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# ECB opens cash collateral to central banks

Eurosystem central banks will now be able to accept cash collateral in their public sector purchase programme's (PSPP) securities lending facilities, without having to reinvest it in a 'cash-neutral manner'.

The central banks of Europe, Germany, Ireland, France, Belgium, Spain and the Netherlands opened their lending programmes to cash collateral earlier in December.

The European Central Bank (ECB) has set the overall limit for lending against cash collateral at €50 billion.

In a statement on the new policy, the ECB said: "To avoid unduly curtailing normal repo market activity, the cash collateral option will be offered at a rate equal to the lower of the rate of the deposit facility, minus 30 basis points (bps), currently -70 bps, and the prevailing market repo rate.

The ECB added that the amendment was aimed at supporting the PSPP as well as the euro area repo market.

It also reserved the right to review the decision "in light of operational needs and the level of excess liquidity".

The ECB also confirmed that it will continue with a reduced version of it asset purchase programme (APP) until December 2017, after the original March 2017 cut-off.

The current monthly pace of €80 billion worth of purchases will be maintained until the end of March 2017, at which point the monthly target will drop to €60 billion, until the end of December 2017.

Speaking after the ECB governing council's meeting earlier this month, president Mario Draghi explained that the programme would end in December "or beyond, if necessary, and in any case until the governing council sees a sustained adjustment in the path of inflation consistent with its inflation aim".

Crucially, the council built in two key areas of flexibility into the policy statement, by leaving the door open to both extend the duration of the APP, as well as returning to the €80 billion monthly target if the European economic environment deteriorates.

The adjusted programme will also see the maturity range of the public sector purchase programme broadened by decreasing the minimum remaining maturity for eligible securities from two years to one year.

Continued on page 2

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## ECB opens cash collateral to national central banks

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Purchases of securities under the APP with a yield to maturity below the interest rate on the ECB's deposit facility will also be permitted.

In a statement, the ECB said: "[This] extension of the APP has been calibrated to preserve the very substantial degree of monetary accommodation necessary to secure a sustained convergence of inflation rates towards levels below, but close to, 2 percent over the medium term."

"Together with the sizeable volume of past purchases and forthcoming reinvestments, it ensures that financial conditions in the euro area will remain very favourable, which continues to be crucial to achieve our objective."

The council also confirmed that interest rates for refinancing, marginal lending and deposit facilities will remain unchanged at 0 percent, 0.25 percent and –0.4 percent respectively.

The ECB expects interest rates to remain at current levels for "an extended period of time, and well past the horizon of the net asset purchases".

Shilen Shah, bond strategist at Investec Wealth & Investment, commented: "Both the GDP and CPI forecasts are largely unchanged in the central bank's updated staff projection, with Draghi continuing to note the downside risk within its figures."

"The market seems to be somewhat disappointed by the central bank's so-called slower for longer strategy, with the German 10-year yield up 8.5 bps on the day and the Italian 10-year yield up 14 bps."

## Lombard's Colline heads to Germany

Lombard Risk's Colline, its flagship cloud-based collateral management solution, will be introduced to the German market next year.

The launch is being assisted by a new partnership with Atos, a digital services provider with an established German client base with collateral management needs.

Colline will be implemented across the Atos infrastructure and promises to help Atos's clients to move away from managing collateral in business line silos by supporting multiple asset types on a single platform.

Tina Wilkinson, global head of product and marketing at Lombard Risk, said: "Financial services firms in Germany, like the rest of the world, are under increasing pressure to cut costs while upgrading their legacy systems and ensuring compliance. They need to be more nimble in response to the changing regulatory environment, but the complexities of implementing new technology are vast."

"This partnership enables us to harness the reach of Atos's client network and expertise in digital transformation, so we can deliver our industry leading collateral management solution that can be seamlessly integrated, allowing an efficient and cost-effective system upgrade. We look forward to working with Atos, who are proven experts in their field."

Markus Schwind, head of sales for Atos Germany, added: "The partnership will help us fulfil our strategy of expanding into the asset servicing industry, as we will have a leading collateral management solution to offer. We also see long-term potential of working with Lombard Risk on other service areas, such as regulatory reporting."

## Cowen goes live with PB platform

Cowen Group has onboarded the first customers to its newly-launched international prime brokerage business following an extensive acquisition and hiring campaign.

The platform, which is based in London, offers securities lending and margin financing facilities, as well as custody and trade execution services on both a cash and swaps basis.

Clients can also utilise the platform's portfolio reporting, complete operational support, and access to Cowen's research.

Kevin LoPrimo, who joined Cowen as head of international prime brokerage in June, commented: "As we onboard our first UK and Europe-based clients, our goal is to deliver the comprehensive prime brokerage and outsourced trading solutions that have satisfied our clients' needs in the US for many years."

"This offering will provide local managers with a comprehensive, high calibre offering at a time when larger bank-owned prime brokers are curtailing their support of hedge funds."

Cowen completed a series of prime brokerage-related acquisitions last year, including Conifer Securities and Concept Capital.

## India to maintain rates

The Reserve Bank of India (RBI) is keeping its policy repo rate at 6.25 percent after a unanimous vote of the monetary policy committee (MPC) on 7 December. Its reverse repo rate will also be unchanged at 5.75 percent.

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## US Federal Reserve commits to rate hike

The US Federal Reserve has raised the target range of the federal funds rate and hinted that further rate hikes may also be on the horizon.

It rose from 0.25 to 0.5 percent to a range of 0.5 to 0.75 percent.

