent request for feedback. That doesn't mean the securities finance industry doesn't need to improve its processes and settlement rates. While failing returns may create an operational burden, the penalty regime should be a sufficient incentive for member firms to take action in that regard.

Additionally, securities finance trades already have adequate contractual protection for both parties to deal with failed deliveries and the mandatory buy-in regime adds no additional benefit.

The vast majority of stock loan movements that fail are standard returns where the lender continues to be compensated and does not need the stock to cover an underlying delivery. If there is a failed recall for a sale that goes to buy-in the beneficial owner's end goal is to end up with a cash equivalent to sale proceeds. not to have to use a mandated buy-in agent to repurchase the stock.

Dale: ISLA continues to advocate that the use of SFTs in itself is a tool used to reduce settlement fails in the cash market and imposing mandatory buy-in's on securities lending transactions will cause a major problem for market makers and liquidity providers.

Nevertheless, if the buy-in regime under article seven is to be adopted, regulators and policymakers must conduct a thorough impact assessment over a period and address the nuances via a formal public review before introducing it as mandatory.

De Winton: Mandatory buy-ins could be problematic for two reasons. Firstly, there remain significant uncertainties about how the regime should operate in the regulatory texts as we currently have them. Secondly, mandatory buy-ins are likely to cause issues of market dislocation in their current form and could significantly inhibit firms' ability to fund themselves efficiently. We think the impact of buy-ins on the market as a whole, not simply as a post-trade mechanism, needs to be considered.

Regulators could bring in other, clearer, aspects of the regime first and then carefully study the impact they have on settlement discipline. If, after a suitable implementation period to clarify the gaps in the rules, improvement has not been seen, only then should mandatory buy-ins be introduced.

Obviously most of the work there is for the regulators to do, but market participants should both continue to engage constructively with the work to make the regime practical and workable and to make efforts to improve discipline without the need for mandatory buy-ins.

Among the concerns highlighted by ICMA on behalf of its members is that there is only one buy-in agent currently expected to be active when CSDR goes live. Do you have any concerns in this regard?

De Winton: Yes. The fact there is only one buy-in agent in the market is one of the practical issues and speaks to the wider uncertainties about how the regime is meant to work.

Krangel: This is a bigger issue for beneficial owners. Lack of competition in the buy-in agent space could lead to unnecessarily high costs for beneficial owners for a service they would hope to use infrequently.

In respect of lending transactions if we manage our business correctly we really shouldn't get to a point where stock loan transactions themselves are subject to mandatory buy-in.

From an agent lender perspective, we would not agree a loan without sufficient position in the box and if the beneficial owner sold the stock pre-delivery of the loan that sale would take the box position and prevent the loan instruction going to market. If there is no matched loan instruction there is no mandatory buy-in.

In respect of returns, the working group agreed the best practice is to cancel failing returns prior to the mandatory buy-in date. This would apply to recalls as well. If a matched return is failing it is because the borrower is short so they should cancel and rebook when they have a position available.

If the return was a recall for a client sale the client sale would be bought in and the borrower would compensate the lender via a cash closeout. Adding another buy-in to the process adds no value.

Hayes: Yes. Due to the number of markets in-scope in the Europe, the Middle East and Africa (EMEA) region, the number of participants transacting, our industry and its members need access to more agents.

Unlike SFTR, CSDR does not require the development of a new mechanism to meet its requirements, but work is still needed to avoid its penalties. What should stakeholders be doing over the next year to avoid fines and buy-ins?

Dale: Although it's true that CSDR doesn't require specific developments, to avoid penalties and buy-ins many firms identified development work that would be needed. However, with the delay and potential review/amendments, it is difficult to develop without specification. Perhaps the best approach for many firms in the interim is to be involved with their relevant trade association in defining and aligning practices. it would also be prudent to analyse and identify potential development work so they are prepared for all eventualities.

Hayes: In many respects, it is a risk-versus-reward challenge for each business. Do nothing and expect to be impacted by fail penalties (credits & debits) on a daily basis or do too much and you could become an outlier in the market.

As I have mentioned previously, every member and every business needs to assess their own EMEA market activities with a view to making execution and operating model/workflow changes (including automation and vendor connectivity) to minimise penalty and buy-in risk.

Krangel: The industry needs to make better use of the current vendor solutions to reduce the risk of penalties caused by mismatching instructions. Participants should make it standard to make SSI part of the pre-trade process. This is only really viable with the use of vendor systems.

