



Industry associations finalise the new ISDA Resolution Stay Protocol

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

Industry trade groups the Securities Industry and Financial Markets Association (SIFMA) and the International Capital Market Association (ICMA) jointly announced the publication of the Securities Financing Transaction (SFT) Annex, which forms part of the ISDA 2015 Universal Resolution Stay Protocol. Both were released on 12 November.

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, according to ICMA and SIFMA.

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 the International Securities Lending Association (ISLA), expands the parameters of the original 2014 stay protocol to include securities financing transactions documented under master agreements sponsored by SIFMA, ICMA and ISLA.

Turn to page 17 for a special update on what the ISDA Resolution Stay Protocol will mean for beneficial owners and their agents.

[readmore p2](#)

Financial Stability Board issues TLAC standard

The total loss-absorbing capacity (TLAC) standard for globally systemically important banks (G-SIBs) has been published by the Financial Stability Board (FSB).

G-SIBs must meet a minimum TLAC requirement of at least 16 percent of risk-weighted assets (RWA), from 1 January 2019.

This will increase to 18 percent on 1 January 2022.

The minimum TLAC must also be at least 6 percent of the Basel III leverage ratio exposure (LRE) from 1 January 2019 and at least 6.75 percent from 1 January 2022.

G-SIBs headquartered in emerging markets should meet the 16 percent RWA and 6 percent LRE TLAC requirements on 1 January 2025.

[readmore p2](#)

Deutsche Bank to slash investment banking

Deutsche Bank will halve its investment banking business as part of its radical cost-cutting 2020 Strategy.

The bank plans to "selectively reinvest" in "less balance sheet intensive businesses", including prime brokerage, credit solutions and client lending.

The bank also outlined plans to "materially wind-down" its non-core operations unit by the end of 2016.

The strategy's core goals surround cost cutting through balance sheet and financial services reductions and regulatory compliance through investment in its IT systems and "prioritising investment" in its know-your-client and anti-money laundering infrastructure.

[readmore p2](#)

Industry associations finalise the new ISDA Stay Protocol

Continued from page 1

The SFT Annex will enable adhering parties that use SIFMA-, ICMA- and ISLA-sponsored securities finance master agreements to comply with forthcoming regulations requiring the recognition of bank resolution stays in cross-border contractual arrangements.

The SFT Annex opts adhering parties into certain existing and forthcoming special resolution regimes that provide for temporary stays on early termination rights in the event a bank counterparty enters into resolution.

SIFMA president and CEO Kenneth Bentsen Jr commented: "Regulators have prioritised resolution stays in their efforts to promote financial stability."

"SIFMA is committed to providing our members' expertise and insight to this proactive industry effort to develop workable protocols that support forthcoming regulatory requirements."

A separate protocol is also being developed for other market participants, including the buy side, end-user firms and other banks, providing them with a tool to comply with forthcoming regulations requiring the inclusion of stays within financial contracts.

The additional protocol will be published next year for those firms that choose to use it.

Regulations requiring financial contracts to incorporate contractual stays are expected to be implemented in several jurisdictions from early next year.

Financial Stability Board issues TLAC standard

Continued from page 1

The 18 percent RWA and 6.75 percent LRE TLAC requirement must also be met by 1 January 2028.

G-SIBs will be required to meet the TLAC requirement alongside the minimum regulatory requirements set out in the Basel III framework.

The FSB clarified: "The conformance period will be accelerated if, in the next five years, corporate debt market in these economies reaches 55 percent of the emerging market's economy's GDP."

Mark Carney, chair of the FSB, said "The FSB has agreed a robust global standard so that G-SIBs can fail without placing the rest of the financial system or public funds at risk of loss."

"This new standard, which will be implemented in all FSB jurisdictions, is an essential element for ending too-big-to-fail for banks."

"The economic impact assessments conducted as part of the detailed policy work shows that the economic benefits of the final standard far outweigh the costs."

Deutsche Bank to slash investment banking

Continued from page 1

The bank's global network will also be significantly reduced as it plans to fully exit from 10 countries, mostly in the Latin America and Nordic regions.

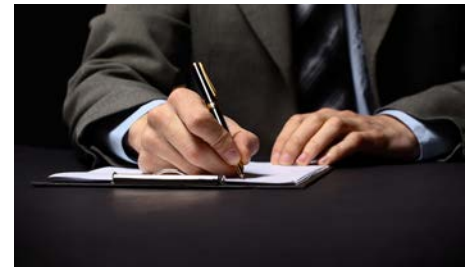
Those countries are: Argentina, Chile, Mexico, Peru, Uruguay, Denmark, Finland, Norway, Malta, and New Zealand.

Trading activities in Brazil will also relocate to global and regional hubs, which in turn are to be further centralised.

Approximately 9,000 jobs are on the line but Deutsche declined to comment on which departments or offices are most at risk.

John Cryan, co-CEO of the bank, said: "In April, we announced Strategy 2020. Since joining the management board in July, I have been working together with my colleagues to draw up plans to stabilise the bank and to turn

SLTIN BRIEF



Latest news

A Scottish short seller is facing charges of profiting from stock manipulation by using social media to spread false information

page3

Latest news

The BCBS is currently receiving industry comment on the FSB's policy proposal on haircut floors for non-centrally cleared securities financing transactions

page6

Central clearing

Matthias Graulich of Eurex Clearing dispels some of the common myths around the CCP model

page14

Protocol explained

The RMA's securities lending team unravel the ISDA Resolution Stay Protocol and what it means for beneficial owners

page17

Data analytics

ETF securities lending revenues for 2015 are up by a quarter on last year, despite flat demand to borrow. Simon Colvin of Markit reports

page22

People moves

Comings and goings at Nomura, FINRA, ESMA and more

page25

Argent  SM

With configurable components, users can complete complex tasks, front-to-back, all from a single screen.

See how Argent can become your workspace of choice.

info@anetics.com
413.395.9500

www.anetics.com

Anetics®

around its long-term performance. Now, it's all about executing on our plans to build a better Deutsche Bank."

"We have four strategic goals. First, to become simpler and more efficient by focusing on the markets, products, and clients where we are positioned to succeed, leading to greater client satisfaction and lower costs."

"Second, to become less risky by modernising our outdated and fragmented technology and withdrawing from higher-risk relationships and locations."

"Third, to become better capitalised, so that we are no longer playing catch-up with regulation and market expectations."

"Finally, to run Deutsche Bank with greater discipline and purpose based on delegation of responsibility, personal accountability, and a reward system which is aligned to good performance and conduct."

"Sadly, this also means closing some of our branches and country locations, and reducing some of our front-office and infrastructure staff too."

"This is never an easy task, and we will not do so lightly."

"I promise that we will take great care in this process, moving forward together with our workers' representatives."

Tartan trader charged with fraud

A Scottish short seller is facing charges of profiting from stock manipulation by using social media to spread false information on two companies.

The Securities and Exchange Commission (SEC) filed securities fraud charges against James Alan Craig, accusing him of using hoax Twitter accounts to deceive investors in Audience and Sarepta Therapeutics.

Craig published a series of tweets over two days causing sharp drops in stock prices and trading in Audience stocks to be temporarily halted.



The SEC claims: "On each occasion, Craig bought and sold shares of the target companies in a largely unsuccessful effort to profit from the sharp price swings."

The two Twitter accounts were made to look like the official accounts of well-known securities research firms Muddy Waters and Citron Research by using their logos and similar handles, according to the SEC.

The SEC's complaint was filed in federal court in California.

The US Attorney's Office for the Northern District of California also filed criminal charges against Craig.

The SEC's charges date back to January 2013 where Craig allegedly falsely claimed Audience was under investigation.

Audience's share price plunged 28 percent after the first tweet and trading on Nasdaq was halted.

The next day, Craig's tweets about Sarepta Therapeutics, issued using look-alike account similar to that of Citron Research, caused a 16 percent drop in its share price.

Both companies' stock prices recovered once the fraud was revealed.

Craig was also accused of using aliases to tweet that it would be difficult for the SEC to determine who sent the tweets because real names weren't used.

Jina Choi, director of the SEC's San Francisco regional office, said: "As alleged in our complaint,

classicservices | real-timeservices | exposuremanagement | ccpgateway



Global Leaders
Securities Finance
Automation

Request your demo:
pirum.com | sales@pirum.com



Craig's fraudulent tweets disrupted the markets for two public companies and caused significant financial losses for their investors."

"Craig also said in later tweets that the SEC would have a hard time catching the perpetrator. As today's enforcement action demonstrates, those tweets turned out to be false as well."

The SEC's complaint relates to securities fraud in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5.

The SEC is aiming for a permanent injunction against future violations, disgorgement, and a monetary penalty from Craig.

Greece extends short selling ban for credit institutions

Greece's Hellenic Capital Market Commission (HCMC) is extending the short selling ban of shares in five credit institutions until 7 December.

