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Spring 2020
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Derivatives

COVID-19 fears generate volatility and volume spikes

SECURITIES FINANCE

THE BENEFICIAL OWNERS GUIDE 2020

+ Custody

The effect of asset management mega-deals

EQUIPPED TO DEAL WITH ECONOMIC SHOCKS

Candriam chief Abou-Jaoudé reflects on an industry in flux


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The eye of the storm

You don't need me to tell these are turbulent times. The equities markets have had their worst weeks in living memory with the FTSE 100 down nearly a fifth in March and nearly 27% since the start of the year. The British flagship list briefly dipped below 5,000 on March 23 - the first time it has been in that territory since September 2009 - before bouncing back to 5,800 on March 26.

The S&P 500 faired only slightly better, down 14.7% in March and 21.3% since January 1. MSCI's European index was off 21.6% in March and 26.7% this year and its emerging market sector was down 18.3% for the month and 26.9% for the year.

Central banks around the world have responded by promising liquidity while governments have done their part by pledging to prop-up companies in need of assistance (which is pretty much everyone).

Commentary is unsurprisingly freely available but a recent note from Marija Veitmane at State Street Global Markets was remarkable.

State Street's Multi Asset Class Research Senior Strategist said in late March as this magazine was going to press: "The first quarter of 2020 has been one of the worst quarters for global stock markets in the 150 history of the S&P 500. Whilst it is too early to say if the relentless efforts from Central Banks and governments to support the global economy would be enough to cushion economic recession and support stock markets, underperformance of stock markets rarely last for a long-time."

Veitmane added: "The quarters that experience negative returns tend to be followed by positive ones; and the stronger the sell-off, the stronger the rebound in the next quarter. One potential explanation for the rebound in performance is portfolio adjustment, where investment managers buy underperforming assets to maintain target allocation. Looking at the size of the sell-off and balanced funds' assets under management, rebalancing flow can be upwards of half a trillion dollars-worth of buying stocks."

After the mass sell-offs of recent weeks some positivity is welcome.

Our cover profile of Candriam chief executive Naïm Abou-Jaoudé has similarly nuanced message but his outlook is also optimistic.

Abou-Jaoudé, who has been managing money for over 30 years, said: "Hopefully in May, things will stabilise a little bit if it's well managed. We have seen the results are starting to become more promising in China so that tells us that if we manage it well, we can start to contain it. We will have to be cautious for a period but, after that, I think things will stabilise."

He added: "But, overall, things will recover and, looking towards the end of the year, I think the markets will improve from where we are today at minus 30%. I think the central banks are intervening in the right direction by injecting lots of cash and reducing the levels of interest rates, while the governments are also introducing several billions of fiscal stimulus."

The securities finance markets have in recent weeks enjoyed increased levels of activity as firms moved to short the tumbling markets. But national regulators deciding at the end of March to ban short-selling has cast a shadow.

Similarly futures and options exchanges have had a bumper few weeks with some of the largest markets reporting record trading days but they have been spooked by recent suggestions that they should close.

More concerning are early examples of companies coming a cropper of price volatility.

Chicago-based prop firm Ronin Capital going bust in late March was sad to see and we hope that ABN Amro's $200million loss (after it liquidated a US client's positions due to the market volatility caused by the Covid-19 pandemic) is not a sign of things to come.

I promise that we at Global Investor will do everything we can over the coming weeks to ensure you are up-to-date on the important stories in your market. Most importantly, look after yourselves and those close to you. We will get through this. ■

Luke Jeffs,
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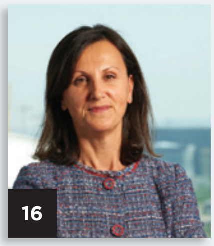
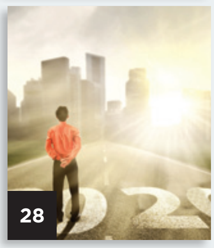
CONTENTS





COVER FEATURE:

10 **Cover Story:** Candriam chief executive Naïm Abou-Jaoudé tracks his firms efforts to diversify and comments on the boom in ESG

HIGHLIGHTS FROM WEB:

7 **January** saw mixed signals with Chinese futures markets reporting a strong 2019 but the securities finance market was off 6.3% last year

8 **February** was the month when the European Commission opened its long-awaited review of the 2018 Mifid II regulation

9 **In March,** a group of trade bodies detailed a template for European reporting while IHS Markit hired to target beneficial owners

ASSET MANAGEMENT:

10 **Naïm Abou-Jaoudé,** the long-standing chief exec of Candriam, tells Global Investor the ESG movement must go further and faster

SECURITIES FINANCE:

16 **Trading Places:** Tim Smollen joins MUFG Investor Services as the firm's New York-based global head of securities lending solutions

18 **The chief executive of the International Securities Lending Association Andy Dyson** reflects on a momentous few weeks for the industry

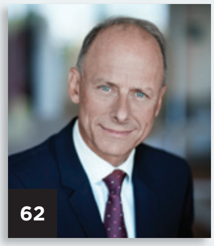
20 **The coronavirus outbreak** led to short-selling bans from some markets and the European regulator agreed to delay the first phase of SFTR

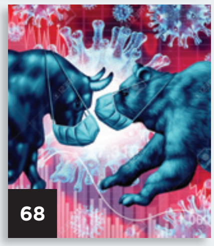
23 **The relative immaturity of the Asia repo market** means that it represents a real opportunity for specialists, writes Paul Golden

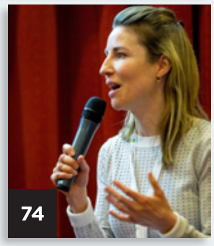
28 **The Asian securities finance market** has surpassed its European equivalent but it remains a vast bloc that needs to be carefully navigated

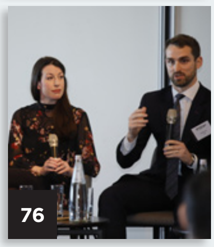
33 **Beneficial Owners Guide 2020:** J.P. Morgan win the unweighted category while State Street takes top spot in the weighted section

CONTENTS









SECURITIES FINANCE:

45 **Top lenders, borrowers, consultants and data experts** discussed some of the key issues facing the US securities lending industry

56 **OCC traces the steps** the US clearing house is taking to ensure its stock loan programmes meet the requirements of market participants

CUSTODY:

61 **Fundamental reforms across European securities markets** could see trading costs rocket into the billions for investment banks

62 **Asset management M&A** will be an important trigger in containing cost growth, writes Klaus Holse, chief executive officer at SimCorp

64 **The onboarding of individual wealth clients** has been simplified by new technologies but challenges remain, writes Simon Cornwell of Saffron IOS

DERIVATIVES:

66 **Trading Places:** David Callam rejoins trading firm Mako and Marex hires RJO's former European chief exec Thomas Texier

68 **The COVID-19 pandemic** produced record volumes but Ronin Capital went bust and ABN lost $200 million at the end of March

72 **The uncleared margin rules** due to affect buy-side firms in September throw up many challenges, writes Jeroen Bakker of Pierpoint

73 **The adoption of open access principles** could offer significant advantages to the European fixed income market, writes LCH's Bruce Kellaway

74 **Traders clashed** over the right European market structure while lawyers discussed the Mifid II review as the UK leaves Europe

76 **Derivatives experts** discussed the opportunities for Israeli trading firms in a market that is changing rapidly in 2020

January started the year in positive territory

China's derivatives exchanges reported strong growth in 2019 as CBOE Global Markets outlined its European plans and BlackRock's lending revenue rose 30%

Sec lending revenue down in 2019

Global securities lending revenue was down 13% in 2019, according to market data provider DataLend.

Despite the industry generating $8.66 billion (£6.56 billion) in revenue in the year, it was not enough to equal 2018's £9.96 billion (£7.53 billion), which was described as a "record amongst recent years" by the data firm.

The decline in revenue was experienced across all regions globally and in both the equity and fixed income markets, DataLend revealed. On-loan balances and fees to borrow also fell across all regions, with the exception of Asia-Pacific, where a marginal increase in balance was seen.

"Global macro uncertainty, driven by trade wars, Brexit and central bank actions, resulted in a general lack of conviction by hedge funds and alternative investment managers in 2019," said Nancy Allen, global product owner of DataLend.

BlackRock sees 30% spike in lending revenue

BlackRock's securities lending revenue increased by 31% year-on-year (YoY), from $129 million (£99 million) in the fourth quarter of 2018 to $169 million in Q4 2019.

The firm's fourth quarter earnings report stated that its securities lending revenue increased $19 million quarter-on-quarter (QoQ).

BlackRock's investment advisory, administration fees and securities lending revenue was $3.1 billion in the fourth quarter of 2019, marking an 11% increase YoY.

For the full-year, the US money manager reported investment advisory, administration fees and securities lending at $11.8 billion, up 2% from 2018.

China outstrips US, Europe by 2019 volume growth

The major Chinese derivatives exchanges have significantly outperformed their global counterparts with substantial growth in trading volumes for the year 2019.

At the Dalian Commodity Exchange (DCE) total volume increased 38% to 1.3 billion lots for the year, according to data from the exchange. This included a 99% increase in options traded on the exchange to a total figure of 24 million lots for the 12 months.

DCE experienced impressive growth for the month of December, with a 104% increase compared to December 2018 and a 3600% increase in fibre board futures.

Total volume on the Zhengzhou Commodity Exchange increased 33% to over 2.1 billion lots for the calendar year. Shanghai Futures Exchange saw volumes grow to 2.8 billion lots, an increase of a fifth compared with the 2018 figures, according to data from the exchange.

Valbury Capital to close UK broker

Valbury Capital, the broker that hit the headlines in 2018 when it allowed a day trader to build a $6 billion position, has said it is closing its UK arm.

Valbury Capital Limited (VCL), which has been in the UK since 2011 according to the FCA Register, said in a statement on its website that it is closing down its London-based entity.

The statement read: "Following a strategic review, VCL wishes to exit the UK market. This has been a difficult decision to take after a significant period of time operating in the UK and developing the close client relationships which have contributed to the company's successes."

Cboe outlines European derivatives plan

US exchange Cboe Global Markets has said it plans a three–pronged strategy to break into the European equity derivatives market dominated by Frankfurt's Eurex.

Cboe, which operates equity derivatives markets in the US, agreed in December to acquire EuroCCP, the Amsterdam-based clearing house, and pledged "to pursue the development of equity derivatives trading and clearing capabilities in the region, subject to regulatory approvals".

Speaking in London, David Howson, the new president of Cboe Europe, said his team is preparing its application to clear derivatives through EuroCCP, the first step in a multi-year journey to enable Cboe to trade European equity derivatives.

He added: "The key factors where we will differentiate ourselves are market structure, contract design and fees. At Cboe Europe, we have the advantage of being able to work from a blank sheet of paper unlike the incumbent exchanges that have evolved over decades." ■

February saw firms getting down to business

The European Commission launched its long-awaited review of the Mifid II reforms as UnaVista and ISLA focused on SFTR preparations.

Europe launches Mifid II review

Europe has launched a consultation on its vast Mifid II reforms that took effect two years ago.

The European Commission opened in February a public consultation on the Mifid II regulatory framework for investment firms and market operators, namely exchanges, banks and brokers.

The consultation covers three areas: the efficacy of the reforms, specifically whether they have succeeded in increasing transparency and levelling the playing field between different types of trading venues; changes to the laws to force a reduction in the price of market data; and a European consolidated tape.

Isla updates SFTR report modeller

The International Securities Lending Association (Isla) has updated its stock loan and repo reporting rules modeller.

Europe's Securities Financing Transactions Regulation (SFTR), which was due to come into force from April 13, is intended to enhance the transparency of the securities financing markets by requiring firms to report details of their securities lending, repo and margin lending transactions to a trade repository.

The association's modeller, last published on November 27, 2019 has been modified to include all of the latest changes to the Regulatory Technical Standards released by the European Securities Market Association in January 2020, and represents the current Level 3 standard for securities financing transactions and collateral reporting.

UnaVista warns buy-side over SFTR reporting

Catherine Talks, UnaVista's SFTR product manager, has warned that some buy-side firms may have to comply with Europe's stock loan and repo reporting rules from April.