Additionally, borrowers need to be much more efficient in their inventory management. Lenders will have to accept returns for same-day settlement, where the market permits, so the borrower return is based on actual rather than predicted inventory.

De Winton: Adherence with CSDR is about improving processes and communication between firms in order to avoid incurring penalties and buy-ins, as well as developing robust systems to manage them. Market participants should study their own settlement discipline record and underlying causes of failures, to make as many improvements to their processes and controls as they can, in advance of the regime going live.

Some are advancing the argument that CSDR will actually be a boon for securities lending as it offers an effective way to avoid costly buy-ins. Do you agree?

Krangel: Potentially, yes. The penalty regime means the cost of failing on a delivery will be much higher so as a result, it may be more cost-effective to borrow short term to cover the delivery, so automated fails coverage programmes may become more attractive. This obviously will have to be weighed against the cost of the borrowing transaction i.e. fees, transaction costs and liquidity costs. These trades will potentially be very short term and of low value and the fee charged is likely to reflect that as the lender has to cover their transaction and operational costs and deliver a return on the trade.

De Winton: Securities lending has always played a key role in facilitating smooth market functioning and efficient settlement, so there is definitely a part for our industry to play in minimising the need for buy-ins, and that will likely become more important as the regime is implemented.

Hayes: Yes, potentially. If failing activity caused by inventory shorts ages above three days then delivering parties may look to borrow assets (short-term) to avoid further daily penalties or buy-in costs.

Dale: Whilst one perspective has lenders becoming nervous about the additional movement of their assets through securities lending, it is also true that this activity helps the market avoid penalties and buy-ins by providing additional liquidity.

Another perspective is that the positive effects of securities lending on market efficiency and its alignment with the desire of regulators to reduce settlement fails should qualify lending activity to be out-of-scope for settlement disciplines. When we consider how security lending transaction activity is identified to CSDs, it Certainly would be an easy way to identify what should be out of scope.

Want to promote ESG? Start short selling

Natalie Turner reports

As ESG becomes a growing priority for asset managers around the world, some still question whether short selling is compatible with responsible investing has been raised time and again. Now, AIMA argues that short selling is not only compatible but an essential tool in the toolbox for any ESG minded investor

For many outside of our industry, when short selling comes to mind it conjures images of a pernicious market naysayers working to drive down the prices of your favourite stocks and undermine market stability for their own gain.

The general consensus is that the typical short seller is disliked because they go against the herd in bull markets. As Matthew Chessum, investment director at Aberdeen Standard Investments, puts it: "Short selling has been considered the devil's work for a long time now." The reality is that, more often than not, this perception of short sellers is more applicable in describing their targeted companies.

Short sellers have been castigated as the bogeymen of the market and used as a scapegoat for every wobble or downturn for as long as the stock market has existed. But, now these professional sceptics face a new threat: being labelled 'anti-ESG'. Environmental, social and governance (ESG) is the umbrella term used to define the favouring of responsible investment strategies that shy away from 'bad' sectors, such as carbon-intensive energy production or armaments manufacturing. What is ESG friendly or not is an evolving issue based on individual perception. Some managers are simply divesting their exposure to oil, while others are going much further and reviewing the appropriateness of facilitating short selling through their securities lending programme, due to its perception as a negative market force. Until now, most of the debate has centred on whether short selling and ESG can co-exist. But now one trade body is going on the offensive and taking the argument one step further.

A new paper by the Alternative Investment Management Association (AIMA) and global law firm Simmons & Simmons argues that short selling is, in fact, "essential" in enabling positive change in the market. Moreover, the paper says that short sellers bolster market transparency by uncovering corporate wrongdoing and environmental negligence and suggests that shorting can help in achieving two key goals for responsible investors: mitigating undesired ESG risks, such as climate damage, and creating an economic impact by influencing the nature of capital flows through 'active' investing.

AIMA believes there is a "pretty watertight case that short selling is a valuable tool in the context of responsible investment. That said, firms that want to do more in terms of responsible investment will ultimately form their own conclusions about how it relates to their business, based on their investment strategy and what their investors want."

The association concludes that short selling needs to be encouraged and will not only be an excellent tool for furthering ESG strategies, but an invaluable one. Tom Kehoe, AIMA's global head of research and communications, explains that the association has "devoted significant energy to the topic of responsible investment in recent years".