The ban, which was due to expire on 9 November, will affect shares on the Athens Exchange and the FTSE/Athex Banks Index, regardless of the venue where the transaction is executed or over-the-counter transactions.

It also concerns all depository receipts representing those shares, as well as sales that are covered with subsequent intraday purchases.

Market makers will once again be exempt from the prohibition when the short selling transactions are conducted for hedging purposes.

CCPs must retain flexibility, says WFE

Overly prescriptive regulation could cause unnecessary constraint to central counterparties (CCPs), and could lead to more risk in the central clearing marketplace, according to a new report from the World Federation of Exchanges (WFE).



The paper pointed out CCPs' strong track record in managing risk in times of market stress, and said they are best placed for managing the risk of their particular markets. Because of this, the report said, they should be allowed to maintain the flexibility to manage their own risk in a way best suited to their market.

Gavin Hill, head of regulatory affairs at WFE, commented: "CCPs are the experts in their markets and need the flexibility to determine which emergency powers they need to manage events as they arise."

"Exchanges and CCPs have demonstrated their resilience through several market crises

and events in recent years. They are part of the solution."

A one-size-fits-all regulation would: "Unnecessarily constrain the exercise and deployment of specific CCP risk-management procedures, systemic insight and institutional knowledge to the potential detriment of the overriding goals of financial stability and fair, efficient and orderly markets," according to the report.

The paper also supported a move to align the incentives of CCPs and clearing members.

Clearing members should be incentivised to support those policies that encourage



Untouched opportunities through diversified services

LAGO

— K A P I T A L —

LEADING FINNISH SECURITIES FINANCE BROKER

- ✓ Securities lending
- ✓ Single Stock Futures
- ✓ REPO
- ✓ Portfolio margin
- ✓ Emerging markets

Lago Kapital Ltd
info@lagokapital.fi

www.lagokapital.com
tel. +358 10 320 8950

© Lago Kapital Ltd

Flexible, customised securities lending

Securities lending can be an important source of return and a key part of overall portfolio and risk management strategies — but you need a proven lending agent you can trust. We offer the client-facing technology, commitment to transparency and individualized service that you need to get the most out of your securities lending programme. Whatever the market conditions, our dedicated team is committed to helping you optimize opportunities, maintain flexibility and manage risk.

For more information, contact:

Doug Brown, CFA

The Americas

+1 617 664 7665

dabrowniii@statestreet.com

Maurice Leo

Europe, Middle East & Africa

+353 1 776 8414

mvleo@statestreet.com

Francesco Squillacioti

Asia Pacific

+852 3667 7080

fsquillacioti@statestreet.com

STATE STREET GLOBAL MARKETS®

State Street Global Markets is the investment research and trading arm of State Street Corporation (NYSE: STT), one of the world's leading providers of financial services to institutional investors.

diversification of risk, and therefore greater stability, and should pay for their exposures.

WFE CEO Nandini Sukumar said: "Exchanges and clearinghouses care about systemic stability and the need to make markets safer, more transparent and more resilient."

She added: "The markets and businesses they operate daily require a high standard of integrity as well as robust risk management practices."

"As markets evolve, WFE and its members will work with regulators and the industry to ensure this is the case."

The paper comes as a response to concerns over the concentration of risk in CCPs, and the suggestion that they could be the next 'too-big-to-fail' institutions.

Generally, WFE approves of the Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO) Principles for Financial Market Infrastructure (PFMI), designed to assist infrastructures in improving safety and efficiency, and to remove systemic risk.

The report also placed importance on the specialist knowledge of CCPs, highlighting their market knowledge and understanding of the most appropriate risk management tools.

While WFE supports a drive to expand on central clearing practices to improve transparency and market stability, it argues that CCPs can facilitate this expansion, improving risk management practices and helping to develop new and innovative techniques for newly cleared products, particularly in emerging markets with very particular needs.

The report concluded that a blanket approach to regulating CCPs would undermine their ability to manage risk in the particular markets they serve, and would be contradictory to improving the stability of the central clearing model.

BCBS considers FSB haircut proposal

The Basel Committee on Banking Supervision is now receiving industry comment on the Financial Stability Board's (FSB) policy proposal on haircut floors for non-centrally cleared securities financing transactions (SFT).

The committee is in the process of deciding whether to adopt the proposal into the Basel III framework.

The FSB's policy, first published in October 2014, aimed to create incentives for banks to set their collateral haircuts above the floors rather than hold more capital, according to the Bank for International Settlement.

The deadline for industry comment is 5 January 2016 and can be submitted via the Bank for International Settlement's website or posted to the Secretariat of the Basel Committee on Banking Supervision, Bank for International Settlements, CH-4002 Basel, Switzerland.

New Eurex futures command major market interest

Eurex's two new futures recorded just under 30,000 signed contracts between them in their first few days of trading.

Euro-BONO-Futures and Mini-DAX-Futures launched on 26 and 28 October respectively.

Euro-BONO-Futures is achieving an average daily volume of more than 1,000 contracts, with 7,008 recorded in total since its launch.

More than 35 participants were active during the opening days of trading, with an average spread of two to three ticks due to four market makers.

Mini-DAX-Futures first data is even stronger with an average daily volume of 4,455 contracts and 22,300 contracts signed in total.

More than 70 participants were active in the first days of trading and 12 market makers currently quote the product. The average spread is one to two ticks.



See things from a position of advantage

Are you using Spire™, the industry-leading scalable securities finance platform?

Get an unobstructed view of the financial landscape to move quickly, make informed decisions, and reduce costs.



- Agency Lending
- Stock Locates, Loans, and Borrows
- Collateral Management and Optimization
- Cash Management

Spire delivers proven advantages—

- Improve risk management and control
- Accelerate workflows
- Achieve major operational efficiencies
- Make faster trades

Add Spire to your technology array. As a comprehensive, fully-integrated front-, mid-, and back-office solution Spire's architecture integrates with your preferred technology choices, consolidating workflows and beautifully interlacing with proprietary systems.

To learn more visit us online at www.stonewain.com or call (908) 508-0600 today.

400 Connell Drive, Suite 5300 | Berkeley Heights, New Jersey 07922

Stonewain Systems Inc. is an independent provider of world class software and solutions for the securities finance industry. Founded in 2009 by industry experts, Stonewain has emerged as one of the fastest growing software provider in this field. Our proven product platform, reliable services, and innovative solutions serve some of the leading players in the securities finance industry.

State Street wins sec lending mandate with ARCO

State Street has been appointed by ARCO to provide securities lending services.

ARCO, an Italian closed pension fund, chose State Street as part of its compliance with guidelines outlined earlier this year by the Italian pension fund regulator, the Commissione Di Vigilanza Sui Fondi Pensione.

The guidelines established the option of direct securities lending as an additional resource to help pension funds optimise the oversight of their investment management activities.

Massimo Malavasi, general manager of ARCO, said: "Partnering with State Street will give us the option of using direct securities lending as an additional solution meant to support the optimisation of the investment management activities for the fund."

"Their security lending services will also enable ARCO to get returns, which could be partially used to cover current investment management control and advisory expenses, as well as support and develop the finance department of the pension fund."

Riccardo Lamanna, head of State Street in Italy, added: "Our experience with servicing pension funds means we can offer an integrated platform, with the ability to add further services when required."

Two US brokers barred for fraud

Two US brokers have been barred from practicing and fined by the US Securities and Exchange Commission (SEC) for defrauding customers and sharing personal order information for financial gain.

Hal Tunick of Chappaqua, New York, and his subordinate, Patrick Burke of Wilton, Connecticut, were co-heads of equities trading at the now-defunct brokerage firm Rochdale Securities.



Tunick and Burke were accused of defrauding customers by sharing private order information with two long-term clients in order for them to be able to trade ahead of these orders.

Once those favoured customers purchased or sold short the shares, the brokers arranged for them to unload their positions to the customers who had placed the original orders, according to the SEC.

The SEC found that the defrauded customers generally received worse prices than they would

have if their orders had been routed directly to the market.

"As a result of this scheme, which Tunick and Burke perpetrated from at least 2010 to 2012, Rochdale essentially earned double trading commissions: one for executing trades by the favoured customer of Tunick or Burke and another for executing the original Rochdale customer order," said SEC report.

Tunick agreed to pay a \$125,000 civil penalty and was barred from the securities industry.



FOLEY O'NEILL LIMITED

Securities Finance Consultants

Independent - Experienced - Creative

Bill Foley Tel: +44 (0) 7769 657579 | Sean O'Neill Tel: +44 (0) 7789 907717
 Bill.foley@foley-oneill.com | Sean.oneill@foley-oneill.com

www.foley-oneill.com

The top of the page features a dark blue background with a grid of dotted lines. Overlaid on this are several financial charts: a candlestick chart with green and blue bars, and several line graphs in red, green, and yellow. A horizontal dashed line is visible at the top right with the value '897.50'. The Markit logo is in the top left corner.

markit®

Optimise your securities lending programme.

