securities lending times

The primary source of global securities finance news and analysis

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The first 100 days

Pirum Systems' new CEO Phil Morgan offers a peek behind the curtain of what he has been working on

Malik's Memo

In light of UK's intention to flout international law, Market FinReg's Seb Malik explains how UK plc may be damaged as a result

Country Profile

A securities lending market on the brink of a technological revolution with the launch of a first-of-its-kind DLT trading platform

Data Analysis

IHS Markit reports on August revenues in securities lending and how European equities are increasing

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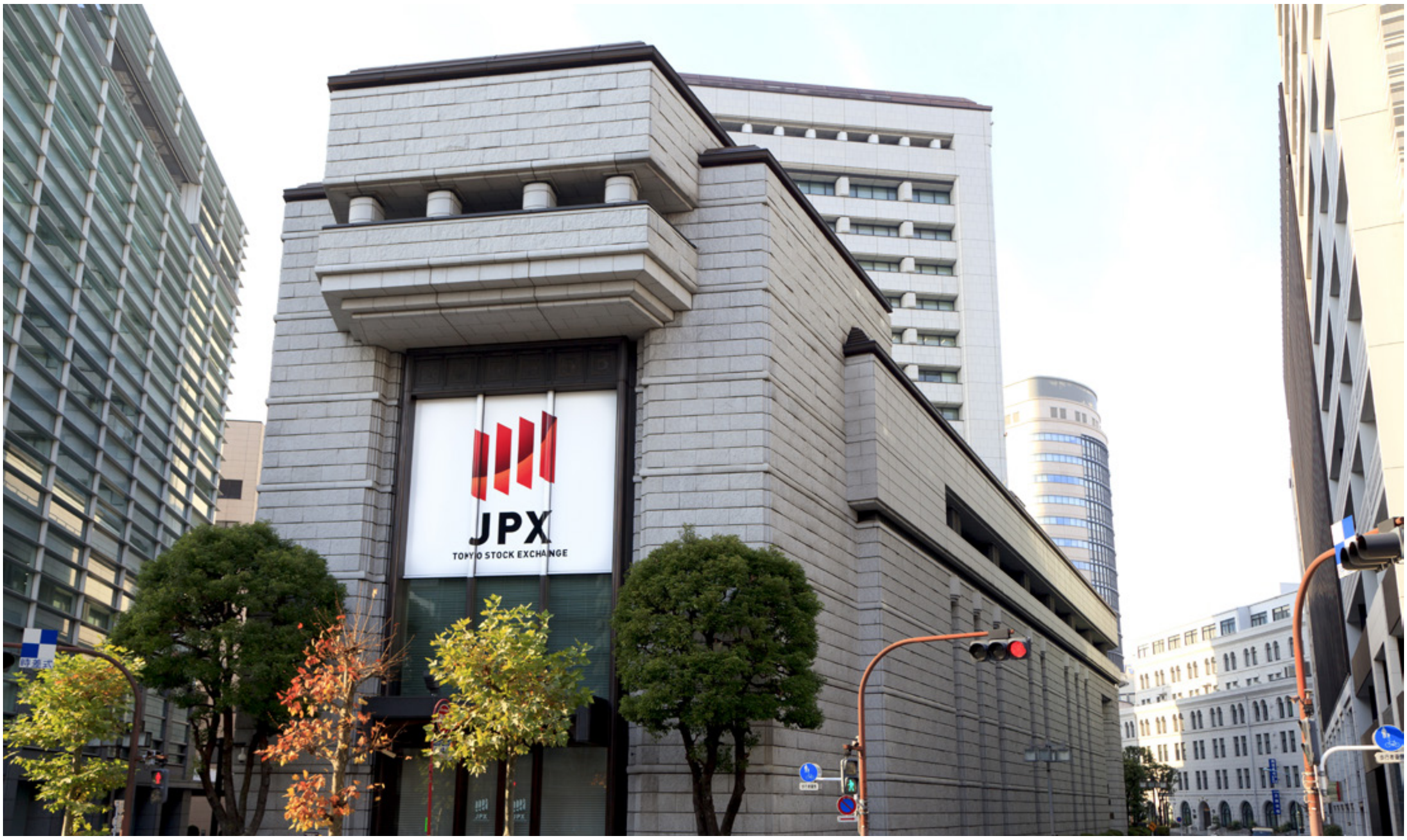

IHS Markit and Tokyo Stock Exchange combine

IHS Markit Securities Finance and Tokyo Stock Exchange (TSE) are combining mutually exclusive market data into a comprehensive short selling and stock loan dataset.

The dataset is determined to be "essential" for anyone trading in Japan and looking to increase their alternative data and fundamental analysis factors.

The analytics toolset introduces the first holistic view of Japanese securities finance, delivering a higher information ratio for both long and short portfolio construction.

According to IHS Markit, the combined dataset provides five years of historical data across 3,700 Japanese yen-denominated (JPY) equities — including inventory and lendable assets totalling JPY 100 trillion and on-loan assets exceeding JPY 15 trillion — with daily breakdowns of trading volume and trading value data for all TSE-listed stocks.

The TSE dataset disseminates fragmented data extracted from daily trading value and volumes of TSE-listed issues based on flags for margin transactions and short selling that are attached to orders at the time of placement.

Paul Wilson, managing director and global head of securities finance at IHS Markit, explains: "IHS Markit is continually looking for ways to differentiate its securities finance dataset to provide its customers with alternative data and unique insight that provides them with a competitive edge.

"The tie-up with Tokyo Stock Exchange is aimed at providing a unique view of short interest and securities lending data across the Japanese market that will be valuable for both Japanese institutions as well as international firms alike".

Wilson adds: "We are looking at other supplementary data points such as corporate actions, supply stability factors and are actively looking at other exchanges to see what interesting data they may have. Timing is really just down to our continued growth and focuses on securities finance data".

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Inside this issue

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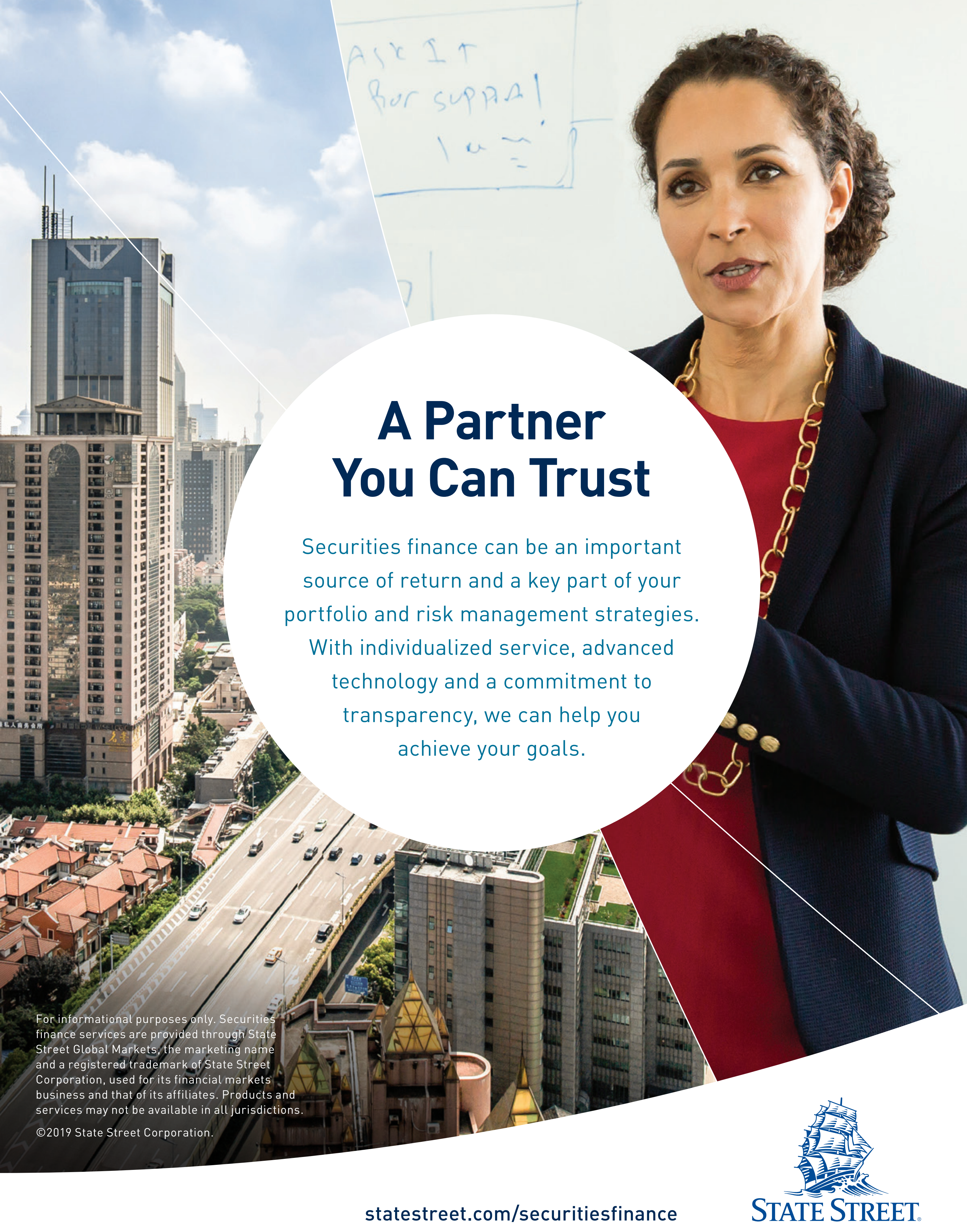