"Tackling the role of short selling felt like an obvious next step in our work, given it is a core investment technique for so many hedge funds and given the lack of guidance on this in the market," he adds.

Meanwhile, Aberdeen's Chessum notes: "The question regarding short selling and ESG only helps to solidify the case for the existence of short selling within financial markets. Good liquidity and fairer pricing helps to create broader and deeper financial markets which benefits not only investors but companies looking to raise finance which eventually filters through to the average person on the street."

World economies are facing growing debt and unsustainable asset prices as the world enters an unsettling reality after the pandemic, ESG is now seen as a key factor in many hedge funds' portfolio-building processes, as boardrooms grapple with more ongoing challenges such as climate change and improving corporate governance.

For example, multiple studies of funds' performance compared to various indexes for the first half of the year has shown that the more ESG-focused a fund is in its investments, the better it has performed.

Kehoe adds: "For firms that want to remain at the cutting edge in the field, then maximising the tools at their disposal is vital."

Admittedly, those who do not have helping hedge funds with their bottom line as high on their priorities may not yet be convinced. But, the real power of short selling as an ESG tool comes when it is applied by so-called 'activist short sellers', such as in the recent Wirecard debacle.

short selling has historically been a tool used mainly by hedge funds. Given its power and hopefully it's better understood and restored reputation, given recent events in Germany, Chessum questions whether the more mainstream institutional investors should now engage more heavily in this strategy to pursue their own ESG strategies.

"Is stock selection alone enough or do larger institutional investors also have a responsibility to actively call out those companies who fall short in their social responsibility?" Chessum queries.

Elsewhere, Peter Hillerberg, co-founder of data analytics firm, ORTEX Analysis, explains that high levels of short interest would not always indicate that a company has underlying failings in factors that contribute towards a positive ESG angle. "However, if there are large short positions building, from several hedge funds, there will be a reason why and it can serve as an extremely useful potential red flag."

> ***"Short selling would provide a swift kick to a CEO's stock options and provide the incentive for companies to improve their ESG scores."*** Ihor Dusaniwsky, managing director at S3 Partners

"Poor management, bad environmental records, corruption and a whole other multitude of sins are actively sought out by activist hedge funds looking to hold companies to account. Shorting is a great way of expressing these concerns." Chessum continues. "The fact that short sellers now also look to actively call out companies that are not meeting the standards expected by investors is of additional benefit to society."

Sam Pierson, director at IHS Markit, is of the same opinion and agrees with the points made in the report, in that short selling can facilitate hedging of ESG risks for asset managers and provides a vehicle for exposing ESG and other risks. "The paper focuses on the environmental component, however, there is also a direct link between short selling and governance that may not receive enough attention," he says. "Considering the importance of capital structure decisions to corporate governance, short selling is a critical structural component."

Short-term ESG trading opportunities are a new reality and are undergoing a radical evolution. Traditional ESG funds are breaking etiquette and copycatting hedge fund long and short strategies,

Ihor Dusaniwsky, managing director at S3 Partners, embellishes the point: "In a perfect world, the negative ESG stock price effect of short selling would force a change in corporate culture\activity and raise corporate ESG scores in the longer term.

"While positive reinforcement, stock buying, is an effective reward for high scoring ESG companies, short selling would provide a swift kick to a CEO's stock options and provide the incentive for companies to improve their ESG scores."

A fund manager simply seeking to boost returns during these unsettled times may wish to apply an ESG lens to their investment strategy that only serves to sift out unsuitable sectors. But, those wishing to bring about positive change to financial markets and the real economy should throw their weight behind the short sellers that have proven themselves time and again to be among the most responsible investors of them all.

The customer is always right

Drew Nicol reports

Responsible investing has captured the collective minds of the industry and many want to be seen as market leaders in this arena, but who is really driving ESG?

The clamour of market participants seeking to promote their latest credentials in the environmental, social and governance (ESG) arms race is reaching fever pitch. In such a maelstrom it is difficult to figure out who is driving the momentum. Is it banks? Regulators? The man on the street? All of them? None?

Hardly a day goes by without an announcement that a firm has signed up to a new environmentally-friendly set of investment standards or committed to hitting a diversity target. This, in turn, has given rise to accusations of greenwashing — a term used to describe firms that loudly over-embellish their pious ways and downplay the additional commercial benefits.

