ISSUE163
TUESDAY
25.10.2016
securitieslendingtimes.com

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ISLA warns of market shrinkage

The combined weight of regulatory burdens could "push institutional lenders away from the securities lending market" and cause a drain on liquidity, according to an International Securities Lending Association (ISLA) report.

The Securities Financing Transaction Regulation (SFTR), Bank Recovery and Resolution Directive, and the Central Securities Depository Regulation, were cited as the regulatory frameworks most troubling the industry.

The association's report also highlighted the further restrictions on UCITS coming down the pipeline as another strain on market participants.

"This [participant withdrawal] in turn could lead to a loss of market liquidity and make it harder and more expensive for institutional investors to invest in equity markets and for government institutions to issue and manage existing government bond programmes," ISLA's fifth market report explained.

"The increasingly harsh regulatory environment facing many retail funds, notably UCITS, has led to a permanent shift in borrowers behaviour as they look to borrow securities from entities that better match their own regulatory requirements," the report continued.

But ISLA, which collates its market report data from all three major industry data providers, also noted in the report that despite this troubling forecast, the value of securities on-loan has actually increased by 4 percent over the past six months to now stand at €1.9 trillion.

Unsurprisingly, the report reconfirmed that mutual funds and pension plans continue to dominate the global lending pool. Together, they again account for 66 percent of the reported €14 trillion of securities that institutional investors make available for lending.

The London-based association also used its latest report to reassure members that the UK's decision to leave the EU, although hugely significant to the wider financial markets of both the UK and the EU, does not pose an imminent threat to UK-based market participants.

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Northern Trust fees up in Q3

Northern Trust earned $23.1 million in securities lending fees in Q3 2016, according the bank's financial results for the period.

Securities lending fees were down on Q2's $26.8 million "due to the international dividend season that occurred in the prior quarter", but they were were up on Q3 2015's $19.8 million.

Northern Trust also recorded a $3.5 million expense "in connection with the settlement of [unspecified] remaining securities lending litigation", which was set at $46.5 million in Q2, although that was predicted to fall to $28.9 million after tax and was subject to court approval at the time.

Northern Trust has made a number of strides in securities lending recently. The bank established a securities lending trading desk in Australia in August.

The new desk, based in Sydney, is manned by Bun Eng, senior trader and client executive for the securities lending business in Australia and New Zealand.

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Securities lending aids price discovery

The importance of an active securities lending market has been emphasised as a way to counter passively managed portfolios and ensure efficient price discovery, according to Norges Bank Asset Management

In its recent report into the role of securities lending in the wider financial market, Norges Bank Asset Management argued that securities lending "is particularly relevant when ownership of assets is concentrated amongst relatively few, large market participants—characterising the current market environment".

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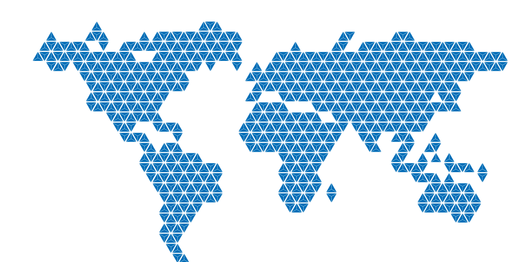

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ISLA warns of market shrinkage

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"It is important to stress that the so-called Brexit decision does not fundamentally change any of the legal constructs that govern our industry so day-to-day business continues uninterrupted."

Brexit bashing

Speakers at the ISLA Post-Trade Conference in London earlier this month were more fearful of an EU exit, warning that a 'hard' Brexit will leave UK-based securities lending businesses in a regulatory no man's land.

Delegates heard that regulatory initiatives such as the SFTR and UCITS have no third-party contingencies, meaning the UK would be entirely detached from their oversight once Brexit is finalised.

The UK government has signalled its intention to formally begin exiting the EU in March 2017, meaning the union will lose one of its founding members by the spring of 2019. This creates problems for UK entities looking to engage in the EU lending market, according to speakers.

The exact details of the terms on which the UK will begin the detach itself from the EU are yet to be confirmed but panellists at the conference outlined several reasons why some of the remaining members will seek a deal that clearly puts the UK in a disadvantaged position post-Brexit. One speaker explained that, due to a number of other member states also acknowledging a high level of public dissatisfaction with the EU, Brexit would have to act as a case study that would go some way to dissuading other states from attempting to leave the single market.

Northern Trust fees up in Q3

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Northern Trust also enhanced its Global Securities Lending capabilities in September with EquiLend's Next Generation Trading (NGT) platform.

"Northern Trust consistently seeks ways to improve the service we provide to our clients," said Jeff Benner, global head of trading at Northern Trust, in September.

"The integration of the NGT platform helps strengthen our global infrastructure, assuring clients that our trading professionals can focus on optimising the intrinsic value of their assets."

Dow Veeranarong, global product owner at EquiLend, added: "Northern Trust has been committed to EquiLend's NGT platform from the planning stages through to the global rollout of the platform."

"As firms such as Northern Trust migrate their securities finance trading activity to NGT, they benefit from increased trade-level transparency and improved workflow automation while generating greater efficiencies for the market."

Securities lending aids price discovery

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The importance of an active securities lending market has been emphasised as a way to counter passively managed portfolios and ensure efficient price discovery.

In its recent report into the role of securities lending in the wider financial market, Norges Bank Asset Management argued that securities lending "is particularly relevant when ownership of assets is concentrated amongst relatively few, large market participants—characterising the current market environment".

"A greater percentage of shares outstanding in passively managed portfolios also increases the importance of a well functioning stock lending market for price discovery. This contribution to well-functioning markets is one of the key considerations for our active participation in stock lending markets."

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New York pension funds taken to task by Department of Financial Services

The New York State Common Retirement Fund (CRF), the investment arm of several New York state pension funds, has been accused of running a “misguided investment scheme” and failing to “adjust and anticipate potential future losses” in a scathing report by the Department of Financial Services (DFS).

The report, published by DFS superintendent Maria Vullo, singled out the CRF for investing in high-cost, underperforming hedge funds and non-transparent private equity funds since 2008.

This comes in stark to other US state pension managers nationwide that have cut or eliminated similar investments.

According to the report, the State of New York comptroller, Thomas DiNapoli, who has sole responsibility for state pension fund asset investment allocation, has “over relied on so-called ‘active’ management by outside hedge fund managers, who consistently have underperformed low-cost diversified index investments while charging huge fees”.

Vullo commented: “Pension fund managers across the country have cut or eliminated exposure to these ... investments, while the Office of the New York state comptroller has stood still and spent pension system funds chasing performance that continues to fall far short.”

The report covers fiscal years between 1 April 2008 through to 31 March 2016 and is the first in a series of reports to be released by the DFS on the investment activities of the pension systems it regulates.