Benchmark performance against a dataset covering **\$15tn+** of global securities in the lending programs of **20,000+** institutional funds. Enhance programme management with solutions for securities lending, repo, collateral management and trading analytics.

Learn more:

Sales@markit.com

Collateral and exposure

Consulting

Corporate actions

Dividends

ETP

Research

Burke also agreed to pay \$50,000 disgorgement of commissions plus pre-judgement interest, and to be barred from the securities industry with a right to reapply after five years.

Both men consented to the SEC's orders without admitting or denying the findings.

Joseph Sansone, co-chief of the enforcement division's market abuse unit, said: "These brokers repeatedly shirked their obligation to seek best execution for their customers so they could get extra commissions for their firm and better prices for favoured customers."

Haitong International chooses SunGard's Global One

Haitong International Securities Group has chosen SunGard's Global One solution to manage its new stock lending and borrowing business in Hong Kong.

Global One will provide front-office trade input and management for its principal lending business with operational tasks for automated dividend and corporate action processing, settlement procedures, marks and full exposure, and collateral management.

Haitong International's new stock lending business is now poised to handle much of the trade flow resulting from the growth of cross-border equity trading via the Shanghai-Hong Kong Stock Connect programme, according to SunGard.

"With their large retail base providing a broad inventory or stock for lending purposes, the company plans to leverage its retail knowledge to drive stock lending at an institutional level," said SunGard in a statement.

Duke Du, managing director for equity derivatives at Haitong International, explained: "We chose SunGard for this new business given the company's proven track record with the Global One product and its knowledge in this industry. Adding to this, the Global One product was delivered on-time and on-budget



which helped us manage the launch of the stock lending business at Haitong."

"Global One will allow us to process lists of securities that a counterparty might require. Using Global One's Lender Trading Grid, we can successfully check our inventory, assign a lending fee, and book multiple security loans in a short period of time."

"The Hong Kong market will appreciate the speed at which Haitong can process lending requests."

John Grimaldi, president of SunGard's securities finance and processing group, added: "Global One continues to be the system

of choice for many lenders and broker-dealers in the global marketplace."

"We look forward to working with Haitong International Securities Group, as we continue to expand our securities finance footprint in the Asia Pacific and SunGard's growing list of clients that use Global One as their core system for equity finance."

Eurex Repo market stutters

Eurex Repo lost €55.9 billion from its average outstanding volume for October, compared to the same time last year, according to Eurex Group.



Straight-Through Processing for Lending CCP.

Market participants trust in our expertise.

www.comyno.com

Eurex Repo, which operates Eurex's repo services and the General Collateral Pooling markets, recorded €144.6 billion in average outstanding volume, compared to €200.5 billion in October 2014.

According to Eurex, this negative development was mainly due to the quantitative easing policy of the European Central Bank.

The Euro Repo market reached an average outstanding volume of €25.4 billion, compared with €39 billion in October 2014.

Eurex's international derivatives markets also suffered in October.

The average daily volume was 7.8 million contracts for October, down 2.1 million on October last year.

Of those, 5.3 million were Eurex Exchange contracts (against 6.6 million in October 2014), and 2.5 million contracts (against 3.3 million in October 2014) were traded at the New York-based International Securities Exchange.

US interest rate hike will come in December

The first US interest rate hike is expected in December, according to the Securities Industry

and Financial Markets Association's (SIFMA) Quarterly Issuance Survey results.

The survey saw 80 percent of respondents predict the Federal Reserve will raise the target rate by the end of 2015.

The remaining 20 percent suggested March 2016 was a more likely date.

Total net treasury bill, note, and bond issuance are expected to hit \$166 billion in Q4 2015, according to the survey.

The target will represent 24.9 percent growth on the \$132.9 billion issued in Q3 2015.

SIFMA's forecast for the Q4 issuance of net marketable debt is much lower than the Treasury's August debt issuance \$270 billion estimate.

When asked about main risks on the downside (lower-than-expected yields), responses included US and global economic deterioration, strengthening US dollar, and persisting low oil prices.

Bank of England calls on ISLA to help OTC market

The Bank of England has invited the International Securities Lending Association (ISLA) to participate

in a sub-group to assist with the implementation of the new term deliver-by-value (DBV) mechanism into the over-the counter market.

ISLA, as part of the committee, will help to address market concerns and participants adopt the new product.

DBV is a settlement mechanism for members of the Certificateless Registry for Electronic Share Transfer (CREST).

Users can deliver a specific basket of securities to the required value from a defined set, such as conventional UK gilts or FTSE 100 equities, to a counterparty. This tool mitigates the need to detail the quantities of each individual security to be delivered.

In a statement on the appointment, ISLA stated: "The product is considered helpful in reducing systemic risk in the UK settlement system."

ISLA has requested that its members voice any concerns about the implementation. A committee term of reference will also soon be published on the ISLA website.

Arizona firm settles insider charges

The US Securities and Exchange Commission has agreed to the settlement of a case of insider trading

Experts in:

- Securities Lending
- Cash Management
- Risk Management
- Client Servicing
- All of the above

You want to focus on your strategic priorities. You need experts anticipating your needs and developing the tools to make you successful. For your securities lending business, rely on Northern Trust's market knowledge, experienced professionals, unique solutions and industry leading technology. So you can concentrate on running **your** business. To find out more, visit northerntrust.com/securitieslending or contact George Trapp at +1 312 444 3126 (North America), Sunil Daswani at +44 (0)20 7982 3850 (EMEA) or Mark Snowden at +65 64376777 (Asia Pacific).



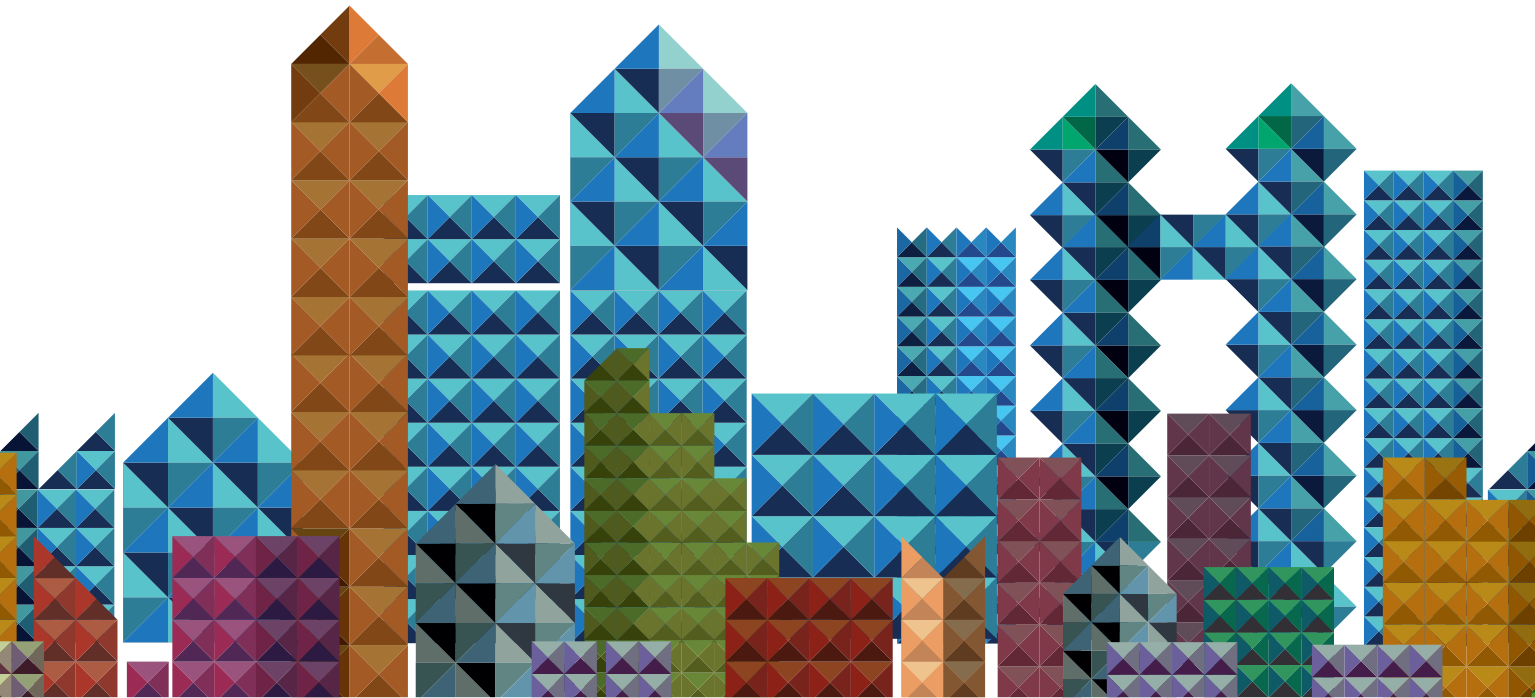
Northern Trust

Asset Servicing | Asset Management | Wealth Management

DIRECTED TO PROFESSIONAL CLIENTS ONLY. NOT INTENDED FOR RETAIL CLIENTS. FOR ASIA-PACIFIC MARKETS, THIS MATERIAL IS DIRECTED TO INSTITUTIONAL INVESTORS, EXPERT INVESTORS AND PROFESSIONAL INVESTORS ONLY AND SHOULD NOT BE RELIED UPON BY RETAIL INVESTORS.

