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Brexit: calm before the storm

The UK's marginal decision in favour of the so-called Brexit took the securities lending industry by surprise, according to DataLend.

In a research note on the market's on-loan balances before and after the result, first announced on 24 June, DataLend said it saw no indication from the securities lending market in the weeks prior to the vote that participants believed the UK was leaning toward an exit from the EU.

DataLend global product owner Nancy Allen and director Chris Benedict, who co-authored the research note, saw changes in equity loan balances and utilisations that are representative of expected seasonal trading patterns—"not an indication of pending market chaos".

Europe (excluding UK) equity on-loan balances gradually came off at the beginning of June, from $185 billion down to $140 billion on 23 June, the day of the referendum vote.

Utilisation followed this pattern, dropping from 12.2 percent to 9.5 percent during the same timeframe. Fees to borrow these assets remained steady in June at 77 basis points (bps). UK equity borrowing patterns were similar.

"We saw a decrease in loan balances in early June from $46 billion down to $34 billion on 14 June, again due to normal trading patterns."

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Brexit latest: Bank of England extends emergency repo service

Bank of England governor Mark Carney has pledged to continue the central bank's additional weekly indexed long-term repo operations until the end of September in the wake of severe market turmoil caused by Brexit.

Speaking on 30 June in his second speech since the EU referendum result was announced on 24 June, Carney reassured markets that the Bank of England was well prepared to provide additional liquidity to combat the severe market headwinds that struck even before the official result was announced.

Carney also reiterated that the central bank stands ready to provide more than £250 billion of additional funds through its normal facilities, that it has raised over £130 billion of capital and that it now has more than £600 billion of high quality liquid assets.

The central bank's original plan involved offering three additional indexed long-term repo facilities on top of its normal monthly service, the last of which had a settlement date of 30 June and a maturity date of 8 December.

Liquidity insurance via the central bank's other facilities will continue as usual, including running a weekly US dollar repo operation.

Carney also went close to suggesting that a cut in interest rates is on the cards.

The rate is already set at a lowly 0.5 percent, and had been pipped to be raised in the future as the UK battles with marginal economic growth.

Since Brexit, "the economic outlook has deteriorated and some monetary policy easing will likely be required over the summer," Carney said.

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Calm before the storm

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"After 14 June, we saw on loan values reverse course back up to $39 billion yesterday [27 June]," Allen and Benedict explained.

"Utilisation percentages followed the same pattern. Fees to borrow UK equities traded between 48 and 52 bps during this time."

In the fixed income world, on-loan balances for US treasuries averaged around $390 billion on loan in the weeks prior to the referendum, according to DataLend.

"What was particularly interesting with US treasury trading patterns was the cash-based rebate rate," Allen and Benedict wrote. "In the days just prior to and after the referendum, the volume weighted average rebate one day on US treasuries increased significantly. We saw the one-day rebate for US treasuries trading at around 45 bps for both 13 June and 14 June. On 22 June that rebate had risen to 49.13 bps. By the next day, the figure had reached 54.11 bps."

"Once the result of the referendum was made public, the rebate jumped to a high of 73.33 bps, representing a very significant 63 percent increase in the one-day rebate rate from the beginning of the week."

"This increase suggests that dealers were seeking to raise cash as market turmoil set in and were willing to pay high rates to borrow that cash as they pledged US treasuries as collateral. However, we should also note that quarter-end pressures were also in effect."

Despite the substantial market impact that the referendum vote had on GBP, even before the final result was announced, DataLend's data did not reflect a big impact on demand for UK government bonds.

The on-loan balance for UK sovereigns has decreased since the beginning of June, falling from $62 billion to $58.2 billion as of 28 June, according to the research note.

Utilisation for government bonds followed suit, dropping from 32 percent to 30 percent. Fees to borrow UK government bonds during this timeframe remained steady at 15.58 bps. The balances and spreads in German and French government bonds were fairly steady in the lead up to the vote, Allen and Benedict added.

Brexit latest: BoE extends emergency repo service until September

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Carney closed with a word of comfort and also a stark warning to the UK, stating: "Over the coming weeks, the bank will consider a host of other measures and policies to promote monetary and financial stability."

"In short, the Bank of England has a plan to achieve our objectives, and by doing so support growth, jobs and wages during a time of considerable uncertainty."

"Part of that plan is ruthless truth telling. And one uncomfortable truth is that there are limits to what the Bank of England can do."

Greek bonds rejoin collateral pool

Greek government bonds are once again available for use as collateral, as of 29 June, after the European Central Bank (ECB) reinstated a waiver on its minimum credit rating requirements.

The usual credit rating threshold for using government bonds as collateral in Eurosystem monetary policy operations was suspended by the ECB's Governing Council but will be subject to special haircuts that will be specified in the relevant legal act.