Specifically, the DFS highlighted the CRF’s “incredibly poor hedge fund returns in fiscal years 2009 to 2011”, where the state’s pension funds suffered a three-year deficit totalling $1.3 billion, which increased to $1.5 billion once excess fees were considered.

“Rather than correcting this misguided investment scheme the comptroller put more money—86 percent more by 2016—into the worst performing investment allocation,” explained the DFS in the report.

“Still reeling from the system’s incredibly poor hedge fund returns in fiscal years 2009 to 2011, the comptroller’s failure to adjust and anticipate potential future losses cost the system another 10 percentage point deficit in fiscal year 2014.”

Referring to excessive fees paid by the state’s pension fund, the DFS described it as shocking that the CRF had paid $1 billion to hedge funds over the past eight years, considering the underperformance those funds returned. “Hedge funds are the worst of the six asset allocation classes with a 10-year record,” stated the DFS.

New York state comptroller communications director Jennifer Freeman responded to the allegations, stating: “It’s disappointing and shocking that a regulator would issue such an uninformed and unprofessional report.”

“This report was emailed to our office five minutes before it was provided to the press.”

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"If the agency had reached out to our investment professionals, it would have known the aggressive steps that comptroller DiNapoli and CIO Vicki Fuller have taken to reduce hedge fund investments and limit fees, including lowering the hedge fund allocation to 2 percent of assets from 3 percent and paying below average fees."

"In fact, the fund has not put money into a hedge fund in well over a year. Unfortunately, the Department of Financial Services seems more interested in playing political games, so remains unaware of actions taken by what is one of the best managed and best funded public pension funds in the country. We will provide a full response after a thorough review."

Quartet FS becomes ActiveViam

European operational analytics provider Quartet FS has re-branded as ActiveViam.

According to the firm, it offers its clients the ability to conduct timely decision-making over fast-moving data.

Users need to extract actionable intelligence from rapidly changing operational data. Existing systems failed to address these needs, and so the company's founders set up the ActivePivot solution to address this solutions gap.

ActiveViam is run by four founders who act as managing directors, including Xavier Bellouard, who manages the UK operations and oversees the commercial efforts of the company across Europe, the Middle East and Africa, as well as the Asia Pacific.

Georges Bory is primarily responsible for the company's product innovation strategy, while Kathy Perrotte heads up the company's operations and commercial activity in the Americas. Allen Whipple runs the technical business globally.

Industry tests equity swaps blockchain

Eight firms, including some of the largest banks and information providers in the securities lending market, have come together to test a blockchain solution for the post-trade lifecycle processing of over-the-counter equity swaps.

Axoni, which brought the firms together, stated that "the initiative demonstrated the potential efficiency gains and cost savings attainable by processing complex post-trade events inherent to equity swaps—including margin payments, mark-to-market calculations and corporate action processing—in a permissioned, distributed, peer-to-peer blockchain network".

As well as Axoni, the group was made up of banks Barclays, Citi, Credit Suisse and J.P. Morgan, and IHS Markit, Thomson Reuters and Capco, a global financial services management consulting firm that is part of FIS, on the information provider side.

The blockchain processing network used locally-installed deployments of Axoni Core, Axoni's proprietary distributed ledger software.

According to Axoni, for certain types of equity swaps, independently-built swap systems at each major dealer require buy-side firms and their administrators to create complex, bespoke connectivity for each counterparty.

The lack of common infrastructure in the market to store and update equity swaps records makes data reconciliation a costly workstream for firms trading these complex and high-volume instruments.

The participants conducted a set of 133 structured test cases to assess the functional and non-functional capabilities of blockchain technology for use with equity derivatives. Axoni stated that its software achieved a 100 percent success rate across all tests.

Richard Evans, head of equities for Europe, the Middle East and Africa at Barclays Investment

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Bank, commented: "Industry collaboration is key in driving blockchain innovation and Barclays is keen to remain at the forefront of this."

"In this project, our investment bank's technology teams and CTO Office participated in collaborative testing of equity swaps smart contracts using simulated trades."

"The proof of concept has shown that blockchain technology lends itself well to solving for the operational complexity and volumes of equity swaps lifecycle processing," said Roman Eisenberg, global head of prime services technology at Credit Suisse. "This can possibly present an opportunity to not only save costs but also reduce operational risks while growing the client offering."

Axoni CEO Greg Schvey stated: "Complex contracts, a distributed market structure, and replicated workflows across many parties make blockchain technology a natural fit for equity derivatives. Moreover, demonstrating this can be achieved on the same technology also utilised to optimise post-trade asset servicing for credit derivatives further proves the multiplicative value of deploying this infrastructure. It was a pleasure to work with exactly the type of influential and forward-thinking parties required to make this project impactful."

CCPs have it covered

Central counterparties (CCPs) are already strong enough to withstand the 'extreme but plausible' scenario that would trigger a resolution strategy outlined by regulatory authorities, according to the European Association of CCP Clearing Houses (EACH).

Responding to the Financial Stability Board's discussion note, Essential Aspects of CCP Resolution Planning, released in August, EACH highlighted aspects of CCP resolution that are core to the design of an effective strategy.

Stressing that European CCPs are robust enough to withstand the extreme but plausible circumstances that would lead to default, EACH noted that a resolution strategy would only be triggered by a situation significantly more serious.

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It said that the most likely scenario that would lead to a CCP being placed in resolution would be the simultaneous default of several large CCPs. In a statement on the response, EACH said that, in this case "the market stress and losses would have far surpassed any scenario that could be deemed 'extreme but plausible' as defined by regulators".

"The resources held by CCPs will be sufficient to cover the vast majority of circumstances."

However the association also noted that recovery must be given the chance to work as planned.

The statement said: "Unless and until recovery is clearly ineffective or it is determined that continuing the recovery plan could result in greater losses for market participants, the recovery plan defined by the CCP should be permitted to run as anticipated by the market."

EACH also noted the importance of flexibility of the resolution authority. Although in the resolution process the authority should use a set of tools prescribed in the CCP's rulebook, it should also be flexible in its methods, in order to "optimise the potential intervention of the resolution authority".

In its response, EACH welcomed the FSB's confirmation of the importance of maintaining the incentive structure, saying: "CCPs are by design risk management and mutualisation systems."

It noted that CCPs are designed to provide a buffer of collateral to cover counterparty credit risk, and that this ensures participants in the system have an incentive to manage the risk they bring to the CCP.

The current structure promoted good behaviour and aligns the interests of CCPs, clearing members, market participants and regulators, according to EACH.

A requirement for CCPs to reimburse members for a default management process could undermine the incentives for clearing members to make recovery work, and could change the "positive risk management features" that make CCPs stable.

In its statement on the response, the association also highlighted the importance of global consistency in recovery and resolution frameworks, "given that CCPs may operate in multiple jurisdictions and clear products which are traded globally".

EACH therefore welcomed the FSB's efforts to ensure a set of guidelines that can be applied cross-jurisdiction, while also accounting for specificities of each jurisdiction, as well as the different CCPs and the different products and markets they clear.