Although cynics may see the rise of ESG among the sell side in particular as simply a useful gimmick to capture positive attention, to claim that greenwashing is prolific would make light of the genuine sea-change occurring in the way investors and their service providers up and down the spectrum value assets.

That said, there's no smoke without fire and what the debate around genuine versus opportunistic ESG adoption does acknowledge is that it's driven by customer demand. In the case of agent lenders, that means beneficial owners — primarily pension funds.

Pension funds are widely seen as the most progressive of the buy-side community and many examples exist — and have been covered by this magazine — of them expressing ESG-principles through their investment decisions. This is turn has encouraged banks to pivot towards providing new tools and services that meet this demand from their existing and potential clients.

However, this shift by banks goes well beyond changing their Twitter logo to a rainbow during Pride Week or getting staff members to pose for a flattering photo-op during a charity food drive. Today, banks are willing to take on additional burdens and costs in order to meet the challenge set by their new, ethically-conscious client base. Let's look at one case study, selected from among many worthy examples.

Earlier this month Northern Trust has unveiled the latest addition to its ESG risk exposure analytics capabilities, which includes a new reporting tool for key environmental data categories.

The enhancement allows Northern Trust's clients — typically asset owners such as pension funds — to interrogate specific environmental risk indicators for their investments, including those in their securities lending programmes.

The release is part of Northern Trust's new 'ESG Insights' product suite. It complements the ESG Insights: Ratings Summary report, launched in April, which provides investors with periodic snapshot analysis across a range of ESG factors.

"This is a new product launch that we are currently working closely with a number of our clients to implement for them," says Serge Boccassini, global product and market development, Americas and Asia Pacific at Northern Trust.

Boccassini explains that the majority of those clients are pension funds, as they face "increased focus from regulators and stakeholders to improve governance and oversight of potential long-term financial risks".

This is an interesting point as it indicates that pension funds and other buy side members are themselves driven into the arms of ESG by a need to impress their underlying clients and comply with new regulations.

In fact, in explaining the uses of its new ESG tool, Northern Trust says that institutions can “use the resulting information to engage with asset managers and stakeholders around the environmental impact of their investment portfolio, as well as to generate data and analytics for publishing in their annual disclosures”. Everybody has a customer, it seems, and that customer’s wishes must be met. But, it’s not even that simple.

My client’s client

Speaking to SLT earlier this month David Hickey, who leads the ESG strategy of Lothian Pension Fund, a client of Northern Trust, outlined how, as well as regulators and underlying investors, pressure group also seek to influence stock picking.

“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, Hickey explains. “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.”

As part of Lothian’s ESG drive, it worked with Northern Trust to create an automatic recall service for its securities lending programme. This served to satisfy its need to apply its full voting strength as an asset owner but still make some revenue from lending.

The recall service is another example of banks adapting to keep clients on board, especially when it comes to securities lending, which is still often seen as a value-add service that can be sacrificed on the altar of ESG.

“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,” explains Hickey. “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.”

ESG from on high

As well as arming beneficial owners with client-wooing data, Northern Trust’s says its bolstered ESG Suite also ensures firms are satisfying “ever-increasing regulatory requirements”.

There are many ESG-related doctrines that an asset manager can subscribe to. These range from the principles for sustainable securities lending, which is promoted by the International Securities Lending’s Council for Sustainable Finance, all the way through to the Paris Agreement on climate change led by the United Nations. But, these are voluntary rules frameworks, aren’t they?