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IHS Markit and Tokyo Stock Exchange combine

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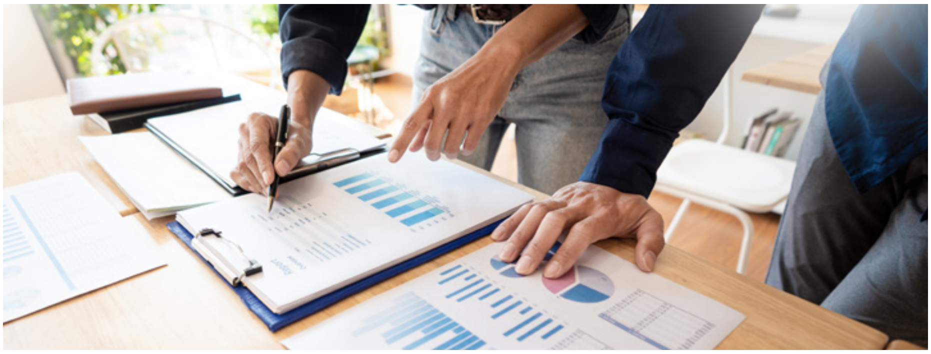
IHS Markit has previously collaborated with Credit Benchmark, where they added high-quality liquid assets attributes and started publishing monthly returns of six iBoxx fixed income and six MSCI equity indices.

Keisuke Arai, director, information services at TSE, explains: "We are excited to be working with and developing market data solutions with IHS Markit. We think the combination of our exchange short data with IHS Markit's stock loan provides a unique view of Japan's equity market for investors and encourages their investment."

OFR starts release of repo data

The US Office of Financial Research (OFR) has released its new repo markets data and its short-term funding monitor, an interactive tool that provides a deeper look into short-term funding markets.

The OFR collects data on centrally-cleared repos, which amount to more than $1 trillion in daily transactions to help the Financial Stability Oversight Council (FSOC) monitor risk in.



OCC securities lending volume dips in August

US equity derivatives clearinghouse OCC recorded a 10.5 percent year-on-year decrease in average daily loan value for August.

Average daily loan value was $68.73 billion last month.

Activity through OCC's securities lending central counterparty (CCP) also dropped by 4.3 percent in new loans last month, compared to the same period a year prior.

August saw 106,592 securities lending transactions executed.

The dip in securities lending activity in August marks the end of a several-month streak of year-on-year growth.

Before August, the Chicago-based CCP had seen continuous improvement in securities lending loan volumes and activity, compared the relevant period in 2019, since January.

Meanwhile, OCC reported that its total cleared contract volume for August was 615.97 million contracts – the third-highest month on record and up 28.7 percent from August 2019.

This also represents the highest August monthly volume in OCC's history.

Year-to-date average daily cleared contract volume through August was 28.46 million contracts, up 44.7 percent from the same period last year.

The short-term funding monitor integrates the OFR's repo markets data release, whereas the monitor combines data on the balance sheets and the funding needs of short-term funding market participants, as well as the volumes and rates across market segments.

Users can download all of the monitor data via a public application programming interface.

The OFR's cleared repo data also supports the calculation of the Secured Overnight Financing Rate (SOFR), the Alternative Reference Rates Committee's preferred alternative to the US Dollar London Interbank Offered Rate (LIBOR) reference rate.

Due to concerns about LIBOR, different markets across the world are transitioning to other reference rates. "The OFR's repo collection is expected to provide a permanent and expanded source of data to support the SOFR and reference rate transition," says Dino Falaschetti, director of the OFR.

"Fulfilling the OFR's Dodd-Frank mandate, the cleared repo data provides the FSOC with a more complete view of the complex and critical repurchase agreement market," Falaschetti adds.

Through its new data release, the OFR is making aggregates of this data, and data covering tri-party repo, available to the public. The monitor is available on the OFR's website.

ICMA ERCC updates SFTR recommendations

The International Capital Market Association (ICMA) European Repo and Collateral Council (ERCC) has published an updated version of its recommendations for reporting under Securities Financing Transactions Regulation (SFTR).

The recent document is the fourth public edition of its kind, it was initially released on 24 February and previously updated on 30 June.

The guide is targeted at financial or non-financial counterparties to securities financing transactions (SFT), specifically

repos, who have a direct reporting obligation under SFTR, as well as relevant market infrastructure providers and any other service providers that offer reporting solutions.

The aim of the recommendations is to help members interpret the regulatory reporting framework specified by the European Securities and Markets Authority (ESMA) and to set out best practice recommendations to provide additional clarity and address ambiguities in the official guidance.

According to ICMA, the updated version of the guide covers a number of new questions, as well as additions and revisions to existing recommendations, partly to reflect members' feedback and important lessons learned since the SFTR reporting go-live on 13 July.

ICMA printed a blackline version of the guide which shows all the changes that have been made. The association states that the document will continue to evolve and further updates can be found on its website.

FSB extends implementation timelines for SFTs

The Financial Stability Board (FSB) has extended the implementation timelines for minimum haircut standards for non-centrally cleared securities financing transactions (SFTs).

The FSB has put this in place to ease operational burdens on market participants and authorities and to assist them in focusing on priorities from the impact of COVID-19.

As a result of last week's announcement, the implementation timelines for the FSB's November 2015 recommendations on haircuts for non-centrally cleared SFTs will now be extended.

In March, the group of central bank governors and heads of supervision decided to defer the implementation of the Basel III framework by one year to January 2023.

In addition, the FSB is extending the implementation dates by one year for its policy recommendations related to minimum haircut standards for non-centrally cleared SFTs.

For bank-to-non-bank transactions, the updated implementation date is January 2023, for non-bank-to-non-bank transactions, the updated implementation date is January 2025.

SFTs such as securities lending and repos play a crucial role in supporting price discovery and the secondary market liquidity for a wide variety of securities. However, "such transactions can also be used to take on leverage as well as maturity and liquidity mismatched exposures, and therefore can pose risks to financial stability," says the FSB.

Last year, the FSB adjusted implementation timelines for its policy recommendations to address financial stability risks in SFTs. The FSB developed 18 policy recommendations published in August 2013 and updated in October 2015 to address financial stability risks from SFTs.