UCITS funds enjoy new growth

The plethora of regulatory burdens confining the investment strategies of alternative UCITS are not dissuading investors from increasing their allocation to the fund type, according to a Deutsche Bank survey.

Deutsche Bank's Hedge Fund Capital Group's 2016 Alternative UCITS Survey found that 70 percent of the 130 institutional investors surveyed currently allocate to UCITS funds and a further 5 percent are committed to investing in the product by the end of the year.

The survey, which was conducted between July and September, also found that two thirds of alternative UCITS investors plan to increase their allocation to UCITS in 2016.

Demand for the highly regulated UCITS products is largely driven from the bottom, according to respondents, with 58 percent reporting that their underlying clients were the ones pushing for UCITS allocations.

UCITS funds have been repeatedly highlighted by the International Securities Lending Association as being a disproportionately regulated fund types within the securities lending market.

These funds are unable to commit to term trades, which are becoming an increasingly prominent feature of the market, as well as facing limitations to their repo and reverse repo activities.

Anita Nemes, head of the hedge fund capital group and hedge fund consulting at Deutsche Bank, commented: "Total assets managed by alternative UCITS funds have grown by 26 percent annually since the 2008 global financial crisis to reach close to €400 billion. Our survey results suggest that growth is set to continue, with two thirds of alternative UCITS respondents expecting to increase their allocations this year."

"We are also seeing a growing number of hedge fund clients embrace UCITS as a growth strategy for their businesses, leading to an increase in new interesting fund launches."

When looking at investment strategies for UCITS funds, the survey found that systematic equity market neutral and fundamental equity market neutral are the most sought after.

By region, the US and Canada are the most attractive for investment, according to respondents of the survey.

SEC bolsters reporting and liquidity rules

The US Securities and Exchange Commission (SEC) has voted to adopt changes to reporting and disclosure of information rules for registered investment companies, and to improve liquidity risk management among open-ended funds.

The changes are intended to improve the quality of information available to investors and to the SEC, and to help the commission more effectively collect and use data reported by funds. Promoting more effective liquidity risk management across the open-ended fund industry is intended to improve

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disclosure regarding fund liquidity and redemption practices.

Both changes are part of the SEC's initiative to improve monitoring and regulation of the asset management industry.

Under the new reporting rules, registered investment companies such as exchange-traded funds (ETFs) and mutual funds, will have to file new monthly and annual reporting forms, which, according to the SEC, will require 'census-type' information.

The information will be reported in a structured format, allowing both the SEC and the public to analyse it more easily.

New rules will also require improved and standardised disclosures in financial statements, including relating to securities lending activity.

The new liquidity risk management rules are intended to further promote effective liquidity risk management for mutual funds and ETFs, thereby reducing the risk of funds being unable to meet shareholder redemptions and of dilution of the interests of shareholders.

Funds will be required to establish liquidity risk management programmes that address classification of liquidity for fund portfolio investments and ensure a highly liquid investment minimum.

There will also be a 15 percent minimum on illiquid investments, and further disclosure requirements on fund liquidity and redemption practices.

SEC Chair Mary Jo White said: "These new rules represent a sweeping change for the industry by requiring strong transparency provisions and enhanced investor protections."

She added: "Funds will more effectively manage liquidity risk and both commission staff and investors will receive additional and better quality information about fund holdings."

It is expected that the majority of funds will be required to comply with the new and amended rules on 1 December 2018, however, those with less than $1 billion in net assets will be required to comply on 1 June 2019.

MMFs not phased by broker-dealers' repo retreat

The drop in repo supply from primary broker-dealer counterparties will not have a significant effect on money market funds, according to a report from Moody's Investor Services.

According to the report, Moody's analysis suggests that counterparties and their parent entities are still typically receiving high investment grade ratings, and therefore pose limited counterparty risk.

The report suggested that, as of June 2016, 49 percent of Moody's-rated money market funds use a primary broker-dealer, down from 87 percent in January 2011.

This has opened up the repo market for less traditional counterparties, and leading to increased interest from non-bank financial entities such as insurers, endowments, and real estate investment trusts.

The report noted that, as of June 2016, life insurer Prudential Financial accounted for approximately 1 percent of the total US repo security market, almost $4 billion.

According to David Wang, Moody's analyst and author of the report, primary dealers' reigning in of repo activity could be due to increased regulation or higher risk aversion, following the financial crisis. He said, however: "We don't expect this to have negative credit or ratings implications for the market in the near to intermediate term, given the generally high ratings of the non-bank financial institutions that have replaced them."

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Wang added: "As the counterparty mix shifts further away from primary dealers, we will continue to rely on our assessment of counterparties' creditworthiness when assessing money market funds. Thus far, we have not observed a stark difference in the credit quality of the counterparties."

Sovereigns keen on securities lending

Sovereign institutions are considering expanding their commitment to securities lending to increase returns and to help alleviate what they perceive as a threat to liquidity in the financial markets, according to a new survey.

BNY Mellon and the Official Monetary and Financial Institutions Forum (OMFIF) surveyed two dozen sovereign institutions with combined assets under management greater than $4.7 trillion.

Their survey, whose results were reported in Mastering Flows, Strengthening Markets: How Sovereign Institutions Can Enhance Global Liquidity, revealed that 75 percent of the respondents are willing to allocate 10 to 15 percent of their balance sheets for securities lending activities. Some respondents are reporting that they are considering using 60 percent of their assets.

Some 70 percent of the respondents said they expect an additional return of five to eight basis points from these activities.

"Global liquidity has been strained since the financial crisis, driven by market disruption, regulation and policy action," commented Hani Kablawi, head of investment services for Europe, the Middle East and Africa at BNY Mellon.

"Besides seeing this as an opportunity to grow returns and reduce costs, sovereigns see themselves as having the ability to mitigate some of the threat to global liquidity that market participants are facing."

"Increasing sovereign fund participation in securities lending activities would benefit the financial markets by enhancing the liquidity in a wide range of assets. Doing so could compensate somewhat for the reduction in market-making activities by banks and broker-dealers," argued Brian Ruane, executive vice president and CEO of BNY Mellon's broker-dealer services business.

BNY Mellon and OMFIF's report noted that regulations such as Basel III implemented after the financial crisis have raised the cost of balance-sheet intensive activities such as securities lending for banks and dealers, leading to greater risk aversion.

Actions taken by central banks, such as highly accommodative monetary policy, low interest rates and asset purchase programmes, have also contributed to lower liquidity, according to the report.

Ruane said: "The bond buying programmes have removed just the type of safe assets that are in high demand, while the demand for these assets has increased significantly. Even though liquidity appears to be sufficient today, that could change if central banks become more restrictive."

"We have already seen the sensitivity of markets to indications that the US Federal Reserve might tighten monetary policy."