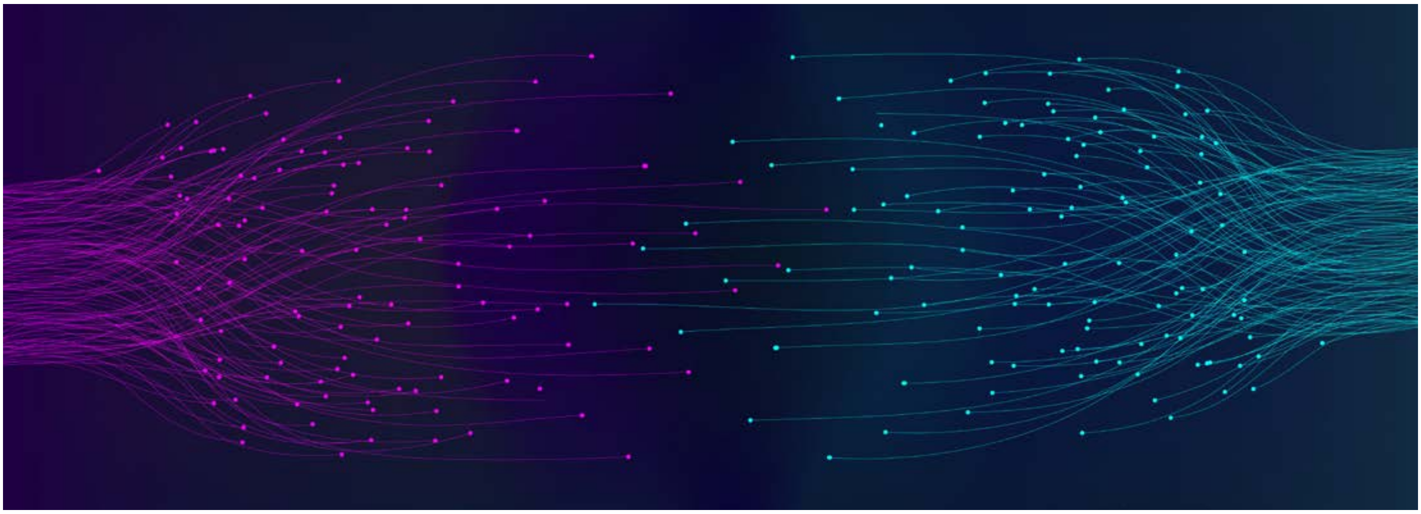
In the UK, a new pensions bill has nearly made its way through the two-tier parliamentary system that may make the adoption of ESG principles mandatory all but name. On 16 July the bill passed its first reading in the House of Commons meaning it has already navigated several rounds of scrutiny in the House of Lords and is on track to become law. It is expected to be presented for its second of three readings in the Commons shortly.

It is a comprehensive document but was made more potent in February when the House of Lords voted in favour of amendments that will compel pension funds to disclose how well they are aligned with the aforementioned Paris Agreement.

Tim Smith, of Herbert Smith Freehills, explains that this will be achieved through the introduction of pensions dashboards to allow people to access their information from most pensions schemes in one place online for the first time.

At the same time, the bill will include regulations to set out circumstances under which a pension scheme member will have the right to transfer their pension savings to another scheme. Whether dislike of your scheme’s investments in oil or fracking will be among those reasons is yet to be seen but it is certainly a sobering thought for affected fund managers. Once such information is made available, public pension funds, in particular, will undoubtedly be named and shamed in the media and by pressure groups if their portfolio contains any undesirables.

As the global adoption of ESG reaches dizzying speeds, compounded by regulatory-mandated transparency initiatives, any supposed greenwashing is set to be stripped away and all members of the securities finance industry will be forced to put their money where their mouth is or risk being exposed and shunned by potential clients. Squeezed by the retail market below and the regulators from above, resisting or feigning in your commitment to ESG will soon be untenable.



Hedge funds are reinventing themselves as the fact-checkers of capitalism

Peter Hillerberg
Co-founder
Ortex Analytics

Ortex Analytics, powered by FIS Astec Analytics, shows how as market trust erodes an unlikely hero is emerging in the battle against fraud

Long-short managers have long had an image problem. Despite significant PR efforts from many of the larger firms, efforts to rebuild the reputation of the industry have largely failed. The problem comes down to the fact that, in some minds at least, the hedge fund community embodies the worst characteristics of capitalist society. On the one hand, they are opportunistic predators seeking to take advantage of others' misfortune or, maybe more common in recent years, a bunch of overpaid underperformers.

It's this dichotomy that was so interesting at the beginning of the COVID-19 pandemic. Faced with the greatest market shock of our lifetimes, if not in all of modern history, hedge funds had a choice; capitalise on the feeding frenzy of market turmoil and corporate failure and be labelled vultures, or fail to do so and forever be ridiculed for not taking advantage of the clearest active management opportunity in a decade.

What we've seen, however, has been something else – not a purely self-interested pursuit of profit or a lack of investment ideas, but a completely different role altogether: short sellers are becoming the fact-checkers of capitalism.