The federal open market committee said on 14 December that its monetary policy remains "accommodative, thereby supporting some further strengthening in labour market conditions and a return to 2 percent inflation".

This could imply that the Fed will deliver more than the two additional hikes that are widely expected in the coming year.

The committee, which is chaired by Janet Yellen, added: "In determining the timing and size of future adjustments to the target range for the federal funds rate, the committee will assess realised and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation."

In its statement on the Fed's meeting, the committee confirmed that it expected only gradual increases to the federal fund rate, but that any future decisions would be based on incoming data.

The committee's fund rate projections see median rates set at 1.4 percent in 2017, before finally hitting and marginally surpassing the Fed's 2 percent target to sit at 2.1 percent. In the long term, the Fed currently foresees median rates returning to a more familiar 3 percent after 2019.

David Absolon, investment director at Heartwood Investment Management, said: ''As expected the Fed went slightly more hawkish in projecting the future interest rate path, but it is no game changer."

"The difference to last December is that this time inflation has a positive impulse. The market reaction in the next few days is not irrelevant, but it will be in January to see whether the market has over-tightened financial conditions.''

Speaking ahead of the committee meeting, all but one participant at a Securities Industry and Financial Markets Association roundtable of economists expected the hike to finally come, almost a year to the day since the last rate increase in December 2015.

Four rate hikes were expected in 2016, but a series of political and economic upheavals, such as China's economic woes, Brexit and the victory of Donald Trump in the US presidential election, repeatedly blindsided economists and scuppered any attempts at long-term fiscal planning.

Looking ahead into 2017, three quarters of those questioned expected two further increases in the coming year.

A few respondents noted that the composition of the board of governors would be influential, stating: "[President] Trump will pick as many as five Federal Reserve governors by the end of 2018."

The majority of respondents predicted significant regulatory and tax reforms to be on the horizon under a Trump-led regime, but 94 percent of respondents admitted that Trump also increased fiscal policy uncertainty,

Prior to the modest December 2015 rate increase, the Fed had not exercised its powers on interest rates since 2006.

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RBI's recently-formed MPC explained the principle objective behind its decision was to achieving consumer price index inflation at 5 percent by Q4 2016 to 2017, while also striving for a medium-term target of 4 percent.

The committee was created in September with six financial experts chosen specifically to set the bank's repo rates and move away from the previous model of having the central bank's governor decide.

In explaining its decision, the committee cited domestic liquidity, which shifted dramatically in Q4 as a result of the withdrawal of specific bank notes from early November, as a key reason behind the decision to maintain rates.

Currency in circulation plunged by INR 7.4 trillion (USD 109.4 billion) up to 2 December. Consequently, net of replacements, deposits surged into the banking system, leading to a massive increase in its excess reserves.

The central bank has since scaled up its liquidity operations through variable rate reverse repo auctions of a wide range of tenors from overnight to 91 days, absorbing liquidity (net) of INR 5.2 trillion (USD 76.88 billion).

On the international stage, the impact of the US presidential election and the subsequent increased probability of a Federal Reserve rate hike, along with the disruption in the US bonds market, played a part. The impact of a strong US dollar on other global currencies was also recognised.

The next MPC meeting is scheduled for 7 February 2017.

## US SEC fines online broker $80,000 for pre-IPO swaps negligence

The US Securities and Exchange Commission (SEC) has fined an online broker for failing to register security-based swaps that were sold to shareholders in pre-initial public offering (IPO) companies.

San Francisco-based Equidate failed to submit a registration statement for the swaps and sell them through a national securities exchange as required, according to the SEC.

Equidate offered liquidity for employees of private, tech start-ups holding restricted shares of their stock.

Equidate's platform then matched these shareholders with investors.

Its subsidiaries entered into contracts with the shareholders and investors, and payment provisions were triggered by a merger, acquisition, or IPO at the underlying company.

The broker ceased to offer the swaps in December 2015 following the SEC's investigation and accepted a $80,000 penalty without admitting or denying the findings.

Jina Choi, director of the SEC's San Francisco regional office , said: "Market participants are free to capitalise on the growth of private technology companies in the Silicon Valley or elsewhere, but laws must be followed to ensure security-based swaps are registered and sold through platforms where investors have full disclosure and protections."

## SIFMA calls for assessment of the impact of regulation

The managing director of the Securities Industry and Financial Markets Association (SIFMA) has urged the US House of Representatives to assess the cumulative impact of regulation on short-term financing, identifying "potential, but not exhaustive, areas of concern".

In his testimony to the House financial services sub-committee on capital markets, Robert Toomey noted that the rules on client trades, designed to reduce risk, are


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inconsistent with the objectives of other capital and prudential regulations. "We find duplications and inconsistencies between the rules that together could have negative effects," Toomey said.

"The treatment of low-risk, high-quality assets like cash and cash equivalents varies depending on the rule and often does not reflect their low-risk or risk free status."

He argued that repo activity allows the US capital markets to remain the most efficient and liquid in the world, and helps decrease the overall cost of borrowing, while also providing a mechanism for the efficient management of short-term cash and collateral requirements

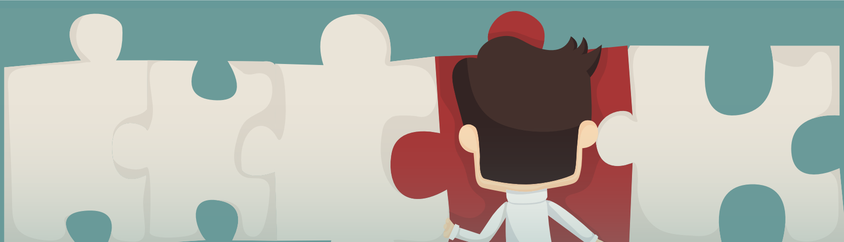
Toomey suggested conducting an assessment of the coherence and cumulative impacts "to identify cases where there may be unnecessary duplication or conflicts between specific regulatory requirements and broader policy goals".