Sovereign institutions looking to move into securities lending need to become more connected with key market participants such as custody banks, central clearing counterparties, and triparty repo providers, according to the report, in order to overcome challenges in counterparty risk, credit risk, collateral risk and cash reinvestment.

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Citibank, as cash management agent, executed a collateral financing transaction on behalf of CME Clearing Europe. Insight Investment represented an unnamed UK pension fund on the other side of the deal.

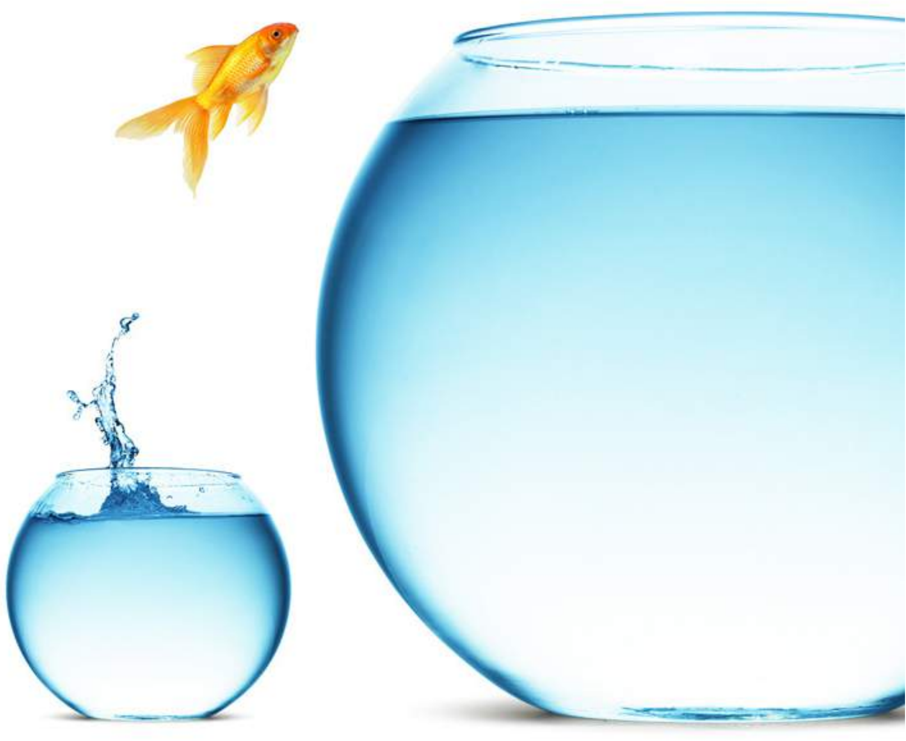
The trade took place on 6 October.

CME Clearing Europe is the first central counterparty (CCP) to trade collateral on the platform. Nick McCall, CEO of Elixium, commented: "Due to a historical lack of direct counterparty access for non-bank participants, a trade between a CCP and an asset manager or pension fund would have previously been highly inefficient and costly to facilitate."

"The completion of our first trade demonstrates the rate of change in the repo market and the benefits of facilitating electronic all-to-all collateral trading in a regulated environment."

Tina Hasenpusch, CEO of CME Clearing Europe, added: "We are pleased to have transacted the first trade on Elixium."

"CME Clearing Europe will use this platform as part of our commitment to working with the buy-side to manage their liquidity challenges, including the requirement to generate cash for variation margin."



"Peer-to-peer solutions will help meet those challenges and the need to ensure that CME Clearing Europe has access to a diverse set of repo counterparties."

Fidessa to boost BNP Paribas futures

BNP Paribas has adopted Fidessa's derivatives trading platform for its global futures and options agency trading business.

The Fidessa platform is intended to support the bank's listed derivatives trading operations across Europe, the Asia Pacific and North America.

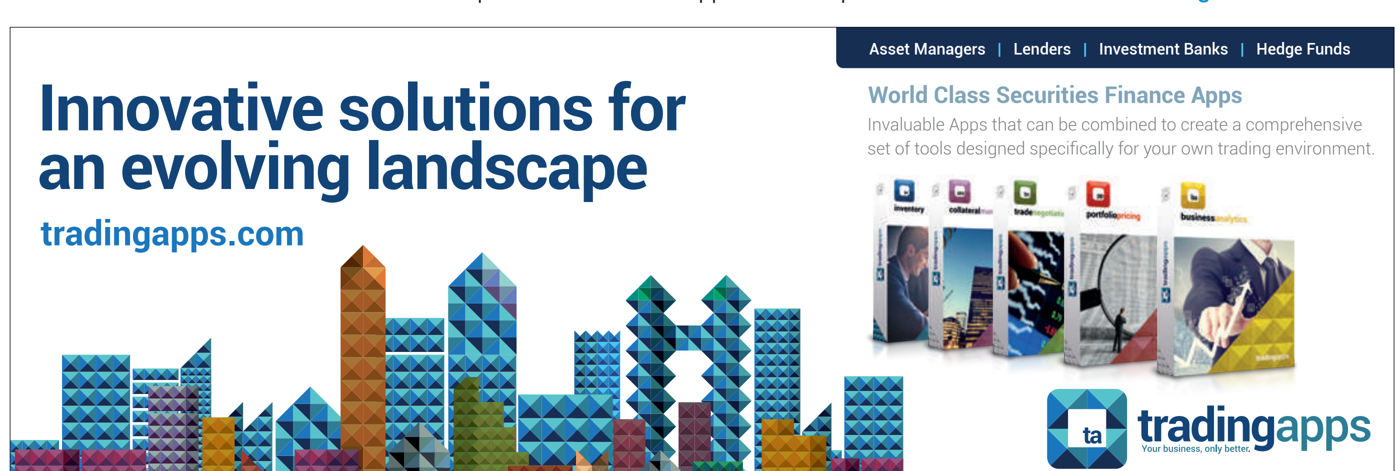
It provides derivatives algorithms for normalising trading across global markets, as well as order analytics and monitoring capabilities to provide more precision of execution for clients.

As a fully-managed services, the platform uses a network of hosting centres and will provide BNP Paribas with access to 60 futures and options markets, and global market data.

Gael Pottiez, head of product development for derivatives execution and clearing at BNP Paribas, commented: "We needed a platform that could support the complex and varied needs of our clients all over the world. It was also essential to partner with a firm that had proven capabilities in managing the technology infrastructure required to support a large-scale trading operation such as ours."

"The strength of Fidessa's global infrastructure is well known in the industry and we expect the platform to bring immediate improvements for our clients and help us to reduce our costs and to build in important future-proofing."

Do you have a story that we should cover? Let us know via: editor@securitieslendingtimes.com



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Don’t over ref the game

Donald Trump, regulation, blockchain and non-cash collateral hit the headlines at the RMA Conference on Securities Lending in Boca Raton

A keynote speaker at the Risk Management Association (RMA) Conference on Securities Lending in Boca Raton predicted that Donald Trump would rip up much of the financial services regulation implemented since 2008 in his first 100 days as US president.

