SLT
SECURITIES**LENDING**TIMES

2015
THE YEAR IN REVIEW

Heard and seen

Look back on 2015 and you'll see that the term 'shadow banking' crept into common securities lending parlance, so much so that some in the industry even use it to describe their own business.

Fortunately, the repercussions of this acceptance that the business is somehow shady need not be realised, because 2015 also saw securities lending associations and other trade groups come out in force to defend and promote what International Securities Lending Association (ISLA) chair Andy Krangel rightly describes as an important business to functioning financial markets. As he puts it in his interview: "What ISLA can do is make its voice heard." Rest assured, ISLA will continue to do so.

In this, SLT's review of 2015, major securities lending associations and their representatives also explain how their regulatory work is going, and what their particular region is looking forward to in 2016. We also hear from a central counterparty on how far central clearing has come and where it should go next, as well as a data provider on what the numbers tell us about revenue generation and much more this year.

Finally, I'd like to take this opportunity to thank you for reading SLT and it's my hope that you'll continue to do so. Keep an eye on the newsletter and website at the turn of the year, when the fruits of some particularly grueling labour will be enjoyed. And as ever, if you have any feedback, don't hesitate to get in touch.

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THE YEAR IN REVIEW

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The year in headlines

The CSDR, FSB activities, M&A and more dominated 2015

Issue 117

Cowen to exit equity finance

Cowen Equity Finance Group, which was bought from Kellner Capital in 2012 when it was known as KDC Securities, was wound down.

The decision to exit equity finance makes Cowen's foray into the business a short-lived one, with the firm only buying KDC Securities from hedge fund manager Kellner Capital in late 2012.

Issue 118

Credit Suisse to close managed lending

Credit Suisse initiated plans to wind down its managed lending business in the US.

Credit Suisse wound down the business, after deciding that its niche focus did not fit in with the bank's wider investment banking strategy.

The third-party agency securities lending business operated out of the Credit Suisse New York branch.

It worked on behalf of large institutional investors in the US, matching their securities with broker-dealers for a fee.

The bank's prime brokerage business was unaffected by the move, and continues to support the securities borrowing needs of clients, which include hedge funds.

Issue 119

Private equity firms acquire stake in Pirum

Five Arrows Principal Investments and Camwell Management agreed to acquire an interest in post-trade provider Pirum Systems for an undisclosed sum.

Rajen Sheth, previously managing director, was installed as CEO of Pirum, which was founded in 2000 to provide post-trade services in securities finance.

Issue 120

2015 to be year of the SFT

The Financial Stability Board (FSB) promised to complete its regulatory overhaul of securities finance transactions in 2015.

The FSB said it would "finalise the remaining elements" of its regulatory framework for haircuts on securities financing transactions and set out details for monitoring implementation.

Issue 121

Asset manager fears onerous SFT reporting

European asset manager Amundi was "very sorry" to see that reverse repos and securities lending were referred to as securities financing transactions (SFT) in the FSB's proposed standards for data collection and aggregation.

Only hedge funds should be included in the scope of any regulation of securities finance transactions, argued Amundi, because asset managers rarely use repos or borrow securities in the same way.

"[The] wording that does not reflect the way they are conceived by asset managers," explained Amundi.

Issue 122
OCC confirms repurchase facility deal

The Options Clearing Corporation (OCC) and eSecLending collaborated with CalPERS to develop a product to help OCC diversify and increase its committed liquidity resources.

The fully collateralised facility offers OCC a source of liquidity while maintaining CalPERS's conservative risk profile.

It also increased OCC's overall liquidity resources from $2 billion to $3 billion, while diversifying OCC's committed lenders.

Issue 123
EquiLend and BondLend launch Trade Match

EquiLend and BondLend launched Trade Match, which provides an automated way to compare pre-settlement, cross-product securities finance transactions.

Trade Match reconciles all the trade components of either the start or closing leg of each trade type.

The software's exception management reporting prioritises the core pending settlement risk items for the users, helping them to reduce fails and rectify trade economic discrepancies on a real-time basis.

BondLend clients can use reconciliation terms specific to the fixed income business, offering the flexibility to handle different trade types.

Trade Match is also compatible with One File connectivity, EquiLend's workflow for streamlined build-out to EquiLend's post-trade services.

Issue 124
Lending securities doesn't forfeit governance

Securities lending does not stand in the way of institutional investors exercising their right to governance on company issues, according to a whitepaper by academics from the Georgetown and DePaul Universities, and the University of Cambridge.

The Role of Institutional Investors in Voting: Evidence from the Securities Lending Market investigated the voting preferences of investors, specifically from a securities lending perspective.

While securities borrowers inherit proxy voting rights and could, in theory, vote in annual general meetings (AGMs) to affect corporate actions, lenders have the right to restrict lending in the run-up to such an event, and to recall securities at any given time.

This is more common practice among investors that have an incentive to monitor and exert governance, but also occurs among investors in firms that are performing poorly or have weak governance, and when returns for voting are likely to be higher, for example, if the vote relates to corporate control.

The paper found that higher share recall correlated with less support for the firm's management, and more support for shareholder

proposals. It noted that investors value their votes, often over the income from lending, but also that loan demand and borrowing fees increased around these record dates.

Issue 125
EquiLend's NGT platform goes live

EquiLend successfully rolled out its Next Generation Trading (NGT) securities finance trading platform.

NGT is a consolidated, multi-asset class trading platform for the securities finance marketplace that allows traders to conduct their entire trading workflow on a single screen.

Issue 126
ECB allows PSPP securities

The European Central Bank (ECB) made the holdings of securities purchased under the public sector purchase programme (PSPP) available for securities lending.

The implementation of this activity was delegated to its existing lending agent, Deutsche Bank, under the terms and conditions determined by the ECB. The ECB said it may revise these terms and conditions if deemed necessary.

Issue 127
BlackRock sets the record straight

Policymakers have misunderstood securities lending practices and associated risks, according to BlackRock.