The recommendations cover improvements to regulatory reporting and market transparency of SFTs, regulation of SFTs, and structural aspects of SFT markets.

In the latest statement, the FSB revealed that it will continue to monitor the implementation of its policy recommendations to address financial stability risks in the market and to enhance the resilience of non-bank financial intermediation.

ISLA publishes new standards

The International Securities Lending Association (ISLA) has published industry guidance for securities lending performance measurement.

ISLA has released a new set of standards and best practice guidelines in respect of data aggregation and calibration of performance-related metrics for securities lending.

The standards set out in the guide have

been developed by ISLA's Securities Lending Performance Measurement working group which was formed 18 months ago and is chaired by Scott Baker of Abu Dhabi Investment Authority.

The goal of this initiative is to improve the quality of performance measurements, programme restriction costs and peer comparisons.

The best practice guide defines the standards and best practice in respect of both data aggregation and calibration of performance-related metrics. According to ISLA, the consultation paper will ultimately lead to "greater transparency".

The paper will begin to provide greater clarity on the level of returns generated and ultimately how constraints on how a lending programme can impact performance.

The association notes that "transparency is driven by reliable and consistent data which, of course, enables us to see future opportunity".

Kaizen Reporting launches shareholding disclosure service

Kaizen Reporting has completed the acquisition of MDM Compliance Systems.

MDM Compliance Systems was launched in 2012 and provides a shareholding monitoring and reporting solution to financial institutions who are exposed to disclosure requirements. The newly-named shareholding disclosure service will sit alongside Kaizen's existing reporting quality assurance services providing the controls firms need to ensure they effectively meet their reporting quality and control obligations.

The service is a fully-automated monitoring and flexible reporting system covering more than 95 countries that aims to address the challenges of more than 400 global shareholding disclosure rules and requirements including complex takeover rules.

Dario Crispini, CEO of Kaizen Reporting, comments: "With the complexity, time and costs that firms face it's vital that they

have the confidence in the services they are using and we will continue to grow and invest in the shareholding disclosure service to ensure it provides everything our clients need.”

GPFA signs up three new members to P2P network

The Global Peer Financing Association (GPFA), a beneficial owner-run, peer-to-peer securities lending network, has welcomed three new members, including its first Australian pension fund.

The California State Teachers’ Retirement System, Australian Super — Australia’s largest superannuation and pension fund — and Thrivent Financial, a Fortune 500 not-for-profit organisation, are the first new members since the group formed in July.

GPFA was launched by four North American pension funds with the aim of creating a more effective and transparent marketplace for securities financing activities, liquidity management and collateral management.

The California Public Employees’ Retirement System, the Healthcare of Ontario Pension Plan (HOOPP), the Ohio Public Employees Retirement System, and the State of Wisconsin Investment Board came together to create the non-profit association alongside sponsorship from eSecLending, Osler, Hoskin & Harcourt and Credit Benchmark. The new members swell GPFA’s ranks to seven.

Association chair Robert Goobie describes direct lending as an “underutilised tool” for beneficial owners, which usually rely on banks acting as agents and tout their wares to borrowers.

Goobie, who also serves as assistant vice president collateral management, fixed income and derivatives at HOOPP, recently hinted that the association had received “a significant number of enquiries” from other asset owners wishing to join but was unable to name names at the time.

Torstone and Tosho partner on Japanese CSD connectivity

Torstone Technology has partnered with Tosho Computer Systems to administer connectivity to the Japan Securities Depository Center, the central securities depository for Japan.

Torstone has previously provided cloud-based post-trade solutions for Japanese financial institutions, such as cross-asset class regulatory reporting and institutional reporting.

Read full article online

ISDA: CPMI-IOSCO's UTI rules require coordination

The International Swaps and Derivatives Association has written to global regulators seeking support for the generation and implementation of unique transaction identifiers and coordination of the compliance dates across jurisdictions.

The letter written to the Financial Stability Board highlights several important challenges and potential adverse ramifications for industry participants that would likely result from inconsistent adoption.

Read full article online

Bears lose £420m on FTSE 100 in August

Short positions against FTSE 100 companies lost £420 million in August according to Ortex Analytics, which re-ranks the UK's blue-chip index by short profit.

Nearly three-quarters of total short losses came from bets made against five companies: Ocado Group, InterContinental Hotels Group, International Consolidated Airlines Group, BHP Group, and Pearson.

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TriOptima and AcadiaSoft extend partnership

TriOptima has renewed its collaboration with AcadiaSoft to automate monthly collateral interest payments in order to improve the efficiency of trade processing for over-the-counter market participants.

TriOptima's expanded support for AcadiaSoft's new interest payments messaging will allow the wider industry to benefit from increased efficiencies.

Read full article online

Extinction Rebellion protests oil-friendly pension funds

Environmental activist group Extinction Rebellion is targetting UK public pension funds that continue to invest in fossil fuels.

The latest bank holiday weekend in the UK brought a fresh wave of protests across the country including in Somerset, England, where the committee for the County Council Pension Fund was accused of contributing to global warming through its exposure to non-environmentally friendly energy providers.

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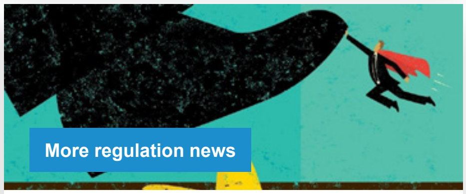


SRD II is live, compliance hurdles remain

SRD II is now live, but a group of associations launched a last-ditch bid to gain clarity on lingering ambiguities and save their members from non-compliance penalties.

Eleven trade bodies including ISLA, the European Banking Federation, and the Association for Financial Markets in Europe, sent a joint letter to the EC and ESMA on 1 September outlining three "major areas of concern", two "misunderstandings" and a plea for clemency.

Read full article online

Seb Malik
Head of financial regulation
Market FinReg

The bedrock of a democratic society

These are testing times. Sir Jonathan Jones, the treasury solicitor has tendered his resignation, deeply troubled by the UK's intention to flout international law. The UK intends to rewrite parts of the legally binding Northern Ireland protocol that formed part of the 2019 withdrawal agreement.

Lord Philips once opined that the "rule of law is the bedrock of a democratic society". Yet for the first time in living memory, the UK is drilling a hole through its very foundation. If one were forced to identify a single factor that differentiated the UK from the rest of the world, it would be its resolute adherence to the rule of law. It is no coincidence the world's billionaires jet-set to London to litigate or arbitrate.

UK plc operates on goodwill. We have few tangible assets or natural resources. Our book value is unimpressive but for goodwill — that intelligible, awkward bucket that captures brand value.

The UK is seen as a reliable, dependable jurisdiction where legal certainty and the rule of law reign supreme. Your investment is safe. In the event of a dispute, the courts will adjudicate impartially, be the defendant the government or a private person.

If this unshakable commitment to fair play and certainty is eroded, then what competitive advantage is left for the UK? This muscular, blazé approach may gain plaudits among the more hardened Brexit support base of the incumbent government, but at what long term cost?

Former prime minister Theresa May asked in parliament: "How can the government reassure future international partners that the UK can be trusted to abide by the legal obligations of the agreements it signs?"

In his celebrated book, the late Lord Bingham defined the rule of law as being: "That all persons and authorities within the state, whether public or private, should be bound by and entitled to the benefit of laws publicly and prospectively promulgated and publicly administered in the courts." He elaborated eight principles. Point 8 is: "The rule of law requires compliance by the state with its obligations in international as well as national laws."

The UK's direction of travel is an unmitigated disaster. I do not refer to the Brexit vote, but the undermining of the very essence of what makes the UK strong, vibrant and distinct.