Europe's Securities Financing Transactions Regulation (SFTR), due to come into force from April 13, is intended to enhance the transparency of the securities financing markets by requiring firms to report details of their securities lending, repo and margin lending transactions to a trade repository.

Speaking to Global Investor, Talks said: "One of the really interesting conversations that I've been having more increasingly lately is around the reporting phases for SFTR. Very broadly, it is understood that phase 1 is sell-side, phase 2 is central counterparties (CCPs), phase 3 is the buy-side and phase 4 is non-financials."

Number of lendable securities up in H2 2019

Reported securities made available to borrow by institutional lenders increased by €1.6 trillion (£1.36 trillion) in H2 2019, according to a report published in February.

In the twelfth edition of the International Securities Lending Association's (Isla) securities lending market report, published twice annually, the body highlighted a "notable increase" in lendable assets, rising from €19.6 trillion as at June 30, to €20 trillion at the year end.

However, Isla added that the reported increase "appeared to be driven largely by increasing asset valuations rather than additional assets coming into lending programmes", due to 65% of securities classifying as equities.

Miami exchange sizes up crypto opportunities

The Miami International Securities Exchange (MIAX) is planning to expand into the digital asset space, according to new executive vice president Mark Wetjen.

In an interview with Global Investor, Wetjen said: "At Miax we think that derivatives on cryptocurrencies offer a lot of potential, as well as other types of digitised assets. It is still fairly early days on this front, but we will be looking at how to become involved in these marketplaces, whether by offering new products ourselves or through partnerships to develop products."

Banks have worst year since crisis

The world's top investment banks had in 2019 their worst year since the financial crisis, a report has said.

The top twelve investment banks amassed last year revenue of $147.5 billion (£112.5bn), which was 3% down on 2018 and the lowest since 2008 when the market dried up as investment banks struggled to deal with the financial crisis.

The 2019 drop was due to a 10% slump in equities revenue to $41.1bn and 3% slide in investment banking earnings to $40.2bn while bank revenue from fixed income, currency and commodities rose 3% last year to $66.2bn, according to data from research firm Coalition. ■

March had a swathe of regulatory reviews

The world's main trade bodies published a reporting template as UK regulator the FCA launched a probe into market data fees.

Eurex eyes ESG futures on DAX, EUROSTOXX 50

Eurex has said it is working to launch environmental, social and governance (ESG) versions of its flagship DAX and EUROSTOXX 50 indices.

The German exchange launched in early March five more ESG futures contracts, taking into double figures the number of ESG products listed on the exchange in a little over a year.

Reflecting on the launch, Michael Peters, a member of the Eurex executive board, told Global Investor the exchange plans to launch more derivatives contracts to satisfy the increasing demand for ESG products from its diverse range of clients.

Peters said: "Eurex is analysing the potential launch of derivatives on ESG versions of the DAX and EUROSTOXX 50 indexes."

Legal exposure a top concern in Libor transition

The legal aspect of migrating away from Libor to risk-free rates (RFR) presents the biggest challenge for companies, according to a consulting firm helping clients navigate risk and compliance during the transition.

"With financial exposure you understand the risk and you understand the way out," Doug Wilbert, managing director with Protiviti told Global Investor. "With legal exposure or conduct or harm, you don't really know what sort of financial vacuum you may go into."

In light of the Bank of England's (BoE) measures released last month to accelerate the Sterling Libor migration, which included the introduction of a Sonia index and an increase in haircuts, Wilbert provided insights into the top concerns of companies as they handle the risk, operational, cost and legal aspects of the process.

Trade bodies publish European reporting guidance

The world's main financial trade bodies have jointly published best practices for derivatives reporting under European regulation six years after the rules came out.

The International Swaps and Derivatives Association (ISDA), the European Fund and Asset Management Association, the European Venues and Intermediaries Association, the Futures Industry Association (FIA) and the Global Foreign Exchange Division of the Global Financial Markets Association proposed the best practices on Tuesday.

IHS Markit targets beneficial owners

Oliver Madden has joined IHS Markit's securities finance team in London as director of sales.

Reporting to Charlie Bedford-Forde, Madden will be responsible for business development in the Europe, Middle East and Africa (Emea) region, targeting the beneficial owner market.

Bedford-Forde said: "As we continue to expand our global focus on serving beneficial owners, Oliver brings a strong breadth of relationships with firms in the EMEA region."

UK regulator probes market data fees

UK markets watchdog the Financial Conduct Authority has launched an investigation into data fees, an increasingly contentious area for the world's top exchanges and their clients.

The London-based Financial Conduct Authority (FCA) said in a statement in March it had "begun a review into the use and value of data and advanced analytics in wholesale financial markets, both now and in the future".

The UK watchdog said it has issued a Call for Input "to better understand how data and advanced analytics are being accessed and used, the value offered to market participants and whether they are competitively sold and priced".

FIA seeks clarity on US swap rule

Trade body the Futures Industry Association has called on the Commodity Futures Trading Commission to remove regulatory uncertainty linked to proposed rules on registration thresholds for swap dealers and major swap participants.

The rule, which would address the cross-border application of registration thresholds, offers a risk-based approach that aims to advance the global harmonisation of swap regulation, according to the US regulator.

Handelsbanken to close its custody arm

Swedish Handelsbanken has decided to close its custody business, Global Investor understands.

The Stockholm-headquartered bank plans to close its custody arm by the end of the year, sources have said.

Handelsbanken's securities in custody, excluding mutual funds, increased to SEK417 billion (£35.2 billion) at the end of 2019 from SEK333 billion at the end of 2018.

Net fee and commission income rose to SEK1.15 billion from SEK1.043 billion, according to the bank's annual report. ■

Under **Abou-Jaoudé's** leadership, Candriam has diversified its business by product, client type and geography, and invested in technology to ensure it delivers excellent customer services.

Candriam chief Abou-Jaoudé reflects on a changing business

By **Luke Jeffs**

Naïm Abou-Jaoudé, has been the chief executive officer of Candriam since 2007. His first major undertaking was to guide the Luxembourg-based multi-strategy manager through the mayhem of the 2008 financial crisis and now the firm and its peers face another massive challenge as the coronavirus pandemic casts a shadow over the equities markets.

Yet Abou-Jaoudé believes Candriam is better equipped to deal with economic shocks today than it was when he took the helm.

Under Abou-Jaoudé's leadership, Candriam has diversified its business by product, client type and geography, and invested in technology to ensure it delivers excellent customer services.

Also important is the 2014 sale of Candriam to New York Life Investments, the $500+ billion multi-boutique manager owned by New York Life Insurance Company, the Fortune 500 firm that ranks among the world's top life insurers. With the global equity markets off a quarter in recent weeks and the economic outlook weak, now is a good time to be part of a mutual company.

The New York Life Investments deal was also remarkable because it was the catalyst for the launch of the Candriam brand, underlining the firm formerly known as Dexia Asset Management's long-standing commitment to sustainable investing (Candriam stands for Conviction AND Responsibility In Asset Management).

The COVID-19 pandemic, like the 2008 crisis, has highlighted the importance of responsible investing, namely investing for the long-term in sustainable companies that take responsibility for the environmental and social effects of their actions.

Given the coronavirus pandemic is developing rapidly and the situation is changing on an hourly basis, Abou-Jaoudé was concerned by the humanitarian catastrophe and understandably circumspect on the short-to-medium term impact of the outbreak.

Abou-Jaoudé told Global Investor: "In respect to the pandemic, we are carefully monitoring what we call the "three Ds": the depth of the crisis; the diffusion of the virus; and the duration. These are uncertain and will be key in determining the global impact of the epidemic.

"It is difficult to predict how things will evolve. Hopefully over the coming months, things will stabilise a little bit if the crisis is well managed. We have seen that the confinement measures in China are beginning to work, which tells us that if we manage the virus effectively, we can start to contain it. We will have to be very cautious for a period but, after that, I think things will stabilise. The shock to growth will be significant: in the Euro and the United States, it could easily subtract five GDP points."

He added: "But, overall, things will recover and, looking towards the end of the year, I think the markets will improve from where we are today at minus 30%. I think the central banks are intervening in the right direction by injecting lots of cash, reducing interest rates and opening new facilities, while fiscal support from governments has been massive."

Abou-Jaoudé said recent volatility reflects relatively thin liquidity in certain asset classes, which is, in part, linked to the withdrawal of investment banks from market-making.

The sudden economic shock caused by the COVID-19 pandemic has also forced people to think again about the sustainability of their investments and their vulnerability to unforeseen risks.

Abou-Jaoudé said: "What we are living through is another clear signal among many others, that the type of growth we have been pursuing over the last few decades is not sustainable over the long term. Continuing in the same direction will only exacerbate the potential for other extreme events.

"COVID-19 has shown how interdependent countries are. It has had such a profound effect on our economies and societies, that in the future we will look back at the "pre" and "post" pandemic years."

He added: "Going forward, the key for us as economic agents, will be to

Snapshot of Candriam
(as of 31/12/2019)

Established
1998

AUM
EUR 130bn(1)

# of employees
563

Commercial coverage
Servicing clients in over 20 countries: (EMEA – Americas – Asia-Pacific)

Subsidiary of
New York Life Investment Management Global Holdings S.à r.l.

Abou-Jaoudé: "The impact of this crisis will be obvious on Q1 and Q2 results, we will have a slowdown and likely a loss of 1% of the global growth for the whole year."

regenerate completely sustainable and inclusive growth. Sustainability already exists as a megatrend and if you look at the relative performance of ESG investment strategies, it's underpinned by strong performance. We are already integrating more and more extra-financial aspects in the way we manage our clients' assets, but what we need now is a unified, global framework that enables us to invest in directly tackling issues, like investments in climate change, or providing solutions to future challenges, such as the provision of healthcare for our ageing population."

While the name Candriam reflects the firm's commitment to responsibility in asset management, the firm also has a strong track record in ESG.

The firm launched its first Sustainable & Responsible Investing fund in 1996 and has been an ESG market-leader since then.

The CEO said: "We have a range of products covering 22 different processes in ESG, so that's equity, fixed income, credit and high yield, emerging equity, emerging bonds, asset allocation, and thematic ESG. We have our own ESG team of 22 people internally that was created in 2003 and some of them are still here including the head of the team and the head of corporate responsibility."

Abou-Jaoudé was from 1996 the co-head of alternative management at Alfi Gestion, which was acquired by UBS Asset Management in 1998, before that business was bought by Dexia Asset Management in 1999. It may have changed its name more than once but Abou-Jaoudé has been with the firm since the start of its ESG activities.

He said: "The visionary part was not to be the first asset manager analysing and integrating ESG, but to persevere in investing and developing the expertise over time. I remember going out in 2005 talking about ESG to clients and it was like shouting in the desert. There was a lot of confusion and we had to explain the philosophy around it. 2008 was the turning point. The financial crisis changed behaviours because it impacted everything in the real economy so that was the wake-up call for the industry."

ESG has in recent years become the fastest growing segment of investment management as investors have shifted their preferences to reflect increasing concerns about climate change and social inequality.

The Candriam chief said: "Companies are becoming more sensitive. Today 95% are publishing their CSR (Corporate Social Responsibility) reports for example, whereas 20 years ago it was only 20%. Today everyone is willing to move but it is not sufficient. We need to act collectively, it is not enough that one firm does it on its own."

Abou-Jaoudé said: "Pension funds and big institutional clients have been asking for responsible investments for the last ten years and they are putting pressure on the asset management industry and all stakeholders to manage their assets with climate constraints and

Candriam Timeline

1996	2000	2005	2008	2009	2010	2015	2017	2018
First SRI fund	SRI fund range	In-house SRI analysis	- First EM SRI fund - Macro analysis	Best-in-class SRI screening of countries	SRI indexed funds	- SRI Asset Allocation fund - disclosure of carbon footprint SRI fund range	Coverage of Emerging Markets Debt & High Yield	Company-wide tobacco/coal exclusion

Candriam – Leading the way in SRI for nearly two decades

Overall, 33% of our total assets under management are invested in SRI strategies (as of December 2019).

to limit CO2 emissions so everything is aligned to move forward. But are we moving fast enough? I think not. We need to accelerate more and more."