These misunderstandings are centred around potential conflicts of interest, leverage, collateralisation of loans, use of cash collateral and cash reinvestment vehicles, the use of non-cash collateral and rehypothecation, and borrower default indemnification.

BlackRock claimed that there are also misunderstandings specific to its own involvement with securities lending, and these have "unfortunately" formed the foundation of recent policy discussions.

Issue 128
Pershing launches OpportunityView

BNY Mellon company Pershing launched OpportunityView, a solution designed to help advisors and broker-dealers identify opportunities to increase returns for their clients.

OpportunityView, which is available on Pershing's NetX360 platform, uses big data analytics to help advisors more easily determine how specific clients could benefit from a wide spectrum of investment products.

The first generation of OpportunityView helped to identify fully paid securities lending strategies for qualified investors.

Issue 129
Fidelity criticises FSB's G-SIFI methodology

Fidelity rubbished the proposed methodology for designating certain investment funds as systemically important.

The FSB has proposed extending the systemically important framework that currently covers banks and insurers to other financial

institutions, to reduce the "the systemic and moral hazard risks" that they pose.

In its comment letter, Fidelity said: "Investment funds and asset managers do not, and cannot, present the type and scale of risk required to justify a global systemically important financial institution designation."

Issue 130
SFTR text is published at last

The EU Securities Financing Transactions Regulation's (SFTR) text was finally released for public scrutiny.

The trialogue came to an agreement on the SFTR's final text on 17 June in Brussels.

Issue 131
Taiwan to relax sec lending and borrowing rules

Taiwan's Financial Supervisory Commission was reportedly considering relaxing the rules on securities borrowing and lending from 1 January 2016.

At present, retail equity investors are currently only allowed to borrow securities from the Taiwan Stock Exchange, brokerages and other financial institutions. Should the change occur, it would allow transactions between individual investors, securities finance companies and securities brokerages.

Issue 132
Cowen presses ahead with prime expansion

Cowen Group continued its acquisition spree in the prime brokerage space with the purchase of Conifer Securities.

The financial services group also agreed a deal to acquire prime brokerage service provider Concept Capital. Both deals were for undisclosed sums.

Issue 133
The CSDR will damage securities lending market

The International Securities Lending Association (ISLA) "fundamentally" disagreed with the Central Securities Depository Regulation's (CSDR) implementation of mandatory buy-ins for securities lending transactions.

ISLA cited "highly complex rules", "dramatically increased costs", additional risk exposure and a lack of supportive data as some of the reasons that mandatory buy-ins would deter investors from making their securities available for borrowing.

Issue 134
ISLA reviews sec lending in 2015

ISLA published its annual report on the securities lending market, finding that on-loan balances increased by 8.5 percent globally to €1.8 trillion, up from €1.7 trillion in the first half of 2015

Issue 135
EquiLend joins Eurex Clearing's Lending CCP

EquiLend connected its securities lending platform to Eurex Clearing's central counterparty (CCP) service.

The planned link, due to go live in March 2016, will allow EquiLend's market participants to make use of their existing infrastructure to route transactions to Eurex Clearing's Lending CCP for novation and downstream processing.

Issue 136
ESMA stalls on buy-in technical standards

The European Securities and Markets Authority (ESMA) delayed the release of further clarification on the mandatory buy-in provisions in the CSDR.

The regulatory technical standards for the buy-in process for settlement discipline have been delayed following a consultation period with the market.

There was concern in the market that the penalties imposed may be disruptive to normal market activity, according to ESMA.

Issue 137
Collateral management likely to consolidate

New regulations and changes in financial markets mean consolidation in collateral management is highly likely, according to a report from BNY Mellon and The Field Effect.

Collateral Management: A Review of Market Issues argued that consolidation is "a highly likely outcome" and collateral management will evolve from being a process of managing assets for margin purposes, to a position where much greater consideration is required to manage assets.

Key challenges in collateral management identified by the report include compliance with new regulations governing cleared and non-cleared over-the-counter derivatives.

Issue 138
European Parliament passes SFTR

The European Parliament agreed to adopt the new transparency regulation for securities finance.

The SFTR's three main features include the introduction of mandatory reporting for all SFTs, excluding those concluded with central banks, to trade repositories.

Reporting requirements will be implemented at a regional level between 12 to 21 months after the SFTR comes into force.

Issue 139
Industry associations finalise ISDA protocol

The revised International Swaps and Derivatives Association (ISDA) Resolution Stay Protocol that includes a new dedicated securities finance annex received the backing of 21 systematically important banks.

Industry trade groups the Securities Industry and Financial Markets Association and the International Capital Market Association jointly announced the publication of the SFT Annex, which forms part of the ISDA 2015 Universal Resolution Stay Protocol.

Statutory resolution regimes have been implemented in several jurisdictions, including the US and EU, where regulators will be able to issue a temporary stay on counterparties' early termination rights in the event a bank enters into resolution.

But it was uncertain whether these stays would extend to contracts governed by foreign law. Financial institutions adhering to the new protocol agree to abide by certain overseas national resolution regimes, ensuring cross-border trades with counterparties in those jurisdictions are subject to the stays.

The SFT Annex, developed with the assistance of ISLA, expanded the parameters of the original 2014 protocol to include SFTs documented under certain master agreements.

Issue 140
Regulations are radically altering repo

Uncoordinated regulations are radically altering the short-term secured financing market, argued a study.

The new study from the European Repo Council of the International Capital Market Association showed increasing concerns that the cumulative impact of various prudential and market regulations, along with extraordinary monetary policy, could be affecting the ability of the European repo market to function efficiently and effectively.

Issue 141
Deutsche Börse offers combined securities lending

Clearstream, Eurex Repo and Eurex Clearing have merged their agency lending services to enhance Deutsche Börse Group's overall securities lending programme for clients.

The combined service, which is already available, offers customers greater capital efficiency and straight-through processing, according to Deutsche Börse.