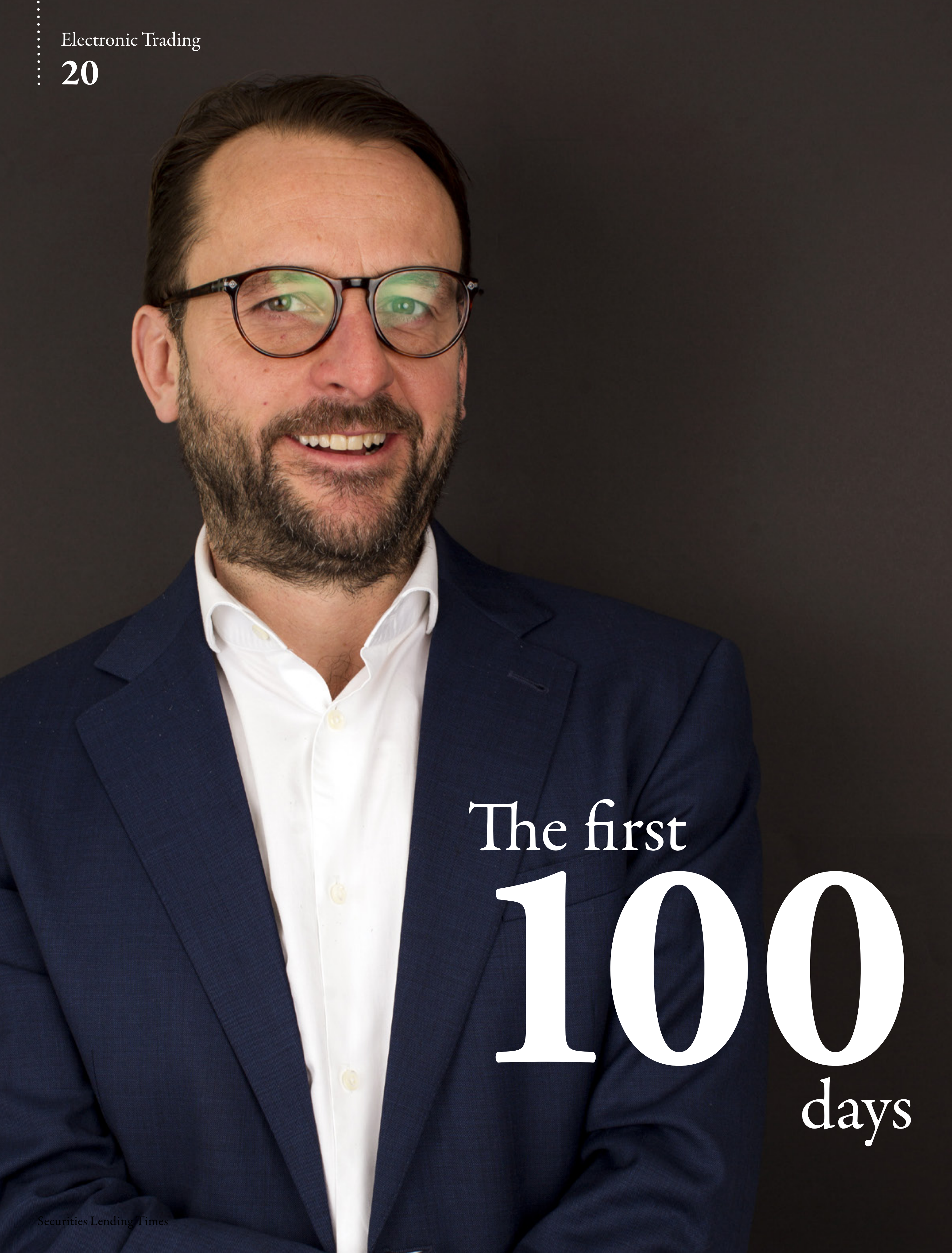
I recall a Middle-Eastern investor telling me that he was set to invest in London real-estate as opposed to the US for the sole reason that he trusted the UK courts' independence in the event of a dispute.

For those seeking insight into securities lending volumes for the rest of 2020, this article will provide few insights. The government's flouting of international law will have little short-term impact.

But, as the UK charts an independent course outside of the EU, the UK's reputation as a fair player, honest broker and dependable jurisdiction will determine the future health of our financial sector. Those seeking to allocate long term investment will take a broader view of the country and direction of travel.

As the UK stands alone, outside of any major trading block, it must enhance its competitive advantage – its unshakable adherence to the rule of law that has enabled London to become the premiere financial capital in the world. Set in this context, the current political machinations are an unmitigated disaster.

Seb Malik
Head of financial regulation
Market FinReg



The first 100 days

Drew Nicol reports

Pirum Systems' new CEO Phil Morgan offers a peek behind the curtain of what he has been working on in 2020 and what can be expected in the coming months

You've held many senior roles in the past but this is your first time in the big chair. How does it feel?

It feels very natural, to be honest, and a position that I feel I have iterated into over the past couple of years. Having Raj and the broader team's support has been a big factor in making this transition seamless.

Can you tell us a bit about your journey to get here and what you've learned along the way?

Well, I have been in financial services for more than 25 years, when I say it frankly it sounds scary. I started my career back in Cardiff, Wales, at Chemical Bank as a temp on a six-week contract to pay off my first year of university debts. That resulted in a 12-year career as the bank morphed into J.P. Morgan. I think this vignette probably sums up what I have learnt most, you will be presented with opportunities over your career and it is important you look to maximise these when they come, but, equally, it is important that you do so by operating in the right manner.

After J.P. Morgan, I moved to Lehman Brothers prime brokerage where I was struck by the energy and passion of the business. I learned a huge amount from my time there before transitioning over to Nomura, where I held various sales and trading roles.

Over the past 25 years, I have always enjoyed working in a team and building close and hopefully trusted relationships with clients and trading counterparts.

When I joined Pirum in 2016 from Nomura, it was seen as a surprising move by some in the industry to move from an established entity like Nomura to a fintech. At the time not many of my peers were shifting from banks or asset managers to fintechs. However, for me, it felt like the right time for a new challenge and to pivot my career.

You've taken over at Pirum at time of flux for the industry. Did you have a plan for your first 100 days?

The CEO transition is something Raj, the board and I have been working towards for most of the year, so the change hasn't come as a major shock for us at Pirum. I will be adding to my management team, so you can expect some news on that front in the coming weeks. This includes Jat Soomal who has just taken over from David Cook as CFO. We are also due to welcome a new head of sales and a chief technology officer, which is a new role we created to supplement the depth of our technology bench after Raj's change in role.

Additionally, culture, diversity and inclusion are aspects that are very important to me and the Pirum team. We are currently developing work streams to ensure we are meeting and exceeding expectations in these areas. For example, staff members will be offered training to raise awareness of subjects and areas of learning including unconscious biases that interfere with the interview process as well as how they can affect decision making in normal business life.

During the lockdown period, have been keen to invest in our staff members' health and wellbeing and have checked in with everyone regularly through engagement and outreach sessions. Before the pandemic took over we were about to start offering yoga sessions in the office and purchase exercise bikes to give staff more opportunities to maintain a healthy work-life balance, which is extremely important to me and the team.

This all comes as part of developing our own environmental, social and governance policy which also includes several outreach programmes we run with a local homeless shelter and also promoting technology skills in schools.

In terms of our business offering, automation is the name of the game at Pirum and always has been, so this is not likely to change. However, more recently we have seen the increasing importance of connectivity (be it to counterparts, venues or market infrastructure providers). Recent regulatory requirements and business disruption seen as a result of covid, have highlighted the need for greater efficiency in our market more than ever before.

Overall, we have a relatively defined and detailed business plan for the next two to three years, so much of my focus will be centred around the execution of this. That said, there is nothing more certain in this industry than change and therefore, it is important we stay flexible and embrace new opportunities with a growth mindset and even enjoy them when they arise!

SFTR is halfway live but other regulations are still to come. How big are these challenges and what is Pirum doing to solve them?