He said the industry must work harder on various fronts including CO2 emissions which are still way above where they need to be if the world is going to achieve in 2030 the emissions targets agreed in the December 2015 COP-21 meeting.

For Abou-Jaoudé and his management team, it is not enough however to invest in responsible firms.

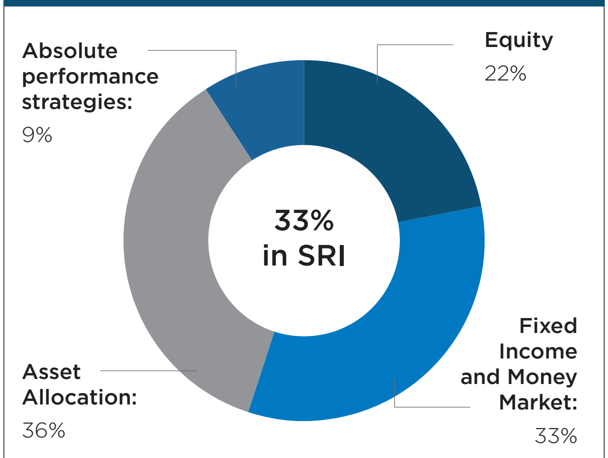
He said: "We are a responsible investor and we are also a responsible company, and you can't do one without the other. We practice what we preach. In our value chain, we apply the responsible approach as a company and as an investor for the client."

The chief executive is proud of his firm's ESG performance. Candriam became operationally carbon neutral a year ago despite its significant growth since 2014.

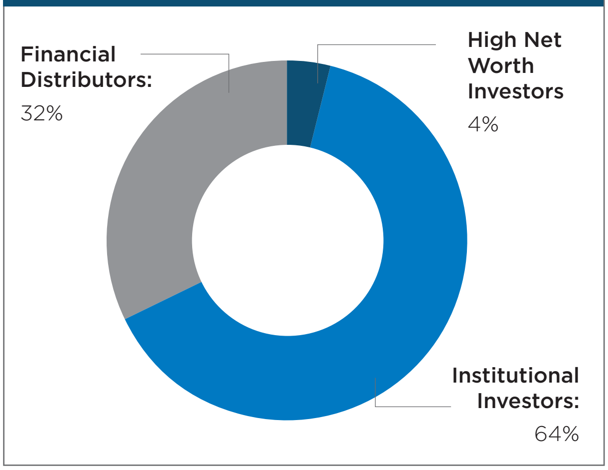
He said: "While we have doubled assets over the past six years, we have in that time been able to reduce our emissions. That was our first objective. We did this by digital working, video-conferencing and cutting down on travel. Our second was to offset our remaining CO2 emissions through reforestation and renewable energy projects."

Abou-Jaoudé: "Pension funds and big institutional clients have been asking for responsible investments for the last 10 years and they are putting pressure on the asset management industry and all stakeholders to manage their assets with climate constraints and to limit CO2 emissions so everything is aligned to move forward. But are we moving fast enough? I think not. We need to accelerate more and more."

Candriam
AUM by asset class (as of 31/12/2019)



Candriam
AUM by client type (as of 31/12/2019)



The firm is also putting its money where its mouth is.

Candriam has funded an e-Learning academy that has so far awarded 3,500 ESG certificates to financial advisers, and a non-profit institute that supports education and social inclusion.

The manager has also pledged to invest 10% of its own management fees from its new thematic products in ESG-responsible ventures.

"There are two examples: we have created a fund on oncology which raised €700m in 12 months, it has showed good financial performance but behind this we are taking 10% of our management fees on the assets and re-investing these in oncology research. This represents on average about €300-400,000 for research every year.

"We also launched the Candriam Climate Action Fund on World Environment Day on June 5, 2019. The objective of this fund is to invest in businesses that are active in Climate Change mitigation and adaptation. In doing so, the emissions of CO_2 of the portfolio is typically reduced by investing in alternative energy sources and new technology. But, beyond that, we want to go to zero emissions, so we take up to 10% of the fees of the fund and re-invest those in reforestation and alternative energy to curb the fund's CO_2 emissions to zero."

Candriam also works closely with the firms in which it invests to influence their behaviour.

Abou-Jaoudé continued: "We are also active shareholders and engage with companies on to influence their strategic decisions and ensure that they move in the right direction."

"We do that on our own but also with other companies, taking part in more than 50 collective engagement initiatives. For example, we started interacting with Shell in 2015 on greenhouse gas emissions, then in 2018 we joined the Climate Action 100+ initiative, an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change."

Candriam imposed in 2018 an exclusion on firms that derive revenue from the coal industry for example.

For Abou-Jaoudé, a key objective is to channel financial assets to the real economy to invest in infrastructure projects, renewable energy and social projects.

He said: "To achieve the Sustainable Development Goals, you need roughly $30 trillion between now and 2030. That is a big amount but it is achievable."

The Candriam chief believes there is an inherent conflict between the expectations placed on listed companies and realising sustainable investment goals.

"There are many challenges within that but one of the main ones is to start thinking long-term rather than short-term. We all talk about long-term goals, but listed companies must communicate every quarter on their results. So when challenged, CEOs will always delay investment in order to manage a short-term view.

"But it's not only the CEOs' responsibility, but our collective responsibility as an industry. We are all talking a lot about long-term investing but we still expect a lot of accountability each quarter. This has to be changed in terms of regulation or evaluation of the assets."

Abou-Jaoudé believes regulators and tax authorities can do more to expedite the movement of financial assets into responsible investment programmes.

He said: "Regulators could introduce a fiscal or regulatory advantage to help move assets to the sustainable real economy. When we talk about capital requirements for investments by insurance companies for example, they need to put about 45% in front of their equity but if it were an investment in renewable energy or a social purpose for example, we could reduce the capital requirement by half."

The chief executive added: "If it's a long-term investment, the volatility will diminish so if you require them to hold these assets for a long time, we can reduce the capital requirement and channel these investments into long-term projects."

Like many of his peers, Abou-Jaoudé also thinks that the standardisation of terminology would be beneficial: "There is some progress with the European advances in taxonomy. It is a good step but the taxonomy only applies in Europe so there are still different interpretations internationally. The UK is moving fast, as is the US, but I think we need to have some harmonisation which would help the channelling of financial assets to more sustainable projects."

Candriam's celebrated ESG funds are only part of the story however. Abou-Jaoudé's tenure has been characterised by efforts to diversify the firm's interests across different products, geographies and types of clients.

He said: "If I start with the client type, 60% of our clients are institutional and 40% are third party distributors. We cover all of Europe, which accounts for roughly 90% of our assets while the remaining 10% is new, and managed in

Forest Green Rovers:

Candriam signed in May 2019 a sponsorship deal with Forest Green Rovers, the English Football League club based in Gloucestershire.

The partnership with FGR, which has signed up to support Climate Neutral Now, a United Nations Framework Convention on Climate Change initiative, reflects Candriam's commitment to sustainability.

Speaking to Global Investor, Abou-Jaoudé said: "It is the greenest football team in the world. They recycle the water, they have solar panels everywhere, they play on an organic pitch and even the food is vegan."

The Candriam chief executive added: "It is a good example of a football team that is behaving in a responsible way. Hopefully we can give an example to the younger generation based on the way they are behaving. Football is important because there are so many followers. If they can give a good example, they can influence millions of people to behave like Forest Green Rovers."

the Middle East, Asia including South Korea, Japan and Australia, and the US, which draws on the strength of our partnership with our shareholders where they allowed us to have exposure in Asia and the US."

Candriam is just one of the firms owned and operated by New York Life Investments. The subsidiaries can lean on the parent, which is advantageous when it comes to moving into new territories, such as Asia.

Abou-Jaoudé, who is also chair of New York Life Investments International, said: "Candriam is one of the boutiques and in the past two years we have been able to raise €1.5 billion of new assets, relying on the sales force we have in South Korea and Japan."

When New York Life Investments bought Candriam in early 2014, only 1% of its business came from outside of Europe. At that time, the management pledged that by the end of 2021, the international book would represent 10% of its assets. Candriam's international business today equals about 8.5% of assets, Abou-Jaoudé told Global Investor.

The CEO, a former fund manager and chief investment officer, said the firm has also made strides in diversifying its strategies.

"My experience in the market is that you have to be diversified in terms of product and the types of solution you can offer your clients because it helps you to ride different types of markets and cope with different levels of volatility."

As well as its ESG funds, Candriam offers thematic equities, credit and high yield, emerging market equities and debt, asset allocation solutions for insurance firms and pension funds, and alternative funds based on market neutral, long-short or long-short credit strategies.

Abou-Jaoudé added: "We have also been focused on the development of our IT, digital services, data, artificial intelligence, reporting and performance attribution for the past six years. We have been growing but also investing a lot."

He concluded: "I believe that if you want to succeed in asset management, you need to rely on three pillars: strong relationships and client coverage; excellent performance and product; and first-class client servicing built on an excellent infrastructure. If you have these three strong pillars, you can succeed but with one important condition: the commitment of your people and a strong corporate culture."

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Culture is important to Abou-Jaoudé, who said the principles that make-up the name Candriam were chosen in 2014 by its staff.

The CEO said: "We don't have a star system, instead we rely on teams and this is the strong culture that has allowed us to manage different types of headwinds. Thanks to this, we have a long tenure in the team. On average, the teams have been working together for nine years and the management for 14 years, it's a stable team."

He added: "I know a lot of the industry are talking about these corporate responsibility principles now but we have been saying for years – success is not only about optimising profit for shareholders, it's about acting as a responsible company in the best interest of all your stakeholders. If your employees are happy and you are an employer of choice, you can attract the best talent and if clients are happy, they will be faithful and increase their assets over time.

Abou-Jaoudé is proud of the fact Candriam assets under management have doubled in the past six years to €130bn from half that when New York Life Investments bought the firm in early 2014.

The chief executive said: "By developing long-term partnerships with our clients, we have been able to cope with different types of headwinds and volatility. We are one of the best European success stories of the past six years. We have grown 15% year-on-year and in terms of cross-selling active funds, we are ranked in the top 20 every year for the last six years and number six over the period."

Abou-Jaoudé concluded: "We feel we have a duty as a company to serve our clients but to invest for the future generations so they have a world in which they can live, thrive and grow decently." ■

Trading Places: Q1 2020

An overview of the key people moves in the securities finance sector.

Marcus leaves Trax for IHS Markit

IHS Markit has named Gavin Marcus as a sales director in its London headquarters.

Marcus, who previously worked in regulatory reporting sales at Trax, a subsidiary of MarketAxess, will report to Charlie Bedford-Forde, executive director and head of Europe, Middle East and Africa (EMEA) sales for securities finance.

In a memo seen by Global Investor, IHS Markit said Marcus joined in January and brings "a wealth of knowledge" in the RegTech market.

He will primarily focus on Securities Financing Transactions Regulation (SFTR) buy-side business development and expanding IHS Markit's securities finance coverage in Europe.

Morgan Stanley's Kinnally joins BlackRock

Thomas Kinnally, formerly of Morgan Stanley, has joined BlackRock as a managing director, Global Investor understands.

New York-based Kinnally joined the asset manager from Morgan Stanley where he served for over 16 years in multiple senior positions before leaving in July 2019.

He began with Morgan Stanley in April 2003 where he served as head of trades for US specials trading for five years before being appointed as global head of collateral management for over eight years.

Kinnally was then promoted to global head of firm financing, which he held for just under a decade, before being appointed as global head of bank resource management (BRM) sales.

MUFG adds nine to sec lending desk

MUFG Investor Services, the asset servicing arm of Mitsubishi UFJ Financial Group, has named Tim Smollen as global head of global securities lending solutions.

New York-based Smollen will be joined by eight additional hires - Anthony Toscano, John Schreyer and UK-based Paul Collard – who will "support the growth and development of MUFG's securities lending franchise," the firm said in a statement.

In its memo, the firm said the latest hires are part of a "push to expand and accelerate" the growth of its global securities lending programme.

RBC's Barrand takes director role

Royal Bank of Canada's Investor and Treasury Services (RBC I&TS) has promoted Chris Barrand to director, securities finance.

London-based Barrand, who has been with the Canadian bank for almost twelve years, previously served as RBC's associate director, securities finance, a role he held for four years.