Lenders may also be able to achieve higher returns as they can maximise the yield on their assets in a low-risk environment.

Clearstream is set to manage the transaction between the lenders and the borrowers as the agent lender and triparty collateral agent, via the Global Liquidity Hub.

Eurex Repo's SecLend market will manage the trading venue through its GC Pooling client base, while Eurex Clearing will provide clearing services as the CCP to both sides of the transaction.

Pascal Morosini, global head of global securities financing sales at Clearstream, commented: "This new agency lending service via CCP offers lenders an additional source of revenue by reaching out to different borrowers compared to our well-established principal model ASLplus. Our joint agency lending service is perfectly suited to large, fixed income lenders who are looking for a secured and centrally cleared solution."

To read these stories in full, visit the issue archive section at www.securitieslendingtimes.com

Full steam ahead

After being elected for a second term as chair of the ISLA board, Andrew Krangel explains what the association will focus on in 2016

Congratulations on your re-election. How is the ISLA board made up and who is represented?

We have a very good selection of highly skilled and experienced industry professionals and that's key for the International Securities Lending Association (ISLA) to do its job properly.

We need people with experience from across the industry spectrum to ensure both the buy and sell sides, as well as agent lenders, are represented.

That's why we once again have a beneficial owner representative on the board, which is fantastic.

We also have the likes of Mick Chadwick from Aviva and Stefan Kaiser from BlackRock, who are technically classed as lenders but are very close to the beneficial owners on the other side, so we get a good look at everyone's needs and the challenges they face.

ISLA has had a busy 2015. Has regulation been taking up a lot more of your time than usual?

Yes, it seems a lot of our board meetings are focused on regulation, specifically the Securities Financing Transaction Regulation (SFTR), money market reform and the International Swaps and Derivatives Association (ISDA) Resolution Stay Protocol. They have been very challenging for us and the wider industry.

Our engagement with regulators has been one of the great success stories for ISLA.

With the SFTR, for example, we have had a lot of dialogue with regulators and the Financial Stability Board's (FSB) shadow banking committee.

The dialogue with Brussels and the rest of Europe has been very important in allowing ISLA to gain an educated and up-to-date view on developments and feed that back to our members.

A good channel of communication must go both ways, between the regulators and our members. This allows us to also feed our members' views back up to the regulators.

Given the niche nature of securities finance, do you feel regulators are suitably educated about your industry and are willing to listen to your concerns?

The engagement that ISLA COO Andy Dyson and CEO Kevin McNulty have maintained over the past two years has really helped key people at regulators such as the European Securities and Markets Authority (ESMA) understand our business and the challenges we face.

At the same time, we have actively tried to forge partnerships with other trade organisations, such as the International Capital Market Association, to make sure we are approaching the regulator with a uniformed view.

The fact that ESMA and some of the European parliamentary members are happy to engage with us shows that ISLA is valued as a participant in the discussions.

What about the regulatory focus on securities finance?

Quite often the regulation we are talking about, apart from the SFTR, isn't aimed at affecting our industry directly—the impacts are often a by-product of the regulation.

There are, of course, some who are working to reform our business directly, such as the FSB and its work on the shadow banking industry.

Where aspects of new regulation are negatively affecting the securities finance industry, we have been able to articulate that to the relevant people and the regulators, in turn, are now able appreciate the importance of having a functioning securities lending market for liquidity and efficiency of various mechanisms of the wider market.

What have ISLA's biggest challenges been this year and how have you faced them?

The sheer weight of the regulation that I've already mentioned has swallowed a lot of our time this year.

We would like to be spending more of our time and resources on the industry-leading publications and communications with our members.

In terms of our successes, our main ISLA conference this year was also our most successful ever in terms of attendance and we always have a post-trade conference, which also beat expectations for attendance.

The different platforms that ISLA offers, through its roundtables, conferences, conference calls and training days, allows competing firms to exchange ideas and mutually benefit from one another in a way that would otherwise be impossible.

The progress we have made thanks to those discussions has been another of our real success stories of the year.

If you could expand upon a specific area of ISLA's services, would it be your quarterly reports and the educational arm of ISLA?

Absolutely. Transparency is becoming more and more important in the financial world and it's important that ISLA effectively communicates exactly what is going on in our industry and what the challenges are.

We are very proud of our quarterly review and we would like to be able to put a lot more of our resources into them in future.

We also organise regular regional roundtables where we visit our members to explain what we are doing at the time and take on their concerns and thoughts on how we are doing as their representative.

We've had great success with these meetings and it's another area we will build upon as soon as we're able.

How does the board decide on a focus for ISLA?

It's definitely a partnership-style approach to policy setting between Kevin McNulty, Andy Dyson and the whole board.

It's not just a case of the board telling the full-time ISLA team what to do.

The team is made up of highly experienced individuals and so we rely on them to let us know what they think should be a priority each quarter.

At the same time, the ISLA team gets to have regular open dialogues with a large proportion of the ISLA membership, so we also rely on them to let the board know what is on our members' minds.

The board itself meets at least once a month and we also have several operational committees that meet regularly to look at what is happening in the industry.

For example, there is a legal and regulatory committee that receives comments from our membership and our full-time staff members are constantly reviewing the regulation that is coming out and what impact it may have, and then feeding that information back to the committee.

Once all this information has been gathered and processed, we will see where and how we can add most value as an association.

This means looking at our value to all our membership, not just the lenders or the borrowers.

This year, some of the findings were obvious, such as mitigating the impact of the SFTR, but others were subtler, like the ISDA Resolution Stay Protocol.

This caused a lot of work for ISLA as we have had to comply with everything the regulator asks of us in terms of creating a lot of documentation for the industry.

With such a broad membership base from the buy and sell sides, do you find it difficult to work fully in the interests of all parties?

I don't think it is difficult. With any piece of new regulation we have to find a version that works for all of us because there is no point in ISLA reacting for just one half of the trade.

As a board and an association, we try to step back and look at the bigger picture and study the impact of any new piece of regulation through the entire value chain.