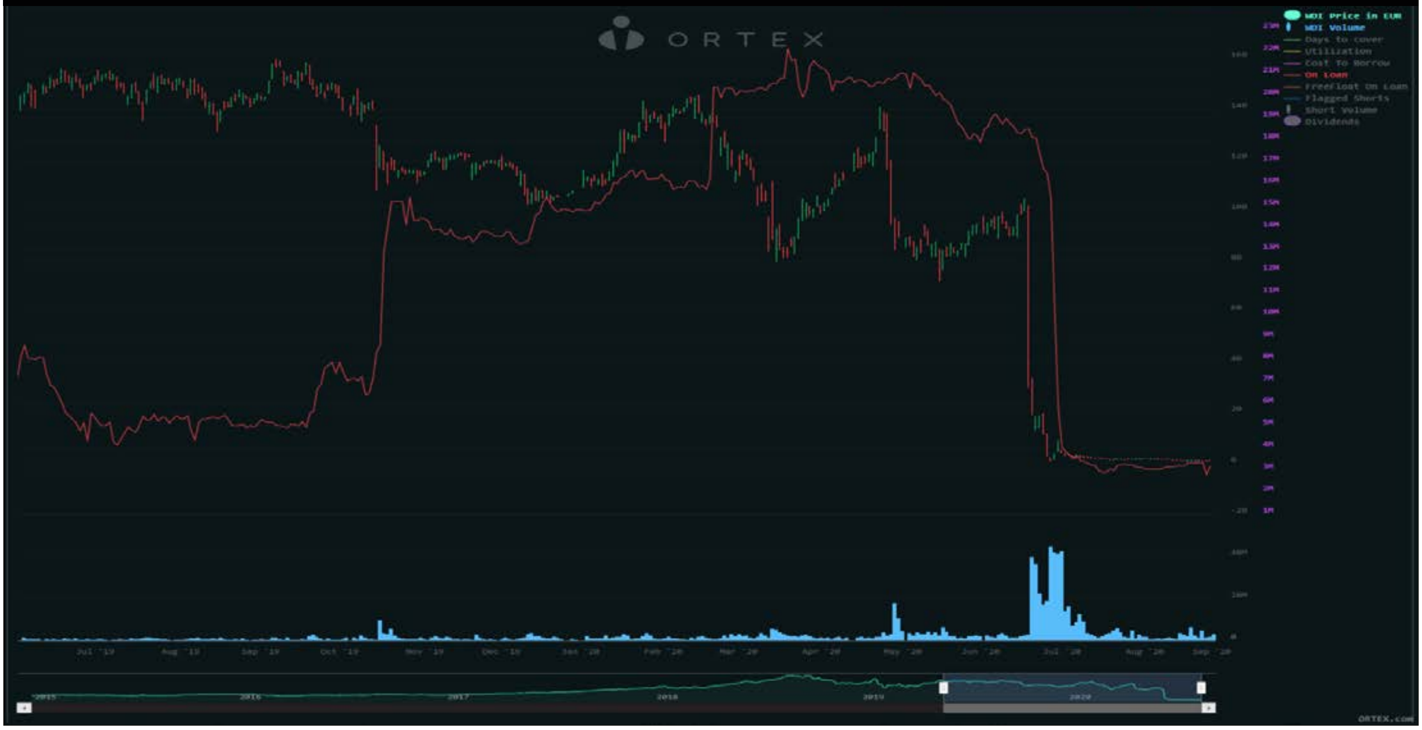
A clear example of this has been the Wirecard saga. Short sellers were able to expose a $2 billion accounting black hole in the firm which, up until that point, had escaped the attention of both regulators and auditors.

Of course, this wasn't altruism in action — our data shows that hedge funds made €1.6 billion from short positions against Wirecard in June alone (see Figure 1, overleaf) — but it also started to reframe the narrative about the role that hedge funds play in markets and society.

Shortly after the Wirecard saga, journalists rushed to congratulate the group of short sellers involved. Chris Bryant, writing for Bloomberg, said that: "Short sellers deserve our appreciation, not scorn, for helping root out corporate frauds."

Figure 1

Ortex Analytics data shows an increase in short positions from Oct 2019, nine months before scandal hit



Meanwhile, The Economist ran one of its leaders in June with the headline: "Wirecard's scandal shows the benefits of short-sellers."

For those watching from the sidelines, the Wirecard story played out rapidly in front of our eyes, but the reality is that the short sellers who profited from the situation had been positioned to do so for several years. It's this ability to take high conviction, long-term stakes based on detailed proprietary analysis that makes short sellers an indispensable arbiter of truth in modern investing.