Specifically, Toomey focused on the supplementary leverage ratio (SLR), liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and the Volker Rule.

With regards to SLR, Toomey suggested that the regulation has implications for the smooth functioning of the short-term funding markets, particularly for the repo market for US securities.

The requirements have "sharply increased the cost for use of a bank's balance sheet in a traditional matched book repo arrangement".

He said: "Safe treasuries and cash are subject to the same capital treatment as less safe assets. As a result, intermediaries in the repo market for treasuries—generally a margin business—would have to require profits for treasury repo that would be comparable to transactions in riskier assets. Dealers associated with banks subject to the SLR thus have hard balance sheet constraints



## IHS Markit releases SFTR solution

IHS Markit has officially entered the Securities Finance Transaction Regulation (SFTR) fray, with a solution aimed at alleviating the reporting requirements.

The fully hosted data and reporting solution provides the foundation needed to reconcile trading activity down to the unique trade and legal entity identifier (UTI and LEI) level of granularity. It also offers turnkey connectivity to trade repositories.

Features include a trade warehouse that pulls data from multiple sources and provides a standardised copy of all trading and collateral activity. A real-time module reconciles trades and creates the SFTR mandated-UTIs at the LEI level, with a full audit trail of the process including matching status reports.

IHS Markit's solution is the latest in a line being rolled out to deal with the SFTR reporting requirements.

According to post-trade provider Pirum, SFTR reporting will be on a T+1 basis in line with existing regulatory reporting regimes. It mandates two-sided reporting, with both collateral giver and collateral taker required to report their side of the trade to a registered repository.

As part of the two-sided reporting obligation, a UTI must be included in their reports. "This value will be used by the trade repositories to match separately received reports from each counterpart to [a trade]," Pirum explained.

Pirum is leveraging its existing contract compare functionality to generate the UTIs needed for transaction reporting.

It promises that generating UTIs from positions matched in Pirum will ensure that trades submitted to repositories will have a higher matching rate once reconciled, reducing the amount of incorrect reports that counterparts need to review.

EquiLend recently revealed that it too is working on a solution to meet the reporting requirements for trades and collateral.

The trading and post-trade service provider already captures much of the information required by SFTR, meaning it can create the UTI immediately, either at the point of trade or during post-trade comparison.

The European Securities Markets Authority (ESMA) issued the level two consultation on SFTR in September, appearing to give market participants some hope that its requirements would be dialled back.

ESMA appeared to pull back on the requirement to report on collateral used as part of a trade on a T+1 basis, as well as admit that there were some clashes with the European Market Infrastructure Regulation.

The feedback from this second stage will be used to finalise the draft technical standards, which will be submitted to the European Commission by the end of Q1 2017. The final version of SFTR will then come into force from 2018.

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that may limit the ability to intermediate some repo classes."

LCR has led to additional stress on liquidity in the repo market, with requirements to have high-quality liquid assets (HQLA) on hand in case of a short-term liquidity stress event, which is increasing demand for HQLA, and therefor adding to liquidity pressures.

Toomey suggested that under the proposed NSFR regime, repos and reverse repos would be subject to "asymmetric treatment".

Under the current proposal, short-term funding from financial sector entities to subject entity will be subject to 0 percent available stable funding.

Short-term lending to financial sector entities on the other hand, will be assigned a required stable funding factor of 10 to 15 percent.

"The proposed rule would require a subject entity to hold stable funding against a repo book that is perfectly matched, effectively imposing yet another tax on these transactions," Toomey said.

"Elimination of the asymmetrical treatment of the two legs of the matched transactions would alleviate this additional pressure on this low risk activity."

Finally, Toomey argued that limited proprietary trading under the Volker Rule means more pressure on the cash markets.

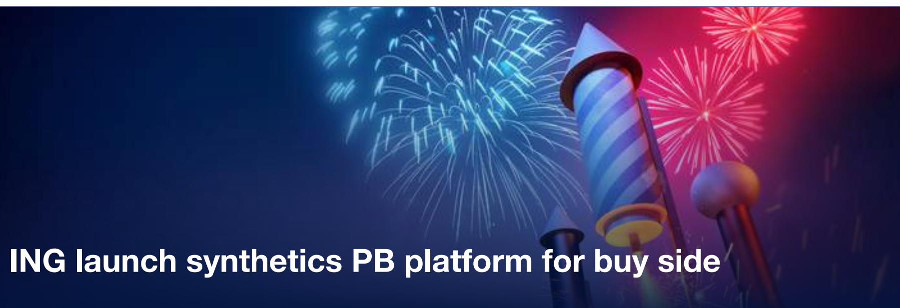
He said: "SIFMA has long held the position that the Volcker Rule was a solution in search of a problem and that it did not address issues identified in the financial crisis."

Firms are continuing to put policies and procedures in place that would recognise the distinction between permitted and prohibited activities, however the complexities in the approach to market making means this is a difficult task.

"A more transparent and cooperative regulatory/interpretive oversight regime would aid firms as they become compliant and limit the doubts that may cause further pull back from needed customer activity," Toomey said.

An assessment of the cumulative impact of these rules should be carried out "to ensure harm is not being done to this crucial market".