One of the main advantages of having a diverse board is it allows us to gain opinions from all the relevant view points and come to an educated consensus.

Obviously, everyone on the board does have vested interests but we have always been able to see beyond that to the bigger picture for the good of the whole securities lending industry.

What will the big focus for next year be?

The focus will have to be on the implementation of the SFTR. The Central Securities Depository Regulation, which has been delayed, will also have a big impact and needs further work.

At the same time, there is a European Central Bank initiative on money market statistical reporting, which ties back to the fact the industry will have to be more transparent to regulators.

On the regulator's side, the challenge is to be consistent in the regional requirements.

We can't end up with a trade-reporting requirement that's different in each region.

This would be very problematic as the very nature of our business is that it is often cross-border and different reporting structures would massively complicate matters.

Is promoting a unified reporting standard across the different regions going to be one of ISLA's main challenges of 2016?

I expect so. What ISLA can do is make its voice heard to the regulator to advocate the serious need for consistency in regulation, and we have already been doing that through our working groups and in partnership with ESMA.

However, a lot of the decision making is out of our hands. We can only make suggestions and explain to the regulator the challenges a certain piece of legislation would pose to the global securities lending industry.

Our meetings with the people at the FSB have been very productive so far and they have been happy to listen to our views and take them on where they can. **SLT**

> "One of the main advantages of having a diverse board is it allows us to gain opinions from all the relevant view points and come to an educated consensus"

Andrew Krangel, board chair, ISLA

The good, the bad and 2016

Representatives from securities lending associations around the globe reveal what's stood out for them in 2015 and what they expect to face next year

Europe perspective

ISLA INTERNATIONAL SECURITIES LENDING ASSOCIATION

Andy Dyson
COO
ISLA

What has been the biggest development in your region this year?

Inevitably, a lot of the business in the past 12 months reflects a strong regulatory agenda. In particular we have seen the further development of a term securities lending market for high-quality liquid assets, where brokers are looking to comply with the requirements of the liquidity coverage ratio (LCR) under Basel III.

The progressive implementation of bank recovery and resolution regimes by regulators has also reached the securities financing transactions (SFTs) markets with provisions to allow regulators to temporarily suspend termination rights between counterparts that may be facing an institution in resolution being applied to our market standard agreements.

What impact has this had on the industry?

Prudential regulation in the form of Basel III means that the capital costs associated with securities lending are increasing over time. This means that all elements of the value chain that potentially consume capital are being scrutinised ever more closely. Consequently, borrowers are not only mindful of compliance with the LCR but have to think carefully about the risk-weighted asset component of the exposure they have with lending principals.

This in turn is driving greater focus on the likes of authority and capacity, including the ability to net collateral in the event of a counterparty default. Similarly, lending agents are grappling with the changing dynamics of the cost of capital associated with indemnification.

Can you name the one market driver in your region that industry players must be especially aware of going into 2016?

Next year will see the publication of the detailed level two text for the European Commission's Securities Financing Transaction Regulation (SFTR). This legislation will require all European market participants to report all of their SFT activity to a trade repository, with full compliance expected by the end of 2017.

Although we have not seen any level two text at this point, it is clear from the level one legislation that all transactions will have to be reported on a principal-to-principal basis with, in the case of non-cash collateral, all collateral allocated down and reported at the lending client level.

The SFTR will require dual reporting and it will be incumbent on both borrowers and lenders to comply with these mandatory reporting requirements.

Asia perspective

PASLA
PAN ASIA SECURITIES LENDING ASSOCIATION
Local Regulations, Global Standards

Paul Solway
Communications officer
PASLA

What has been the biggest development in your region this year?

China's ongoing financial reform and expansion continues to dominate headlines and flows across Asia. The Hong Kong-Shanghai Stock Connect model, which was launched in November 2014, complements the qualified foreign institutional investor or renminbi qualified foreign institutional investor licence programmes that allow foreign investors to directly purchase A-shares.

The broadened access both 'northbound' (Hong Kong investors investing into China) and 'southbound' (Chinese investors investing into Hong Kong) saw additional securities lending regulation designed to attract further investors and capital.

What impact has this event had on the industry?

While qualification as a borrower or lender remains complex and practically tough for foreign participation, directionally the Chinese regulators are making good progress.

As systemically large beneficial owners and investors add Chinese securities to their portfolios, further pressure for viable financing and lending solutions will be applied to both regulators and exchanges.

The global market volatility in Q3 2015, combined with China's continued economic slow-down, may have somewhat focused regulators more on overall market stability rather than further market liberalisation. But the Stock Connect model nonetheless puts China firmly on the global financial map and has certainly helped redefine its status for many from 'frontier' to 'emerging'.

Can you name the one market driver in your region that industry players must be especially aware of going into 2016?

Asia has some of the best market controls or circuit breakers of all regions. It also already has quasi-central counterparty (CCP) style securities lending platforms across many of the active markets. Also, given the relatively expensive cost-of-carry of many Asia Pacific asset classes, traders are actually already very aware and subsequently efficient in managing their long/short books at a portfolio level.

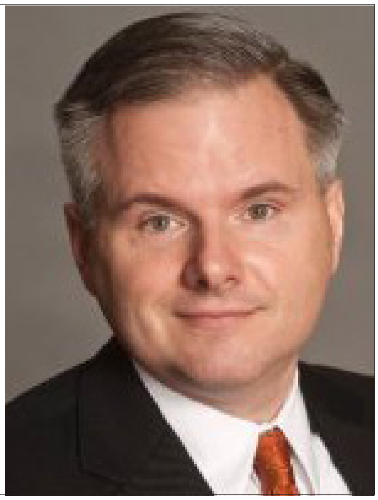
It's more about the unknown 'unknown'—what else is coming? Traditionally, international firms have traded using entities and balance sheets from Europe, the Middle East, Africa or the US. But as regulations evolve, Asia should see some unintended consequence of global regulations that have so far concentrated on protecting and safeguarding the larger financial arenas.