© 2015 Northern Trust Corporation, 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the United States. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation. For legal and regulatory information about individual market offices, visit northerntrust.com/disclosures. Issued by Northern Trust Global Services Limited.

Innovative solutions for an evolving landscape



World Class Securities Finance Apps

Invaluable Apps that can be combined to create a comprehensive set of tools designed specifically for your own trading environment.

Trading Apps uses advanced technology to deliver 24/7 enterprise level software through a web interface, making it instantly available worldwide.



Our top 5 Securities Finance Apps

inventory | collateral management | trade negotiations | portfolio pricing | business analytics

Discover the solution that's right for your company

tradingapps.com



tradingapps
Your business, only better.

and tipping against a senior figure of an Arizona real estate firm.

Mary Beth Knight was accused of abusing her position as senior vice president at Choice Hotels International to dump her shares in the company ahead of negative reports on the company's earnings.

Knight also tipped off fellow shareholder Rebecca Norton, who then sold more than 3,000 shares of Choice Hotels stock over four days, and then short sold a further 500 shares for total profits and losses avoided of more than \$44,000.

Despite not admitting or denying the allegations, Knight has agreed to pay \$370,222 in total. The sum is made up of two disgorgements for both Knight and Norton's avoided losses, as well as a civil penalty.

The SEC filed a civil action with the US District Court for the District of Arizona in May 2011, alleging: "[Knight] attended a June 2006 meeting of executives at which disappointing projections of the company's second quarter 2006 earnings results were discussed."

"In breach of her duty to the company and its shareholders, Knight sold 12,000 shares of Choice Hotels stock, avoiding losses of more than \$140,000 that she would have suffered if she had sold the stock at its closing price on

26 July 2006, the first day of trading after the company announced the bad earnings news."

The final settlement included the SEC permanently enjoining Knight and Norton from violating Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Exchange Act Rule 10b-5.

Norton also accepted a settlement without admitting or denying the allegations in the complaint.

The district court must still determine whether a civil penalty will be applied to Norton at a later date and give its approval of the settlements.

Liquidity Alliance meets the buy side with 360T

The Liquidity Alliance now offers collateral management services to the buy side through its 360T platform.

The new service, which is available to all Liquidity Alliance members, enables the buy side to trade triparty repo transactions with banks on the platform as a collateralised alternative to unsecured cash deposits.

The collateral management of the triparty repos is done in a fully automated, white-labelled manner by the Liquidity Alliance.

Buy-side customers will be able to trade triparty repos via the same 360T front-end that they use for foreign exchange and other money market trades.

The 360T platform, which was recently acquired by Deutsche Börse for its market data business, encompasses foreign exchange and money markets trading.

The Liquidity Alliance's members, including Clearstream, ASX, Cetip, Iberclear and Strate, will be able to offer the buy side an option to collateralise triparty repos with banks through 360T.

Mathew Kuppe, managing director of 360T in the Asia Pacific, said: "360T already has buy-side customers in all domestic markets of members of The Liquidity Alliance."

"The Liquidity Alliance will now have the option to offer these customers the benefit of collateralised trading which was previously only available to financial institutions, via an integrated front end."



SUNGARD®

Enabling the Adaptive Enterprise

ACHIEVE MORE in securities finance and collateral management

- Proven and reliable solutions to manage and automate your entire **securities finance** business
- Innovative solutions for enterprise-wide **collateral management, trading and optimization**
- A suite of **managed services** to help reduce the total cost of ownership of your securities finance and collateral solutions
- Access to global intraday securities lending **market data** and insightful analysis

Control.

Securities Finance

- www.sungard.com/securitiesfinance
- securitiesfinance@sungard.com

Collateral Management

- www.sungard.com/enterprisecollateral
- apexcollateral@sungard.com

Data and Analytics

- www.sungard.com/astec
- securitiesfinance@sungard.com

©2015 SunGard.

Trademark Information: SunGard, and the SunGard logo are trademarks or registered trademarks of SunGard or its subsidiaries in the U.S. and other countries. All other trade names are trademarks or registered trademarks of their respective holders.

CM4280



Flexible Financing Solutions

New regulations and market changes have transformed securities financing. In this evolving environment, innovative tools and new strategies can help you to collateralize transactions, enhance returns and facilitate liquidity more effectively.

BNY Mellon has the resources to design securities lending solutions to help support your pursuit of incremental revenue. Explore how BNY Mellon's agency securities lending program can fit into your portfolio strategy.

Bill Kelly +1 212 815 3908

Rob Chiuch +1 212 815 2700

bnymellon.com/securitiesfinance/2015

 [bnymellon](https://twitter.com/bnymellon)



BNY MELLON

Products/services are provided in various countries by subsidiaries or joint ventures of The Bank of New York Mellon Corporation (and in some instances by third parties) that are authorized and regulated within each jurisdiction, under various brand names, including BNY Mellon. Not all products and services are offered in all locations. This information is for general reference purposes only and does not constitute legal, tax, accounting or other professional advice nor is it an offer or solicitation of securities or services or an endorsement thereof in any jurisdiction or in any circumstance that is otherwise unlawful or not authorized. Your ability to use global collateral services is subject to a wide variety of applicable regulations and to the oversight of relevant regulators in different territories and/or jurisdictions. You should obtain your own independent professional advice (including financial, tax and legal advice) before agreeing to use the various services referenced herein. ©2015 The Bank of New York Mellon Corporation. All rights reserved.



Line up, line up: CCPs and the future

Matthias Graulich of Eurex Clearing dispels some of the common myths around the CCP model and explains why he believes it's the future

DREW NICOL REPORTS

How confident are you that the securities lending market understands your CCP model?

Eurex Clearing has already received significant market support for its model since the original concept was introduced. But in particular, there has been significant support over the last 12 months with a number of important top-tier borrowers, lenders and infrastructures joining as strategic partners. Numerous market participants across the range of beneficial owners, agent lenders and borrowers understand and support our initiatives. We have more than 15

participants currently using or preparing to start using the Lending Central Counterparty (CCP) service.

It has been suggested that CCPs need to do more to appeal to agent lenders in order to attract beneficial owners. Do you agree and are there any plans to do this?

At the start of this year, we announced a collaboration with two of the largest securities lending agents, BNY Mellon and State Street, which alongside other leading agent lenders are committed to utilising the service.

Additional participants will be announced in the coming months.

We feel that there is adequate support from all of these organisations to attract their clients to adapt to a cleared market for securities lending. There are many other firms and their clients that already have the knowledge and experience of CCPs, either through existing use of CCP models in Brazil and the US for securities lending, as well as across Europe and the US for repos and derivative transactions.

Beneficial owners will be able to access a wider range of borrowers while retaining their existing relationships and infrastructure

with their agent lenders. However, we are aware that further levels of the take-up for the Lending CCP service can be achieved as the model is enhanced to extend the range of equity markets across Europe and North America, as well as the introduction of additional innovative solutions for collateral management and membership access models that will enable more agent lenders and their clients to participate on a global basis.

We see this further phase of development and enhanced awareness as a joint effort among ourselves, our strategic partners and our existing clearing members, which include borrowers and agent lenders.

Indemnification is becoming a burden to agent lenders. Do you see CCPs as an alternative risk mitigation tool for beneficial owners?

It can be argued that the very nature of the CCP's risk management methodology, along with the CCP's guarantee to return the loaned securities in the event of a borrower default, can replace the current format of indemnification that beneficial owners have in place from their lending agent.

This development is very much part of the education and awareness that has increased over the years from the consultations that Eurex Clearing has conducted with agent lenders and their clients. The CCP as an alternative to the agent lender's indemnification is just one of the advanced benefits of the CCP model that will become more apparent in the long term.

Some beneficial owners say their investment parameters mean using a CCP doesn't make sense. What are the barriers preventing beneficial owners from using CCPs for a significant amount of their business, and what have you done to address these?

As mentioned, there are numerous beneficial owners already using CCPs across their business and to execute their current investment strategies, so why shouldn't this make sense as well for securities lending? One of the major benefits of using CCPs for financial markets is an overall increase in the capital and collateral efficiency. It is becoming increasingly more expensive for counterparts to conduct business on a bilateral basis. By using a CCP service, there is a significant reduction in capital costs and a significant increase in collateral efficiency.

This, combined with the use of a broader range of lending and borrowing counterparts, ensures that centrally cleared transactions are more cost efficient than those transacted

bilaterally. Borrowers will benefit directly from the capital efficient CCP model. Some or all of these cost savings can be passed through to the lender as price improvement as a result of using the CCP.