He joined the bank in July 2008 as a securities lending trader and remained in that position for four years, before promoted to associate.

Zlotchenko to lead tech for Hazeltree, Enso

Sol Zlotchenko will lead the technology teams for both Hazeltree and Enso, following the departure of Kayur Parekh.

Speaking to Global Investor, a spokesperson for Hazeltree confirmed that Zlotchenko, who has been Hazeltree's CTO since May 2016, will run both teams as there are no plans to replace Parekh "for the time being".

Hazeltree, a treasury software fintech, has been developing automated cash and collateral processes, which Zlotchenko has been heavily involved with, the spokesperson said.

StanChart to lose head of financing sales, Asia

Sean Bunyan is leaving his role as head of financing sales, Asia at Standard Chartered Bank, Global Investor understands.

ISLA names head of finance

Jamila Jeffcoate has joined the International Securities Lending Association (ISLA) as its head of finance and administration/chief of staff.

Jeffcoate, who is also joining the association's senior management team, has worked in the securities lending industry for over 20 years in both front office trading and business management roles.

On the appointment, Andrew Dyson, CEO at Isla, said: "I am thrilled to have Jamila join the Association, and assume day to day responsibility for the business. Her knowledge and experience within the industry are unrivalled, and she will therefore be able to add considerable value to all aspects of the work we do."

Hong-Kong based Bunyan has been with the bank for over three years, but has over twenty-years of experience in repo, equity financing, stock loan, rates, and derivatives products.

Prior to joining Standard Chartered, Bunyan was an executive director at Morgan Stanley, where he was responsible for client and firm financing sales and strategy, dividing his time between London and Hong Kong. He served in that role for more than a decade.

FIS names Hodder as European sales head

US fintech giant FIS has named Jonathan Hodder as its head of sales Europe, securities finance and collateral management.

Prior to joining FIS, Hodder was EquiLend's global head of sales and marketing, a position he was in for eight years after departing from his role at Global Investor.

FIS operates as one of the world's largest payment providers and wrapped up a $43 billion (£33 billion) deal to acquire WorldPay in March 2019.

Scotia's Stracquadino to retire this year

John Stracquadanio, Bank of Nova Scotia's (Scotia) head of US capital markets, prime services and collateral management and funding, is set to retire later this year.

New York-based Stracquadanio has been with the Canadian bank for just shy of ten years and has led the global growth of the firm's prime services business.

He will continue to serve in his role until his retirement, which is expected to be in July 2020.

State Street loses head of product strategy

State Street's managing director, global head of product strategy, Jon Whiting, has left the bank after being in the role for just over eighteen-months, Global Investor can reveal.

A spokesperson for State Street confirmed the global head had left but declined to comment further.

Boston-based Whiting was at the bank for more than seventeen years and was responsible for structuring the short- and long-term global strategic business development paths for the bank's agency lending, enhanced custody and alternative financing business lines.

Sec finance veteran rejoins market

Tony Venditti has rejoined the market and landed himself the role of managing director at South Street Securities.

New York-based Vendetti retired in July 2019, leaving his position as co-head of global prime finance and Delta 1 trading at BMO Global Markets.

In a memo issued on February 20, Venditti said he had found "an exciting opportunity" with a firm that he has known "for many years".

Pierpoint names new Benelux lead

Jeroen Bakker has been named as Pierpoint Financial Consulting's Benelux consulting lead, effective immediately.

Amsterdam-based Bakker, who has taken over from Raymond Blokland in the region, has over two decades worth of securities finance experience on both the buy- and sell-side.

Prior to joining the consultancy firm, Bakker founded his own consultancy practice in the securities finance and collateral management market, named Ampalo.

Eurex targets buy-side with new hire

Nick Barnes will join Deutsche Boerse Group as senior vice president for sales and relationship management, effective from March 1.

London-based Barnes, who previously served at MarketAxess, will focus on Eurex Clearing's buy-side initiative and report to Jonathan Lombardo, head of fixed income derivatives funding and financing sales, Northern Europe, a memo said.

Julius Baer collateral head steps down

Jong Frochaux, Julius Baer's head of collateral trading and collateral management, is exiting the Swiss bank, Global Investor can reveal.

Frochaux took over from Roland Schoch as collateral head after Schoch resigned in May 2019.

It is understood that Frochaux is not stepping down to take on another role elsewhere, but has decided to leave on his own accord.

He started his securities lending career with UBS Switzerland, but has also served at AXA Investment Managers in London, Singapore and Hong Kong.

Freeman exits DTCC after 16 years

Tony Freeman, a long-standing executive director at The Depository Trust & Clearing Corporation (DTCC), has left the firm after almost 16 years.

A spokesperson from DTCC confirmed his departure in late February and told Global Investor: "Tony Freeman left DTCC to pursue new opportunities. We thank Tony for his valuable contributions and wish him continued success in the future."

He served at the firm for close to 16 years, most recently as an executive director of government relations at the market infrastructure firm.

Barclays appoints Delta1 director

Alykhan Somji has been promoted to director of trading for Delta1 and equity financing at Barclays Investment Bank.

Somji, based in London, has been with the bank for more than eight years, serving in a number of roles across the treasury and trading arms of Barclays.

He was previously the vice president of trading for the bank's structured financing division, a position that he held for just over three years. ■

ISLA chief Dyson takes stock of pandemic challenges

By **Andrew Dyson,** CEO of the International Securities Lending Association (ISLA)

For most of you reading this in your homes, the past two weeks have been some of the most radical in terms of changes in your working lives that you will have ever experienced. Entire industries and businesses have effectively relocated or dispersed in response to the global COVID-19 pandemic. During these unprecedented times, we are all showing incredible resilience and flexibility as we work to ensure compliance with the various health guidelines to limit the spread of the virus.

Although our personal and business priorities at the moment rightly centre on the health and wellbeing of our families and wider communities, including the most vulnerable, there is an opportunity to glimpse at what

> “Many preconceptions, especially around the effectiveness of remote or home working are being swept away at the moment, and this raises important questions around the future form and structure of our traditional office environments.”

a post-pandemic business world might look like. Many preconceptions, especially around the effectiveness of remote or home working are being swept away at the moment, and this raises important questions around the future form and structure of our traditional office environments. We are all becoming increasingly familiar with video and web conferencing applications, that are now suddenly seen as fundamental to keep a business functioning. It will be difficult to see how firms will go back to life before COVID-19, especially if they see significant cost-savings and efficiencies associated with the need for less core office space and even travel. Sometimes a change of this magnitude happens without any of us realising it; this might be one of those moments.

As global stock markets have reacted to the crisis, we have seen regulators respond with an array of fiscal stimulus packages designed to protect their economies, whilst providing financial cushions for workers forced to isolate. These measures have perhaps inevitably included the imposition of temporary bans on short selling activities.

There is no doubt that the topic of short selling can cause considerable debate amongst a broad array of market participants and politicians. Short selling is a topic that is rooted in economic behaviour that, as you will all know from the previous financial crisis, can easily transcend into the political arena, particularly at times of market stress. There is a long history of academic research that tends to suggest that the disadvantages associated with short selling bans tend to outweigh the advantages. Inevitably however, this is not always clear cut. In the past two weeks, we have seen a number of European national competent authorities (NCAs) introduce temporary bans on short selling, whilst the FCA in the UK has taken a different view, publicly supporting the role that short selling plays in facilitating effective price discovery and efficient markets.

> “Short selling is a topic that is rooted in economic behaviour that, as you will all know from the previous financial crisis, can easily transcend into the political arena, particularly at times of market stress.”

The COVID-19-led crisis is perhaps something different, with a global health emergency potentially changing investment and economic fundamentals, rather than the historically more familiar economic or politically driven events. As markets have fallen rapidly as a result of economic fears associated with the virus, we have seen long-only managers actively sell investments as the fundamentals around these investments have changed. There is no doubt that we have also seen short sellers active as these markets have fallen. However, I feel the key questions are: what is leading these price spirals? Is this activity being induced by short sellers, or are they simply following the market and seeking opportunities accordingly?

The answers may be somewhat dependant on which side of the debate you stand on. A cursory look at how markets have performed in the past few days tends to suggest that the big swings we are seeing across all developed equity markets appear to be driven more by broad investor sentiment, rather than the activity of short sellers. Interestingly, the shape of the performance curves in those markets that have seen bans versus those that remain unencumbered, look almost identical. A good example of this is to consider how the FTSE 100, the S&P 500 and the CAC 40 have performed in the past month. All of these markets recorded lows around 18 March, with further notable lows on 23 March. In line with a general rise in sentiment in the past few days, all of these indices have risen. However, it is interesting that both the FTSE and the S&P have tended to fall less and recover more strongly than the CAC. There could of course be multiple and complex reasons for these differences, but the potential absence of market liquidity often seen following a ban in short selling could be a factor here. From this albeit unscientific and anecdotal review, recent events tend to look as if investment fundamentals are driving the market at the moment, and this is no more than a somewhat extreme traditional market sell off.

Just as I am writing these remarks, I have just seen the announcements from ESMA and the NCAs regarding the rolling impact that COVID-19 is having on SFTR implementation. The decision to deprioritise backloading of data seems to me to be a pragmatic and sensible step to take at this time. Whilst it will ease the data burden on members, it will not in my view materially undermine the overall aims and objectives of the regulation.

This week has also seen the launch of our new ISLA Best Practice Handbook. Based on the findings and outputs of our various working groups and ISLA-led initiatives, the ISLA Best Practice Handbook will allow members and non-members to access general and topic specific guidance in a more dynamic-style access. Their objective is to assist firms in the implementation of sound policies and processes within the relevant securities lending market area. Whilst we have initially gone live with SFTR, over the coming weeks and months you will find additional versions, including general best practice.

In closing, I hope that you, your families and friends are safe and well during what is a very challenging period for us all. ■

The securities finance market responds to coronavirus pandemic

Global Investor Group traces two months that cast a shadow over the securities finance market

China injects 1.2 trillion yuan as market reopens

China's central bank will inject 1.2 trillion yuan (£131 billion) worth of liquidity into the markets via reverse repo operations on Monday, the bank revealed in a statement.

The Chinese market reopened on Monday after the Lunar New Year holiday – having been closed since January 23 – and amid the coronavirus outbreak, which has claimed 305 lives, all but one in China.

However, upon its opening – which had been pushed back to Monday, February 3, from Friday, January 31 – Chinese stocks slumped 8% in the worst rout since 2015.

February 6:

PASLA, RMA postpone Asian lending event

PASLA and the Risk Management Association (RMA) has postponed the 17th Annual PASLA/RMA conference on Asian securities lending set to take place in Tokyo in March.

The bodies said they had been closely monitoring the coronavirus outbreak, which has continued to spread outside of China, through the Asia Pacific region, and beyond.

March 2:

Indonesia halts short selling

Indonesia's stock exchange, IDX, halted short selling on March 2 to prevent further decline in the stock market caused by panic selling as the coronavirus continues to spread.

The news comes shortly after the Indonesian government confirmed the first two cases of the Covid-19 infections in the country.

In a statement, Yulianto Aji Sadono, IDX's corporate secretary, said: "The exchange will not publish any list of securities that can be traded in short selling until a future date to be determined later."

March 10

Fed increases liquidity as COVID-19 spreads

The Federal Reserve Bank of New York (Fed) has increased the amounts offered in daily overnight and two-week term repo operations.

From March 10 and through March 12, the federal bank will increase its daily overnight operations from at least $100 billion (£76.7 billion) to at least $150 billion.

Also from March 10, the bank's two-week term repo offering will rise from at least $20 billion to at least $45 billion. The bank will be offering the same conditions on March 12.

In a statement, the Fed said: "Consistent with the Federal Open Market Committee (FOMC) directive to the Desk, these adjustments are intended to ensure that the supply of reserves remains ample and to mitigate the risk of money market pressures that could adversely affect policy implementation."

March 11

South Korea "strengthens" short selling rules

South Korea's Financial Services Commission (FSC) has said it will tighten the rules surrounding short selling for three months, effective from March 10.

In a statement, the authority said the steps have been taken in response to recent market volatility and, while closely monitoring market developments, the government will continue to take "appropriate measures based on contingency plans".