Asia-based counterparties are already seeing the benefits, and global institutions are now investing resources locally, in countries such as Hong Kong, Japan and Singapore, so they can see similar benefits.

Asia is used to the downstream effects of other regions. Any positive or negative news at the board level of a S&P 500 or FTSE 100 company can move indices across the Asia Pacific just because of the supply-chain effect.

In addition, regulation either approaching from the US or Europe, the Middle East and Africa, as well as within region, just means we have to be even more nimble than before—something that Asian investors are getting quite good at.

US perspective



Fran Garritt
Director of securities lending and market risk
RMA

What has been the biggest development in your region this year?

The changing regulatory landscape continues to be of utmost concern. The latest issues include the finalisation of many of the proposed US rules, including the liquidity coverage ratio and the global-systemically important bank buffers that affect agent banks and broker-dealers.

We are also keenly attuned to the extension of the International Swaps and Derivatives Association Resolution Stay Protocol to securities lending and the Financial Security Board's recent finalisation of the data collection and aggregation rules for securities lending.

What impact have these had on the US?

Expending the resources and attention necessary to comply with the rules is placing stress on the industry. Substantively, the rules are forcing agent banks to review their borrower default indemnification procedures and brokers to evaluate their approach to collateralising stock loans.

Fundamentally, the implementation challenges, including the system requirements to comply with these rules, will require substantial effort from operations and information technology personnel over the coming years.

Can you name the one market driver in the US that industry players must be aware of in 2016?

Historically, securities lending, particularly in the US, generally occurred in a pretty common manner: agent banks provided indemnification to their clients, and broker-dealers provided cash to agent banks to collateralise the stock loans.

In 2016, I expect the industry and vendors to increasingly focus on developing multiple 'tools in the toolbox' for different scenarios through the use of central counterparties, netting, and alternative forms of collateral.

Canada perspective

Donato D'Eramo
President
CASLA

What has been the biggest development in Canada this year?

This year has been very positive for Canada's securities lending market. Regulatory changes and balance sheet financing continue to dominate the market and represent the biggest developments in Canada. Specifically, the Investment Industry Regulatory Organisation of Canada changed the broker-dealers' treatment of underlying agent lender principals for capital calculations.

Balance sheet maintenance consumed the industry in many facets: agent lenders experienced increased demand for high-quality liquid assets (HQLAs) versus alternative collateral, an increased focus on alternative routes to markets via central counterparties (CCPs), as well as a broad-based look at capital costs across multiple products.

The global industry is preparing for both the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), which are both part of the new proposed developments in international liquidity standards.

LCR implementation began in 2015 and must be fully implemented by 2019. Also, Canadian domestic systemically important banks were required to implement the Basel LCR disclosure standards from the Q2 2015 reporting period.

What impact has this had on the industry?

The increased regulatory environment for agent lenders has created higher demand for HQLAs versus alternative collateral for a specified term. For beneficial owners, this means increased revenue especially when willing to commit to term in the one-to-three month space for a specific asset class, for example, Canadian government bonds. Non-cash collateral is starting to see increased rate pressure as balance sheet impacts filter down to the end user.

Can you name a market driver in Canada that industry players must be aware of going into 2016?

Collateral and balance sheet optimisation will continue to be key themes in 2016. Globally, banks are preparing for full implementation of LCR and NSFR, while firms are looking for efficiencies across business functions to break down silos and work in a cross-functional way.

A closer look at CCPs, reserve funds and how the North American markets can increase their usage for capital relief will increase in 2016. The Canadian mutual fund industry will also see the introduction of disclosure requirements of income on a gross and net basis for securities lending in 2016. **SLT**

Amenable to change

Shifts in collateral and regulatory pressures mean there are new options for beneficial owners, as long as they are willing to be flexible, writes CIBC Mellon's vice president of global securities lending, Jeffrey Alexander

Securities lending and alternative strategies have gained prominence in recent years. The practice continues to provide much-needed market liquidity in a capital-constrained world, as well as excellent risk-adjusted returns for owners.

On the flipside, both unintended and intended regulatory challenges continue, such as the use of short sale bans, as in Greece, which for all their good intentions have historically shown to do more harm than good.

Even in highly developed lending markets such as Canada, the regulatory environment can create an uneven playing field—for example, the domestic NI 81-102 regulations prevent mutual funds from taking equities as collateral in securities finance transactions, in contrast to the flexibility afforded to pension and insurance players.

Some of the largest impacts for the securities lending industry, however, stem from outside pressures: velocity of regulatory change, new capital requirements and the resulting growth in the importance of high-quality liquid assets (HQLAs). These pressures are transforming the opportunity equation for beneficial owners, as their own programme choices around collateral, terms and structures either open up large volumes of new business or turn formerly fertile grounds hardscrabble.

Pre-2008, the market was comparatively flush in collateral. Global banks and other traditional borrowers were long on quality collateral, and able to structure an array of transactions using their own balance sheets. As a result, the market didn't support nearly the same level of demand for HQLAs held by insurance companies, pension plans, and mutual funds, which in turn were able to set their collateral requirements in a multitude of structures without so substantially affecting the uptake and overall returns of their securities lending programmes.

Today's regulatory environment has changed the equation. Banks now face expanded requirements to hold HQLAs on their balance sheets, even as they undertake activities that further bolster demand for those assets.

Pension plans, mutual funds, insurance companies and other beneficial owners are in position to fund this need—if they are willing to collateralise their securities lending transactions in ways that will aid this new market demand.

Constrained by their own balance sheet requirements, broker-dealers are looking to borrow securities against less traditional collateral instruments such as equities, exchange-traded funds, corporate bonds or alternative forms of debt, creating vast new demand for the HQLAs that beneficial owners hold. Choices around collateral have grown in focus and importance—a trend that we expect to continue to gain importance as a driver of securities finance activity.

Canadian owners are well suited for the new collateral environment given their generally conservative holdings (and a home bias that has proven justified in recent years).