In a statement on the ruling, the council noted that it "acknowledges the commitment of the Greek government to implementing

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the current European Stability Mechanism programme and expects continued compliance with its conditionality”.

The ruling will remain in force until further notice and applies to all outstanding and new marketable debt instruments issued or guaranteed by Greece.

The ECB’s council confirmed that purchases of Greek bonds under the public sector purchase programme will be examined at a later stage, taking into account the progress made in the analysis and reinforcement of Greece’s debt sustainability, as well as other risk management considerations.

Short sellers circle UK banks

Short sellers that had reduced their positions in the lead up to the UK’s EU referendum came back strongly to target UK banks once ‘Brexit’ was confirmed, FIS Astec Analytics has found.

David Lewis, senior vice president at FIS Astec Analytics, said: “Short interest in UK commercial banks rose by 28 percent since Friday (24 June) and is up 91 percent compared with one week [previous].”

“Short sellers may have been playing out of position ahead of the Brexit poll but are now moving quickly to take advantage of the pressure UK bank shares find themselves under,” Lewis explained.

GBP fell 11 percent even before the result was formally confirmed and the following days saw banks with the closest ties to the UK economy suffer a significant drop-off in share price.

Royal Bank of Scotland and Barclays were among those hit hardest after the result, with circuit breakers being applied to both the FTSE-listed banks after their share price dropped by more than 8 percent within the first two hours of trading on 27 June.

In a research note in SLT issue 153 on 21 June, ahead of the referendum, Lewis commented: “Uncertainty brings prices down as investors dial down risk and rush to reduce their exposure by buying into safe haven assets.”

“The evidence of such behaviour was seen very recently as 10-year German government bond yields turned negative, indicating that investors value the creditworthiness of Germany so much that they are willing to pay to lend them money.”

Rating agencies S&P and Fitch, meanwhile, have downgraded the UK’s credit rating in response to the decision to leave the EU.

Multiple ratings agencies made threatening noises immediately following close-run result but S&P was the first to cut the UK down two places, from its stellar AAA rating to AA, shortly followed by Fitch, which took the country to AA from AA+.

The decision to downgrade its credit rating was in part due to UK Prime Minister David Cameron resigning immediately following the Brexit vote, without triggering the formal process to leave the economic and political union. His successor will not be named until September.

S&P had previously stated it had no immediate plans to review the UK’s rating when the result was first announced, but the rating agency changed its mind on 27 June.

The UK continues to be on negative watch with Moody’s and Fitch.

Fitch also highlighted potential risk for Ireland’s credit rating due to the country’s association with the UK. Fitch upgraded Ireland to A from A- in February

"The UK vote to leave the EU is negative for Ireland, raising risks to growth and creating uncertainty around future relations with Northern Ireland," Fitch explained in a research note.

Also in reaction to the referendum result, securities finance industry associations and market participants stressed the need for calm amid a run on sterling and FTSE 100 companies, emphasising that change will happen gradually.

The International Securities Lending Association (ISLA) said: "This result is a momentous decision that will have significant implications for financial markets. However, it is important to stress that the UK vote to leave the EU will not have any immediate impact on the legal certainty of existing transactions undertaken under the global master securities lending agreement (GMSLA), nor will it require any immediate contractual changes from counterparties."

"The process to leave the EU will take at least two years and during that time we will be working with all of you and our respective legal partners to better understand the challenges that our market will face during that process. During that time I would remind you that all existing European treaties, directives and regulations will remain in force."

A statement from FIS Astec Analytics said: "Short interest in both FTSE 100 shares and indeed the wider UK equities market has been decreasing over the days leading up to the referendum. At the end of the last trading day before the voting commenced, short interest in FTSE 100 shares increased by 1.2 percent, giving a slightly more negative view of expectations for share prices come Friday."

"However, the total number of FTSE 100 shares sold short remains just below the levels seen last Friday, (17 June) and at the close of business on Wednesday, UK equities overall remained flat, in terms of the value shorted, compared with the day before, suggesting that there was no burst of shorting activity ahead of the vote."

"Overall, not unlike the currency markets, short sellers seem to have been betting on the remain result. Focus is now shifting to other European markets and their reaction to the UK vote."

The International Capital Markets Authority (ICMA) said: "ICMA will work actively with all its members, large and small, sell side and buy side, through its market practice and regulatory policy committees, regional committees and other working groups, as appropriate, to help them prepare for the international capital market implications of Brexit."

"ICMA's mission continues to be the promotion of resilient and well-functioning international capital markets. ICMA provides standard market documentation and guidance on market practices, which are widely adopted in many areas of the international capital markets."