London sec finance events halted

IHS Markit and the Women in Securities Finance group have cancelled their events that were due to take place in London as the Coronavirus continues to spread.

IHS Markit said: "Due to circumstances concerning COVID-19 (Coronavirus), we have decided to cancel the London Securities Finance Forum on Tuesday 24 March."

March 12

Fed raises repo minimum again

The Federal Reserve Bank of New York (Fed) raised the amounts offered in daily overnight and two-week term repo operations once again.

Having only increased the amounts offered in March 10, the central bank said: "Beginning Thursday, March 12, 2020 and continuing through Monday, April 13, 2020, the Desk will offer at least $175 billion (£137 billion) in daily overnight repo operations and at least $45 billion in two-week term repo operations twice per week over this period."

As of March 12, the Fed will also

offer three one-month term repo operations, with the amount offered for each of these being at least $50 billion.

March 13

South Korea imposes short selling ban

South Korea's Financial Services Commission has decided to impose a six-month ban on short selling.

In a statement, the authority said short selling in the Kospi, Kosdaq and Konex markets will be prohibited for a period of six months, effective from March 16 to September 15.

"During the six-month period, the current limits on stock buybacks will also be lifted for listed companies," the authority said.

Italy, Spain halt short selling for one day

Italy and Spain have placed a one-day ban on short selling in a bid to bring some stability after European markets lost around $4 trillion in market value.

In a statement, Italian stock exchange operator Borsa Italiana noted that the market regulator, Consob, banned short selling on 85 Italian shares considering the price changes recorded on Thursday, when the market tanked around 17%.

FCA prevents short selling of Spanish, Italian stocks

UK financial watchdog the Financial Conduct Authority (FCA) imposed a one-day short selling ban on certain Spanish and Italian stocks.

Stocks included in the ban are Italian football club Juventus, super car manufacturer Ferrari, banks UniCredit and Intesa Sanpaolo, and Spain's Santander, along with 80 other stocks.

In a statement on its website, the FCA said: "This measure is effective immediately on March 13 2020 until the end of the trading day on March 13 2020."

March 16

Bank of Japan doubles ETF purchases

The Bank of Japan (BOJ) has decided to purchase exchange-traded funds, according to a statement.

The central bank said this will increase the annual upper limit to approximately ¥12 trillion (£92 billion) from ¥6 trillion.

The bank also announced in its press release other measures to enhance monetary easing due to the impact of the COVID-19 outbreak.

The BOJ said it would provide more yen funds by "making use" of purchases of Japanese government bonds.

March 17

European countries ban short selling

Some EU members have banned short selling for fixed periods after prices dropped at the end of trading day on March 16.

France, Italy and Belgium have announced a temporary ban on short selling for the trading day of March 17, while Spain's ban will last a month.

Italy and Spain already implemented a one-day short selling ban on March 13 to stabilise markets.

Spain's securities market regulator, the Comisión Natcional del Mercado de Valores (CNMW), has banned entering into transactions on securities and financial instruments which create or increase a net short position on Spanish shares, it announced in a statement on March 16.

March 18

Trade bodies want SFTR delay due to coronavirus

Trade bodies the International Securities Lending Association (ISLA) and the International Capital Market Association (ICMA) have urged the European Securities and Markets Authority (ESMA) to delay the Securities Financing Transactions Regulation's (SFTR) go-live date.

In an open letter addressed to Steve Maijoor, chair of ESMA on March 16, the firms asked for a delay of the SFTR go-live date of April 11.

Due to the COVID-19 pandemic and its business impact on firms, they have suggested extending the go-live date to October 11, which currently serves as the reporting start date for the third phase of the regulation.

Italy, France, Belgium extend short selling ban

Italy has decided to extend its ban on short selling to three months from a single day while France and Belgium have extended their bans to one month from one day.

On March 16, the relevant financial regulators decided to apply the short selling ban for one day on March 17, but they extended these bans on March 18 in response to the business impact of COVID-19.

Italy's Commissione Nazionale per le Società e la Borsa (CONSOB) announced that starting from March 18, a ban on net short positions for all traded shares on the Italian regulated market would be enforced.

March 19

Austria sought pan-European short-selling ban

The chief executive of the Austrian stock exchange has expressed regret that no Europe-wide ban on short-selling has been agreed after his regulator banned short-selling for a month.

Speaking after Austria's Financial Market Authority (FMA) said that short-selling of Austrian stocks would be banned for one month until April 18, Christoph Boschan, CEO of the Vienna Stock Exchange, said he would have preferred a Europe-wide ban.

Boschan said in a statement: "The national supervisory authority, like us, has urgently sought the extended ban at EU level. Both the impact of COVID-19 (Corona) and the interests of the individual sub-markets of the Union still differ greatly."

March 19

ESMA delays SFTR phase 1 launch

The European Securities and Markets Authority (ESMA) has announced the delay of the first phase of the Securities Finance Transactions Regulation (SFTR).

The deadline for phase 1 reporting obligations has been postponed from April 13 to July 13.

The European regulation requires firms to report details of their securities lending, repo and margin lending transactions to a trade repository to enhance the transparency of the securities financing markets.

Trade bodies had urged ESMA to reconsider extending SFTR's April go-live date to October and it acknowledged on March 19 that the COVID-19 outbreak was putting immense pressure on the industry to remain compliant in time.

ESMA said it would not be necessary to register any trade repositories (TRs) before the April deadline.

March 20

Central banks to offer daily US dollar repo operations

The Bank of England (BoE) said it will increase the frequency of seven-day maturity operations from weekly to daily starting on Monday as part of its suite of policy measures to address the challenges of COVID-19.

The measure, which is being taken in co-ordination with other central banks, aims to further enhance the provision of liquidity via the standing US dollar liquidity swap line arrangements.

From March 23, the BoE will offer daily US dollar repo operations with seven-day maturity, which will continue until at least the end of April.

March 22

SEC relaxes regulatory obligations

The Securities and Exchange Commission has said it will provide relief of regulatory obligations for transfer agents and other members who are subject to federal securities law.

These laws refer to processing securities transfers, safekeeping of investors and issuer funds and securities, and maintain records of investor ownership.

The relaxation period is from March 16 until May 30. The US equities regulator said this period could be extended if it sees fit.

March 23

Australia offers US dollar repos

The Reserve Bank of Australia (RBA) and the Federal Reserve (the Fed) have announced that they will create a temporary currency arrangement (swap line) for US dollar liquidity.

The Fed said it will also establish the same arrangements with the Banco Central do Brasil, the Danmarks Nationalbank, the Bank of Korea, the Banco de Mexico, the Norges Bank, the Reserve Bank of New Zealand, the Monetary Authority of Singapore and the Sveriges Riksbank.

India's Sebi curbs short-selling in equity derivatives

The Securities and Exchange Board of India (Sebi) has taken steps to curb short-selling in equity index derivatives as part of a suite of measures to tackle "abnormally high volatility in the market" due to concerns relating to the coronavirus pandemic.

In a statement, Sebi said the changes would begin on March 23 following discussions with stock exchanges, clearing corporations and depositories.

March 24

Fed pledges to continue offering repos

The Federal Reserve (the Fed) has said it will continue to offer large-scale overnight and term repurchase agreement (repo) operations.

The US central bank also said it would continue to purchase treasury securities and agency mortgage-backed securities.

This is to help markets function efficiently, the Fed said in a statement on March 23.

The Federal Open Market Committee said it would continue to monitor market operations and assess the pace of its securities purchased in future meetings.

Germany refuses to ban short selling

Germany's financial regulator, The Federal Financial Supervisory Authority (BaFin), has said it does not plan to ban short selling.

Anja Schuchhardt, press officer securities supervision at BaFin, said: "At the moment, we do not plan a ban. We do monitor the market closely and are in contact with the exchanges, the supervisory authorities of the other countries and The European Securities and Markets Authority."

March 25

JSE to stay open during Covid-19 lockdown

The Johannesburg Stock Exchange (JSE) plans to remain fully operational throughout South Africa's 21-day Covid-19 lockdown, which comes into effect on March 26, but will take "strong and decisive action" against any instance of naked short-selling, JSE Group's CEO Leila Fourie has warned.

In a statement, Fourie said such actions would include restricting a member's trading activities if the exchange believed that member was trading in a manner that put the market at risk. "Under the current market conditions, market participants need to maintain confidence in the ability of their counterparts to meet all of their settlement obligations," she said. ■

The gradual emergence of Asian repo

The relative immaturity of the repo market in Asia represents an opportunity for financial institutions with a strong track record in the European and North American markets. China is the main focus, although specific challenges in that market mean other jurisdictions should not be ignored. **Paul Golden** reports.

When outlining the key developments in the Asian repo market over the second half of 2019 and the early months of 2020, there is only one place to start. There are obvious reasons why China's repo market is the subject of so much interest - China is already the world's largest economy in terms of purchasing power parity and while GDP in the US is expected to remain ahead of that of China by 2023, the gap continues to close.

"The focus has been on likely developments in China, which is by some distance the largest market for investors targeting the region as evidenced by the growth in the number of investors channelling funds into the government bond market," notes David Campbell, head of fixed income at the Asia Securities Industry & Financial Markets Association.

This is significant given that the People's Bank of China only announced the official launch of tri-party repo in the interbank bond market as recently as November 2018.

China's National Association of Financial Market Institutional Investors observed that over the previous few years, participants of repo transactions in China's interbank bond market had become increasingly diversified. They had also become more conscious about risk and cost efficiency and had expressed demand for refined management of repo collaterals.

Meanwhile, it was acknowledged that risk prevention and control in the repo market also needed strengthening. The launch of tri-party repo in the interbank bond market was designed to reduce risks such as settlement failure and ensure the effective coverage of risk exposure in the duration of repo transactions.

Since then there have been a number of evolutionary changes to how inves-

> If we think of where the Chinese corporate bond market might be in five or 10 years' time, or the level of international investment in Chinese government bonds, it is simply a matter of time before foreign investors are granted access to repo through a more suitable arrangement for international investors.

David Campbell, head of fixed income at the **Asia Securities Industry & Financial Markets Association.**

tors can access the Chinese market, which in turn have created a variety of investment channels through which investors might be able to access repo. However, the repo market in China remains primarily domestic and very few foreign investors choose to access it.

Campbell explains that it is used largely by smaller and less capitalised domestic firms to assist in their cash needs while the secured lenders tend to be the larger institutions. The majority of trades are over very short tenors, typically overnight.

While the Chinese financial market is opening up at a more rapid rate than some investors realise, access to the domestic corporate bond segment remains limited. The government has been reluctant to open the corporate bond market to foreign investors despite the presence of government bonds in the JP Morgan, Bloomberg and FTSE fixed income indices. Corporate bonds are still 'off benchmark' for all except the most informed of professional investors.

"However, if we think of where the Chinese corporate bond market might be in five or 10 years' time, or the level of international investment in Chinese government bonds, it is simply a matter of time before foreign investors are granted access to repo through a more suitable arrangement for international investors," says Campbell.

Right now, investors can technically access the larger onshore market though the China interbank bond market. In reality, very few do because if they do repo onshore all the players use a local agreement - the Chinese version of the general master repo agreement.

This is a document many foreign investors would never have used before and is subject to interpretation by Chinese courts if there is a dispute, says Campbell. "In addition, repo in China is conducted through a pledge based system where the actual title (holder) of securities does not change."

In this scenario the collateral is denoted as having been secured versus the loan and does not transfer into the account of the party lending the cash. This is problematic since no one knows how the market will work in a stressed situation and therefore whether the collateral (securities) could be liquidated in a timely manner.

Campbell adds that this structure has never been tested under a stressed market situation.

In addition, secured funding is not currently an option within Bond Connect, although ASIFMA has been advocating adding this feature to the bond connect framework, where offshore investors could do repo with each other using a general master repo agreement for documentation and title transfer trades if so desired.

From a regulatory perspective, Campbell observes that capital requirements have been a major issue. "Repo is a key element of that, so there has been an impact on how banks in Asia manage their balance sheets, especially over quarter and year-end dates," he adds. "However, the banks have done a good job of adapting to these changes over time and most of the necessary adjustments have been made."

Iain Colquhoun, head of investment banking Europe & Asia Pacific at TD Securities refers to an increase in the number of participants within the secured financing space and suggests that a number of corporates domiciled in the region are also exploring the use of tri-party as an alternative cash placement tool.