As opposed to global uptake of general collateral, with utilisations around 10 percent depending on the market and the season, usage of short-term US treasury instruments often exceeds 70 percent usage, while Canadian government issues under 10 years regularly approach 80 percent usage of available instruments.

For beneficial owners holding highly sought-after instruments, flexibility can help owners' programmes more fully realise their holdings' potential for lending, while adding an important return in persistent low rate environments.

For those holding high-quality government assets, being willing to consider transactions across a wide array of collateral choices or terms such as evergreen trades can enable owners to capture a greater share of the available demand.

We fully expect this demand to continue, with the increasing march of regulatory and balance sheet pressures strengthening demand. Liquidity coverage ratios and net stable funding ratios have affected the way borrowers need to structure securities finance transactions, as well as their broader business. In the years ahead, flexibility will likely play an even greater role in determining revenues, with direct fee and pricing impacts shaped by collateral acceptability, term length or central the use of counterparty.

At the end of the day, the only reason owners participate in securities finance transactions is because there is value in the programme and they have confidence that the relevant collateral, contracts and counterparties appropriately protect the assets in question

“For beneficial owners holding highly sought-after instruments, flexibility can help owners' programmes more fully realise their holdings' potential for lending”

Agent lenders must spend the time necessary to work with owners to help them understand the controls in place as well as the tenor of the opportunities available.

Ultimately, it is up to agent lenders to help beneficial owners and borrowers capitalise on changing opportunities in supply and demand with confidence.

Collateral usage has changed substantially over the last five to 10 years, and will no doubt continue to evolve in line with the changing demands of borrowers, regulators and other market participants.

The overall returns in the securities lending market may remain comparatively stable, but opportunities will increasingly accrue to those owners willing to move with agility and flexibility to meet the market's changing demands. **SLT**

Part of the infrastructure

The Options Clearing Corporation's Scot Warren explores the role of central clearing and how it could be applied to securities lending in the future

Today, the Options Clearing Corporation (OCC), in its role as a systemically important financial market utility (SIFMU), serves 13 options exchanges and four futures exchanges, along with approximately 120 clearing member firms. Operating under the jurisdiction of the US Securities and Exchange Commission (SEC) and the US Commodity Futures Trading Commission (CFTC), OCC clears transactions for put and call options on common stock and other equity issues, stock indexes, foreign currencies, interest rate composites, stock loan, and single stock futures. As a registered derivatives clearing organisation (DCO) under CFTC jurisdiction, OCC offers clearing and settlement services for transactions in futures and options-on-futures contracts.

Having established its credentials as a foundation for secure markets in an increasingly global post-trade environment, OCC is working to extend its securities finance capabilities. OCC is the only US central counterparty (CCP) for equity stock loan transactions where it guarantees return of stock or cash to bilateral and exchange-traded stock loan participants.

OCC created its stock loan clearing service based on demand from its market participants. OCC's stock loan programme began in 1993 with 10 clearing member firms and allowed market-making firms to offset their option positions with stock loan positions, thereby reducing their OCC margin requirement as they were margin requirements on both their bilateral stock loan positions and the related transactions cleared at OCC. Transactions numbered under a few hundred a day.

Today, there are now 70 OCC clearing members conducting an average of 5,000 transactions per day with open interest measuring roughly $190 billion. Clearing volume at OCC is up 16 percent so far in 2015, with notional value growth up 1, 119 percent since 2011. The growth in transactions and loan value reflects a shift toward CCP clearing.

According to Markit, the market for stock loan was measured at $2 trillion in April. OCC estimates that it currently clears approximately 10 to 15 percent of the US equities stock loan market. Regulatory change is creating a tailwind for cleared solutions, resulting in the possibility of CCPs capturing a greater portion of the market.

As new regulations create a more durable and secure financial services industry they have also imposed new costs and requirements that could constrain the industry's capacity. As a result, OCC's programme has migrated over time from providing margin efficiencies to delivering capital and credit efficiencies. With OCC guaranteeing every trade, clearing members' exposure is to OCC, freeing single counterparty credit limits. Basel III risk-based capital requirements are materially lower for CCP cleared transactions than they are for bilateral transactions.

Migration to a CCP solution becomes more efficient from a capital usage perspective for banks and agent lenders. The cost differential between models will likely result in bifurcated pricing for the asset owners, ie, to preserve or enhance revenue streams they will need to participate in cleared solutions.

The programme currently supports the dealer-to-dealer market, however, OCC is actively engaged with market participants to understand opportunities for more direct participants.

The opportunities for credit, capital and collateral efficiencies make OCC a compelling value proposition for market participants. OCC is working with a coalition of industry participants to determine how this programme can be expanded. OCC understands participants want to keep aspects of bilateral trading intact, namely the relationship with their counterparties.

Working with committed market participants, OCC is focused on designing the processing and operational framework that the market needs to function and how we can build the technological, risk management and regulatory framework to support it.

Given the growth and interest in stock loan, we are very pleased with the reception and support of the industry, and we intend to continue working in a very collaborative fashion to determine the future direction of cleared stock loan. **SLT**

> “ OCC understands that participants want to keep aspects of bilateral trading intact, namely the relationship with their counterparties ”

Scot Warren, executive vice president, business development and OIC, OCC

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Collateral Management

COLLINE: Consolidated end-to-end cross-product (OTC derivatives, repo, securities lending and ETFs) collateral management, clearing, inventory aggregation and optimisation.

Mitigating exposure risk while satisfying the growing demand for multiple/global entities, margining, master netting, dispute management and electronic messaging.