“ The strength of the Eurex Clearing model has been to incorporate the entire function and characteristics of the securities lending market ”

The strength of the Eurex Clearing model has been to incorporate the entire function and characteristics of the securities lending market into its systems. This includes trade capture and settlement, transaction management, asset servicing and corporate action processing, as well as the management of all risk and collateral functions, while retaining the bilateral characteristics of the business such as choice of counterpart and flexible collateral schedules.

Additionally, Eurex Clearing is leading the way in implementing innovative solutions for direct access models that allow for a wide range of different types of clients in multiple global jurisdictions to participate in the key markets via our CCP service.

The issue of cost is a major sticking point for some beneficial owners. Can you outline these costs and why you think it's a fair deal?

The determination of the fee for any securities lending transaction, whether bilateral or centrally cleared, is agreed by the agent lender and the borrower and will take into consideration many different cost factors, such as the type and location of the underlying client, the collateral type and term of the trade. Within the CCP model, it is the role of the CCP to undertake all of the settlement, asset servicing, collateral and risk management functions—all of these functions are costs for the CCP but are also essential value added services of the CCP service.

The 'fair deal' for the participants in a CCP-based trade is that the capital and collateral efficiencies outweigh the costs of using the CCP model. The business case and cost-benefits for using the CCP differ across many different types of firms—for some it is the advantage of lower risk-weighted asset charges, for some it is broader distribution, for others it is credit intermediation or more effective use of its balance sheet—so there is not yet a standardised cost-benefit metric associated with a CCP trade.

A more favourable price for securities lending activity via the CCP can be achieved with borrowers offering a basis between the same trade, whether cleared or uncleared.

To assist in finding this, Eurex Clearing is introducing a flexible and scalable fee model that allows agent lenders and borrowers to continue to determine the right level of pricing for their business and ultimately the revenue generated on behalf of the beneficial owners.

What advantages does your CCP model have over versions in markets with mandatory CCPs such as Brazil?

There are many differences and particular advantages. One significant feature is that our model allows for the direct access of beneficial owners via the so-called specific lender licence. This enables beneficial owners to continue to be the principal in the transaction and determine the type and quality of the collateral they can receive. There is no need to clear through a third-party clearing member, nor do they have to pay margin requirements or contributions to the CCP default fund.

The received non-cash collateral is held on a segregated basis for the beneficial owner at a triparty collateral agent and has immediate access to the collateral in the event of a CCP default. The lender retains full visibility of the loan, the collateral and its borrower counterparts at all times. This is a unique feature to Eurex Clearing's Lending CCP. **SLT**



Matthias Graulich
Chief client officer and member of the executive board
Eurex Clearing

BESPOKE SOLUTIONS

ACROSS ASSET CLASSES
IN SECURITIES FINANCE



SGCIB.COM



SOCIETE GENERALE
Corporate & Investment Banking

**BUILDING TEAM SPIRIT
TOGETHER**

THIS COMMUNICATION IS FOR PROFESSIONAL CLIENTS ONLY AND IS NOT DIRECTED AT RETAIL CLIENTS.

Societe Generale is a French credit institution (bank) and an investment services provider (entitled to perform any banking activity and/or to provide any investment service under MIFID except the operation of Multilateral Trading Facilities) authorised and regulated by the French Autorité de Contrôle Prudentiel et de Résolution ("ACPR") (the French Prudential and Resolution Control Authority) and the Autorité des Marchés Financiers ("AMF"). This document is issued in the U.K. by the London Branch of Societe Generale, authorized in the U.K. by the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. 2014 Societe Generale Group and its affiliates. © David Despau – FRED & FARID



The ISDA Resolution Stay Protocol and its impact on the securities lending industry

The Risk Management Association's securities lending team unravel the ISDA Resolution Stay Protocol and what it means for beneficial owners

In the coming months, beneficial owners that engage in securities lending and/or repurchase transactions are likely to be approached by securities lending agents and borrowing counterparties seeking to amend the terms of their securities lending agreements to adjust certain termination and default rights. Beneficial owner lenders should familiarise themselves with the International Swaps and Derivatives Association (ISDA) Resolution Stay Protocol so that they can make informed decisions about whether they want to agree to these changes.

This Q&A seeks to provide some background to beneficial owner lenders (whether they lend their securities through a securities lending agent or directly) and other industry players, so that they can begin to assess the changes to their securities lending and repo agreements that may be required in response to the ISDA Resolution Stay Protocol and the related

regulatory developments in various jurisdictions around the world.

The ISDA Resolution Stay Protocol in context

Question 1: Before getting into details about the ISDA Resolution Stay Protocol, what background information do I need?

The ISDA Resolution Stay Protocol is a part of a larger initiative by regulators around the world to support the cross-border recognition of the temporary stays¹ required by each jurisdiction's financial institution insolvency regimes, known as special resolution regimes. In the case of US regulators, the ISDA Resolution Stay Protocol is also designed to enhance the effectiveness

of ordinary US insolvency proceedings² by imposing temporary stays on certain cross-default termination rights.

The ISDA Resolution Stay Protocol was originally created by ISDA in 2014 at the behest of the Financial Stability Board (FSB) in order to facilitate amendments to derivatives documentation among 17 of the global systematically important banks (G-SIBs) designated by the FSB as active in derivatives, as well as Nomura (collectively known as the G-18 banks).

ISDA and the FSB working group are currently working on expanding the ISDA Resolution Stay Protocol to cover all securities financing transactions, including securities lending transactions conducted under industry standard securities lending and repurchase agreement documentation, and including, but not limited to MSLAs, GMSLAs, MRAs and GMRA⁴.

Question II: What are these special resolution regimes that the regulators want to protect?

During the financial crisis, authorities around the world experienced difficulties in resolving large failing financial institutions. In response, regulators in a large number of FSB member jurisdictions developed (or are in the process of developing) new statutory regimes known as ‘special resolution regimes’ to make the resolution process for large financial institutions more efficient and effective.

A key feature of these special resolution regimes is the ability of regulators to impose stays on certain termination and default rights that counterparties of insolvent institutions would otherwise be able to exercise as a result of the counterparty’s insolvency. What this means for a lender is that its rights to trigger and enforce defaults or early termination under its agreements are suspended until the applicable stay period under the special resolution regime has ended⁵. For example, the Orderly Liquidation Authority (OLA), the US special resolution regime created by Title II of the Dodd-Frank Act, precludes parties from terminating, liquidating or closing out many types of financial contracts⁶, including securities loans and repo transactions until 5:00 pm Eastern time on the business day following the appointment of a receiver for an insolvent financial institution counterparty⁷.

Similarly, OLA also grants the Federal Deposit Insurance Corporation (FDIC) the authority to stay (even permanently) cross-default rights that counterparties of the affiliates and subsidiaries of the insolvent financial institution counterparty may have⁸.

The underlying principle is that the appointed receiver of a failing financial institution should have at least 24 hours to understand and resolve the insolvent institution in an orderly manner before addressing the rights of the counterparties and creditors of the failed institution (and its affiliates, if those agreements include cross-default rights). Similarly, the EU’s Bank Recovery and Resolution Directive (BRRD) provides for similar stays of up to 48 hours under similar circumstances⁹.

Question III: What are the issues with these special resolution regimes that the regulators are trying to address?

Despite the expansive powers that special resolution regimes give to regulators, a key obstacle to the efficacy of these special resolution regimes is the uncertainty surrounding the enforceability of these temporary stays in a particular jurisdiction if the stay is required by the resolution regime of a different jurisdiction.

For example, suppose that a US beneficial owner lends securities to a UK borrower under an industry-form MSLA (ie, governed by New York

law, and where no cross-defaults or additional termination rights have been added). If the UK borrower became insolvent and, as a result, was placed in resolution under the UK BRRD, it is unclear whether a court interpreting New York law would recognise the temporary BRRD-imposed stay on termination and default rights under that MSLA, because temporary UK BRRD stays are technically only required by UK law.

“ The ISDA Resolution Stay Protocol allows parties that sign up to make certain uniform amendments to their transactional contracts that have been agreed to in advance by industry participants ”

Another concern of the global regulators arises in the context of cross-defaults. Suppose that a US beneficial owner lends securities to a US borrower that has a UK parent. The parties have entered into a New York-law MSLA that contains a cross-default termination right triggered by the insolvency of the UK parent entity. If the UK parent entity was placed in resolution under UK BRRD, then from the perspective of the UK resolution process, it would not be desirable to have all of the UK parent’s affiliates have their transactions terminated by their counterparties due to cross-defaults. The regulators would prefer that cross-default rights be stayed as well for the duration of the resolution process¹⁰.

Question IV: What are the issues with ‘ordinary’ US insolvency regimes that US regulators are trying to address?

Currently, neither US bankruptcy law nor bank resolution under FDIA require stays (whether permanent or temporary) on the exercise of cross-default rights in the event of insolvency.