"This has been a global trend as well as an Asian one and we are seeing a growing number of requests for services of this kind," he adds.

As for which Asian markets are most interesting at the moment and what his firm is doing to realise those opportunities, Colquhoun observes that Australia and Japan are the region's largest markets.

"However, the fixed income markets in South Korea and Taiwan continue to be important to Asia's overall financing picture and there would appear to be a continuing appetite for engagement from global banks," he says.

Another area of the market that has experienced heightened interest recently is secured funding. The obvious reason for this increase in interest is that secured funding provides clients with an additional layer of credit protection. If the bank they have their deposit with ceases trading, they have the collateral and in uncertain times

this becomes more important, says Colquhoun. "The depth available in the repo market far exceeds the credit appetite large corporates have for most banks," he continues. "This attractive proposition has become easier and easier to engage with."

The global market is preparing for the net stable funding ratio and the Securities Financing Transactions Regulation so it is inevitable that these regulations will impact the Asian repo market, he adds. "The most significant change - which will impact Asia in addition to Europe - is the onset of automation to answer the requirements of these reporting obligations. We have already seen a proliferation of new entrants into the RFQ platform space."

Colquhoun describes peer-to-peer lending as having been a hot topic in the Asian secured finance market for a number of years.

"Ultimately, banks play an integral role in the transmission of secured financing by providing credit disintermediation and tenor extension," he says. "The large providers of cash into the secured financing system are typically the most constrained from a regulatory perspective and the entities most in need of finance tend to be less well-rated. This is a fundamental problem which no system or service has yet been able to solve."

The repo market has continued to grow in Asia over the last 12 months in line with growing bond market notional in Asia and the increased risk appetite of global financial institutions - repo financing providers - to take on Asian bonds in these secured financing transactions.

That is the view of Ryan Chan, co-head of business development, cross structuring group for global markets at

"However, there are still a number of structural issues for doing repo in China - for example, about repo netting treatment - that market participants need to address if they are to realise those opportunities."

Ryan Chan, co-head of business development, cross structuring group for global markets at **Societe Generale**

Societe Generale, who refers to China as the most interesting market in the region.

Amid the growth in the Asian bond market, Chinese bonds are particularly increasing in size and foreign ownership of China onshore bonds is increasing substantially as more and more global bond indices have included China onshore bonds as underlying constituents, he adds. "However, there are still a number of structural issues for doing repo in China - for example, about repo netting treatment - that market participants need to address if they are to realise those opportunities."

Chan says the rise of secured funding in Asia has been driven mainly by low USD rates. "Hence it makes sense for clients to get financing/leverage via repo since the repo rate is low and without financing or leverage, investors cannot meet the yield target they require."

He acknowledges that peer-to-peer lending has been a widely discussed topic in China. However, he also observes that a number of recent defaults have made it an extremely challenging market.

Chan recognises that the Chinese repo market is developing and has significant potential. "But as mentioned above, the lack of repo netting treatment makes it difficult for the market to develop very quickly," he concludes. ■

"The depth available in the repo market far exceeds the credit appetite large corporates have for most banks. This attractive proposition has become easier and easier to engage with."

Iain Colquhoun, head of investment banking Europe & Asia Pacific at **TD Securities**

The APAC region in 2020

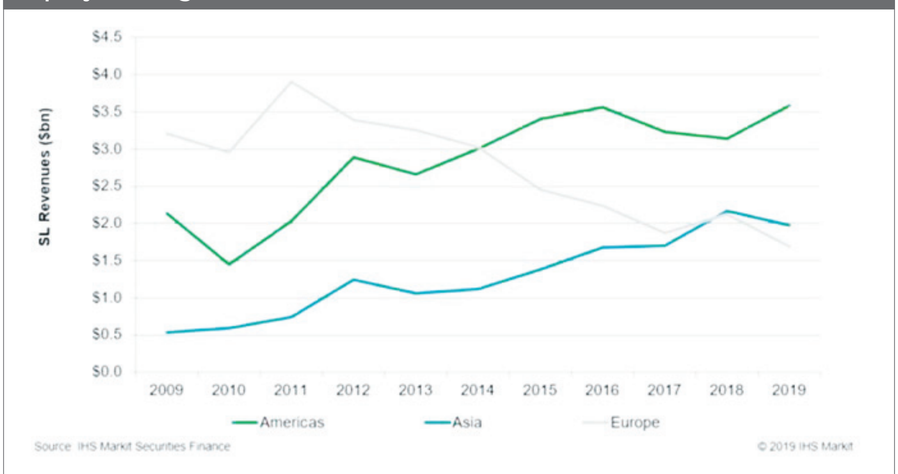
Q&A with IHS Markit

Why is APAC a Securities Finance region to watch in 2020?

Equity lending revenue in APAC surpassed European revenues in 2018 and the gap continues to widen. It's a story of two halves with European revenue posting a steady (45%) decline over the past ten years in contrast to APAC 120% rise.

The region has several vibrant emerging lending markets, such as South Korea and Taiwan driving growth. In addition, regulations may see China's market open up to securities lending as they seek to open capital markets and attract more foreign investment.

Equity lending revenue trend



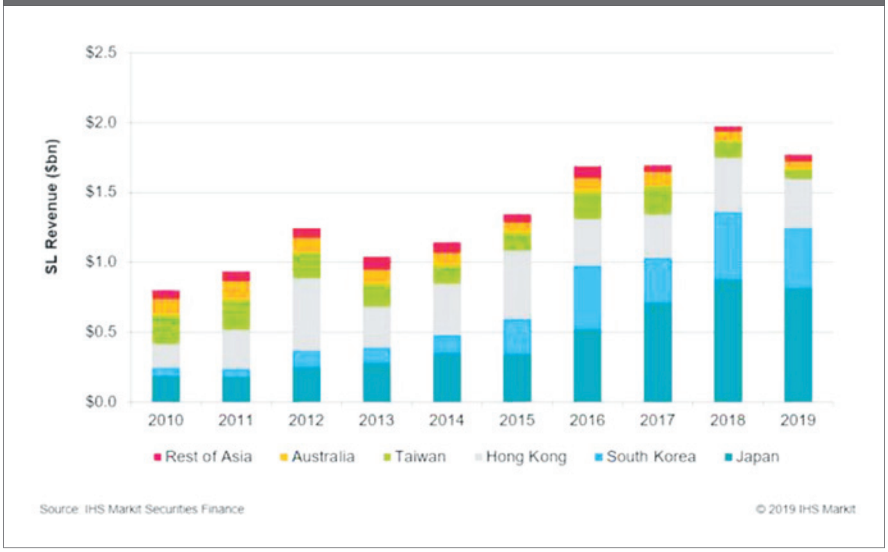
IT'S A STORY OF TWO HALVES WITH EUROPEAN REVENUE POSTING A STEADY (45%) DECLINE OVER THE PAST TEN YEARS IN CONTRAST TO APAC 120% RISE.

What are the key Securities Finance markets in APAC?

Japan is the most mature and remains the largest securities finance market in APAC. Due to Japan's economic growth it has continues to attract short activity, despite signs of improving corporate governance and profitability. However, South Korea has seen strong revenue growth driven by highly special securities, such as HLB (pharmaceutical) and Meituan Dianping (Retail) and a substantial tech sector.

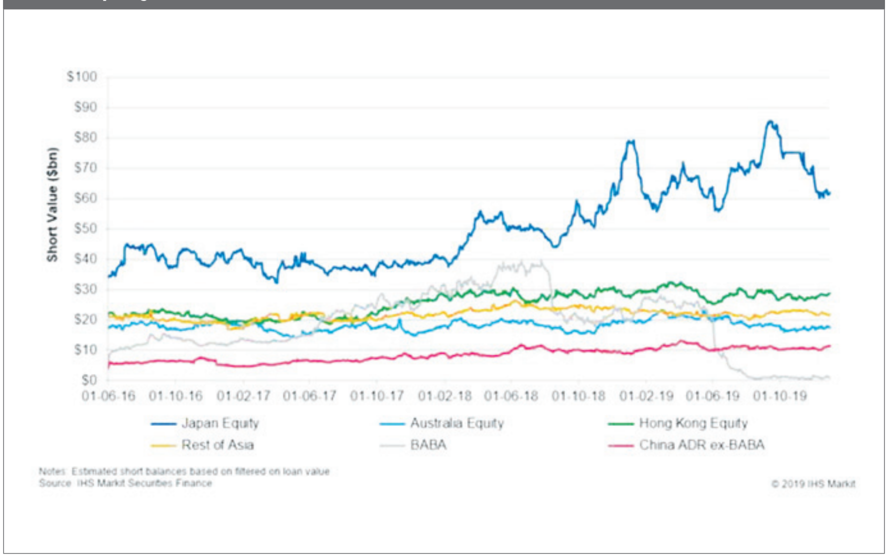
JAPAN IS THE MOST MATURE AND REMAINS THE LARGEST SECURITIES FINANCE MARKET IN APAC.

Asia equity lending revenue



SOUTH KOREA HAS SEEN STRONG REVENUE GROWTH FOCUSED DRIVEN BY HIGHLY SPECIAL SECURITIES, SUCH AS HLB (PHARMACEUTICAL) AND MEITUAN DIANPING (RETAIL)

Asia equity short balances



What was the impact of Coronavirus (Covid19) on China's securities finance market?

Because the Chinese finance market is restricted to domestic participants only, we used our data on the Chinese ADR's as a proxy to identify any unique early trends related to the discovery of the virus. Per chart below, whilst the virus was detected in early to mid January, markets were slow to identify the potential impact of the virus.

Lendable value (USD)

Value on loan (USD)

Borrowers of Alibaba exit positions prior to steep price rises in the later half of 2019.

WHILST THE VIRUS WAS DETECTED IN EARLY TO MID JANUARY, MARKETS WERE SLOW TO IDENTIFY THE POTENTIAL IMPACT OF THE VIRUS.

What has been the regions reaction to the GPIF announcement they are suspending Equities lending?

The GPIF decision has highlighted to many beneficial owners the importance of maintaining a strong governance framework for their securities lending program. ESG has never been a higher priority and ensuring securities lending does not impact on voting and corporate engagement priorities is critical.

A governance framework not only covers corporate governance, but, it also details the type of program, approved securities, markets, collateral, counterparties, specific restrictions. Importantly, the governance framework should address default, and continencies around market events e.g. market volatility, short selling bans etc. and managing program risks.

Historically, most beneficial owners delegated the management of program risk to agent lenders and would rely on the Agent Lenders indemnification. However, regulations have seen indemnification costs rise making some low fee (GC) trades uncommercial. Resulting in some beneficial owners choosing to take more control over their lending programs by moving to un-indemnified loans, peer to peer transaction, structured (e.g. TRS) and direct lending arrangements. These transactions switch the dial up on lending returns, but, also increase demand for oversight and enhanced risk analysis, such as VaR and ELOD, to assess and monitor counterparty exposure.

Having strong and well communicated framework allows beneficial owners to manage both internal stakeholders and continue to benefit from revenue generated from the lending program.

ESG HAS NEVER BEEN A HIGHER PRIORITY AND ENSURING SECURITIES LENDING DOES NOT IMPACT ON VOTING AND CORPORATE ENGAGEMENT PRIORITIES IS CRITICAL.

Why are Beneficial Owners looking to implement a Treasury function?

Whilst Phase 5 of the Initial Margin requirements are due to come into force in 2020, the majority of larger Beneficial Owners will be impacted by Phase 6 which is due to come into force in 2021. The IM will require Beneficial Owners to ensure they maintain daily collateral and liquidity for their their OTC positions.

For some Beneficial Owners this presents an opportunity to invest in resources to support Treasury like functions similar to Banks/ Investment Banks, with daily cash placement/management capacity. To effectively manage cash relies on establishing overnight and term repo and as well as a credit team to support term and other structures. These changes will also employ additional operational and risk support staff to manage and oversee the operations including the management of collateral and margin calls.

Supporting stats: Term funding

THE IM WILL REQUIRE BENEFICIAL OWNERS TO ENSURE THEY MAINTAIN DAILY COLLATERAL AND LIQUIDITY FOR THEIR THEIR OTC POSITIONS.