He concluded: "We believe that given the experience and market data from the introduction of these new approaches, the time is right to provide a wholesale review of the impact and coherence of these requirements with a view towards moving towards a better balance of safety and soundness with efficiency, liquidity and capital availability."



## ING launch synthetics PB platform for buy side

ING Capital Markets has launched a synthetic prime brokerage platform to address hedge funds' demand for cross-asset portfolio swap products.

The platform will manage and execute all balance sheet, back office and administrative functions associated with derivatives exposure to equities.

Functionality will be built out to include fixed income and additional asset classes at a later date.

ING has traditionally offered its alternative investment management clients synthetic portfolio solutions through its legacy contract-for-differences platform.

Michael Baudo, global head of securities finance and regional head of financial markets for the Americas at ING Capital Markets, said: "We offer the flexibility of a multi-asset portfolio swap which is operationally efficient, streamlined and provides additional collateral and portfolio margin benefits.

"We are excited to launch a platform that differentiates itself and adds value to clients while drawing upon the more than 20 years of experience our team has been providing securities finance solutions to the market."

## ICAP reports strong EU repo for the month of November

ICAP Electronic Market recorded a 15 percent year-over-year increase in European repo transactions in November.

EU repo hit €193 billion last month, up from €168.4 billion recorded in November 2015.

November's repo volume was up 4 percent from October, when €185.8 billion in volume was recorded.

ICAP, which provides post-trade risk mitigation and information services, also saw a modest increase of 4 percent in US repo.

US repo increased from €230.6 billion in 2015 to €240.1 billion this year.

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## Singapore to tighten short selling rules

The Monetary Authority of Singapore (MAS) as proposed a series short selling reforms to enhance market transparency.

As part of the Securities and Futures (Amendment) Bill 2016, market participants will be required to specifically mark short sell orders to the relevant exchange and report short positions above specified thresholds to MAS.

The proposed regulation states that new short position threshold in respect of any specified capital markets product is the lower of 0.05 percent of the outstanding shares in the relevant class of shares of the corporation in respect of the specified capital markets products.

Additionally, $1 million in aggregate value of the outstanding shares in the relevant class of shares of the corporation in respect of the specified capital markets products.

Exchanges will be held to account on the new rules with the threat of a fine of up to $25,000, and in the case of a continuing offence, to a further fine of up to $2,500 for every day the offence continues after conviction.

MAS has opened the consultation period until 27 January.

## BNY Mellon uses Italian CSD for T2S platform link

BNY Mellon has partnered up with Italy's central securities depository (CSD) Monte Titoli through its connection to the Target2-Securities (T2S) platform.

The bank will leverage its status as a directly connected participant to T2S to settle will settle transactions in listed securities, such as equities and fixed income with Monte Titoli.

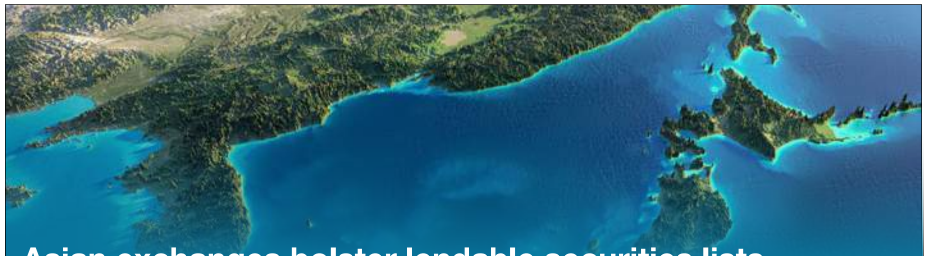
Previously, BNY Mellon settled transaction in the Italian market through sub-custodians.

"We are delighted that BNY Mellon, one of the world's largest investment services companies, has become a participant of Monte Titoli," said Mauro Dognini, chief executive of Monte Titoli.

"In doing so, BNY Mellon and its clients will be able to fully benefit from the implementation of T2S using Monte Titoli for the provision of settlement, asset and fiscal services, which will help improve operational efficiency and reduce risk."

Tom Casteleyn, head of product management for custody, cash and foreign exchange at BNY Mellon, said: "Our connection to T2S will help us streamline back-office operations and reduce risk by offering our clients direct access to central bank money."

"Our direct accounts with Monte Titoli will enable us to provide clients with deadlines that are closer to market cut-offs, whilst improving our asset servicing capabilities."



## Asian exchanges bolster lendable securities lists

The Shanghai Stock Exchange, in concert with the Shenzhen Stock Exchange, has significantly increased the number of underlying stocks available for securities lending, while also loosening the reins on margin trading rules.

Seventy-seven new underlying stocks were opened up to lending on 12 December, bringing the total number across the two exchanges to 950.

On the Shanghai Stock Exchange, the number of available stock went from 485 to 525, while the Shenzhen Stock Exchange list expanded from 388 to 425 stocks.

According to the two exchanges, the chosen stocks have a low price/earning ratio, a large circulation market value, are active in trading, and boast stable market performance.

At the same time, margin trading rules will be amended so that the requirement for the conversion rate of stocks with static price/earning ratio of more than 300-fold, or stocks with negative static price/earning ratio, will be zero.

Both exchanges will establish a regular assessment adjustment mechanism for underlying securities, conducting two-way adjustment to the underlying securities at the end of every quarter.