Anthony Scaramucci, a prominent hedge fund manager and member of Trump’s campaign for the presidency, did not name the regulations that would be rolled back, but the US Dodd-Frank is likely to be on the list. “If you over referee the game, you spoil it,” he said.

Scaramucci added that financial services were likely to do equally well under Hillary Clinton as president, because left-leaning Democrat governments usually work closely with high earners and corporations to shape financial markets.

Scaramucci was critical of the ‘Fed-centric’ economy that has emerged since the financial crisis, again cautioning against too much oversight.

He pointed out that the Great Depression was caused by poorly executed central bank policy, and argued that the government’s push for American citizens to own their homes was partly to blame for the financial crisis of 2008.

Financial crises will continue to occur, Scaramucci argued, given the nature of fear and greed, so monetary policy and regulation that works to move markets back to ‘risk-on’ mode, rather than prevent further ‘risk-off’ flights to safety in the future, should be the aim. For now, “we just need to hang in there”, Scaramucci said, because financial services are like fashion, in that trends come and go, and time always tells.

Fed focus

Delegates at the 33rd Annual Conference On Securities Lending were warned that the Federal Reserve’s proposed single counterparty credit limits pose problems for large custody banks in the securities lending industry as the pool of potential counterparties is too limited.

A legal advisor on a panel argued that globally systemically important banks (G-SIBs) are “going to really struggle” to manage their credit exposure to other G-SIBs operating in the securities lending market.

Under the rule, G-SIBs must cap their credit limit to other G-SIBs at 15 percent, but smaller banks are allowed a more lenient 25 percent limit to unaffiliated counterparties eligible capital base.

Drew Nicol reports at the RMA Conference on Securities Lending ealier in October

The US government and qualifying central counterparties are excluded from this rule.

For banks acting as agent lenders, the reason they are hitting these limits is directly related to the high cost of indemnification, explained another panellist.

Agents lenders must explain to their clients that the new regulatory environment has dramatically changed the feasibility of blanket counterparty indemnification.

"This [single counterparty credit limits] is one of the pieces of regulation I would most like to see changed," said the legal panellist. "I hope the Federal Reserve will take account of the Basel Committee on Banking Supervision's recommended changes."

The next iteration of the rule is unofficially expected in late 2017.

Staying on regulation, multiple panel discussions dove deep into current and upcoming regulatory initiatives that are affecting securities lending, including Basel III capital rules and termination rights across jurisdictions.

Basel III capital rules such as the liquidity coverage ratio have forced banks to build up huge reserves of high-quality liquid assets (HQLAs). In five years, seven US banks have increased their combined HQLA holdings by 48 percent.

These huge reserves have left securities borrowing and lending documentation behind. "Unfortunately, our standard agreements are quite aged," said one panellist, who explained that contracts have to be modernised to cover all of the options and protections that are required to deal in such volume.

The 2015 Universal Resolution Stay Protocol was the subject of a comprehensive panel discussion on the worries about cross-border disputes that might arise from conflicting rules on termination rights.

The panel said that the pace of implementation of special resolution regimes is picking up, with multiple EU member states, the US and Japan already over the line.

Stay resolutions have attracted the most controversy due to gaps forming as different rules are implemented across jurisdictions.

According to the International Capital Market Association (ICMA), special resolution regimes provide resolution authorities with broad tools and powers to effect a resolution, including the imposition of a temporary stay on counterparties' early termination rights in the event a bank enters into resolution. But it is uncertain whether these stays would extend to contracts governed by foreign law.

The International Swaps and Derivatives Association (ISDA) developed the Resolution Stay Protocol in 2014, which it revised in 2015, to contractually address discrepancies in termination rules. "The beauty of that is it's uniform," said one panellist.

ICMA also published the Securities Financing Transaction Annex last year, to assist market participants that use certain securities financing master agreements in complying with relevant bank resolution laws and regulation requiring the recognition of bank resolution stays in certain cross-border contractual arrangements.

Regulators have sought to address cross-border issues, with multiple countries considering a requirement for amendments to contracts with regulated entities.

The panel did point out that that the risk of a cross-border dispute is low, although ignoring a stay would, hypothetically, contravene one or more laws in the jurisdictions in which a transaction was conducted, and clash with client requirements for agent lenders to obey local laws.

The RMA and the Securities Industry and Financial Markets Association's (SIFMA) update on their regulatory work over the past year revealed that discussions with regulators are, as ever, ongoing.

They have received comments from regulators on their plans to amend Rule 15c3-3, which prohibits certain funds from accepting equities as collateral, but cannot yet commit to a firm date for any changes to come into effect.

"It's a delicate topic and we need patience," one speaker urged.

No problems were reported when the the federal funds open rate (FFOR) was discontinued on 30 September.

ICAP confirmed plans to drop the benchmark for pricing and performance reporting earlier this year, a move that the RMA and SIFMA backed because the new overnight bank funding rate (OBFR) would better address the benchmark standards recommended by the International Organization of Securities Commissions.

But ICAP had to postpone plans to cease publishing the FFOR in July due to concerns from some market participants that they wouldn't be ready. The RMA and SIFMA worked to secure the delay, buying their members until 30 September.

"We'll consider this a small success," noted one panellist at the RMA conference.

In other news, the RMA is working on consultations and proposals relating to the US Office of Financial Research's data collection pilot programme, single counterparty credit limits, the standardised approach to credit risk, special resolution regime documentation and tax reforms.

The RMA tax committee met with Internal Revenue Service and US Treasury officials on 19 October to discuss proposed changes to Section 871(m) of the tax code.

The changes, which have been the subject of two RMA tax committee comment letters this year, are scheduled to go into effect on 1 January 2017.

They would severely affect existing regulatory guidance for securities finance transactions that are supposed to lower the risk of excessive US withholding tax in a chain of transactions.

In its comment letters, the RMA tax committee has asked for a one-year delay to implementation of the proposed changes, as well several tweaks that would protect securities finance transactions.

These include special consideration for non-US subsidiaries of domestic institutions, due to the tax burdens they already face.

Blockchain on the brain

Two blockchain experts used their panel to explain how the distributed ledger tech works and how it might be applied to securities lending. It would have the most application in bilateral clearing, and could even help to achieve a T+0 settlement environment.

Benefits would include capital efficiency due to lower post-trade costs, enhanced revenue opportunities from increased velocity of trading, and reduced risk mutualisation.

Blockchain would also allow for pre-settlement compliance and comprehensive analytics for securities lending and repo transactions, as well as maximisation of return on assets and smoother corporate actions.

The panel then moved to dispel some of the worries that have been raised about blockchain.

Banks do not want anything to do with the public blockchain, which is used to validate bitcoin transactions, due to concerns over cyber security, the panel said.