"They may potentially need adjustment as the details of the UK's withdrawal from the EU become clearer. ICMA will continue to review its standard market documentation and guidance in the light of future developments and will ensure they are amended as and when needed in consultation with our members."

"As the markets adapt to the UK withdrawal from the EU, ICMA will continue to work with the authorities in the UK, the EU, the euro area and elsewhere, to ensure that our members' views in the international capital markets are well represented."

Finally, reiterating that the result will not affect their planned 'all-share merger of equals', Deutsche Börse and the London Stock Exchange Group issued a joint statment saying: "Both boards believe that

the outcome of the referendum does not impact the compelling strategic rationale of the merger."

The boards further believe that the combined group's capabilities, including global reach, distribution network across Europe, Asia and America, brand strength, financial resources and deep customer relationships, remain well positioned to serve global customers irrespective of the result of the referendum."

Vanguard considers sec lending's contribution to asset managers

The securities lending industry arguably receives a disproportionate amount of regulatory attention compared to the average contribution its business brings, a Vanguard Research Group whitepaper has suggested.

Vanguard found that the analysed funds' securities lending activity has remained steady. On-loan securities volumes were consistent throughout the report's sample data range (2007 to 2014), other than an unsurprising spike during the financial crisis.

The whitepaper was created using a case study of 1,193 US index funds and exchange-traded funds from Morningstar over the eight-year period.

Securities lending has also remained a relatively minor part of overall business, according to Vanguard.

In 2014, total index-fund assets on loan were almost $68 billion, while for active funds the figure was about $36 billion, representing about 2 percent and less than 1 percent of fund assets, respectively.

Vanguard said in the whitepaper: "[Those figures] could seem either surprisingly low—given the high level of attention paid to securities lending in recent years—or not surprising, given the US SEC's strict securities lending guidelines for regulated funds and the fact that securities lending actually tends to make up a relatively small portion of an asset manager's operations."

But securities lending remains a beneficial business, despite its size. Vanguard argued: "Considering that our index funds from the full sample had a weighted-average expense ratio of 23.6 basis points (bps) in 2014, the weighted-average lending impact of 2.7 bps helped offset more than 10 percent of the expense ratio in the same year. This is a significant benefit, because expense ratio is a critical determinant of an index fund's return relative to its benchmark index."

ECB to continue chasing shadows

The EU's 'shadow banking' sector poses a growing threat of unquantifiable systematic and liquidity risk for as long as it remains undefined, according to the European Central Bank (ECB).

In a recent paper from its ongoing series on economic topics, the ECB reiterated the importance of gaining more detailed reporting data from entities that engage in alternative financing, also known as shadow banking, as a way of removing some of the mystery around the industry's size and better managing market risk.

The ECB cited further monitoring of securities lending, collateral management and derivative transactions specifically as central to this initiative.

The Securities Financing Transaction Regulation, which is already being implemented in stages between Q1 2016 and 2018, will soon include reporting requirements that will used by the ECB to further its aim of understanding the shadow banking sector.

The significant increase in shadow banking means that the distribution of risk exposures has become wider and presents systemic risks that need to be "detected, monitored and managed", according to the ECB.

The value of the shadow banking industry has doubled in the past decade to now account for €28 trillion worth of assets and represent a third of the euro area's financial system, according to the ECB.

But the central bank admitted that the broadness of its current metrics may be overstating the size of the industry in the euro area as it includes special financial institutions and holding companies, which may not actually engage in shadow banking.

The ECB acknowledged that "during the crisis years, shadow banks, notably investment funds, have acted as an important buffer for the real economy as bank credit to the private sector contracted".

The ECB also highlighted a growing liquidity mismatch within the investment fund sector, along with the trend of interlinking between systemically important institutions, as key concerns to be addressed.

"Open-end funds add to the illusion of stable liquidity conditions by promising daily callable claims to purchase assets which may not be very liquid in a period of market repricing. While most euro area funds offer daily redemption to investors, their cash buffers and shares of liquid and short-term assets have been falling. This increases the sector's vulnerability to large-scale redemptions and raises the risk of an adverse liquidity spiral."

The paper continued: "While limited balance sheet data suggests that vulnerabilities within the shadow banking sector are growing and links to the wider financial system and real economy are strengthening, data limitations prevent drawing a definitive conclusion on the systemic nature of the risks."

"Additional balance sheet statistics for the subcomponents are needed to draw firm conclusions."

Asset managers under the spotlight

The G20's Financial Stability Board (FSB) has highlighted the securities lending activities of asset managers acting as agent lenders as one of four key financial stability risks to be addressed in 2016.

In a consultation paper, the FSB proposed 14 preliminary recommendations to address "structural vulnerabilities from asset management activities" ahead of its final proposals, due later this year.