Wirecard – unique and high profile as it was – could be just the tip of the iceberg. The great Oracle of Omaha himself said: "you only find out who is swimming naked when the tide goes out" and the deep and prolonged economic downturn that is sure to follow the pandemic could provide rich pickings for short sellers. This becomes even more apparent when you consider some of the trends that have developed since the last recession, for example the availability of cheap debt, growing acceptance of non-standard accounting practices and a boom in emerging markets where regulatory frameworks can be less transparent or non-existent. As hedge fund manager Jim Chanos said in a recent interview with the Financial Times: "We are in the golden age of fraud".

This matters from an investment perspective, but it also matters for society at large. Faced with a tidal wave of fraudulent activity, it's likely that regulators will be overwhelmed and left without the resources necessary to investigate all instances of fraudulent activity. This is where hedge funds – who have the technical skill, capital and incentive to pursue suspected cases - can step into the fold. It's the ultimate payment by results model.

Many things will change as a result of the COVID-19 pandemic, and it looks like our perception of short-sellers could be one of them. The cold and rational approach that once defined hedge funds as callous profit-driven machines may be the perfect tonic to markets which are awash with panic, fake news and egotistical CEOs and founders.

As trust erodes in the traditional structures that previously held companies to account, new ones will need to emerge. It looks like the historic bad boys of finance may be about to become the good guys.

Upcoming Securities Finance Training

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

SFTR

Date: 02 September 2020 08:00 (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

European Regulation Impacting Securities Lending

Date: 03 September 2020 08:00 (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: 09 September 2020 08:00 (BST)
Location: Online
Provider: Consolo

This live on-line training course is designed for anyone who needs to know the background, structure and obligations of Corporate Events in the Securities finance industry

Comings and goings at MarketAxess, deltaconX, Nordea and more

Arcane Crypto has recruited Morgan Stanley's former European head of securities lending flow trading Eva Lawrence as its new COO.

Oslo-based Arcane Crypto develops and invests in projects focusing on bitcoin and digital assets.

Lawrence brings experience from eight years with Morgan Stanley, which began in 2010 as vice president focused on securities lending and repo.

She went on to assume her management role in 2015.

Lawrence is also a UK-qualified lawyer specialising in contract law, digital assets, funds and financial services.

Since 2018, Lawrence has been focusing on business development, partnerships and operations with start-ups in artificial intelligence and machine learning, cryptocurrencies and fintech.

In this capacity, she has also served as an advisor for start-ups Pure Digital Markets and alphaplate since January.

"I am extremely happy that Eva has decided to join us," says Torbjørn Bull Jenssen, CEO Arcane Crypto.

"Her background from traditional finance, combined with an appetite for business development and a deep understanding of bitcoin and digital assets is truly unique he adds"

"Arcane is working to bridge the gap between the old and the new financial system and to do that you need a team with high-quality people from both worlds."

Lawrence says: "Arcane have already demonstrated their ability to develop and invest in industry-leading companies aimed at filling the gaps in the infrastructure for bitcoin and digital assets and I look forward to building on this with them."

Collateral management veteran Ditte Signe Larsen has left Nordea after 24 years for a new role with Forca, a Danish pensions service provider.

At Forca, which manages assets totaling more than DKK 400 billion (USD 63.58 billion), Signe Larsen will operate as a business analyst specialising in collateral.

Signe Larsen has an extensive CV of roles in the banking industry related to collateral management, securities, trading, derivatives and foreign exchange options.

She is based in Copenhagen.

Signe Larsen began her career with Nordea in 1996 as a bank trainee.

She then became a bank clerk before moving on to a series of collateral-focused roles.

In 2016 she took on her latest position of senior business analyst - global collateral control.

Former-Northern Trust securities lending chief Sunil Daswani has joined Standard Chartered Bank as global head of agency securities lending.

Daswani joins the bank's securities services division and reports to Madeleine Senior, head of securities services, UK and Europe.

Daswani, who is based in London, recently left a role as head of securities finance solutions for MarketAxess after just under two years.

He joined MarketAxess London office in January 2019 to help lead the business development and strategy for MarketAxess and EquiLend's joint solution for the Securities Financing Transactions Regulation (SFTR).

He was also a central figure in promoting MarketAxess' unique transaction identifier portal which aims to solve one of SFTR's biggest challenges for buy-side members.