> *What we have learnt as an industry is that we can evolve, adapt and change, but most of all we have shown the benefit of collaboration*

The Securities Financing Transactions Regulation (SFTR) has been an extremely interesting and at times demanding journey for us, our partner IHS Markit, and our clients. What we have learnt as an industry is that we can evolve, adapt and change, but most of all we have shown the benefit of collaboration.

The design partnership approach we took to solve SFTR proved to be extremely effective. The upcoming regulations will absolutely have their challenges, however, if we communicate and work together as an industry, they will be dealt with and met. Interestingly, I do think the regulations will actually act as a catalyst for us in creating a better ecosystem of interoperability and automation.

ISLA and other industry participants have regularly called on service providers to collaborate more. After your partnership with IHS Markit would you be open to joining forces with other complementary firms again?

Our partnership with IHS Markit on SFTR has been hugely successful and we also recently begun work on a joint solution with Wematch to develop a fully-integrated front-to-back securities finance transaction service solution for mutual clients leveraging the Wematch platform.

There has to be a business case and demand from customers for a joint venture but if that's there then our door is always open.

Pirum is eyeing a further push into North America? What will this look like?

We have a great team based in our New York office. The growth will be a natural evolution as we look to assist our clients meet their automation requirements in US and Canada. We have five people in the now and expect to double that team over the next 18 months.

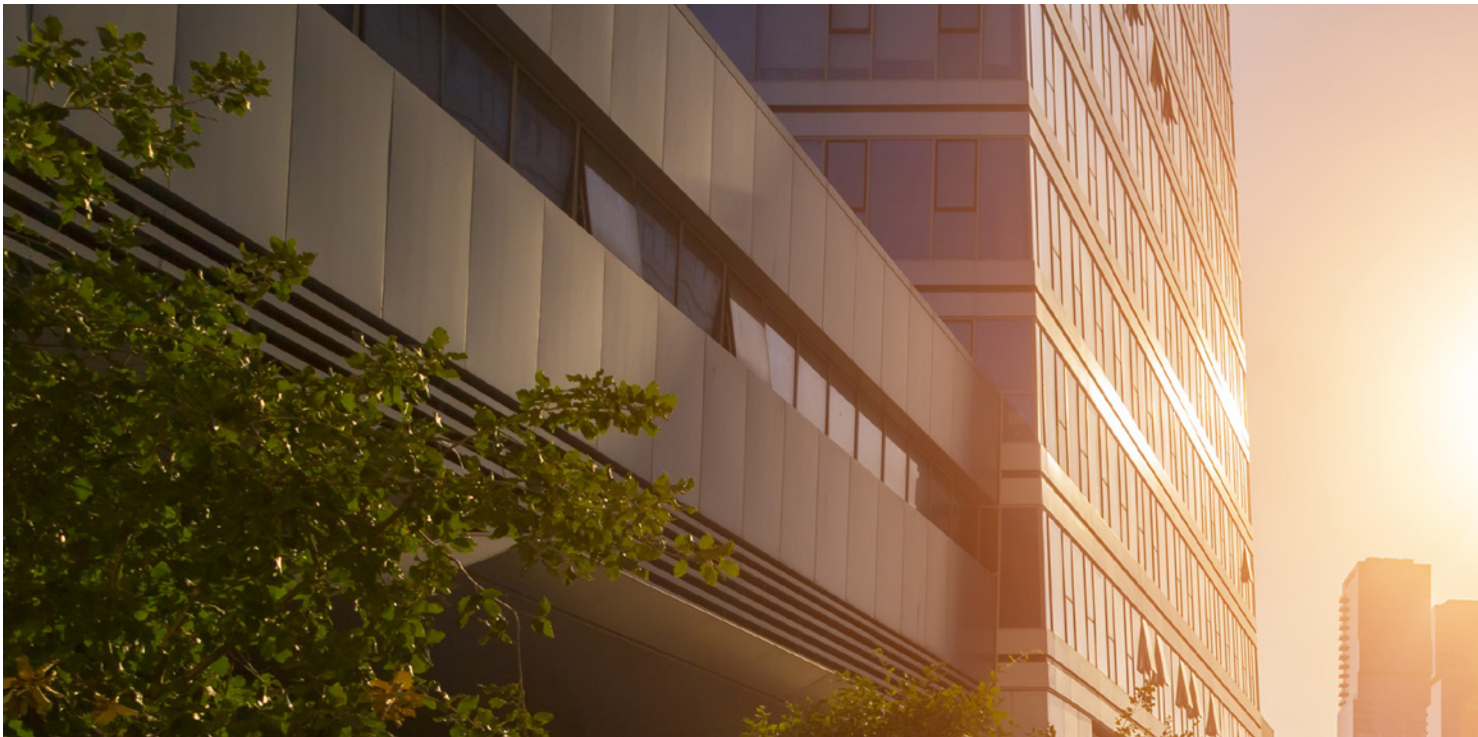
We will also be adding products in the coming year and we are very fortunate to have the support of some major market participants in this pursuit.

Pirum already has a broad suite of services and solutions but I'm sure there's also a busy development pipeline. What can we expect to hit the shop floor over the next 12 months?

Lots of exciting new products are being developed in our innovation hubs and in collaboration with our clients. We are looking to further enhance automation in the securities finance arena, including repo and collateral management. Additionally, we are working with our clients in to determine requirements in the data, trading and connectivity space, as well as developing solutions in the derivatives sector.

What inspires me most and made my decision on the new role very easy, is the fantastic team we have at Pirum. They surprise and challenge me daily and I know are greatly appreciated by our clients, so the development pipeline is in great hands.

I am hugely excited by this opportunity and look forward to working with our clients to deliver exciting solutions.



Israel: Market upgrade initiated

Natalie Turner reports

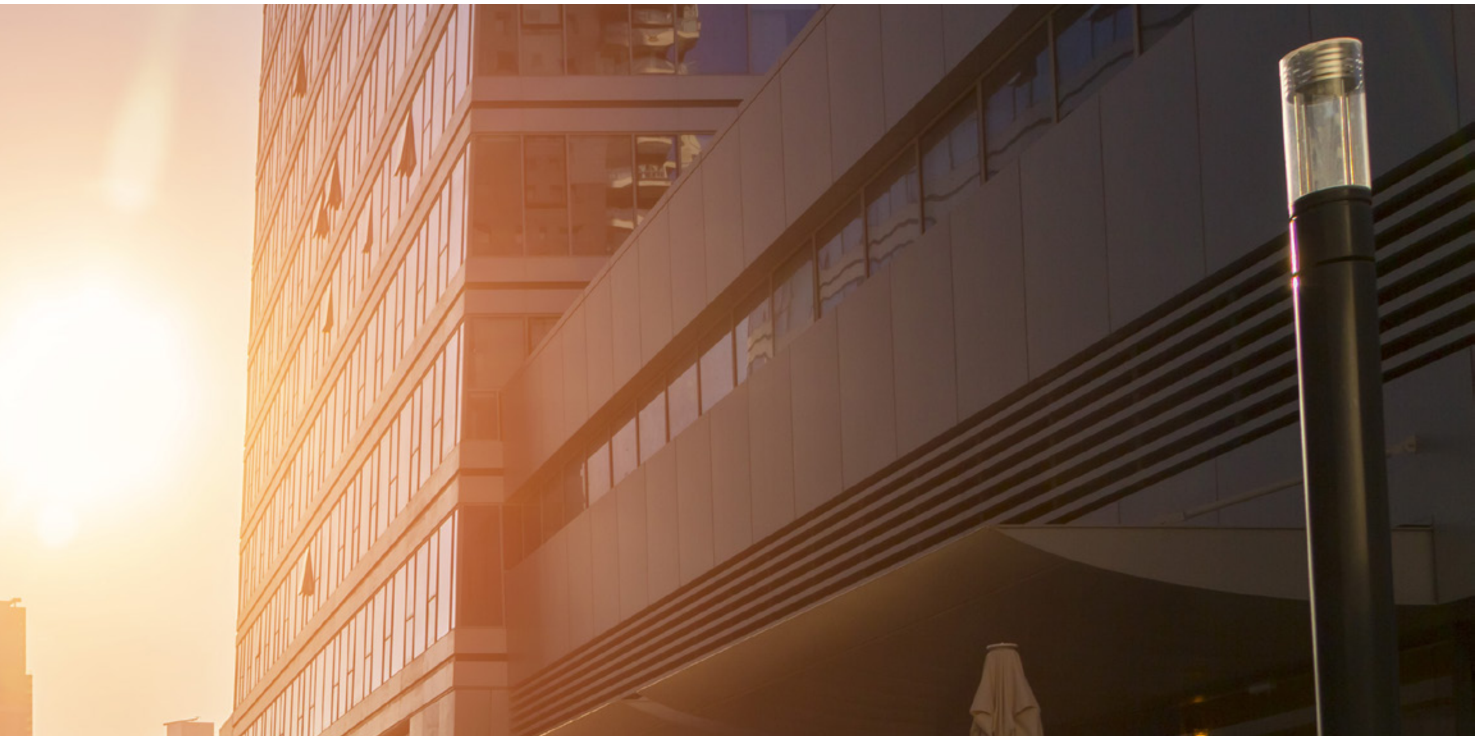
The Middle Eastern country's securities lending market is on the brink of a technological revolution with the launch of a first-of-its-kind DLT trading platform and an influx of international investment