- COLLINE OTC has market-leading functionality including a legal agreement repository supporting CSA, SCSA and umbrella agreements, **flexible margin calculation and configurable workflow, reporting and reconciliation.**
- COLLINE REPO and SEC LENDING supports front-to-back margin operations for an institution's repo and securities lending agreements, including optional **mark-to-market calculation and exposure profiling.**
- COLLINE CCP/CLEARING **workflow supporting both** house and client clearing requirements. Validation of **CCP and broker calculations with configurable margin process definition and cash flow management to support** multiple clearing house models on a single platform.
- COLLINE OPTIMISATION **offers a highly configurable** solution to enable real-time algorithmic calculations, **according to user-defined rules, goals and evolving** priorities, to ensure optimal use of assets.
- COLLINE ETF organises, manages and tracks the creation and redemption process of an ETF (Exchange-Traded Fund) – improving an **organisation's operational efficiencies.**
- COLLINE ELECTRONIC MESSAGING - automates **the interaction between financial institutions on** their margining requirements (margin calls, partial **and full dispute notification, real-time visibility of** counterparty actions, interest statements, and collateral substitutions) thus reducing operational risk.

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Top securities lending trends for 2015

Chris Benedict of DataLend discusses the top trends in the securities finance industry in 2015, including increases in global balances

I—Global balances steadily increasing: global agent lender to broker-dealer on-loan balances rose steadily in 2015 from $1.66 trillion in early January to about $1.74 trillion at the time of writing, averaging just below $1.7 trillion for the year. Broker-to-broker balances increased in 2015 as well, growing from $206 billion in early January to $266 billion today. Lendable balances also followed the global growth trend, rising from $13.1 trillion in January to $13.7 trillion by the end of November.

II—Revenues in Asia on the rise: Asia, the hottest region in securities lending today, saw on average on-loan values of $141.79 billion and an average $1.32 trillion in lendables for 2015. Fees to borrow in the region averaged 96 basis points (bps) and had an average utilisation of 11 percent for the year. Securities lending revenues for Asia grew an impressive 20 percent this year, from $1.07 billion to $1.28 billion toward the end of 2015. Much of this growth was due to increased interest in Hong Kong, especially during the first half of the year when concerns regarding a slowdown in China gripped the market.

Other markets such as Taiwan, Thailand, South Korea, Singapore and Malaysia remained warm to quite hot, with average fees all above 100 bps for the year.

III—Revenues in the US increase a bit: the US remained the top dog in the securities lending market by size in 2015. There were an average of $949.73 billion worth of US assets on loan and an average of $7.41 trillion in lendable assets for the US in 2015. The US market saw 38 bps in average fees to borrow with an overall utilisation of 12.8 percent for the year. Securities lending revenues for the US have grown 8 percent so far, from $3.11 billion last year to $3.39 billion year to date (to the end of November 2015).

IV—Revenues in Europe take a nosedive: the region saw an average $465.45 billion in assets on loan with an average of $3.56 trillion in lendables. Europe saw lower average fees at 32 bps but higher average utilisation at 13 percent. Europe has seen a 19 percent decrease in revenues from 2014 to 2015 so far. Securities lending revenues for the region have come in at $2.61 billion in 2015 versus $3.23 billion last year.

France in particular saw considerable decreases: Q1 revenues saw a massive 45 percent decline in year-over-year revenues. Q2 wasn't much better, declining 38 percent. Q3 saw a slight uptick of 11 percent year-over-year growth, but so far Q4 is looking as if it will post another double-digit revenue decline. Spain, Portugal, Belgium, the Netherlands and Greece all follow similar patterns. Overall, 2015 looked like a tough year for most securities lending participants in Europe.

V—But not everything in Europe drops: although most of Europe showed a fall in securities lending revenues for 2015, the UK and Switzerland bucked the trend. The UK saw a 6 percent increase in its on-loan balance from $100.97 billion in late 2014 to an average of $106.8 billion on loan at the time of writing. Revenues also saw increases in Q1 by 20 percent ($57 million to $70 million) and Q2 by 42 percent ($56 million to $79 million). Q3 posted a modest 4 percent increase, and Q4 looks to see fairly flat revenue growth.

Although revenues for the Swiss market currently pale in comparison to what they've been in previous years, 2015 was a relatively bright year for that market. Switzerland is on its way to seeing a revenue increase of more than 50 percent, from $77.5 million in 2014 to $118 million so far in 2015.

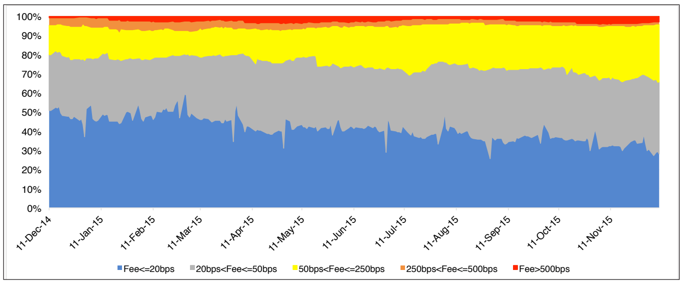
VI—Fees to borrow South American securities heat up: average fees to borrow assets in the region more than doubled in 2015, from 82 bps in early January to 185 bps today. This was driven primarily by Brazil (90 bps in early January up to 265 bps, while utilisation increased from 14 percent to 32 percent) and Chile (20 bps in early January to 54 bps today, and utilisation rose from 7 percent to 26 percent over the same timeframe).

South American on-loan balances also increased from $8.8 billion to $11.1 billion, suggesting increased interest in this region.

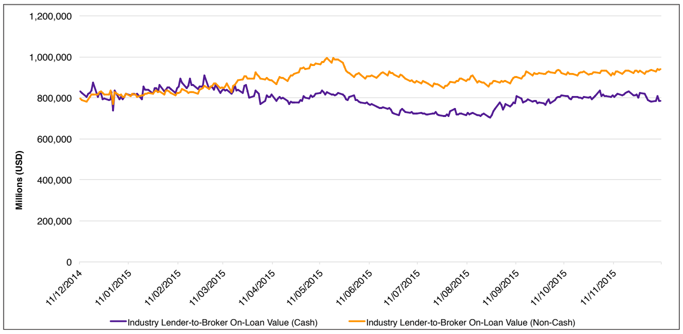
VII—Energy remains the hottest sector in the world: the global energy sector saw average fees to borrow of 119 bps and an average 13 percent utilisation for 2015. The oil and gas drilling and coal and consumable fuels industries really fired up energy, with average fees to borrow for the year coming in at 337 bps and 216 bps, respectively. Utilisation for these industries was also higher than average at 50 percent for the drillers and 28 percent for coal. Coal and consumable fuels have recently seen borrowing fees more than triple from 190 bps in late August to 572 bps today.