Specifically, the issus of asset managers acting as agent lenders and providing indemnities to

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beneficial owners to mitigate counterparty risk were cited as potential sources of operational risk during stress situations.

Authorities should monitor these agent lenders' indemnity activities in order to "detect the development of material risks or regulatory arbitrage that may adversely affect financial stability".

The paper added: "Authorities should verify and confirm asset managers adequately cover potential credit losses from the indemnification provided to their clients."

The paper proposed: "Indemnification-related exposures should be subject to a regulatory treatment that adequately covers their risks but also takes due consideration to avoid creating incentives for such activities to migrate to less regulated sectors, while taking into account differences in how entity types are structured and in the approaches taken by regulators."

According to the FSB's paper, the agent lender businesses of asset managers came to the board's attention after it noted a significant growth in their activities over the past decade.

Some of the final recommendations will be operationalised by the International Organization of Securities Commissions, once approved.

The board's other recommendations focused on liquidity mismatches between fund investments and redemption terms, conditions for fund units, and issues around leverage within investment funds.

The finalised proposals on asset manager risks will also pave the way for the FSB's delayed assessment methodologies for non-bank, non-insurer global systemically important financial institutions. These were officially pushed back last year until the board's work with asset managers was complete, after its initial proposals sparked complaints from industry participants such as Fidelity.

The FSB is accepting comments on this latest paper until 21 September.

CME's CCP gains ESMA's approval

The European Securities and Markets Authority (ESMA) has given its approval for the Chicago Mercantile Exchange (CME) to operate as a central counterparty (CCP) in the EU.

Since receiving the approval in June, CME Clearing has launched a physically-delivered EU wheat futures and an options on futures contracts service, which will begin trading on 12 September.

According to CME Clearing, EU wheat futures and options, known as 'Soft Red Winter' and 'Hard Red Winter', will be denominated in euro, priced relative to the Rouen market in France, and will enable users to take delivery of wheat at exchange-approved warehouses in key locations across France, or hold onto wheat certificates for delivery at a future date.

The approval of CME Clearing is the latest development in an ongoing drive to develop the central clearing industry in Europe since finalising a EU/US CCP equivalency agreement in March.

In a speech at the Banque de France recently, ESMA chair Steven Maijoor stressed the importance of CCPs.

He stated: "CCPs are systemically critical infrastructures for financial stability, and supervision must ensure CCPs' resilience in extreme but plausible scenarios."

ESMA has also focused on native CCPs by conducting stress tests on all EU clearinghouses, which largely proved that they could successfully manage in market stress scenarios.

CME Group executive chair and president Terry Duffy said: “Central clearing is a critical component of the G20 commitments, which increases transparency, reduces systemic risk and strengthens the financial system.”

Spanish futures finally pick up in May

Futures trading through central counterparty BME Clearing saw a significant uptick in volume and open interest in May, after a disappointing start to 2016.

The CCP’s main derivative product IBEX 35 Options trading volume came in at 180,305 and trading in stock options came in at 1,425,803 contracts, up 2.66 percent and 7.5 percent respectively from April.

Trading on futures on stock dividends has also grown up to 107.63 percent and experiences an increase of 16.49 percent in the open interest, according to BME Clearing.

Prior to May’s rebound, BME Clearing recorded three million trades in IBEX 35 Futures and 1.2 million in Mini IBEX Futures for the first four months of the year, representing a fall of 1 percent and 2.8 percent respectively from last year.

RR Donnelley wins fund mandate

Hedge fund technology firm HedgeServ has selected RR Donnelley’s ArcReporting application for creating its clients’ financial reports and statements.

An independent global fund administrator with about $300 billion in assets under management, HedgeServ will use the application for importing data and automatically producing complete alternative fund financial statements.

ArcReporting is designed to manage and simplify fund reporting, offering data management capabilities, and producing statements in various publishing formats.

The application is part of the FundSuiteArc, an online self-service content management platform that stores and manages information on a central repository, allowing regulatory and compliance documents to be easily accessed, edited and rendered.

Justin Nadler, co-founder and president of HedgeServ, commented: “We now have a fully mapped and automated template for creating fund financial statements, with integrated proofing tools that allow us to cross-check the various data sources.”

“This improves the accuracy and efficiency of the financial statement production and review process internally for HedgeServ, for our clients and the funds auditors.”

Marcus Malley, managing director of HedgeServ and head of financial reporting, said: “This is a major step forward for us in terms of efficiency. This fully automated financial statement reporting solution is designed to meet the specific requirements of alternative funds and will continue to help us deliver exceptional service to clients.”

Eric Johnson, senior vice president for global investment markets at RR Donnelley, added: “Our solution is designed to be effective for all fund structures including mutual funds and hedge funds, across multiple domiciles. It leverages technology to provide intuitive financial reporting controls and mitigates the risks associated with producing financial statements.”