Has the APAC region been impacted by activist short seller?

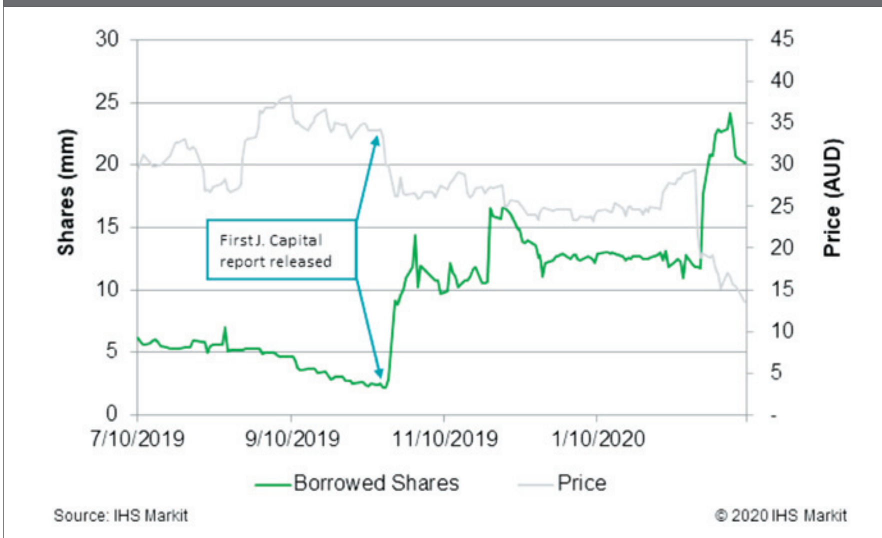
In many Asian cultures secrecy is a highly valued, which makes the region fertile ground for activist short sellers which thrive on information vacuums.

Activist shorting remains a controversial strategy as the research is presented with the clear intent on driving share prices down. However, it's a highly risky strategy as the strategy is exposed publicly and available for scrutiny, providing both long holders and short sellers with information potentially useful in valuing the firm.

When done properly, it is in the public interest for this research to be published and considered based on the merits of the analysis.

A recent example within APAC was Wisetech Global Ltd (WTC), J Capital Research has released three reports to date, (the first highlighted on chart below). The share price is down -59% since the first report was published. Borrowing of shares was in decline on the eve of the report, though J Capital Research does reveal it was short the shares of WTC at time of publishing.

Wisetech Global Ltd borrowed shares & price



ACTIVIST SHORTING REMAINS A CONTROVERSIAL STRATEGY AS THE RESEARCH IS PRESENTED WITH THE CLEAR INTENT ON DRIVING SHARE PRICES DOWN.

How do you see 2020 playing out for APAC?

Obviously the current global situation is hard to predict, however, the APAC region has had a headstart dealing with the virus and it's recent experience dealing with SARS, has resulted in countries such as South Korea leading the world in response to coronavirus. In theory this should place the region in a strong position to rebound, however, the region is still dependent on global demand. ■

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Beneficial Owners Guide 2020

SURVEY

THE BUY-SIDE RATE THE PERFORMANCE OF THEIR CUSTODIAL AND THIRD-PARTY AGENT LENDERS

+ ROUNDTABLE

Perspectives on US securities lending trends, challenges, and opportunities

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Contents

36 Beneficial Owners Survey 2020 | The results of the annual survey examining beneficial owners' perspectives on the performance of their custodial and third-party agent lenders. The results are broken down by service areas, region, and function.

45 US Beneficial Owners Roundtable | Executives from the lender, borrower, agent lender, consultant, and data provider community discuss some of the key issues influencing the US securities lending landscape.

56 OCC | Matt Wolfe, vice president of securities finance at OCC, talks through the steps the US equity derivatives clearing organisation is taking to ensure its stock loan programmes meet both the near-term and future needs of market participants.

45 | US Beneficial Owners Roundtable

56 | OCC Thought Leadership

J.P. Morgan wins unweighted, while State Street takes top spot in the weighted class

J.P. Morgan achieved the highest unweighted global average in this year's survey, while State Street came out on top on a weighted basis.

The annual Global Investor/ISF Beneficial Owners Survey asks beneficial owners from around the world to rate the performance of their custodial lenders and third-party agent lenders across a number of service categories. This includes areas such as collateral management, market coverage, reporting transparency, and programme customisation.

The results are broken down by region and lender type. They are also presented as weighted and unweighted results, where weighted figures are adjusted according to the size of respondents' lendable portfolios and the importance they place on particular service areas.

This year's survey received 113 responses from a range of lenders across Asia Pacific, the Americas, Europe, the Middle East and Africa (EMEA), including pension funds, insurance companies, sovereign wealth funds, central banks, asset managers and mutual funds.

J.P. Morgan received the highest average score in the survey with an average unweighted score of 6.69 out of 7, up from 6.29 in 2019. It is followed by Goldman Sachs Agency Lending with 6.59. In the weighted overall tables, State Street held on to the highest average ranking in 2020 for a third consecutive year, with particularly strong results in the Americas.

RESPONDENTS:

Asset managers and mutual funds made up 68% of this year's respondents, pension funds accounted for 14% and insurance companies for 8%, while sovereign wealth funds, central banks and corporations represented the remaining responses upon which the 2020 results are based.

Approximately 57% of this year's respondents have assets under management (AuM) of more than $100 billion.

Just over one fifth (21%) of respondents report that the total value of their portfolio that is available to be lent out exceeds $100 billion. Under one in 10 (9%) respondents can lend out up to $1 billion, 54% can lend $1-50 billion, and 16% can lend $50-100 billion.

For 41% of respondents, the approximate value of assets out on loan at any given point in time typically totals under $1 billion, and for 19% of respondents the typical total is $1-2 billion. Only 4% of respondents tend to have more than $50 billion of assets out on loan at any one time.

More than half (57%) of survey respondents engage one custodial or third-party agent lender, 26% work with two providers, 11% use three lenders, and 6% partner with four or more lenders.

Over one third (37%) of this year's survey respondents are extremely satisfied with the returns on their securities lending programmes, 40% are very satisfied, and 22% are moderately satisfied.

METHODOLOGY:

Beneficial owners are asked to rate the performance of their agent lenders. Respondents are asked to rate their agent lenders across 12 service categories (see below) from one (unacceptable) to seven (excellent). There are two methodologies: unweighted and weighted.

Unweighted methodology
All valid responses for each agent lender are averaged to populate unweighted tables. All beneficial owners' responses are given an equal weight, regardless of the size of their lendable portfolio. All categories are given equal weight regardless of how important they are considered to be by respondents. No allowances are made for regional variations.

Weighted methodology
The weighted table methodology makes allowances for both the size of the respondent's lendable portfolio and how important the respondents, on average, consider each category to be. An allowance is also made for differences between average scores in each region to make meaningful global averages.

Step one – weighting for lendable portfolio: A weighting is generated to reflect to the size of the respondent's lendable portfolio. Each respondent is put into a quartile depending on its total lendable portfolio. The scores of the respondent are then given a weighting based on this quartile. As the boundaries of each quartile are determined by all the responses received in this year's survey, the boundaries are unknown until the survey closes.

For the purposes of the 2020 survey all Asian responses will be given a weighting of 1. Asian responses will not be included in determining the quartile boundaries. However, all Asian responses will be subject to step two – see below.

Criteria	Weighting
AuM in lowest quartile	0.7
AuM in middle two quartiles	1
AuM in the top quartile	1.3

Step two – weighting for importance: An additional allowance is made for how important beneficial owners consider each category to be. This is done to acknowledge the fact that beneficial owners consider some categories to be more important than others.

Respondents are asked to rank each service category in order of how important the function is to them. An average ranking is then calculated for each of the twelve categories (11= highest ranking, 0 = lowest). This number is then divided by 5.5 to give a weighting within a theoretical band between 0 and 2, with an average of one. Again, basing weights around one is done to preserve comparability with unweighted scores.

To illustrate, if every respondent considers category X to be the most important it would get an average rank of 11. This is then divided by 5.5 to provide the weighting for category X, i.e. 11 / 5.5 = 2.

TABLES AND SCORES

Overall tables
The overall table contains all responses for a lender regardless of its relationship with the beneficial owner, whether custodial or agent. The following scores are calculated: separately for each region, a global total, a global average, and for each service category.

Regional scores are the average of all responses from beneficial owners based in that region (it is the location of the beneficial owner, not the lender, that is relevant). There are three regions. A lender must receive a different minimum number of responses to qualify in each: six in the Americas, five responses in Europe, Middle East and Africa (EMEA) and four in Asia Pacific. To qualify globally, a lender must qualify in at least two regions.

Custodial and third-party agent lender tables
Ratings of lenders acting in a custodial or third-party agent lender capacity are recorded in separate tables. The respondent is asked to define their relationship with the lender: custodial, agent or both. If the relationship involves both forms of arrangement, the response counts for both the custodial and agent lender tables. Therefore, some responses will be included in both the custodial and third-party agent lender tables. All the scores calculated for overall lenders will be replicated for custodial and third-party agent lenders separately.

The qualification criteria is lower for the custodial and agent lender tables compared with overall. To qualify for either the overall custodial and third-party agent lender tables, lenders need four responses in the Americas, four in EMEA, and three in Asia Pacific.

Service categories
Respondents are asked to rate each of their providers from one to seven across 12 service categories. The ratings of respondents for each service category are averaged to produce the final score for each provider. The service categories are:

- Income generated versus expectation
- Risk management
- Reporting and transparency
- Settlement and responsiveness to recalls
- Engagement on corporate action opportunities
- Collateral management
- Relationship management/client service
- Market coverage, developed markets (DM)
- Market coverage, emerging markets (EM)
- Programme customisation
- Lending programme parameter management
- Provision of market and regulatory updates

To qualify for each service category table, the lender needs the same amount of responses as to qualify for the corresponding main table; i.e., to qualify for an overall custodian or agent lender service category, the lender must qualify in two of the three regions (for example, five responses for that category in the Americas and four in EMEA). A lender can qualify in some categories and not others – it does not have to qualify globally for all service categories to be included in any particular service category.

VALID RESPONSES
It is possible for a lender to qualify globally or regionally without qualifying for all service category tables, if it receives n/a responses for certain categories. For example, it may not offer emerging market coverage and therefore receive a string of n/a ratings in that category but qualify for all other categories, regionally and globally.

If a lender receives two or more responses in the same region from the same beneficial owner, an average of the ratings will be taken and it is considered to be one response for qualification purposes. If a lender receives two or more responses from the same client in different regions (e.g. pension scheme X rates lender Y in EMEA and the Americas) the responses are not averaged and are counted as separate responses for qualification purposes.

J.P. Morgan:

In the overall rankings, J.P. Morgan received the highest global average (6.69) and the highest total global score (20.06) on an unweighted basis, driven by an 'excellent' rating of 7 in Asia Pacific. The bank's ranking has improved year on year, rising from fourth place overall in the unweighted tables in 2019 when it achieved a global average of 6.29.

In the weighted results, J.P. Morgan ranks second with an average global score of 6.48, taking the top spot in Asia Pacific with 6.42.

In the unweighted service categories, this year's survey respondents gave J.P. Morgan the highest scores across all lenders for engagement on corporate actions, reporting transparency and income generated (all at 6.75), as well as rating it highly for its coverage in emerging markets (6.62).

As a custodial lender, J.P. Morgan clinched the top spot on an unweighted basis with a 6.61 average global score. It came in second place on a weighted basis, with an improved global average score of 6.48 compared to 5.79 in 2019. In both the weighted and unweighted tables, the bank achieved the highest scores in EMEA and Asia Pacific among the custodial lenders that qualified.

J.P. Morgan came first in 10 of the service categories for custodial lenders on an unweighted basis and four categories on a weighted basis. Notable results include respondents' favourable views of its performance around engagement on corporate actions, programme customisation, provision of market and regulatory updates, and reporting transparency.

As a third-party agent lender, J.P. Morgan was ranked first in the weighted and unweighted overall tables. It received its highest regional ranking in the Americas where it achieved a weighted score of 6.66 and an unweighted score of 6.61.