For many years, Israel's securities lending has been somewhat of a closed book. But, the Middle Eastern country is about to open a whole new chapter with the upcoming launch of a central blockchain-powered securities lending platform.

The platform, hosted by the Tel Aviv Stock Exchange (TASE), is due to hit the ground running in November and is aimed to give a much-needed shot-in-the-arm to the country's latent lending market.

Ofer Abarbanel, founder of Contact Prime Brokerage, a firm which specialises in the securities finance sector, explains that since TASE is now a public company, "its top management realised they need to become competitive so they can increase their value to their shareholders, therefore, they invested in improving their technology".

The blockchain platform will function as a one-stop shop for all securities lending activities, permitting access to larger securities volumes within shorter timeframes.



It has been built on Hyperledger Sawtooth, an open-source enterprise blockchain network, in collaboration with Accenture and with additional testing by Blockchain Technology Partners, a Scottish distributed ledger technology developer.

In March, TASE members were given access to an initial testing environment, to put the platform through its paces with lending transactions and adapt their systems in preparation for the production phase.

Orly Grinfeld, head of clearing at the TASE, describes the new securities lending environment as a “game-changer in the securities market in Israel”, adding that “the blockchain technology will present a new level of safety for securities lending and will support growth for transactions based on this new platform”.

“The new product will open the market and enable direct participation for each player in the market—even the smaller players,” she explains. “The market will be much more efficient and transparent, and the costs will be lower and the volumes will grow higher. We believe it is going to double and triple the volumes of the current securities lending market in Israel.”

This may sound like an ambitious target but activity in both securities lending and short selling markets have remained stubbornly low in recent years, compared to similar-sized markets elsewhere in the world, and there is plenty of untapped potential.

Rony Gitlin, head of securities trading at Bank Leumi Le-Israel B.M, says the number of securities lending trades in Israel is lower than most of the rest of the world. On average, the main market percentage of short compared to long is 2-5 percent whereas Israel sits at around 0.5 percent mark. “We have a long way to go,” he states.

Part of the reason for the below-average activity is regulation.

Rules governing non-institutional clients, in particular, make the option to be short on securities for retail clients “almost impossible,” explains Gitlin.

For non-qualified investors, there is no possibility to be short on a stock unless you buy a short exchange-traded fund, he adds. “The Israeli regulation calls being short, as property at special risk, that means that the non-qualified investors can’t trade it. So there is a large percentage that can’t join the market.”

Although short selling and securities lending are established and approved features of the Israeli market, local investors have traditionally avoided short sales — the cautious culture of investors means they are just not a popular investment option. Gitlin believes there is a big part of the Israeli public that still remembers the big losses of the 1980 years and, 40 years on, investors remember the “traumatic losses”. so investors will not put their money on stocks. Gitlin explains that for this reason, “I do think that the Israeli public are less in the stock markets, and to be short is an even bigger risk in their mind”.

Despite the fact that blockchain platforms are still relatively new to capital markets, TASE’s innovation is not expected to meet any major hurdles. TASE is regulated by the Israel Securities Authority and every new product is coordinated with the market overseer.

“From our point of view,” says TASE’s Grinfeld, “the product is going to decrease the risks for the participants. TASE is going to be obligated as a central counterparty for the new system, which means it gives the full obligation to complete each lending transaction even if the counterparty did not fulfil their part. In terms of regulation, it decreases risks in the market and that is one of the interests of the regulator.”

The COVID factor

Gitlin explains that as the COVID-19 pandemic enveloped the world, that Israel did see “much more flow in general and also in securities lending. We saw more interest from qualified investors but the markets in Israel didn’t do the rally that we saw from NASDAQ”.

During the initial peak of pandemic in March and April, “securities lending TASE numbers rose by around 10 percent only, while flow rose by around 70-80 percent, so the numbers on securities lending are lower than the world numbers,” Gitlin says. “But that means that there is lots of potential in the local market.”

Reinforcing this optimism, Abarbanel argues: “the Israeli securities lending market is becoming well-positioned for growth compared to other markets since securities lending is all about having a great infrastructure to handle increased lending volumes which increases trading volumes.”

Open door policy

Another major change that Tel Aviv is experiencing is the entrance of foreign brokers and trading firms that are now becoming members of the exchange, such as Interactive Brokers Group (IBKR), a major international brokerage firm, part of the NASDAQ Stock Exchange. Tel Aviv announced last year that IBKR and retail clients can now trade stocks on the exchange.

IBKR will connect clients to TASE via a banking intermediary based in Israel. The brokerage firm enables clients to fund their account in 23 currencies and trade assets from a single account in multiple currencies, including the Israeli shekel.

The aim is to provide clients access to the world’s financial markets, including smaller markets that larger financial institutions don’t serve. Thomas Peterffy, CEO of Interactive Brokers, explains: “Due to our international scope and advanced technology, we can offer opportunities for investors to access smaller markets efficiently and cost-effectively.”

Commenting on the addition of IBKR, TASE CEO Ittai Ben-Zeev says: “This is a direct result of our strategic plan and aspiration to encourage international investors to trade on TASE, to expand trading volumes and improve liquidity in the Israeli market.”

This is a very exciting time for Israel and it may be the beginning of a new market blooming. If this blockchain platform successfully allows Israel to grow then maybe that could be applied to other development markets that need a lightning rod to galvanise growth.

Building on the past

Natalie Turner reports

John Arnesen, consulting lead at Pierpoint Financial Consulting, talks about the first in a new series of whitepapers exploring operation efficiency in the securities finance industry

'Building on the past' is a whitepaper by Pierpoint reviewing operational efficiency in securities finance. What is the key message you want readers to take on board?

The paper comes in three parts. The first part describes the history of the industry, particularly in Europe, its operating environment and how it developed. The second paper explores the technology that is readily available to solve many of the issues facing post-trade services. The third will be dedicated to a reimagining of the industry and how it may look in the next five years. The key message is that change is inevitable, and you can only develop by getting the fundamentals right today.

The paper argues that the operational inefficiencies that are still prevalent have the potential to stifle further market growth. What these sticking points and how are they affecting the current climate?

In researching the paper, it became clear that despite the myriad post-trade services developed to improve the processes, many firms are not utilising them consistently.

Securities finance is nuanced in that trade execution is one action in a multiple of further actions taken during the life-cycle of the loan. Maintaining accurate records between lender and borrower over time can be challenging, given the sheer number of steps that must be taken. After an agent reallocation, for example, if the borrower fails to reflect this change in their books, the return trade may fail due to wrong standing settlement instructions.