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Don’t cry for me, I’m already ahead

ISLA’s Securities Finance and Collateral Management Conference brought the European market together to address the industry’s biggest challenges, and to celebrate the progress it has made over the last quarter of a century

The International Securities Lending Association’s (ISLA) 25th Securities Finance and Collateral Management Conference in Vienna saw many of the issues that had brought industry participants to loggerheads at previous events finally begin to move forward, for the benefit of everyone.

Age-old issues such as the role of central counterparties (CCPs), the burdens of regulatory compliance and data reporting, and inefficiencies across the entire transaction chain were all addressed, along with the relative newcomers such as blockchain—with actual progress being made in some of these areas.

As an industry association, ISLA is going through a transitional period, a theme that featured prominently during the conference. Primarily, the conference served as platform for a passing of the torch for Kevin McNulty, ISLA’s CEO of seven years, who stepped down and handed his responsibilities over to then COO Andrew Dyson. McNulty received a round of applause from all in attendance after he was thanked for everything he had achieved during his tenure by Dyson during his opening speech.

The changing of the guard means that ISLA is currently shopping for a new COO who, at time of writing, is yet to be confirmed by the association. Two of ISLA's board of directors have also chosen to step down this year.

Market, 'excellent'

A survey of conference delegates revealed that a largely optimistic mood had captured the industry, twinned with a mildly contradictory undercurrent of realism.

The survey, on the first day of the event, showed that the majority of delegates, mostly representing principal lenders, borrowers and agent lenders, were bullish about their future business prospects, with aspirations to grow in revenue and staffing terms over the next three years.

At the same time, however, the audience predicted the the overall securities revenue pool to decrease over the same time period.

The poll showed that 53 percent predicted growth in their business, but 43 percent believed this would come in spite of the overall industry revenue pool shrinking.

Delegates heard that changes to fee splits and pricing may become an improved revenue source for some agent lenders, but panellists warned that citing regulatory costs and other market forces as a reason to revisit these topics with beneficial owners might be unhelpful for the industry as a whole.

Eat my shorts

On the second day, a panel of senior market participants were united in their belief that CCPs offer legitimate compression and netting advantages at a time when both features are becoming more valuable.

This is a big leap forward for the advocates of central clearing, who have been battling to win the hearts and minds of the securities lending industry for some years.

But it was pointed out that these benefits all fall at the feet of agent lenders and are unlikely to convince beneficial owners of the need to centrally clear their loans in the face of lingering concerns around collateral visibility that exist with CCP use. One panellist, from a large agent lender, described his business as "standing ready to work with CCPs", but acknowledged that without the essential beneficial owner demographic on-board there was still work to be done.

At the same time, in the wider industry, the CCP cause has also been helped along in the past 12 months by several regulators, along with major industry players, reinforcing their approval of central clearing.

The ISLA conference highlighted a distinct geographic divide in the acceptance of CCPs in the securities lending market.

During a panel discussion at the 6th Annual Canadian Securities Lending Association Conference on Securities Lending earlier in June, one custodian panellist, discussing the US market, described how increasing numbers of participants are "joining the CCP bandwagon every year".

However, at the IMN Beneficial Owners' International Securities Lending Conference in the US in February, scepticism around CCPs was highlighted. A forward-looking poll showed that 63.9 percent of respondents expected less than 5 percent of their business to use central clearing by 2017.

ISLA's European delegates in Vienna voted in stark contrast to this when asked a similar question.

More than half, 56 percent, of the audience said they could see between 1 and 25 percent of their trades using a CCP in the next three years, while 23 percent of respondents said 26 to 50 percent of their trades could go through a CCP.

Commenting on the shift of industry mentality, Jonathan Lombardo, senior vice president in Deutsche Börse's global funding and financing division, and Deutsche Börse representative at the ISLA conference, said: "The significant change in market sentiment from Lisbon last year can be defined in three components. Firstly, organisations have interpreted regulatory rules around leverage and capital and have clearly seen benefits from dealing with a CCP."

"Secondly, Eurex Clearing's Lending CCP offering has continued to grow with additional clearable markets such as the UK as well as additions to acceptable jurisdictions for our specific lender licene such as the Middle East."

"Finally, Eurex Clearing have invested heavily in the infrastructure of lifecycle risk management, asset servicing and enhanced collateral models which have been well received by our present participants as well as pushing the 'on the fence' organisations over towards participation."

Blockchain: the cause of, and solution to, all of the industry's problems

Those attending ISLA's conference, could be forgiven for thinking that the blockchain roundtable was the only one on the agenda, not just one of three options that ran simultaneously.

The packed-out secondary conference room left attendees (and journalists) perching on tables at the back of the room, even after extra seating was brought in.