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# Data lessons from EMIR

## Pierre Khemdoudi of IHS Markit outlines the obstacles still to come from SFTR and warns that those who do not learn from history are doomed to repeat it

The largest single task facing the European securities finance industry heading into 2017 is the challenge posed by the imminent implementation of Securities Financing Transaction Regulation's (SFTR) reporting requirements. While new to this industry, transaction reporting to trade repositories is not unprecedented as the regulation mirrors previous transparency efforts mandated to the derivatives industry in Europe back in 2014 under the European Market Infrastructure Regulation (EMIR), which was part of Europe's response to the G20 Pittsburg commitments. Having successfully helped the over-the-counter (OTC) derivatives industry with its regulatory reporting challenge, IHS Markit can highlight the main issues that will have to be dealt with in the coming year to be ready for SFTR's Q1 2018 initial rollout.

Simply sourcing all of the data points mandated by the draft regulation is arguably the most daunting part the reporting challenge. The more than 140 fields mentioned in the level two draft sit beyond the scope of any current single source owing to the disparate front- and back-end systems utilised by the industry. Data points such as maturity date of collateral and credit rating also lie outside the scope of many of these platforms, so the data gathering exercise will have to include some enrichment from externally sourced references and third parties, which adds to the complexity of the challenge.

Trading venue fragmentation across triparty, central counterparty (CCP) and bilateral venues further complicates this task as the data marshaling workflow will involve numerous third parties for some of the industry's larger participants.

### Don't break ranks

The standardisation needed to ensure this data gathering exercise goes smoothly is the second main lesson that EMIR can teach us. These standards, which cover issues such as naming conventions and decimal rounding, may seem trivial at first, but stitching together trading activity across numerous data sources without them becomes nigh on impossible.

So, in summary, the data challenge is multi-layered, involving sourcing, mapping, collation, enrichment and translation to the European Securities and Markets Authority's technical standards. If that wasn't enough, there is one additional technical challenge that needs to be addressed.

### To me, to you

The final challenge deals with two-way flow of information that needs to occur to generate and disseminate unique transaction identifiers (UTIs). The UTI challenge starts with ensuring that trading counterparties communicate all the proper information to generate these identifiers on a timely basis and agree who will generate and electronically communicate the UTI to the other party. These are long alpha-numeric IDs and don't lend themselves to telephone exchange.

This was the biggest challenge in foreign exchange where legacy technology meant point-to-point, one-way electronic commutation, which leads to confusion over which party's UTI to use. This is only half the workflow, however, as UTIs then need to be propagated to all layers of each firm's technology stack in order to efficiently comply with the two-sided reporting requirements.

This task is challenging enough at inception, but SFTR reporting will dictate large amounts of post-trade dialogue to identify and report such events as partial recalls, collateral substitution and trade termination.

### Leveraging history

The structure of SFTR and that of the securities finance industry offer many challenges, such as deciding which trades fall in scope and attributing collateral from the pool structure. These unique challenges make it doubly important that the industry leverages previously learned lessons, such as those drawn from EMIR, to flatten the reporting learning curve that the industry will have to overcome in the coming months.

Having been in active discussions with the industry's SFTR needs over the past few months, I am confident that Markit Securities Finance will parlay our firm's expertise in the regulatory reporting space, which covers nine regimes since 2011, into a robust solution that addresses the industry's SFTR reporting needs in time of the Q1 2018 rollout. **SLT**

SFTR reporting will dictate large amounts of post-trade dialogue

**Pierre Khemdoudi**
Managing director
IHS Markit

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# Moving markets

## Earl McCausland of Delta Capita and Juanita Taylor of SASLA look back at the highlights of 2016 for the fast-moving South African market

**The South African market recently made the big leap from T+5 to T+3. Have you seen the benefits to the market that initially drove the move?**

**Earl McCausland:** Our clients have indicated that this alignment with the core international markets has reduced the settlement exposure and helped to increase operational efficiencies, so the feedback has generally been positive.

**Juanita Taylor:** South Africa's financial markets took a major step forward this year to align with global best practice with the successful launch of a shorter three-day equity settlement cycle, known locally as T+3. The idea of a shortened settlement cycle had been contemplated within the local market for many years, and in 2012 the move to T+3 was formally mandated by South Africa's Financial Services Board (FSB).

In addition to improving the credibility of our local equities market, the shortened settlement cycle also unlocked a number of operational benefits, including harmonisation across international markets—reducing complexities resulting from timing differences between jurisdictions with different settlement cycles.

Capital requirements will fall through a reduction of counterparty settlement risk and more prudent risk management generally. Liquidity will prove, enabling faster reinvestment of assets that are released from the settlement process quicker.

There is also expected to be a reduction in the number of outstanding unsettled trades, which in turn will reduce settlement exposure/credit and systemic risks, while improving operational efficiencies, by causing participants to adapt and modify behaviours.

The transition required significant revisions to many industry members' core processing systems, with several taking the opportunity to replace old manual processes for automated matching procedures.

The improved market efficiency through straight-through processing was achieved by automating several of the middle- and back-office processes.

South Africa's transition from T+5 to T+3 over the go-live week went smoothly and the South African market has had zero failed trades to date.

> The feedback on moving to T+3 has generally been positive
>
> **Earl McCausland**
> Managing partner and head of South Africa
> Delta Capita

> The exemption has allowed the local market to start using outright transfer

**Juanita Taylor**
Chair
South African Securities Lending Association

## How important was it for the market to secure an exception to the securities transaction tax for equity collateral?

**McCausland:** Exemption of the securities transaction tax (STT) on equity collateral resulted in opening up the use of non-cash collateral, which has had a positive impact on the liquidity in the market. It also provided a cost-effective alternative to cash collateral, which is expensive to fund. So this was indeed very important for the market to secure this.