Prior to MarketAxess, Daswani was head of international securities lending for Northern Trust for just shy of 16 years up until March 2018.

His CV also includes a stint as chairman of the Pan Asia Securities Lending Association from 2004 to 2008.

He has also held positions at Citi and UBS.

deltaconX has appointed Massimo Vecchione from

Deutsche Boerse as its new sales and customer relations manager.

Vecchione will strengthen the deltaconX sales and customer relations team and will take over the commercial activity in Southern Europe, France, Benelux and the Italian and French speaking parts of Switzerland.

The former private banking trader, who is based in Switzerland, now reports to Fabian Klar, director of sales and customer relations at deltaconX.

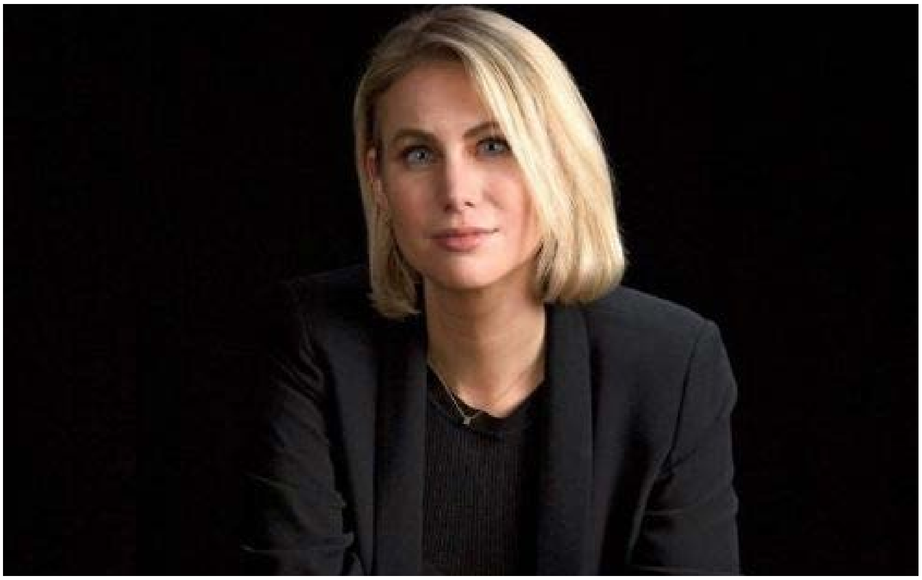
Vecchione joins from the German exchange group where he served as relationship manager at REGIS-TR, a European trade repository (TR) based in Luxembourg, since 2016.

At REGIS-TR he was responsible for the relation with financial institutions (banks, asset managers, insurance companies, central counterparties and central securities depositories) and non-financial institutions (corporates, commodity trading firms) based in Southern Europe, Benelux and Switzerland.

Overall, Vecchione joins deltaconX with more than 15 years of experience in the regulatory reporting space.

He also worked in the capital markets field as an interbank broker at Carl Kliem for five years and a private banking trader at Fideuram Bank.

Additionally, he served at Clearstream from 2011 to 2016 as a securities administrator specialising in issuance and distribution services.



Ex-Morgan Stanley securities lending head joins Arcane Crypto

Arcane Crypto has recruited Morgan Stanley's former European head of securities lending flow trading Eva Lawrence as its new COO.

Oslo-based Arcane Crypto develops and invests in projects, focusing on bitcoin and digital assets.

Lawrence brings experience from her eight years with Morgan Stanley, which began in 2010 as vice president focused on securities lending and repo, before taking on her management role in 2015.

She is also a UK-qualified lawyer, specialising in contract law, digital assets, funds and financial services.

Since 2018, Lawrence has been focusing on business development, partnerships and operations with start-ups in artificial intelligence and machine learning, cryptocurrencies and fintech.

In this capacity, she has also served as an advisor for start-ups Pure Digital Markets and alphaplate since January.

"I am extremely happy that Eva has decided to join us," says Torbjørn Bull Jenssen, CEO Arcane Crypto.

"Her background from traditional finance, combined with an appetite for business development and a deep understanding of bitcoin and digital assets is truly unique."

"Arcane is working to bridge the gap between the old and the new financial system and to do that you need a team with high-quality people from both worlds."

Lawrence says: "Arcane have already demonstrated their ability to develop and invest in industry-leading companies aimed at filling the gaps in the infrastructure for bitcoin and digital assets and I look forward to building on this with them."