The session was chaired by itBit Company Trust's head of Europe, the Middle East and Africa, Jason Nabi.

itBit had stolen the spotlight earlier in the day by announcing that it was collaborating with Euroclear to look into creating a settlement services for the London gold market, based on distributed ledger technology.

Nabi fell short of explaining what blockchain actually was, but instead opted to focus what it could potentially do, such as significantly reduce balance sheet use and bring settlement risk to near zero. It could also re-engineer back-office processes and reduce the settlement cycle to T+0.

Concerns were raised in the session, however, that a reduction in settlement risk would be offset by an increase in liquidity risk, as rapid settlement is dependant on sufficient cash being available at all times to complete the trade.

Delegates heard that blockchain may create opportunities for banks to provide credit and margin solutions to users that would otherwise struggle to meet cash requirements.

Counterparty risk could also be mitigated through a hybrid CCP-blockchain system, but the industry will have to wait at least 18 months before anything tangible will appear.

Nabi described talks between CCPs and distributed ledger technology providers around creating such a hybrid system as being in very early stages.

Cash markets were highlighted as a simpler market structure that will probably see a functioning blockchain solution much sooner than the securities finance industry.

Blockchain has certainly captured the imagination of the securities lending industry in 2016. Last year was described by one delegate as the "year of hype" for blockchain, inferring that 2016 is the year of reality.

That might be optimistic, considering that a large number of the people who spoke of the roundtable afterwards were still unsure about what this mystical distributed ledger actually was, and how it could assist in securities lending transactions.

However, the technoogy will no doubt feature again, and prominently, at every industry event for the rest of the year, and beyond.

No, money down!

The theme of market shake-ups also spilled over into discussions on the growing trend of beneficial owners looking to cut out the middleman and engage in peer-to-peer lending with non-banks.

One buy-side panellist explained: "Securities lending at its core is a very simple transaction."

"I'm here with a very high demand to borrow securities, and the other side wants to lend them, but there are a lot of people in the way who are often using clunky infrastructures that make the process very inefficient."

In an audience poll, it was revealed that 47 percent of voters were beneficial owners that are "seriously considering lending to non-banks".

Delegates heard that greater transparency and communication between counterparties is the future of the industry, and that this will likely result in the growth of peer-to-peer lending.

The counterpoint was raised that, historically, end users have not had the resources to properly manage the various exposures and counterparty vetting processes involved in securities lending without leaning heavily on agent lenders, and that this hasn't changed significantly yet.

However, the unstoppable rise of financial technology, as well as the growth of central counterparties could mean that change is finally on the horizon.

Annoyed grunt (D'oh!)

Finally, after three days of debate and toasting the milestone of 25 years of successful conferences, delegates were looking to carry the market stability and optimism forward into the second half of the year … and then Brexit happened. **SLT**


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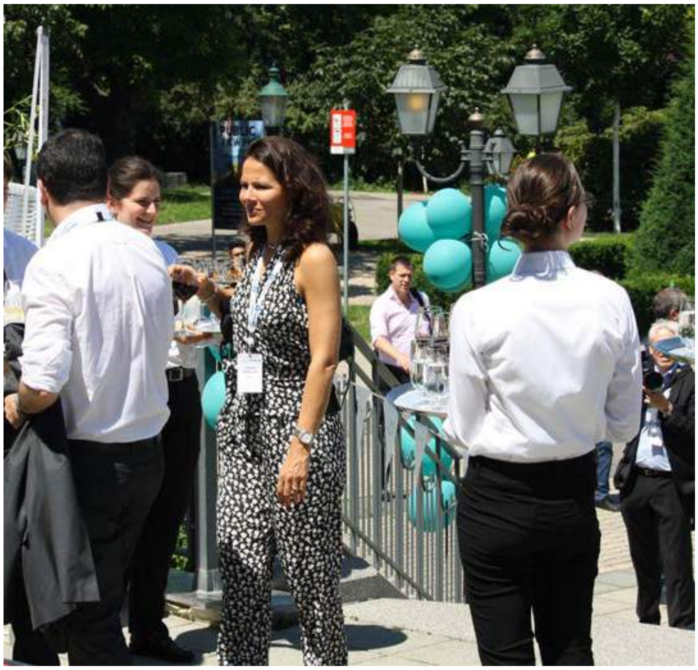


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European short sellers miss out Brexit bonanza

European short sellers were as unprepared for Brexit as the rest of the market, and there have been few signs of a rush to short the firms most affected by the 23 June vote. Markit analyst Simon Colvin reports

The volatility seen since 24 June would have provided European short sellers with an opportunity to profit from a seldom seen decline in the market, but the unexpected 'Brexit' result largely caught short sellers out. While no part of the market 'correctly' anticipated the results, it's interesting that even historically sceptical investors stood largely unprepared to profit from the volatility.