**Taylor:** The STT exemption has allowed the local market to start using outright transfer of equity collateral instead of the cumbersome pledge mechanism. This had allowed the market to clean up the global master securities lending agreement schedule and align it with international best practice. Hopefully this will help the foreign clients to eliminate the cost of raising rand cash and allow them to increase their borrowing from local lenders. The exemption will also allow the market to seriously look at centralised collateral optimisation tools, which rely on the outright transfer of equity collateral.

**McCausland:** Of course, there is always a time lag between effecting change of this nature and the market adopting the change by amendments to the bilateral agreements, so the impact is currently somewhat muted. Nevertheless, it will filter through.

## South Africa's regulator relies on SASLA to provide securities lending market data. How should this situation be improved upon?

**McCausland:** To improve the situation, comprehensive participation in the submission of securities lending data is required. Market participants are working to onboard data providers such as DataLend.

**Taylor:** The broader securities lending industry currently has no requirement to supply data to any of the regulators. The banks are required by the Basel Accord to supply total gross and net exposure reports to the South African Reserve Bank (SARB) on a monthly basis.

The industry is expecting more reporting requirements from the Financial Stability Board and SARB in the near future, especially with recent developments in European financial markets.

The South African market has approached DataLend to help with creating an industry solution for data.

The solution would also include monthly reporting and ad hoc data request from our regulators.

## Other African countries are also focusing on their securities lending markets. Should we expect significant growth from these markets?

**McCausland:** The participation has been in the local in nature but the feedback that we have received indicates that there will be growth in the next 12 months

**Taylor:** In the current environment is it not expected that high volumes would be traded from a securities lending perspective within the next 12 months, but we do foresee these markets growing significantly over time.

Nigeria has approved securities lending and market making in 2012 and Kenya has recently welcomed comments on the draft Capital Markets (Securities Lending and Borrowing and Short Selling) Regulations 2016. **SLT**

# Data with destiny

DataLend has been active in South Africa since 2013, when the South African Securities Lending Association (SASLA) appointed it as the industry group's market data provider of choice.

Since then, a number of domestic South African institutions and their global counterparts have adopted DataLend as their data provider, meaning DataLend clients globally have exclusive access to thorough data and analysis on the market.

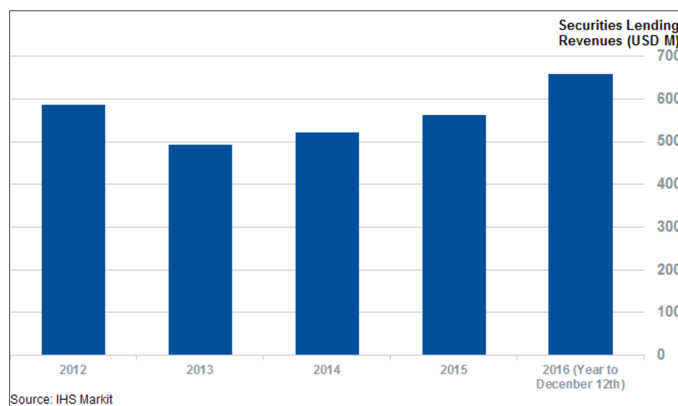
Nancy Allen, global product owner for DataLend, explains: "South Africa has an active securities finance market, not only among domestic participants but also between domestic and global counterparties. We are pleased to be SASLA's market data provider of choice to offer unrivaled insight into the South African market."

# Bonds bulk up lending revenue in 2016

## Bond lending has been one of the highlights of the securities lending market in 2016, but has this success been driven by a surge up the risk curve? IHS Markit analyst Simon Colvin investigates

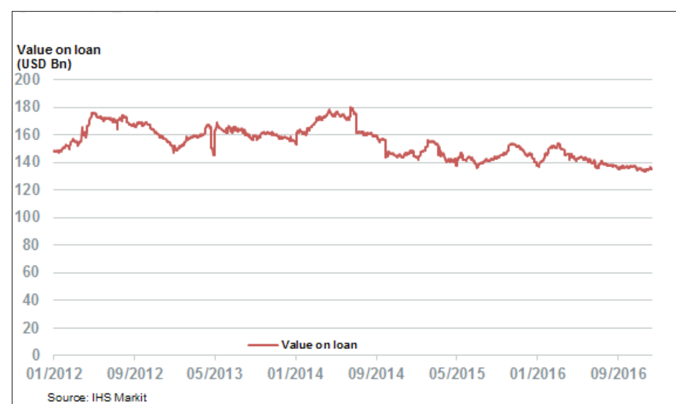
Corporate bonds have been one of the success stories of the securities lending market in 2016. With just under two weeks left in the year, the aggregate revenues generated from lending out the asset class are already 16 percent ahead of last year's total. In fact, the $657 million of revenues generated by the $2.8 trillion of corporate bonds in the Markit Securities Finance database represents the most lucrative year for the asset class in over five years. Corporate bonds are now responsible for 8.3 percent of the total securities lending industry's revenues—a full percentage point more that last year's contribution.

**Corporate Bond Securities Lending Revenues**




A further dive into the revenue drivers indicates that the extra revenue generated by corporate bond lending so far this year has been entirely driven by better pricing of outstanding loans as the average daily loans across the asset class has fallen by 3 percent so far this year, with $141 billion of loans outstanding on any given day, the smallest average in more than five years.

**Corporate Bonds**




Fees have more than compensated for this lacklustre demand to borrow the asset class, as the weighted average fees commanded by corporate bonds in 2016 so far—35 basis

points (bps)—was 19.3 percent higher than 2015's weighted average fee.