Banks would prefer to set up their own networks and achieve interoperability, according to the panel.

The nature of the blockchain 'database' would also achieve absolute transparency for regulators, which would have a 'node' through which they would be able to access all of the participants' data.

Bit short of non-cash

Another panel went on to discuss more immediate challenges facing beneficial owners, with some speakers arguing that the established trend in the US market of the declining dominance of cash collateral will ultimately be stifled without the approval of more beneficial owners.

It was unanimously agreed that pushback from risk-adverse underlying lenders is the most significant stumbling block in the near future for the collateral management world.

"It's going to be a point of friction in the near term," confirmed one panellist diplomatically.

Demand for flexibility in collateral portfolios is coming strongly from the buy-side, explained an agent lender representative.

The onus is on lenders to respond to that or risk losing out on lending revenue in a market where supply far outstrips demand.

Broker-dealers are also requesting flexibility in their cash collateral postings, with a wider variety of currencies being incorporated.

The potential for equities to be brought into the collateral realm is currently being debated by regulators and industry participants as part of Rule 15c3-3.

The combination of the rising cost of indemnification and strict collateral and counterparty rules are hitting beneficial owners' general collateral utilisation volumes hard.

Beneficial owners that do not evolve with the market risk being left behind, according to a buy-side panellist.

The panel concluded with the observation that, once US beneficial owners are brought over to the use of equities, it will take all areas of the industry, including triparty agents, clearinghouses and vendors, to come together to take on the major challenge of creating the necessary infrastructure for equities as collateral to exist in the market. **SLT**

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Standardising performance measurement

Beneficial owners must diversify to optimise their lending programmes and meet the challenges of today's market. DataLend's Nancy Allen explains

Primarily driven by regulatory changes and the subsequent capital charges incurred by lenders and borrowers, securities lending programmes have become more complex. Beneficial owners must now consider a wider range of collateral types, varied term structures, new types of routes to market (such as central counterparties) and bespoke indemnities. For all parties involved in securities lending, transparency has become increasingly important to ensure that optimal value is extracted from lending programmes. Data services are becoming ever more embedded, and data is being treated as an asset that assists both agents and beneficial owners in navigating a changing market environment and in more efficiently managing their loan portfolios.

Given the various decisions that beneficial owners face when reviewing their lending programmes, many have now taken a hands-on approach with their investment teams providing programme oversight, as opposed to an outsourced approach using the custodian or investment manager.

desire. We have incorporated enhanced data cleansing processes to ensure that clients have access to the most accurate and complete data set possible, including an accurate reflection of key attributes such as dividend rates at the inventory level. Using that cleansed data, we introduced a suite of standard DataLend-defined peer groups, which are created from the same aggregate dataset and DataLend matching algorithm regardless of the user; a beneficial owner that receives performance reporting from multiple agents can feel secure that reporting from DataLend will reflect the standardised peer group.

In addition, the enhanced Client Performance Reporting suite provides complete transparency around the chosen peer group. A lender or a beneficial owner will always know the types of entities that are included in their chosen peer group at any time (legal structure, fiscal location and collateral are displayed). As a start, all peer groups are weighted at a security level to the portfolio being reviewed and are also matched at dividend rate.

Nancy Allen
Global product owner
DataLend

> The answer is data quality and a standardised peer group

Beneficial owners would like to be able to quantify how well their agent lender is performing not just against the securities finance market as a whole, but against a peer group sample that is as close to their fund structure as possible. As part of that assessment, beneficial owners want to understand what drives revenue and how they can generate an optimal return for their investors. Agent lenders and beneficial owners alike can benefit from performance measurement tools such as the DataLend Client Performance Reporting suite to help identify trends in the market and quantify returns from a change of strategy.

Once beneficial owners establish their programme parameters in line with their risk appetites, they then have a responsibility to ensure that their programmes are being properly managed given their requirements and that they are achieving returns commensurate with market rates. Given the complexities of the market and the unique nature of each beneficial owner's programme, this is not an easy or straightforward task. Many have asked: "How can I get a true like-for-like analysis when comparing my programme to the broader industry, and how can I ensure that my agents are reporting their performance in a consistent manner?" The answer starts with data quality and a standardised peer group.

At DataLend, we have been working closely with our agent lender and beneficial owner clients to re-architect our Client Performance Reporting tool. We believe the new design provides our clients with the transparency and the peer group benchmarking standardisation they

From there, users are able to select what benchmarking criteria are most important to them: fiscal location, legal structure, collateral type or all of them.

To better understand how revenue is being generated, beneficial owners need a tool to help them perform a revenue attribution analysis. Which assets are generating the most return and why? What is driving that return: collateral? Term? Intrinsic value? Cash reinvestment? Are there currently dormant assets in inventory that may be lent out profitably?

Beneficial owners can better optimise portfolio returns when they understand how revenue is generated. DataLend's Client Performance Reporting provides that level of transparency to help agents and beneficial owners identify revenue attribution.

In recent years, beneficial owners have struggled to find a consistent approach to performance measurement. In consultation with beneficial owners and agents, we believe we have created a comprehensive application that provides the market with the tools to review performance at a programme, client, fund and account level across combinations of asset classes, countries and sectors while doing so relative to a standardised peer group.

We look forward to continuing to work with the lending community to further enhance DataLend's Client Performance Reporting tool. **SLT**

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Flying the flagship

Russia's National Settlement Depository has had a busy year making its securities finance market more robust and attractive to outside investors. The CSD's Alina Akchurina explains the innovations being implemented

How is Russia's securities finance market doing? How does it compare with the rest of Europe?

Securities finance is conducted via repo mechanisms, and this is very specific to the Russian market. The causes of this stem from the history of the Russian market's development, bankruptcy laws and banking system stability. However, the concept of a repo transaction is clearly determined by the Federal Law on the Securities Market. Repo mechanisms are intelligible, tested and examined by legal usage. Blank loans or the use of collateral without a title transfer cannot always protect a bona fide participant in the current market situation given legislative imperfections related to pledge.

The repo market works well. The total size of open positions in repo as of the middle of 2016 was about $125 billion, $78.5 billion of which are concluded over-the-counter. However, internationally it is not well understood that in Russia equities use repo transactions instead of securities borrowing and lending. Perhaps, it has something to do with international expectations.

Currently, securities lending for Russian custodians is not mentioned in the law. In other words, a custodian, or NSD in particular, cannot conclude securities lending deals on behalf of a client as an agent lender without a brokerage licence.

NSD initiated a change to the existing legislation to empower custodians to conclude securities lending as an agent lender as an agent. We expect the changes to come into force this autumn, which will legalise operations via custodians.

On the other hand, according to the law, brokers can already conclude trades. However, the current wording of the Civil Code does not stipulate undocumented securities as a possible subject of loan agreements.

This omission in the law imposes a risk of securities lending deals being unwound. Amendments being made to the law will be a considerable step towards popularising securities lending in Russia.