The covering seen in the FTSE 350 index in the days leading up to the referendum was mirrored in the rest of Europe. The average shares out on loan across constituents of the Stoxx 600 stood at 2.4 percent of shares outstanding on the eve of the vote. This number was 5 percent lower than that seen 10 days prior, which indicates that bearish activity was on the wane leading up to 24 June's volatility.

Most shorted failed to deliver

Short sellers also missed out due to the fact that their high conviction names have largely failed to deliver since 23 June. Since the vote, the average fall seen in the 10 percent of the Stoxx 600 constituents that saw the greatest short activity on the eve of the vote was 5.6 percent.

This is 0.5 percent less than the average price fall seen index-wide, and ironically means that the most shorted group of shares has actually outperformed the index as a whole.

The average short interest among those index constituents that did underperform the index, the 60 whose share price has fallen by more than 15 percent since the vote, was 2 percent of shares outstanding on the eve of the vote—nearly 20 percent less than the index average.

The few exceptions to the trend are largely periphery Italian and Spanish banks such as Banco Popolare and UBI Banca, which make up the majority of firms that featured among both the high conviction short list at the end of 23 June, and those whose shares have fallen by more than 15 percent.

The one profitable high conviction UK short of recent weeks has been London-exposed real estate developer Capital & Counties, which had seen large demand to borrow leading up to the referendum as investors looked to profit from a fall in London property values off the back of an 'out' vote. Its shares fell by 17 percent in the three days after the vote and short sellers have subsequently added 14 percent to their already high positions.

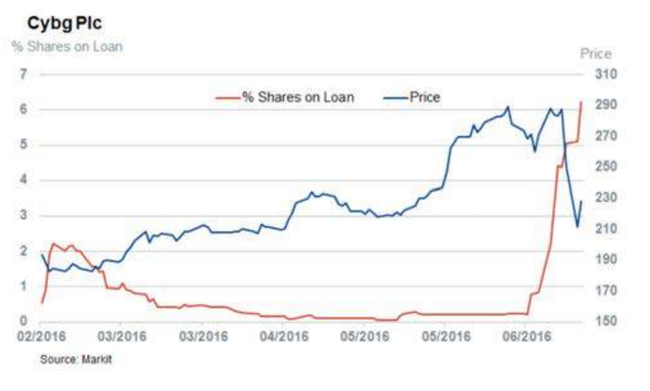
But the surge in demand to borrow Capital & Counties shares is very much against the general mood of the market. Demand to borrow shares of the constituents of the Stoxx 600 index has been flat since 23 June, indicating a general lack of appetite to short the market in the wake of the vote.

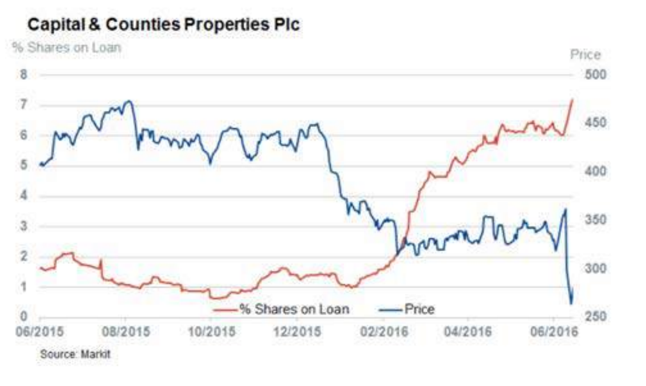
This trend holds true even for the companies whose shares have been most negatively affected by the recent volatility, as the average borrow across the 60 shares that have fallen by more than 15 percent in the last three trading days (from 29 June) has fallen 5 percent to 1.92 percent.

Eight index constituents have bucked this trend, however, and have seen demand to borrow grow by more than 1 percent of shares outstanding in the last three days (from 29 June). The majority of these firms are financials that stand to suffer the most from the uncertainty brought upon by the 23 June vote. This is particularly relevant for Scottish banking group CYBG, which has seen shorts increase by more than a third in the last three trading days (from 29 June) to an all-time high 6.3 percent of shares outstanding. **SLT**

Stoxx 600 Average Return by Short Deciles

	Average % of Shares out on Loan (June 24th)	Change since Thursday	Average Price Return
10 (Most Shorted)	9.6	1%	-5.6%
9	4.7	-2%	-5.9%
8	3.3	2%	-5.1%
7	2.2	4%	-5.7%
6	1.5	1%	-7.6%
5	1.1	0%	-5.3%
4	0.8	-1%	-6.3%
3	0.6	-5%	-6.6%
2	0.4	-20%	-7.5%
1 (Least Shorted)	0.2	-19%	-5.6%
Index Average	**2.4**	**0%**	**-6.1%**



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Industry Events

IMN European Beneficial Owners' Securities Lending Conference

Date: **22-23 September**
Location: London

The IMN European Beneficial Owners' Securities Lending Conference will cover the 2017 macroeconomic outlook and implications for securities lending programmes; the economics of collateral optimisation; structuring and enhancing lending programmes to increase revenue; the business implications of regulation on lending and collateral management programmes; alternative routes to market; effective benchmarking and performance; sell and buy-side perspectives on doing business today; and perspectives on the future direction of the industry.