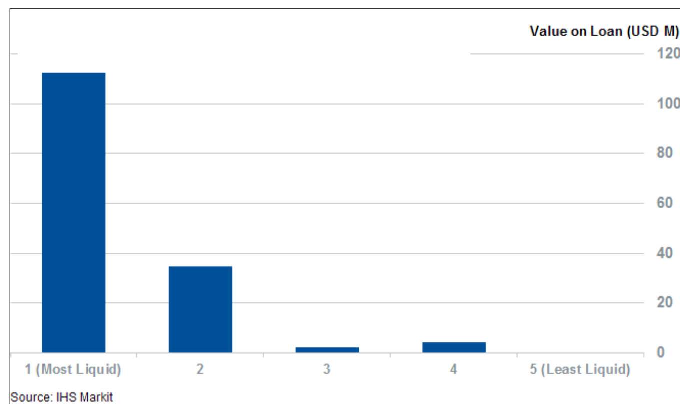
**Liquid bonds see most activity**

As ever in financial markets, one has to wonder whether this revenue bonanza has been driven by the industry taking on additional risk, especially liquidity risk, which looms over OTC traded corporate bonds.

However, indicators from the Markit Pricing Data's bond liquidity scores, which were recently made available through the Markit Securities Finance Portal, do not seem to indicate that the industry is taking on any material liquidity risk by lending corporate bonds as 95 percent of the current outstanding corporate bond loans are made out against bonds which score in the top two buckets.

These liquidity scores calculated using metrics such as bid-ask spread calculated from Markit EVB, reported cash market liquidity, and the depths of dealer quotes on both on the individual bond and parent entity. The most liquid bonds earn a score of one, on a scale of one to five.

### Corporate Bond Securities Lending by Liquidity Scores

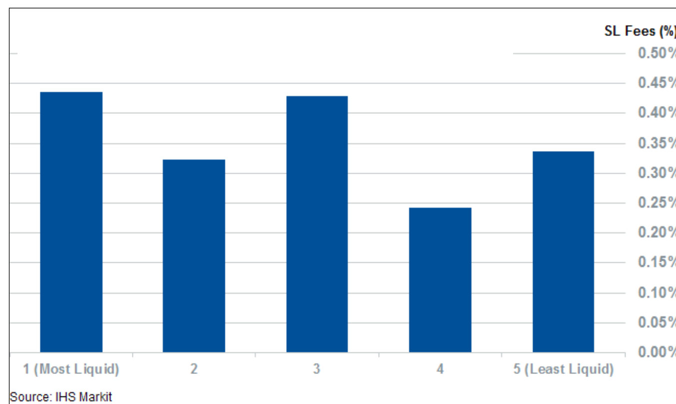


Source: IHS Markit

The market also appears to be actively steering clear of bonds which all in the two least liquid buckets have a utilisation rate of 0.8 percent against 5.7 percent for their peers in the two most liquid buckets.

Liquid bonds, which earn either of the two highest liquidity scores, are also much more likely to see borrowing activity as 44 percent of these bonds which sit in lending programmes have some outstanding loans.

### Corporate Bond Securities Lending Fees by Liquidity Scores



Source: IHS Markit

The chance that an illiquid (defined by a liquidity score of between three to five) sees any demand borrow is half that as 22 percent of these bond now have loans against them.

**Market not pricing in liquidity risk**

While the corporate bond securities lending market is overwhelmingly made up of loans made against liquid bonds, we do see evidence that loans made against the less liquid end of the corporate bond market are failing to account for the extra liquidity risk being taken on. This trend is evidenced by the fact that the weighted average fees across the $4.8 billion of loans made against bonds which score in the two least liquid buckets stands at 25 bps. This puts the average fee across these illiquid bonds materially lower than the 44 bps earned by the loans made out to the most liquid bonds and 32 bps for those in second most liquid bucket.

One such instrument is Verizon Pennsylvania's 8.75 percent note due August 2031 which has $15.3 million of outstanding loans at fee of 7 bps despite earning the lowest possible liquidity score of five.

This relative underpricing of liquidity risk is the reason why we have made our unparalleled bond liquidity metrics available both in our front end as well as through the Markit Securities Finance Toolkit for Excel.

We hope that such underpricing, though relatively rare in the grand scheme of things, become less common in the future as we empower the industry to properly gauge and in turn price liquidity risk taken on by bond lending. SLT

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# Industry **Events**

## IMN's 23rd Annual Beneficial Owners' International Securities Finance & Collateral Management

Florida

As we head into 2017, it's not business as usual within the securities finance industry. As new opportunities—and challenges—come to the forefront in this dynamically evolving market that may have a direct impact on securities finance.

## 14th Annual PASLA RMA Conference on Asian Securities Lending

Seoul

14th Annual PASLA and RMA will be held in Seoul, South Korea, at The Conrad Seoul.

## Finadium Investors in Securities Lending Conference NY 2017

New York

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

## Finadium Investors in Securities Lending Conference London 2017

London

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

## European Pensions & Investments Summit 2017

Switzerland

The 17th annual European Pensions & Investments Summit is the ultimate meeting point, bringing elite buyers and sellers together.

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# Industry Recruitment

## Product Specialist

**Recruiter:** DataLend
**Location:** New York

EquiLend is seeking a Product Specialist to create a positive client experience for the DataLend user base by managing existing clients and the on-boarding of new clients.