For example, suppose that a subsidiary of a US bank enters into an MSLA with its securities lending counterparty and modifies the industry-form MSLA by adding a right of the counterparty to terminate the transaction if the US bank (ie, the parent entity) was to become insolvent. If the US bank entered insolvency under the Federal Deposit Insurance Act (FDIA), the

subsidiary’s counterparties could close out their transactions with the subsidiary because of the cross-default rights that the parties had included in their agreement.

Evidently, the immediate close-out of the transactions and the related liquidation of collateral at the subsidiaries’ level would not be desirable from the FDIC’s perspective.

The FDIC would prefer to be able to resolve the bank without the complication of the bank’s affiliates having their transactions terminated prematurely by their counterparties based on these cross-default rights. In contrast, OLA provides the FDIC with the ability to impose stays on such cross-default rights.

The ISDA Resolution Stay Protocol

Question V: What is the ISDA Resolution Stay Protocol?

The ISDA Resolution Stay Protocol is a voluntary contractual mechanism, published by ISDA and developed by ISDA member institutions in coordination with the FSB (and, specifically, an FSB working group of regulators from France, Germany, Japan, Switzerland, the UK and the US).

The ISDA Resolution Stay Protocol allows parties that sign up to make certain uniform amendments to their transactional contracts that have been agreed to in advance by industry participants.

Question VI: Why is the ISDA Resolution Stay Protocol relevant to agency securities lending?

ISDA and the FSB are extending the reach of the ISDA Resolution Stay Protocol from derivatives transactions to securities financing transactions, which would include securities lending transactions (whether entered through an agent or directly as principal), as well as repo transactions, therefore including the reverse repo transactions used for cash collateral reinvestment.

Question VII: What amendments does the ISDA Resolution Stay Protocol contemplate?

The ISDA Resolution Stay Protocol includes amendments to the terms of certain types of agreements between each of the parties that have signed up to the ISDA Resolution Stay Protocol. These amendments are intended to address the issues discussed in Questions III and IV: the cross-border recognition of temporary foreign resolution stays of direct and cross-default rights (both covered by Section 1 of the ISDA Resolution Stay Protocol), and the absence of mandatory temporary stays on cross-default termination rights under “ordinary” US insolvency (covered by Section 2 of the ISDA Resolution Stay Protocol)¹¹.

Question VIII: How does the ISDA Resolution Stay Protocol address cross-border recognition?

Section 1 of the ISDA Resolution Stay Protocol addresses this issue by amending agreements to contractually require parties to recognise the enforceability of temporary resolution stays required by foreign law.

Taking the first example in Question III, if the US beneficial owner lender signs up to the ISDA Resolution Stay Protocol, it agrees, by amending its existing agreements, to be bound by any future UK BRRD-required temporary stays, thus temporarily giving up termination rights that would otherwise have been available under its MSLAs and MRAs. This contractual mechanism brings clarity by removing the need for a US court to decide whether the temporary UK BRRD stay would be applicable under, or consistent with, New York law.

In the second example in Question III, if the US beneficial owner lender signs up to the ISDA Resolution Stay Protocol, it agrees, by amending its existing agreements, to give up for the duration of the UK BRRD stay any cross-default rights that would otherwise have been triggered by the insolvency of its counterparty's parent entity (or certain other affiliates of its counterparty)¹².

Question IX: How does the ISDA Resolution Stay Protocol address the US insolvency cross-default issue (see Question IV)?

Section 2 of the ISDA Stay Protocol seeks to address the lack of mandatory temporary stays on cross-default rights under ordinary US insolvency law by contractually creating such a stay among parties that adhere to the ISDA Resolution Stay Protocol¹³. Taking the example from Question IV, if each of the bank affiliates' counterparties signs up to the ISDA Resolution Stay Protocol, each of the bank affiliates' counterparties agrees not to exercise any cross-default termination rights under its MSLAs and MRAs that may arise if the US bank were to enter into insolvency proceedings under FDIA.

Question X: What if your securities lending agreements and repo agreements do not have any cross-defaults or other termination defaults that are relevant for purposes of the ISDA Resolution Stay Protocol?

Industry securities finance documentation such as the SIFMA forms of MSLA and MRA do not contain cross-default termination rights. If you are using the MSLA and MRA forms, or bespoke securities lending and repo agreements that similarly do not have such cross-default rights, then Section 1 of the ISDA Resolution Stay

Protocol, which deals with the cross-border enforceability of temporary stays, is likely to be more relevant.

The parties required to adhere to the ISDA Resolution Stay Protocol

Question XI: Since the ISDA Resolution Stay Protocol is a voluntary mechanism (see Question V), can you just decide not to adhere?

In parallel with the work on the ISDA Resolution Stay Protocol, regulators in six jurisdictions (France, Germany, Japan, Switzerland, the UK and the US) are working on laws and regulations that will effectively require adherence¹⁴. While only Germany and the UK have finalised their protocol-related laws and regulations¹⁵, the other four jurisdictions expect to publish proposed or final regulations by the end of 2015 or Q1 2016 that would impose some sort of contractual temporary stay recognition requirement on a subset of their regulated financial institutions. For example, US regulators are expected to propose a rule by the end of the year requiring counterparties of US G-SIBs and the US operations of foreign G-SIBs to amend the terms of their qualified financial contracts to recognise the cross-border enforceability of foreign regimes.

adapt a version of the current ISDA Resolution Stay Protocol to include jurisdictional 'modules' that will allow market participants that need to comply with the regulations to choose only to comply with respect to those jurisdictions where they do business, and not with respect to jurisdictions where they are not active or where they are not required to comply (this is known as the Jurisdictional Modular Protocol).

Question XII: Where are we in the ISDA Resolution Stay Protocol development process?

Currently, the ISDA Resolution Stay Protocol is entirely voluntary, except that the 2014 adherents (the G-SIB banks (and Nomura) that adhered to the original ISDA Resolution Stay Protocol in January 2014) are expected to adhere in November of 2015 and the remaining G-SIBs by the end of 2016. The Universal Dealer Protocol, which is the version of the ISDA Resolution Stay Protocol that the 2014 adherents signed this month, is not expected to affect the agency securities finance industry, since it is only expected to be effective among these large banks acting as principals.

As discussed below, to the extent required by the regulations, the expectation is that beneficial owner lenders that wish to lend securities or engage in repo cross-border may be required to adhere to the Jurisdictional Modular Protocol to be developed in 2016 in order to comply with existing and upcoming regulations.

The interaction between the regulations and the protocol

Question XIII: What is the difference between the ISDA Resolution Stay Protocol itself and the regulations mentioned above?

The regulations require or will require certain categories of parties to enter into amendments to certain of types of financial contracts, including securities lending and repo agreements, in order to recognise the cross-border enforceability of special resolution regimes and to suspend certain cross-default rights for the duration of the temporary stay. The US regulations (to be proposed) are also expected to make modifications to cover Section 2 of the ISDA Resolution Stay Protocol, ie, require foreign counterparties to abide by mandatory temporary stays on cross-defaults under ordinary US insolvency law.

Depending on the applicable regulation in each jurisdiction, if beneficial owner lenders wish to continue lending securities to, or engaging in repo transactions with, certain counterparties, they will have to adhere to the protocol (or enter into equivalent bespoke amendments).

The ISDA Resolution Stay Protocol is merely the contractual tool made available to the

“ Industry-standard securities finance documentation such as the SIFMA forms of MSLA and MRA do not contain cross-default termination rights ”

Regulators view the ISDA Resolution Stay Protocol as the primary means through which industry participants would comply with the regulations. This means that beneficial owner lenders may ultimately be required to adhere to the ISDA Resolution Stay Protocol (or otherwise enter into bespoke amendments that are equivalent to the amendments in the protocol) to comply with the regulations. ISDA and the FSB working group are working together to

	Stayed Party	Insolvent party in Resolution	Covered Agreement Amended by the Protocol
Temporary Stays Under Section 1 of the Protocol:	A stayed party may only exercise default or cross-default rights in respect of a covered agreement to the extent it would be entitled to do so under the special resolution regime governing the insolvent party.		
Direct default scenario:	Stayed party adhered to the protocol.	Insolvent party adhered to the ISDA Resolution Stay Protocol	The securities lending agreement and/or repo agreement between the stayed party and the insolvent party.
Cross-default scenario:	Stayed party adhered to the protocol.	Insolvent party is an affiliate (for example, the parent entity) of the stayed party's counterparty. The counterparty adhered to the protocol.	The securities lending agreement and/or repo agreement between the stayed party and the affiliate of the insolvent party.
Temporary Stays Under Section 2 of the Protocol:	A stayed party may only exercise certain performance-related default rights or other default rights that are not related to the insolvency or resolution of the insolvent party.		
Cross-default scenario:	Stayed party adhered to the protocol.	Insolvent party is an affiliate (for example, the parent entity) of the stayed party's counterparty. The counterparty also adhered to the protocol.	The securities lending agreement and/or repo agreement between the stayed party and such an affiliate of the insolvent party.

parties to facilitate their compliance with the new regulatory requirements.