10th Annual Collateral Management Forum

Date: **21 October**
Location: Amsterdam

The 10th edition of the annual Collateral Management Forum in Amsterdam is looking to offer an overview of the most crucial topics in the field today. In a shifting regulatory enivornment, with the margin requirements soon to come into play, the call for advanced tools of collateral management is as loud as ever.

For more events visit securitieslendingtimes.com/events/events.php

Industry Recruitment

Securities Lending Trading (Associate/Vice President)

Recruiter: BlackRock
Location: London

BlackRock is one of the world's preeminent asset management firms and a premier provider of global investment management, risk management and advisory services to institutional, intermediary and individual investors around the world. BlackRock offers a range of solutions—from rigorous fundamental and quantitative activemanagement approaches aimed at maximising outperformance to highly efficient indexing strategies designed to gain broad exposure to the world's capital markets.

Systems Analyst Role

Recruiter: EquiLend
Location: London

EquiLend is seeking a systems analyst for the London office to work closely with the EquiLend product owners and scrum team to execute projects from inception through production release.

Senior Software Engineer

Recruiter: EquiLend
Location: New York

EquiLend is seeking a senior software engineer to participate in all stages of development for several applications within the enterprise.

Business Analyst, Prime Finance

Recruiter: Citi
Location: Dublin

Investor services is a business line within markets and securities services, it includes products across prime finance, delta one, futures, OTC clearing, collateral management, global custody, fund administration, and agency lending.

High-profile appointments at Trading Apps, Euroclear and GFT

Trading Apps has reshuffled its roster with the appointment Andrew Malpass as non-executive director.

Malpass has over 30 years of experience in the software industry and served as the CFO of Fidessa group (formerly Royalblue Group) from 1995 to February 2016. He is also a fellow of the Chartered Institute of Management Accountants.

Malpass commented: "I am delighted to join Trading Apps as non-executive director. Trading Apps is at a similar position to when I first joined Fidessa and helped grow the company to be worth $1 billion listed on the FTSE."

"I hope to be able to bring my wealth of experience in financial software to the Trading Apps management."

Trading Apps has also seen its co-founder Jean-Paul Musicco shift from his role as managing director for North America to become non-executive director as well.

Matthew Harrison, CEO of Trading Apps, said: "I am delighted that Andy Malpass will be joining us as a non-executive of the board and that Jean-Paul Musicco has agreed to continue being involved in an advisory role."

Prior to founding Trading Apps, Musicco worked for SAC Capital Advisors managing the financing for the various asset classes in numerous jurisdictions.

Musicco said: "My role as non-executive of the board is to assist the executive team in continuing the growth journey and vision that the original founders established over five years ago."

"In particular, my role is to continue to bring my global experience with securities finance on both the sell and buy sides."

Mark Blank has joined GFT Group from FIS as a business development executive covering the North American investment banking and vendor community.

Previously, Blank was an account manager and relationship manager at SunGard, and continued as a relationship manager after FIS acquired the company.

He has also held roles as assistant vice president of relationship management, sales and client services at J.P. Morgan, and as a collateral manager at BNY Mellon.

In his new role, Blank will be based in New York.

Sonia Whang, head of business development at GFT USA, said: "We are delighted to welcome Mark Blank to the team."

"With the continued squeeze on liquidity and the race for high quality liquid assets, there is no doubt that his extensive experience in this area will be invaluable."

Katrina Sartorius has moved to the role of global head of FundsPlace, Euroclear's global infrastructure for funds.

Previously, Sartorius was head of product management for Euroclear in the UK and Ireland, Euroclear's UK central securities depository.

She is also a member of the Euroclear UK and Ireland executive management committee.

Sartorius joined Euroclear in 2000 from the Bank of England, where she was a business analyst for the euro and cash management systems.

In her new role, she will report to Stephan Pouyat, global head of capital markets and funds services.

The Euroclear FundsPlace seeks to connect wealth managers, institutional investors, transfer agents, custodians and fund managers, providing better transparency, control and efficiency in the entire funds lifecycle.

Participants from all areas of the industry can access the environment securely and in an automated way. **SLT**

SLT
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