The month-end billing will also not reconcile so you have to use resources to untangle the errors. This is both inefficient and unnecessary, given the tools to assist the market are already there to use.

How can the market reach its full potential?

An optimal model remains a goal as any process can be improved. There have been vast improvements over the years to implement trading efficiencies and all of the post-trade services that are described in the paper.

As trading over platforms like EquiLend's NGT has improved the volume and speed of trading, there are improvements that the industry can make in post-trade activities that will address the inefficiencies we identified in our research. The tools are there, but you have to use them or face higher headcount, costs or risks (or all three).

As Andrew Dyson, CEO of the International Securities Lending Association (ISLA), mentioned in a recent webinar series, by now, we ought to have a handle on these error-prone processes. Dyson is right. To even start thinking about more standardisation as a foundation for automation, we have to improve the basics.

What additional problems are facing the securities lending industry in light of new regulations and what can be done to fix them?

Regulations have shaped the industry since 2008 and whether despite them or in light of them, securities finance has continued to attract investors, reach record supply and generate significant revenue. Clearly, there are additional costs for borrowers, in particular, the cost of capital and risk-weighted assets, and that has led to a change in focus on margin posting and counterparty credit quality.

The latest regulations, Securities Financing Transactions Regulation (SFTR) and Central Securities Depositories Regulation (CSDR) will be absorbed into market practice in very much the same way. The market will find a way to comply.

SFTR is noteworthy in that it required industry collaboration like never before during the consultation phase and its implementation. Of more interest to me is that it brings standardisation that the market could now leverage in other areas.

You conducted interviews with market participants to identify how they operate and where improvements are still needed. What was the key feedback?

There is widespread recognition and awareness that resources are limited. Given that, what are the tools needed to meet the demand in the growth of volume or complexity without increasing resources? As described in the paper, the days of throwing people at an increase in growth are no longer acceptable or granted easily, and the pre-trade, trade and post-trade solutions are there to address this.
The frustration lies in a deterioration in universal use of such tools that creates a drag on resources. Ironically, the arrival of SFTR has led some firms to hire additional staff, even if temporarily, to deal with the expected queries that will arise during the matching process. For a regulation without a commercial benefit, this will be painful.

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What is the key to achieving rapid sector growth?

Technology has always accompanied the growth in the industry. In the paper, we refer to the creation of Pirum Systems that provides a platform to address the needs of a loan life-cycle and all of its moving parts. EquiLend developed to provide a platform to exchange vast amounts of securities in a more organised fashion. Some 20 years later, both providers have gone from strength-to-strength in the services they provide.

While growth in supply has been mostly successful, there is plenty more to do. Some institutional investors are still not involved and are missing out on a low-risk, compounding annuity revenue stream. Given the cloud-based technology available today, there are so many routes to market that these investors could consider.

How has the securities finance market shifted since the formation of ISLA?

ISLA, which formed in 1989, has just turned 31. In the early years, it was a meeting point to discuss relevant issues. Today it takes a leadership role representing industry views and offers considerable services and output for its members today. The association grew in line with demand, but a turning point is when it hired full-time staff to address members needs. They expanded that further in recent years to meet the needs of increased regulatory interaction, expansion of member benefits, the formation of multiple user groups and encouraging greater beneficial owner engagement. That balanced the needs of the industry as a whole and produces meaningful output day in, day out. The legal opinions, for example, are an invaluable resource when conducting due diligence on a new market.

ISLA's collaboration with other trade bodies, under the weight of regulatory initiatives, has also enabled better dialogue with regulators and has unequivocally got everyone through the complexities of SFTR.

What can we expect for the future of securities lending in the following papers?

I'd loved to tell you, but you will just have to wait and see; watch this space. We would also like to encourage those that want to share their views with us to get in touch.

European equities on the rise

Samuel Pierson,
Director, securities finance
IHS Markit

August was the fourth month of 2020 to deliver less revenue than the 2019 comparable and the first since May, IHS Markit data reveals

Global securities lending returns declined by 22 percent year-on-year (YoY) in August. US equities were the largest contributor to the shortfall, as special balances continued to decline from the year-to-date (YTD) peak in June.

August was the fourth month of 2020 to deliver less revenue than the 2019 comparable and the first since May. The August shortfall puts quarter-to-date (QTD) revenue at $1.5 billion, a 9.9 percent YoY decline. To some degree the decline could have been anticipated, with US equity revenue trending down steadily over the month of July, however, the magnitude was startling.

Lower mergers and acquisitions and new issuance activity contributed to the sequential decline, though likely seasonal with some high-profile initial public offerings (IPOs) expected this fall; Some formerly lucrative lending opportunities relating to arbitrage trades earlier this year have also concluded. In this note we review some of the drivers of global lending income in August (see Figure 1, overleaf).

August was the first month of 2020 to have the most revenue generating security be a European equity. German equity lending revenue has been bolstered by hard to borrow shares of YTD, with Varta Ag delivering $11.9 million revenue in August. The Europe, Middle East and Africa (EMEA) was the only region for equities to deliver YoY growth in August; Germany represented most of the growth, the rest of EMEA combined for 15 percent YoY decline in August revenues.

A pair of equities listed in the Netherlands also appear on the top revenue generating equities for August, NN Group Nv and Unibail Rodamco Westfield Se, which led Dutch equity lending revenues more than doubling YoY. The boost to July revenues, partly from delayed dividend record dates, along with the increase in German and Dutch revenues in August puts EMEA QTD revenues at $248 million, a 14 percent YoY increase (see Figure 2, overleaf).

Americas equity revenues came in at $220 million for August, a 35 percent YoY decline, however, the $656 million QTD total only reflects a decline of 9 percent YoY. US equity revenues tumbled in August after stellar returns in June and July.

Share borrowing related to convertible, merger and warrant arbitrage led in the prior months but had already substantially trailed off by the end of July; August offered limited special situation lending opportunities. US equities delivered $194 million in August revenue, a 30 percent YoY decline. Despite the sharp decline in August there is cause for optimism heading into the fall with several firms planning to go public via IPO or a special purpose acquisition company, which will likely result in elevated fees.

It's also worth noting that the YoY shortfall in US equity returns was partly just a function of Beyond Meat (BYND) delivering $48 million in August 2019, excluding that the YoY decline was only 16 percent; BYND generated $65 million in September of 2019, which will make the YoY comparison even more challenging next month.

Canadian equity lending revenues also declined sequentially and YoY, with the cannabis related returns declining steadily as increased issuance translated to additional lendable shares and lower fees. Canadian equities have delivered $65 million QTD, a 45 percent YoY decline.

Asia equity lending revenues continue to fall short of 2019, with August revenues of $118 million reflecting a 23 percent YoY decline.

The largest market, Japan equities, delivered $47 million in August revenues, a decline of 28 percent YoY, although there was also an 8.6 percent improvement compared with July.

Hong Kong equity lending revenues slipped in August, with $27 million in revenues the lowest monthly figure since April. The short sale ban in South Korea continues to limit lending revenue, with $13.5 million in August revenue being the lowest for any month of 2020 and reflecting a 52 percent YoY decline.

Global exchange-traded fund (ETF) revenues were $29.8 million for August, an 11 percent YoY increase, however, it is also the lowest monthly revenue for the asset class since February. The lower returns are the result of declining on-loan balances, average fees increased 11 percent YoY and at 62 basis points remains in a similar range to June and July. Global ETF utilisation in August extended the trend lower from the March peak, as borrow demand failed to keep pace with the growth in lendable assets. There has also been a dearth of hard-to-borrow ETFs with any significant balances; the most revenue generating fund globally, Chinaamc Csi 300 Index ETF, generated less than $2 million in August.