How have the NSD's collateral management services been developed in the past year?

The collateral management platform based on the Russian central securities depository (CSD) was produced in 2013, when the Bank

of Russia, in conjunction with NSD, launched a new instrument—repo transactions with the Bank of Russia with a securities basket. The service gained momentum and has become successful and popular. Since 20 May 2015, a similar instrument has worked for the Federal Treasury of Russia. It has been remarkably dynamic since its launch, growing from $23.3 billion in Q2 2015 up to $152.3 billion by Q2 2016.

NSD's collateral management system is unique to the Russian market. On the one hand, this is a young system that we are continuously developing and improving, and adapting for new market segments, for example, for the inter-dealer market, corporate clients, and the derivatives market. On the other hand, our system is based on best global practices. Moreover, in some aspects it utilises unique technologies. For example, multilateral clearing is usually provided by central counterparties (CCPs). However, NSD's system conducts multilateral clearing not just in cash, but also using securities. This lets participants conveniently and efficiently conduct repo settlements. As a result, the participants do not need to fully move funds or securities when the second phase of transactions is closed and new transactions are settled.

This year has been marked by liquidity excess on the money market, since the Bank of Russia has transitioned from a policy of providing liquidity to a policy of absorbing liquidity.

Compared with last year, in 2016 the volume of funds placed by the Federal Treasury via the NSD's collateral management system increased more than five times. The Bank of Russia and the Federal Treasury are not the only suppliers of liquidity in the global and state lenders segment.

Finance departments of large cities and major funds that place their funds in deposits are considering and updating for them repo transactions with the securities basket and collateral management based on NSD as a better alternative. For example, Moscow City's Department of Finance is preparing to launch repo transactions to efficiently manage budget funds and mitigate risks. Probably, the high level of the state segment's interest via the central infrastructure's mechanisms is the specifics of the Russian market.

What innovations has NSD been focusing on in securities finance to develop the business?

In addition to expanding triparty services for inter-dealer operations and offering connections to the platform to new global state lenders, as well as the development of the securities lending market in Russia, 2016 has been principally dedicated to the launch of the flagship product of the Moscow Exchange Group (which includes NSD)—the repo general collateral certificate (GCC).

NSD's collateral management system is unique to Russia

Alina Akchurina
Managing director for collateral management systems development
National Settlement Depository

The recent trend of replacing monetary organisations' liquidity with that of inter-banks raises the issue of how prepared the infrastructure is to tackle new challenges. To answer that we need to look at what NSD offers today.

NSD combines a number of systemically important institutions that together provide unique synergy: the CSD, the systemically important trade repository, the systemically important payment system recognised by the regulator, and the clearing organisation with developed clearing technologies. NSD is also developing the valuation centre, which is now in the process of arranging Bank of Russia accreditation. All of this makes our platform attractive for the development of triparty services on the inter-dealer market. Therefore, in addition to the repo business of global lenders, we have begun to provide services to inter-dealer market participants.

How has the repo market fared in Russia?

The instrument was launched for the global lender (the Bank of Russia) and is also successfully being used by the Federal Treasury. In the case of the Bank of Russia, repos are used as an instrument of monetary policy regulating liquidity. The Federal Treasury, on the other hand, has used the instrument to mitigate risks when placing a clear balance in the federal budget account and placing budget funds in repo for overnight, and for two-week terms.

Some call this product 'GC pooling a la Russe', but actually this product does not have international equivalents. It is an efficient instrument for increasing money market liquidity. This product is kind of Russia's version of general collateral pooling. The new type of securities issued by the CCP, in this case the National Clearing Center, which is a part of the Moscow Exchange Group, is used as collateral this type of transaction. NCC issues GCCs and credits them to client accounts in an online mode collateralised by securities placed by clients in one of three pools—shares, bonds, and sovereign bonds. Securities are used in repo transactions with the CCP as homogenous universal collateral.

NSD's role is to keep GCCs and basic assets, and to provide collateral management services to automatically select clients' securities for the pool on the basis of selected parameters and for margins calls. We work to provide acceptance of GCCs to the Bank of Russia's repo basket. The launch of repo with GCCs is a great example of the synergistic effect achieved by member companies of the Moscow Exchange Group. We are working now to make GCCs central bank-eligible. Alongside the widening services range, we constantly work on improving our technologies. With the big data tools integration, our collateral management system has achieved a performance improvement, with the average execution time for clearing sessions reduced from 300 seconds to as little as four seconds. **SLT**

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European govies feel ECB squeeze

The ECB's asset purchases have pushed the cost to borrow high-quality collateral to a new multi-year high. IHS Markit analyst Simon Colvin reports

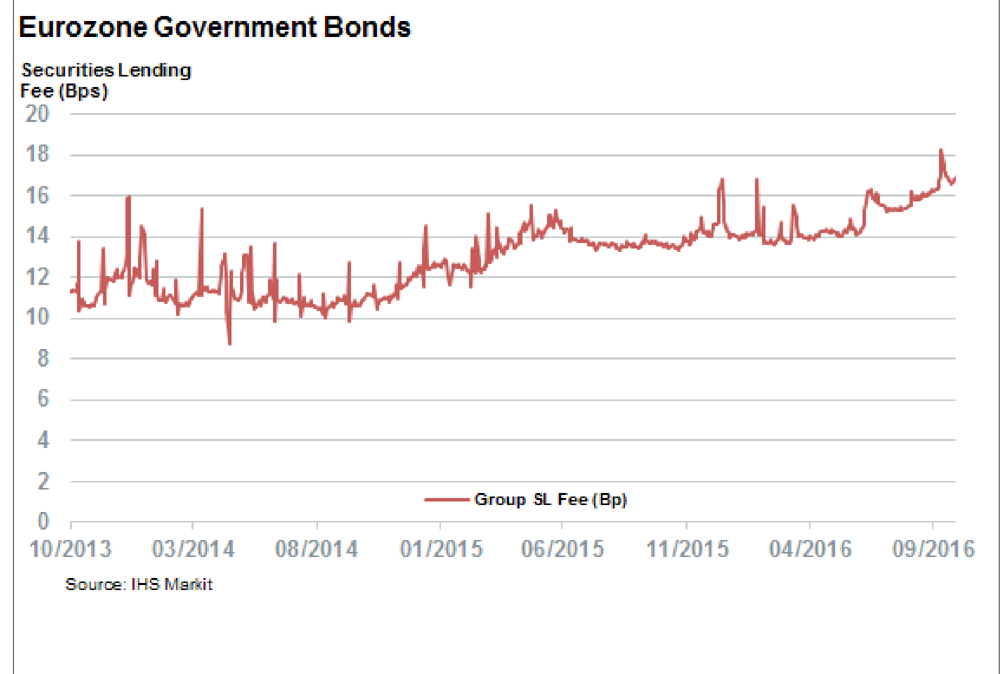
One of the fears around the ongoing European Central Bank's (ECB) quantitative easing (QE) programme is that it essentially removes a large portion of the high-quality liquid assets (HQLAs) that the industry needs to meet HQLA collateral requirements, which made the talk of an impending collateral shortage the hot industry topic of the last 18 months.