## Java Developer

**Recruiter:** Simply Executive
**Location:** London

I am working with a major banking client to source 4 Senior Java developers with 7+ years of proven experience developing in core Java is required to join a high profile and 'critical to bank' programme developing new functionality, enhancing existing functionality and supporting country wide deployment on the rollout of a major application.

## Compliance Manager (FX and Capital Markets)

**Recruiter:** Bruin
**Location:** London

Our client is looking for a vice president compliance manager to join its fun, challenging and supportive EMEA compliance markets and corporate treasury based in the heart of London.

## Business Analyst

**Recruiter:** Alexander Ash
**Location:** Midlands

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# Comings and goings at Calypso, PDQ, OCC, BNY Mellon and FIS

**Calypso Technology, a capital markets and investment management software provider, has appointed Olivier Vinciguerra as managing director of sales in Northern Europe.**

Vinciguerra relocated to London from New York. Previously, he was a global sales director at Misys where he covered several business lines in North and South America.

"Olivier Vinciguerra brings a well-established and strong track record of driving sales and overall commercial activity in the treasury and capital markets software industry for both sell-side and asset management," said Calypso CEO Pascal Xatart.

"His highly-effective leadership style strikes the right balance of strategy, execution, and focus on people development, which is why I believe he will be a valuable addition to the Calypso team."

Vinciguerra added: "It's a thrill and a great opportunity to steer a dynamic and innovative firm such as Calypso across the world's leading financial centers.

Both as an award-winning technology and as an inspired industry leader, Calypso is the ideal partner for financial institutions facing transformation and compliance challenges."

This latest hires comes follow news that Calypso plans to "hire aggressively in 2017" after exceeding its acquisition target for new customers in 2016.

**Former Quadriserv CEO and chair Pasquale Cestaro has been snapped up by PDQ to lead sales and business development for its centralised on demand auctions (CODA) market platform.**

CODA Markets, previously known as PDQ ATS, is a US equity trading platform provider.

Cestaro has been installed as chief sales officer.

PDQ confirmed the hire along with the appointment of Michael Lazar, who joins as managing director of sales and will be focused on buy-side and institutional trading.

Lazar moves to PDQ with more than 25 years of experience in institutional sales roles, including 15 years at Liquidnet.

"CODA Block has the potential to transform the landscape for how trading in US equities is done, moving from an outdated order book model to an order-driven, on-demand auction," said Don Ross, the recently promoted CEO of PDQ.

Ross, previously PDQ's chief strategy officer, succeeded Keith Ross Jr in October after he was elevated to executive chair.

"With market veterans like Pat Cestaro and Mike Lazar, CODA Markets will be able to capitalise on that potential and, in the process, unlock tremendous value for buy-side and institutional traders," said Ross.

Cestaro added: “Institutional traders have been attacking the same liquidity challenges with the same tools since I joined Wall Street more than 35 years ago.”

“However, unlike every other trading venue, CODA Markets uses its unique market structure to unlock latent liquidity—and in the process brings exceptional value to institutional orders. With the upcoming launch of CODA Block, I can’t think of a better time to join such an innovative team.”

**OCC has brought on former Optiver US CFO Amy Shelly as senior vice president and CFO.**

Shelly, who replaces Kim McGarry, is now responsible for finance, accounting, strategic sourcing and facilities, as well as a new treasury function.

Prior to joining OCC, Shelly was the interim CFO for a private equity portfolio company.

From 2015 to 2016, she was a project manager for CF Industries, where she worked with the company’s corporate controller to manage the integration of a large acquisition.

Additionally, James Pribel, formerly executive director and treasurer at CME Group, has been named first vice president of treasury, which is a new position at OCC.

OCC’s current first vice president and deputy general counsel, Joe Adamczyk, has moved up a rung to become senior vice president and chief compliance officer, replacing Richard Wallace.

“OCC’s evolution from a market utility to industry influencer is moving forward, and these leadership enhancements position our company well for future success,” said Craig Donohue, OCC executive chair and CEO.

**Mark Haas has accepted a role at BNY Mellon as managing director and head of principal securities finance.**

Haas moved to BNY Mellon from a three-year tenure as founding principal of Nekton Partners, a specialist consultancy for securities finance, prime brokerages and hedge funds.

Prior to Nekton Partners, Haas served for over 10 years as a senior member of Deutsche Bank’s prime services management team in roles including global head of prime brokerage.

Haas also held positions at Lehman Brothers and Morgan Stanley. He continues to be based in New York.

Hong Kong Exchanges and Clearing (HKEX) has appointed Alexander Longman as a member of its derivatives market panel.

The derivatives market consultative panel comprises of HKEX directors Bill Kwok Chi Piu and Anit Fung Yuen Mei, who act as chair and deputy chair respectively.

They are joined by eight market representatives and industry experts. Longman will replace Craig Robertson, who chose to vacate his seat, and will serve until 31 May 2017.

The remaining panel members include Philip Ko, Wah Sa Lim, Kwong Fai Mak, Stephane Ritz, Paul Wan Kai Leung and Daniel Weinberg.

The derivatives panel is one of three consultative panels commissioned by the HKEX to offer advice on international market trends and the needs of intermediaries, issuers, investors, and other market participants. There are also clearing and cash market panels.

They address technological challenges, and new product opportunities relating to the trading and clearing of securities and futures products.

**FIS’s Brian Traquair has retired after 15 years at the company.**

He most recently served as group executive vice president of capital markets, based in Toronto. Traquair joined SunGard (now FIS) in 2001 as president of capital markets, before becoming executive vice president of financial systems in 2014. He took on the group executive vice president role in December 2015. **SLT**

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