Information technology came in as the second-hottest sector globally with average fees to borrow at 87 bps and 11 percent utilisation for the year. The healthcare sector was just behind IT in terms of its borrowing fees for 2015, coming in just 1 basis point shy at 86 bps with an average 8.5 percent utilisation.

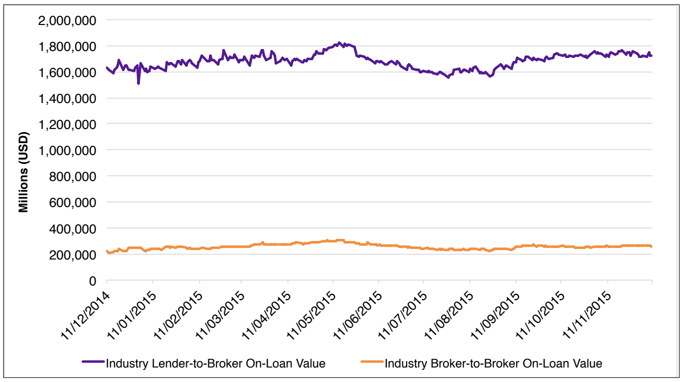
VIII—Non-cash collateral continues to increase globally: Europe's non-cash collateral as a percentage of total on loan rose from 73 percent in 2014 to almost 80 percent today. Asia saw non-cash collateral as a percentage of total on loan increase from 61 percent in 2014 to 75 percent today. Even the US saw increased usage of non-cash collateral, from 26 percent in 2014 to 36 percent of total on loan today. This trend is not surprising given the regulatory environment where borrowers are looking to access high-quality liquid assets and minimise balance sheet costs by pledging equities held on the balance sheet as collateral.



Fee Bands as Percentage of On Loan, South and Central America



Global Cash Versus Non-Cash Balances 2015



Global On-Loan Balances 2015

IX—Term trades on the rise: 2015 saw an increase in term trades booked as a total percentage of on loan. Europe has gone from term loans constituting 23 percent of all loans in early 2014 to just over 30 percent today. The US has increased from 10 percent of all loans being term in early 2014 to almost 15 percent today. Asia saw the growth in term trades from 8 percent of all loans in early 2014 to 25 percent today.

X—DataLend receives 'Best Market Data Provider' award for third year in a row: that counts as a trend, right? **SLT**

> "Revenues for Asia grew an impressive 20 percent this year. Much of this growth was due to increased interest in Hong Kong, especially during H1 2015 when concerns regarding a slowdown in China gripped the market"

Chris Benedict, director, DataLend

2015's most read industry appointments

Here are the entrances and exits that got readers talking in 2015

Ben Challice left Nomura after the bank moved to simplify the management structure of its prime brokerage business.

Challice, who was at the Japanese bank for just over seven years, was managing director and head of prime finance in London. He left his position after Nomura conducted a review of its overall equities business.

Following the review, Nomura's prime brokerage platform was consolidated under leadership in Japan to align management with the hub of the bank's global franchise.

The global prime finance business remained unchanged, with **Chris Antonelli**, global head of prime finance, in charge. The business in Europe, the Middle East and Africa (EMEA) is in the hands of **Ronan Connolly**, head of equities trading for the region, and **Mike Ward**, head of equity sales in the EMEA.

Nomura decided to act after the review identified the need to adapt to less favourable market conditions, simplify the equities business and determine the right size and shape of the EMEA equities franchise for the future.

Despite difficult market conditions, Nomura's EMEA equities business showed significant improvement year-on-year, but the bank decided to act to appropriately position the business for the longer-term and to deliver on the bank's pre-tax goals.

David Clarkson left his role as European head of prime brokerage at J.P. Morgan to pursue new opportunities outside of the bank.

Jonathan Cossey replaced him as head of prime brokerage for the EMEA, and expanded his role in equity finance from head of region to global head.

Paul Brannan was named head of prime brokerage for North America, and **Jason Sippel**, who moved to join the London office in the autumn, leads the prime brokerage unit as a whole.

Senior vice president **Paul Fleming** took over over from **Lou Maiuri** to lead the securities finance group at State Street.

State Street looked in-house for the new head of its global exchange business and appointed Maiuri to the role.

Fleming is now responsible for the global strategic direction and operations of both the agency and principal lending programmes, and reports to Karen Keenan, executive vice president.

Maiuri reports directly to Mike Rogers, president and COO of State Street, in his new role.

Prior to joining State Street in October 2013, Maiuri served in various roles at BNY Mellon, including deputy CEO of asset servicing, and head of the global financial institutions group within the asset servicing business.

Rory Zirpolo, the former head of securities lending and managing director of Cowen Equity Finance Group, is now plying his trade at Cantor Fitzgerald.

Zirpolo is managing director and head of securities lending at Cantor Fitzgerald and is still based in New York. He reports to Noel Kimmel, global head of prime services and COO.

Sunil Daswani, who has been with Northern Trust since 2002, became the bank's first head of international securities lending for the EMEA and the Asia Pacific.

Daswani also maintained oversight of Northern Trust's transition management sales and relationship management teams across the EMEA and the Asia Pacific.

Daswani is assisted by **Dane Fannin** and **Mark Snowdon**, who assumed the new roles of head of securities lending for the Asia Pacific and head of the capital markets client servicing team for the Asia Pacific, respectively.

Fannin also maintained his existing responsibilities as head of the Asia Pacific trading desk. **SLT**