While the collateral doomsday scenarios didn't materialise, the onset of QE has coincided with a steady increase in the cost to borrow high quality eurozone sovereign bonds.

The steadily increasing fees commanded by these high-quality assets would indicate that relentless pace of asset purchases is having some impact on the supply and demand dynamics for investors looking to source them.

The latest weighted average fee for eurozone sovereign bonds now stands at 16.9 basis points (bps), a material 46 percent increase on the levels seen on the eve of the onset of QE back in January of last year. The trend also shows no signs of slowing down as the closing days of September saw the fee spike to its highest level in over four years.

French and German sovereign bonds are the driving force behind the trend. Bonds issued by the two countries, which make up 75 percent of the current eurozone sovereign borrow, cost 18.2 bps and 19.3 bps to borrow on average, which is more than 5 bps than the 12.9 bps weighted fee commanded by the rest of the eurozone pack. Utilisation rates across both countries are also much higher, with more than 30 percent of French and a massive 45 percent of German sovereign bonds that were previously sitting in lending programmes now out on loan. Relatively riskier Italian and Spanish bonds see much less relative demand to borrow with utilisation rates of 14.4 and 9 percent, respectively.



Corporate rates are also hit

Investment grade, euro-denominated corporate bonds have also experienced the same trend as the fees required to borrow the asset class have surged to 29 bps in the weeks since the ECB decided to expand bond purchases to high quality corporate bonds. **SLT**

Issuing Country	Total Balance (EUR Bn)	Utilisation (%)	SL Fee (Bp)
Germany	98.2	46	18.2
France	66.6	31	19.3
Netherlands	17.1	30	13.5
Belgium	7.7	24	15.7
Austria	11.1	20	12.4
Finland	2.1	19	12.3
Italy	12.3	14	10.7
Spain	6.5	9	13.1

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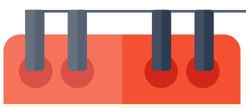

November 2016

9-11

NeMa Asia

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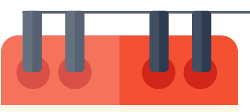
Hear from over 50 speakers over three days including global and sub-custodians, brokers, exchanges, CSDs, CCPs regulators and technological innovators focusing on Asian issues. Keep abreast of the latest fintech trends and how this could affect the capital markets industry at the pre-conference workshop on 9 November.



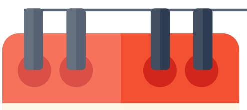
November 2016

17

2nd Annual Midwest Credit & Hedge Fund Investor Forum

Chicago

The Midwest Credit & Hedge Fund Investor Forum is a one-day meeting of family offices, pension funds, endowments, foundations, consultants and fund of funds in Illinois, Michigan, Wisconsin, Indiana and Minnesota.



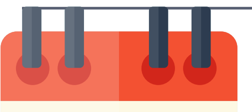
November 2016

17

Securities Finance Regulation 2016 Training

London

SLT and Consolo Ltd are holding a one-day event that is designed as a crash course in all the regulatory initiatives in progress that may have a direct impact on securities finance.



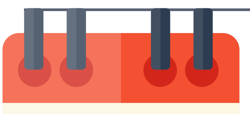
November 2016

22-23

Cash & Liquidity Optimisation EU

London

FinTech Connect is pleased to announce that the 2nd Annual Cash & Liquidity Optimisation Europe Conference will be returning to London.



April 2017

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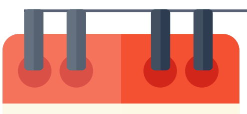
Leading industry participants have joined together to give institutional investors a fresh look on securities finance in a changing regulatory environment.



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Location: London

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Location: Boston

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Business Analyst

Recruiter: Alexander Ash
Location: Midlands, UK

Defining business requirements in partnership and collaboration with the business and obtaining sign-off.

With the increasing velocity of change, the difference between who succeeds – and who merely survives – will be defined by clear thinking, quick decisions and rapid reflexes. This is where SIX Securities Services comes in.

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MUFG, SocGen, BNP Paribas, SmartStream and DTCC all feature

Former Barclays executive Saurabh Seth has returned to MUFG Securities in an unspecified role.

Seth left the Barclays investment bank business in the summer.

He joined Barclays in 2013 from eSecLending, where he was co-head of securities finance.

Before that, Seth held roles at Mitsubishi UFJ (as it was previously known), BNP Paribas and Citigroup.

Barclays director of equity funding and securities lending Peter Hadingham, meanwhile, has taken on a new role as a director at Societe Generale Corporate and Investment Banking.

Hadingham's CV boasts many years of experience at major banks, including 11 years and Lehman Brothers and a subsequent eight years at Barclays.

In his new role, Hadingham will continue to be based in New York.

David Raccat is leaving BNP Paribas Securities Services after 20 years, the custodian bank has confirmed.

Currently, Raccat is global head of markets services, covering securities lending and foreign exchange, and also head of market and financing services (MFS) for the Asia Pacific (APAC) region. He will be leaving both positions.

Raccat joined BNP Paribas Securities Services in 1996 and has held several senior roles including head of global markets, global head of forex and business development for market and financing services, and global head of treasury.

He was appointed to the role of head of MFS APAC in 2014, adding to his responsibilities as head of global markets, a position he had held since 2011.

He is currently based in Singapore.

Raccat will also vacate his position on the board of directors of the International Securities Lending Association, which he took up in 2014.

William Mauer has been wooed away from BNP Paribas after two years at the bank, to join SmartStream as sales manager.

Previously, Mauer was vice president for the BNP Paribas US agency securities lending business.

Before this, he was vice president for sales at SunGard (now FIS).

Mauer will continue to be based in New York.

The Depository Trust & Clearing Corporation's (DTCC) Timothy Keady has expanded his remit by taking the helm of DTCC's sales and solution delivery division.

Keady will assume responsibility of the post-trade services provider's derivatives, collateral and institutional post-trade processing after the departure of Donna Milrod in November.

He will also manage the firm's various data products, while retaining his current responsibilities as chief client officer for leading the company's sales, relationship management, and marketing and communications functions.

Keady joined DTCC in January 2014 during the company's acquisition of Omgeo, where he also served as managing director of sales and solution delivery. He will continue to be based in Boston and report to Mike Bodson, president and CEO.

"We are delighted to have someone of Tim Keady's calibre and experience assuming leadership responsibility for DTCC's solutions businesses," said Bodson.

"Tim's deep industry knowledge and understanding of our clients globally will help us deliver more integrated and enhanced solutions that meet our clients' needs across the entire trading lifecycle." **SLT**

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Published by Black Knight Media Ltd

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