U.K. BRRD, including the temporary suspension of certain cross-default rights.

Question XIV: Can you give an example of what these regulations might say?

The UK regulation (PS25/15) would prohibit UK credit institutions, investment firms and certain other financial institutions from creating new obligations or materially amending existing obligations (including securities financing transactions) governed by the law of a non-European economic area (EEA) jurisdiction unless that contract recognises temporary stays on termination rights provided under UK BRRD.

In other words, beneficial owner lenders that wish to continue to lend securities to UK financial institutions under non-EEA law governed agreements (for example, New York-law MSLAs) will be required to agree to recognise any temporary stays imposed under

What it means for beneficial owners

Question XV: How are the legal rights of beneficial owner lenders affected by their adherence to the ISDA Resolution Stay Protocol?

The provisions of the ISDA Resolution Stay Protocol that relate to temporary stays¹⁶ (including the reverse repos in the cash collateral reinvestment context) are summarised in the table above.

The practical consequences of the ISDA Stay Protocol, which are discussed below, highlight the fact that the actual impact of the ISDA Stay Protocol on beneficial owner lenders may be more limited than the legal scope of the ISDA Stay Protocol suggests.

Question XVI: What legal burdens are the upcoming regulations expected to impose on beneficial owner lenders?

Very broadly speaking, regulations in each jurisdiction will prohibit regulated financial institutions in that jurisdiction from engaging in certain activities with counterparties (for example, beneficial owner lenders) under agreements governed by foreign law unless those agreements recognise the temporary stays required under that jurisdiction's special resolution regime.

The scope of these temporary stays ranges from direct default or termination rights with an insolvent financial institution to cross-default or indirect termination rights triggered by an affiliated insolvent financial institution.

To the extent current agreements do not provide for these required items, parties will have to

amend their existing agreements accordingly. The ISDA Resolution Stay Protocol is meant to be a ready-to-use mechanism to effect these required amendments.

Since the regulations have not, for the most part, been finalised (and in the case of the US, have not yet even been proposed), the exact scope and nature of the regulations is as of yet unclear.

For example, it is likely that there will be significant variation in terms of: (i) the retrospective effect of the regulations, ie, whether existing transactions would be brought within the scope; (ii) the scope of contracts to be covered, for example, all securities financing contracts or only a subset; (iii) the type of counterparties required to comply with the contractual recognition requirement, ie, whether certain parties (for example, central banks) will be exempt; and (iv) the required effective dates for complying with the regulations.

Beneficial owners' considerations

Question XVII: What will be the consequences if beneficial owners do not wish to amend their securities lending agreements?

Failure to comply with the applicable regulations of a given foreign jurisdiction would likely mean that beneficial owner lenders would not be permitted, pursuant to the laws and regulations of that jurisdiction, to lend securities or engage in repo transactions.

Question XVIII: What will beneficial owner need to do to comply with these regulations in order to continue to lend securities across borders?

In 2016, ISDA will work together with regulators and industry participants to create a modified version of the current ISDA Resolution Stay Protocol, the Jurisdictional Modular Protocol, to help achieve compliance with the regulations of each jurisdiction. The Jurisdictional Modular Protocol would include jurisdictional modules tailored to the regulation in that jurisdiction that would allow adhering parties that have opted into that module to comply with the regulations in that jurisdiction. The precise details of this Jurisdictional Modular Protocol have yet to be worked out (including the scope and mechanics of adherence).

Question XIX: What practical effect will the ISDA Resolution Stay Protocol and the regulations have on beneficial owner lenders' rights? Does it mean that any time a large financial institution becomes insolvent, beneficial owner lenders' rights to terminate or close out a securities lending contract will be limited?

No. It is important to note that, generally speaking, the only contracts that will be affected are contracts where both sides are

"adhering parties", where the governing law of the agreement is different than the jurisdiction of one (or both) of the parties, and only to the extent that one of the parties becomes subject to a special resolution regime (except in the case of a Section 2 scenario that applies to "ordinary" US bankruptcy proceedings, as described in Question IX).

Question XX: How do beneficial owner lenders sign up to the ISDA Resolution Stay Protocol?

The ISDA Resolution Stay Protocol allows beneficial owner lenders to sign up directly by submitting an adherence letter and paying a small fee¹⁷. The agent adherence mechanics for the Jurisdictional Modular Protocol (the version of the ISDA Resolution Stay Protocol to which the broader industry is expected to adhere) have not yet been finalised by ISDA, but it is expected that there will also be an option for beneficial owner lenders to adhere through the lender's agent, provided the beneficial owner lender authorises its agent to do so. **SLT**

This article was written by:
Alina Casner, senior managing counsel and managing director, BNY Mellon

Greg Lyons, co-head of the financial institutions group, Debevoise and Plimpton

Chen Xu, associate in the financial institutions group, Debevoise and Plimpton

Fran Garritt, director of securities lending and market risk, the Risk Management Association

Footnotes

1: These stays are temporary freezes on rights parties to an agreement have to terminate or close-out transaction.

2: "Ordinary" US insolvency proceedings include bankruptcy under the US Bankruptcy Code and bank resolution under the Federal Deposit Insurance Act.

3: Cross-default rights are rights that a party to a transaction has that allow the party to terminate a transaction based on a default by an affiliate of its counterparty. For example, a party could terminate a transaction based on the insolvency of the parent entity of its counterparty, even while its counterparty has not itself defaulted.

4: The Master Repurchase Agreement (MRA), Global Master Repurchase Agreement (GRMA) and the Master Securities Loan Agreement (MSLA) are industry standard documents published by the Securities Industry and Financial Markets Association (SIFMA). The Global Master Securities Lending Agreement (GMSLA) is an industry standard document published by the International Securities Lending Association (ISLA).

5: Sometimes termination or default rights may be permanently overridden as a result of the resolution process, for example, if the receiver decides to transfer the contract to a 'healthy' bridge company.

6: OLA provides such stays for "qualified financial contracts", which would include most industry standard securities lending and repurchase agreements. See 12 USC 5390(c)(8)(F)(ii).

7: See 12 USC 5390(c)(10)(B)(i).

8: See 12 USC 5390(c)(16)(A).

9: See Article 71 of BRRD.

10: In addition to providing stays on direct defaults, Article 71 of BRRD also grants authorities power to impose stays on cross-default rights.

11: The ISDA 2014 Resolution Stay Protocol may be found on ISDA's website.

12: It is important to note that the ISDA Resolution Stay Protocol does not itself create a stay on cross-default rights, but simply requires each of the adhering parties to recognise any applicable stays on cross-default rights required by the insolvent entity's special resolution regime.

13: Unlike Section 1, Section 2 only becomes effective once US regulators adopt regulations (late 2015 or early 2016) creating such stays under ordinary US insolvency law.

14: Counterparties may also comply with these regulations on a bilateral basis by making the same amendments to their agreements rather than signing up to the ISDA Resolution Stay Protocol, although doing so would likely require counterparties to dedicate more time and resources to compliance.

15: Although there has been no official translation of the German law to date, an unofficial translation indicates that the scope of the German regulation only includes financial contracts to the extent not governed by EEA law and contracts with foreign subsidiaries of German banks to the extent those contracts contained cross-default rights to German domestic entities.

16: Section 2 of the ISDA Resolution Stay Protocol also addresses transfers of transactions to a new solvent counterparty created by the receiver as an option in the resolution process. Provisions relating to the effectiveness of these transfers are not discussed in this article. The ISDA Resolution Stay Protocol also contains provisions relating to credit enhancements (for example, guarantees or other collateral support offered by an entity that is not a direct party to the agreement) provided by affiliates of the direct parties to a covered master agreement. These credit enhancements are common in the derivatives context, but are not as common in the securities finance space, and are therefore not discussed in this article.

17: The fee for the Universal Dealer Protocol is \$1,000, with an additional \$500 for each Country Annex. It is unclear what the fee will be for the Jurisdictional Modular Protocol.

ETF stock lending revenues surge on volatility

ETF securities lending revenues for 2015 are up by a quarter on last year, despite flat demand to borrow. Simon Colvin of Markit reports

The exchange-traded fund (ETF) industry breached the \$3 trillion threshold this year as investors ploughed more than \$310 billion of new assets into the 6,200 products currently listed. This year's strong inflows, which are on track to beat 2014's record haul, take the industry's assets under management, which have grown for the last three years, past the 40 percent mark.

The rising popularity of ETFs has been mirrored in the value of ETF assets currently sitting in lending programmes, which has jumped from \$116 billion at the start of 2013 to an all-time high \$160 billion as of the latest

count. This growth in lending programme inventory has just managed to keep up with the wider asset class, which means that the proportion of all ETF assets available to lend has stayed flat at the 5.3 percent mark.