“Global utilisation of assets in securities lending programmes has been on a steady downtrend after spiking in March, with August having the lowest average globally”

Corporate bond lending revenues continue to be lacklustre. Corporate lending returns came in at $34.4 million for August, a 33 percent decline YoY. Corporate bond lending revenues declined during Q1 and have been consistently near $35 million per month since. Central bank support for global credit has dampened borrow demand while lendable value has increased steadily since April, causing utilisation and spreads to decline.

Government bond lending activity has substantially returned to pre-COVID-19 levels in terms of spread and reinvestment revenue. Global government debt lending revenues totalled $117 million in August, a 2.1 percent YoY increase resulting from larger on-loan balances while average fees declined by 5.8 percent. Fee-based revenue for US government bond lending came in at $67 million for July, a 1.8 percent increase YoY. From the peak revenue in April, the downtrend in spread returns for UST lenders has been steady, with August delivering the lowest monthly return since February. Returns from lending European sovereigns were $39.6 million for August, a 7 percent YoY increase and the most revenue for any month since March.

Figure 1: Global Securities Lending Snapshot - August 2020								
Asset Class	**SL Revenue ($M)**	**Rev YoY %Chg**	**Avg Balances ($B)**	**Bal YoY %Chg**	**Avg Fee**	**Fee YoY %Chg**	**Avg Utilization**	**Util YoY %Chg**
All Securities	$649	-22%	$2,070	2%	0.37%	-24%	6.5%	-8%
Americas Equity	$220	-35%	$455	-8%	0.57%	-29%	3.0%	-25%
Asia Equity	$118	-23%	$205	4%	0.68%	-26%	5.5%	-7%
EMEA Equity	$106	5%	$181	12%	0.69%	-6%	5.0%	10%
ADRs	$15	-58%	$30	25%	0.57%	-67%	7.3%	-14%
Exchange Traded Fund	$30	11%	$57	-1%	0.62%	11%	9.9%	-12%
Government Bond	$117	2%	$946	8%	0.15%	-6%	23.1%	9%
Corporate Bond	$34	-32%	$175	-11%	0.23%	-24%	3.6%	-20%

Conclusion

Global securities finance revenues decreased 22 percent YoY in August, a particularly challenging month following stellar returns in June and July. The trend for US equities remains to the downside, with the last week of August having the lowest revenue for any week in the month for the largest contributor to global returns, which was also the case for July.

Global utilisation of assets in securities lending programmes has been on a steady downtrend after spiking in March, with August having the lowest average globally for any month YTD. Despite the recent challenges there is cause for optimism in terms of corporate action related trades which are likely to materialise this fall. YTD global returns are down 6 percent through August.

Figure 2: Top revenue generating equities for August 2020				
Ticker	**Name**	**SL Revenue**	**Market**	**Industry Group**
VAR1	Varta Ag	$11.9	DE Equity	Capital Goods
NN	Nn Group Nv	$6.6	NL Equity	Insurance
LHA	Deutsche Lufthansa Ag	$6.3	DE Equity	Transportation
AMC	Amc Entertainment Holdings Inc	$6.1	US Equity	Media and Entertainment
CVM	Cel-Sci Corp	$5.4	US Equity	Pharmaceuticals, Biotechnology & Life Sciences
AXDX	Accelerate Diagnostics Inc	$5.1	US Equity	Health Care Equipment & Services
V	Visa Inc	$5.1	US Equity	Software & Services
URW	Unibail Rodamco We Stapled Unt	$4.3	NL Equity	Real Estate
INSG	Inseego Corp	$4.0	US Equity	Technology Hardware & Equipment
WEED	Canopy Growth Corp	$4.0	CA Equity	Pharmaceuticals, Biotechnology & Life Sciences
819	Tianneng Power International Ltd	$3.8	HK Equity	Automobiles & Components
MAC	Macerich Co	$3.7	US Equity	Real Estate
ESPR	Esperion Therapeutics Inc	$3.0	US Equity	Pharmaceuticals, Biotechnology & Life Sciences
VALPQ	Valaris Plc	$3.0	US Equity	Energy
OTRK	Ontrak Inc	$2.9	US Equity	Health Care Equipment & Services
WLL	Whiting Petroleum Corp	$2.8	US Equity	Energy
INO	Inovio Pharmaceuticals Inc	$2.6	US Equity	Pharmaceuticals, Biotechnology & Life Sciences
CCL	Carnival Corp	$2.5	US Equity	Consumer Services
GLJ	Grenke Ag	$2.3	DE Equity	Diversified Financials

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

European Regulation Impacting Securities Lending

Date: 17 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

RFP Process and Evaluation for Securities Lending Services

Date: 22 September 2020 17:00 (BST)
Location: Online
Provider: Consolo

If you are selecting a service provider in securities lending you need to be able to design, run and score an RFP

Cash Collateral Fundamentals

Date: 24 September 2020 08:00 (BST)
Location: Online
Provider: Consolo

This live on-line training course is designed for anyone who needs to understand cash collateral and re-investment purpose, process and requirements.

Latest people moves news from State Street, SteelEye, Arcesium and more

State Street securities finance trader Zoë Balkwell is set to vacate her role.

Balkwell, who is based in London, has focused on trading, automation and data analytics within the securities finance market since joining the US bank in 2017.

She is also the founder and chair of SHINE, the mental health network at State Street, which was launched in January 2018.

According to Balkwell via LinkedIn, the network aims to "normalise, raise awareness and support employees who are directly or indirectly affected by mental health".

It is currently unknown where Balkwell will resurface.

Prior to State Street, Balkwell was a relationship manager for EquiLend for just under two years from June 2015 where she managed 27 trading and post trade clients across fixed income and equities markets.

Before that, she was a securities lending analyst at Merrill Lynch for a year offering trade support across multiple aspects of the industry.

State Street confirmed that Balkwell is due to leave but declined to comment further.

SteelEye has appointed Rob Friend as chief operating officer, effective immediately.

Friend will be responsible for scaling the firm's business operations, including optimised internal workflows, client integration and customer engagement, in preparation for its support of the increasing global demand for data-centric compliance solutions.

Most recently, he served as global head of enterprise product implementation and quality assurance at Bloomberg, where he was responsible for designing product strategy and go-to market processes for the second Markets in Financial Instruments Directive solutions.

The appointment, which allows co-founder David Haines to resume the role of chief technology officer, comes as the firm prepares to expand into North America and Asia Pacific regions.

Matt Smith, CEO of SteelEye, comments: "As we continue our growth trajectory, Rob Friend will be instrumental in ensuring our internal operations platform can support our fast pace of growth.

"His experience scaling global businesses will be valuable as we prepare to expand our operations into new jurisdictions."

Friend adds: "I look forward to working with Matt Smith and the SteelEye team to help expand the business internationally and cement SteelEye's position as the emerging market leader for compliance technology and data management."

Arcesium, a global financial technology firm headquartered in New York, has appointed Chris Barrow as head of business development for Europe.

Barrow, who will be based in Arcesium's new London office, will be looking to expand Arcesium's geographic reach and meet the needs of its international clients.

The new head of business development has more than 20 years of experience in law, banking, and financial technology. He joins from NEX where he was head of ENSO financial analytics in Europe for two years.

Before that, Barrow was the global head of fintech revenue at Brown Brothers Harriman. He has also led the global sales teams for both Nomura and HSBC's prime services divisions.

"As we continue to grow and diversify our client base, we have seen a significant uptick of interest from the European market," says Gaurav Suri, Arcesium CEO.

"Our decision to expand into the European market and open up a London office is a strategic one. We continue to make investments in global talent to further enhance our position as a world-class financial technology and professional services firm, and Chris is a reflection of that. We are thrilled to have him join our team" Suri concludes.

Barrow adds: "I am privileged to be opening the Arcesium London office and leading our growth into Europe. Investment Management has an increasing focus on post-trade technology to build resilience, enhance governance, and increase efficiencies.

"Arcesium has built its reputation on directing highly flexible resources, expertise, and technology at complex problems, so I believe we have a tremendous opportunity to work with clients here in Europe."