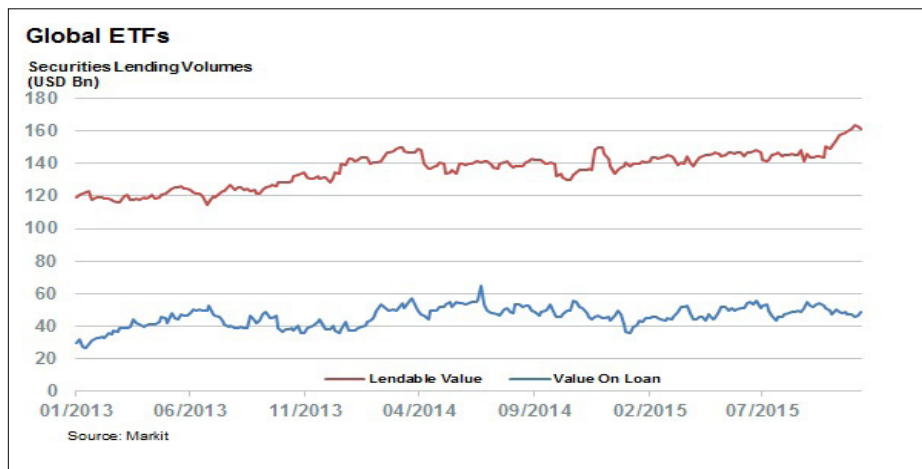
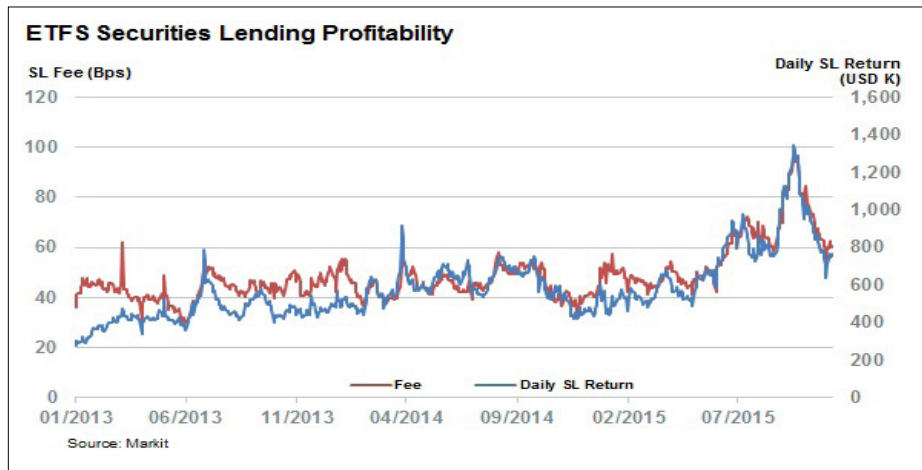
While the supply side of ETF securities lending has been relatively flat in real terms, the demand to borrow ETF assets has proved much more resilient. The balance of ETF assets out on loan has jumped by over 60 percent since the start of 2013 to settle at the \$50 billion mark for the last two years. Interestingly, this demand to borrow ETFs has been relatively flat in the last 24 months,

which runs contrary to the popularity of the asset class from an investor point of view.

The flat balances do not look to have affected the industry's profitability in the last few years, however, as revenues generated by lending out ETFs have grown significantly in the year to date compared to the two previous years. Revenues generated by ETFs so far in 2015 total \$214 million, which represents a 26 percent improvement on aggregate revenue figure at the same point last year.

This surge was entirely driven by the fact that the fees commended by ETF loans have surged ahead in recent weeks, given the fact that balances have been flat over the last two years. The weighted average fee for ETF loans has surged ahead from 50 basis points mark seen over 2013 to 70 basis points seen over recent weeks. This summer's volatility delivered a brief bumper haul for lenders as the ETF stock loan fee surged above the 100 basis points mark during the middle of September.

Fees over this period were largely driven by specials as more than a third of ETF loans were lent out for a fee greater than 100 basis points over the volatility, which shows that lenders were able to hold pricing power over the worst of the market's swings, despite the fact that demand to borrow stayed relatively muted. This pricing power has also continued despite the recent market rally seen since the start of October. [SLT](#)



Simon Colvin
Analyst
Markit

One CCP. Multiple Efficiencies.

Increasing capital and collateral requirements across the derivatives and securities financing business keep raising costs for market participants, sell side and buy side alike.

At Eurex Clearing, we provide innovative and integrated solutions across exchange-traded and OTC derivatives as well as securities financing.

They are geared to improve your economics and help you to tap into new opportunities arising from the new regulatory framework.

Unlock the full benefits of a CCP – leverage our superior solutions and services to maximize capital, margin- and collateral efficiencies.

Eurex Clearing – smart solutions keeping you clear to trade.

www.eurexclearing.com



Industry Jobs

Liquidity and Collateral Management Business Analyst Associate

Recruiter: Bruin
Location: London
Salary: Competitive
Date: 26 October 2015

Follow the link to apply for an exceptional role opportunity with a top tier Investment Bank. To join our client as Liquidity and Collateral Management Associate, you must have strong Securities Lending experience from a comparable background.

Recruiter: 4sight
Location: Edinburgh
Salary: Competitive
Date: 23 October 2015

4sight is looking for a graduate software developer to join our Application Development Group.

Group Leader – Securities Lending Product Development Securities Lending Sales Manager

Recruiter: Brown Brothers Harriman
Location: London
Salary: Competitive
Date: 16 November 2015

The Group Leader - Securities Lending Product Development Manager leads product development efforts across the Global Securities Lending business line.

Recruiter: Brown Brothers Harriman
Location: London
Salary: Competitive
Date: 16 November 2015

The Securities Lending Sales Manager plays a role in ensuring BBH relationship excellence and new business development.

Industry appointments

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

Challice, who has been 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 will be consolidated under leadership in Japan to align management with the hub of the bank's global franchise.

The global prime finance business will remain unchanged and will continue to be led by **Chris Antonelli**, global head of prime finance.

The business in Europe, the Middle East and Africa (EMEA) will be led by **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 has shown 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

The Financial Industry Regulatory Authority's (FINRA) chairman and CEO **Rick Ketchum** is retiring in the second half 2016.

The board of governors will begin the process of finding a successor and are looking for applications from both inside and outside the organisation.

Ketchum took the helm at FINRA in 2009 and was previously CEO of New York Stock Exchange regulation.

"We [FINRA] have been at the forefront of investor protection in our aggressive efforts to help enforce the rules that are so crucial to fair financial markets," said Ketchum.

"Our accomplishments are founded on a commitment to excellence in our core competencies: examinations, enforcement, rulemaking, market transparency and market surveillance."

"Investor protection is our principal reason for being, and I have been honoured to work with an incredibly dedicated and talented group of professionals who take this vital mission seriously.

"FINRA is well-placed to continue to play an important role in educating and protecting investors in the years ahead."

The Securities and Exchange Commission's (SEC) chair Mary Jo White also responded to the announcement, stating: "Rick Ketchum is rightly recognised as a strong regulator who combines brilliance with a deep knowledge of our markets."

The European Securities and Markets Authority (ESMA) has elected two new members and re-elected another to its management board.

The new board members, who will begin their two-and-a-half year term on 1 December, will replace outgoing members whose term expires in November.

Lourdes Centeno of Comisión Nacional del Mercado de Valores and **Elisabeth Roegele** of German Federal Financial Supervisory Authority both won an election at the board of supervisors meeting in Luxembourg on 5 November.

Klaus Kumpfmüller of Finanzmarktaufsicht also won re-election at the same meeting.

Kostas Botopoulos from Greece's Hellenic Capital Market Commission and Martin Wheatley of the UK Financial Conduct Authority will both leave the board when their term ends.

Marcus Zickwolff has resigned from all his positions at Deutsche Börse Group, including senior advisor to Eurex Clearing.

Zickwolff left Deutsche Börse on 31 October, including positions as chairman of the European Association of CCP Clearing Houses (EACH), and chairman of the Global Association of Central Counterparties (CCP12). Deutsche Börse stressed that Zickwolff left the group on amicable terms "in order to pursue new opportunities".

Zickwolff became the representative of Eurex Clearing at the international CCP associations, EACH and CCP12, in 2007. **SLT**



Editor: Mark Dugdale
 editor@securitieslendingtimes.com
 Tel: +44 (0)203 750 6022

Reporter: Drew Nicol
 drewnicol@securitieslendingtimes.com
 Tel: +44 (0)203 750 6019

Reporter: Stephanie Palmer
 stephaniepalmer@blackknightmedialtd.com
 Tel: +44 (0)203 750 6019

Publisher: Justin Lawson
 justinlawson@securitieslendingtimes.com
 Tel: +44 (0)203 750 6028

Designer: Steven Lafferty
 design@securitieslendingtimes.com

Published by Black Knight Media Ltd
 Provident House, 6-20 Burrell Row,
 Beckenham, BR3 1AT, UK

Company reg: 07191464
 Copyright © 2015 Black Knight Media Ltd.
 All rights reserved.

Eliminate Revenue Splits

A Better Way

OneChicago.com - An Equity Finance Exchange - OCXdelta 312.883.3440