When ranked against other qualifying third-party agent

ALL LENDERS (UNWEIGHTED)

COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
Citi	5.74	6.13	5.80	17.67	5.89
Deutsche Agency Lending	6.71				
eSecLending	**6.96**	6.02		12.98	6.49
Goldman Sachs Agency Lending	6.60	**6.58**		13.18	6.59
JPMorgan	6.70	6.36	**7.00**	**20.06**	**6.69**
RBC Investor & Treasury Services	6.23	6.44		12.67	6.34
State Street	6.42	6.14	6.92	19.48	6.49

ALL LENDERS (WEIGHTED)

COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
Citi	4.75	6.00	5.36	16.11	5.37
Deutsche Agency Lending	**6.79**				
eSecLending	5.22	6.44		11.66	5.83
Goldman Sachs Agency Lending	5.65	6.09		11.74	5.87
JPMorgan	6.51	6.50	**6.42**	19.43	6.48
RBC Investor & Treasury Services	4.98	5.35		10.33	5.17
State Street	6.27	**6.89**	6.34	**19.50**	**6.50**

lenders, J.P. Morgan dominated the service categories. It came top in seven service areas (unweighted). This includes scores of 7 for lending programme parameter management, relationship management, reporting transparency, and provision of market and regulatory updates. It also swept the board in the weighted table, achieving the highest scores in nine of the 12 service categories, up from one category in 2019.

Survey respondents commended the bank for its high level of customer service and reporting systems. A number of Americas-based respondents also praised J.P. Morgan for the proactive manner in which it communicates with clients, with one beneficial owner highlighting the bank as one of its primary sources of knowledge within the securities lending industry.

ALL LENDERS SERVICE CATEGORIES (UNWEIGHTED)

COMPANY	COLLATERAL MANAGEMENT	ENGAGEMENT ON CORPORATE ACTIONS	INCOME GENERATED	LENDING PROGRAMME PARAMETER MANAGEMENT
Citi	5.86	6.00	5.77	5.95
Deutsche Agency Lending	6.40		6.60	**6.80**
eSecLending		6.50	6.27	6.45
Goldman Sachs Agency Lending	**6.67**	6.61	6.50	6.56
JPMorgan	6.60	**6.75**	**6.75**	6.75
RBC Investor & Treasury Services	6.36	6.46	6.33	6.60
State Street	6.53	6.38	6.31	6.63

COMPANY	MARKET COVERAGE DM	MARKET COVERAGE EM	PROGRAMME CUSTOMISATION	PROVISION OF MARKET & REGULATORY UPDATES
Citi	6.27	6.25	6.05	5.86
Deutsche Agency Lending	**6.80**		**6.80**	**6.80**
eSecLending	6.45	6.45	6.45	6.45
Goldman Sachs Agency Lending	6.67	6.56	6.72	6.59
JPMorgan	6.56	**6.62**	6.69	6.69
RBC Investor & Treasury Services	6.29	5.90		6.29
State Street	6.50	6.29	6.44	6.25

COMPANY	RELATIONSHIP MANAGEMENT	REPORTING TRANSPARENCY	RISK MANAGEMENT	SETTLEMENT AND RESPONSIVENESS
Citi	6.27	5.59	6.18	5.86
Deutsche Agency Lending	**7.00**	6.60	**6.80**	**6.80**
eSecLending	6.82	6.45	6.45	6.27
Goldman Sachs Agency Lending	6.72	6.44	6.50	6.61
JPMorgan	6.75	**6.75**	6.69	6.69
RBC Investor & Treasury Services	6.60	6.47	6.40	6.21
State Street	6.63	6.25	6.50	6.50

State Street:
Beneficial owner survey respondents continue to rate State Street highly, enabling it to gain the highest global average across all lenders in the weighted rankings (6.5) in 2020. This is the third year in a row that it has achieved this accolade. The bank received both the highest global total and ranked first in the Americas with a score of 6.89.

It also fared better in the unweighted overall table than last year, with its global average increasing from 6.28 to 6.49.

When compared to all lenders according to its performance across service categories (weighted), State Street came out on top for collateral management (6.65) and lending programme parameter management (6.5).

Among custodial lenders, State Street delivered a strong performance in the weighted service categories table. In 2019, it came top in one service category within the

ALL LENDERS SERVICE CATEGORIES (WEIGHTED)

COMPANY	COLLATERAL MANAGEMENT	ENGAGEMENT ON CORPORATE ACTIONS	INCOME GENERATED	LENDING PROGRAMME PARAMETER MANAGEMENT
Citi	5.60	3.63	7.61	5.41
Deutsche Agency Lending	6.35		**9.13**	6.43
eSecLending		3.86	8.12	5.70
Goldman Sachs Agency Lending	6.00	3.84	8.15	5.61
JPMorgan	6.49	**4.28**	8.24	6.37
RBC Investor & Treasury Services	5.17	3.43	7.04	5.31
State Street	**6.65**	4.19	9.04	**6.50**

COMPANY	MARKET COVERAGE DM	MARKET COVERAGE EM	PROGRAMME CUSTOMISATION	PROVISION OF MARKET & REGULATORY UPDATES
Citi	4.00	2.80	4.61	3.20
Deutsche Agency Lending	**4.55**		**5.42**	**3.90**
eSecLending	4.03	2.82	4.78	3.47
Goldman Sachs Agency Lending	4.07	2.73	4.87	3.44
JPMorgan	4.38	**3.00**	5.31	3.82
RBC Investor & Treasury Services	3.45	2.31		2.97
State Street	4.39	2.95	5.32	3.70

COMPANY	RELATIONSHIP MANAGEMENT	REPORTING TRANSPARENCY	RISK MANAGEMENT	SETTLEMENT AND RESPONSIVENESS
Citi	6.19	6.66	10.08	6.87
Deutsche Agency Lending	**7.27**	8.21	**11.62**	**8.30**
eSecLending	6.68	7.58	10.39	7.12
Goldman Sachs Agency Lending	6.36	7.31	10.09	7.39
JPMorgan	6.98	**8.45**	11.40	8.14
RBC Investor & Treasury Services	5.57	6.57	8.86	6.19
State Street	7.10	8.08	11.52	8.21

CUSTODIAL LENDERS (UNWEIGHTED)

COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
Citi	5.94	5.90	5.80	17.64	5.88
JPMorgan	**6.70**	6.13	**7.00**	**19.83**	**6.61**
RBC Investor & Treasury Services	6.23	**6.44**		12.67	6.34
State Street	6.42	6.14	6.92	19.48	6.49

CUSTODIAL LENDERS (WEIGHTED)

COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
Citi	5.11	5.34	5.36	15.81	5.27
JPMorgan	**6.51**	6.51	**6.42**	19.44	6.48
RBC Investor & Treasury Services	4.98	5.35		10.33	5.17
State Street	6.27	**6.89**	6.34	**19.50**	**6.50**

equivalent rankings; this year it moved up to the top of the table in nine service areas. Respondents rated the bank especially highly for its risk management approach, settlement and responsiveness, as well as income generated.

In the unweighted table, State Street achieved the joint highest score for coverage in developed markets alongside J.P. Morgan (6.5), and it was the frontrunner for its coverage of emerging markets (6.29).

On a regional basis, respondents in the Americas placed State Street first among custodial lenders with a score of 6.89 on a weighted basis. It achieved the highest global average (6.5) in the weighted regional table for custodial lenders, as it also did in 2019 and 2018.

One respondent stated that State Street had been an "excellent partner" in helping to establish its lending programme. Other respondents pointed to the proactive support State Street offers them, while another noted some improvements in the bank's responsiveness.

Goldman Sachs Agency Lending:
Goldman Sachs Agency Lending (GSAL) came second in the overall unweighted category with an average score of 6.59. It improved on its score in the EMEA region, receiving a rating of 6.6 in 2020 as opposed to last year's 6.57. Yet it was its score of 6.58 which saw it retain the top spot in the Americas region as it did in 2019 and 2018.

GSAL also performed well in the service categories. In the unweighted lists, the firm was top for collateral management (6.67) and came second for engagement in corporate actions (6.61), developed markets coverage

CUSTODIAL LENDERS SERVICE CATEGORIES (UNWEIGHTED)

COMPANY	COLLATERAL MANAGEMENT	ENGAGEMENT ON CORPORATE ACTIONS	INCOME GENERATED	LENDING PROGRAMME PARAMETER MANAGEMENT
Citi	5.86	6.00	5.57	5.69
JPMorgan	**6.54**	**6.71**	6.00	**6.71**
RBC Investor & Treasury Services	6.36	6.46	**6.33**	5.50
State Street	6.53	6.38	6.31	6.63

COMPANY	MARKET COVERAGE DM	MARKET COVERAGE EM	PROGRAMME CUSTOMISATION	PROVISION OF MARKET & REGULATORY UPDATES
Citi	6.14	6.07	5.92	5.79
JPMorgan	**6.50**	6.08	**6.64**	**6.64**
RBC Investor & Treasury Services	6.29	5.90	5.55	5.87
State Street	**6.50**	**6.29**	6.44	6.25

COMPANY	RELATIONSHIP MANAGEMENT	REPORTING TRANSPARENCY	RISK MANAGEMENT	SETTLEMENT AND RESPONSIVENESS
Citi	6.21	5.43	6.07	5.93
JPMorgan	**6.71**	**6.71**	**6.64**	**6.64**
RBC Investor & Treasury Services	6.60	6.47	6.40	6.21
State Street	6.63	6.25	6.50	6.50

(6.67), market coverage in emerging markets (6.56), and programme customisation (6.72).

In the tables for third-party agent lenders, the bank scored the highest score for EMEA on a weighted basis, and received the highest global total (weighted and unweighted).

When ranked against other third-party agent lenders across service areas, GSAL gained the top score for income generated (8.15) in the weighted tables, and achieved the highest rating in four service categories within the unweighted tables.

One beneficial owner respondent in the America stated that they were extremely satisfied with Goldman Sachs Agency Lending and the high level of service it provides, while a Europe-based respondent praised the innovation demonstrated by the bank.

eSecLending:

eSecLending performed well in the unweighted overall tables in 2020, ranking joint-third among all lenders with a rating of 6.49. It was ranked particularly highly by EMEA-based beneficial owner respondents, which saw it rise to first place in this region with a score of 6.96, up from 6.57 in 2019.

In the weighted rankings, eSecLending gained its highest score in the Americas (6.44), followed by 5.22 in EMEA, taking its average score to 5.83.

Among the service categories, eSecLending scored well in both the unweighted and weighted tables. In the unweighted rankings, the lending firm came second in relationship management, scoring 6.82, while coming third in market coverage in emerging markets (6.45) and engagement on corporate actions (6.5). In the weighted version of the tables, eSecLending was third in engagement on corporate actions and emerging market coverage.

Among third-party agent lenders, eSecLending gained the third highest global average (unweighted), aided by its strong performance in EMEA. It also achieved the top spot for collateral management among third-party agent lenders on an unweighted basis, picking up a score of 6.83.

The lender garnered some glowing reviews, with one respondent stating that it "continues to outperform in all areas". It was commended for outstanding client engagement, including its proactive approach to new ideas and opportunities for clients.

Deutsche Agency Lending:

Deutsche Agency Lending fared well in the all lenders unweighted tables for EMEA, scoring an impressive 6.71. However, it was in the weighted category where the lender really shone, taking the top spot with a score of 6.79 in EMEA and continuing the success it saw last year when it also achieved the highest ranking in this region.

The lender also scored favourably in the service categories, both unweighted and weighted. Deutsche Agency Lending was top in seven of the twelve categories in the unweighted section: lending programme parameter management (6.8), coverage of developed markets (6.8), programme customisation (6.8), provision of market and regulatory updates (6.8), relationship management (7), risk management (6.8), and settlement and responsiveness (6.8).

CUSTODIAL LENDERS SERVICE CATEGORIES (WEIGHTED)

COMPANY	COLLATERAL MANAGEMENT	ENGAGEMENT ON CORPORATE ACTIONS	INCOME GENERATED	LENDING PROGRAMME PARAMETER MANAGEMENT
Citi	5.34	3.53	7.10	4.98
JPMorgan	6.47	**4.29**	8.30	6.40
RBC Investor & Treasury Services	5.17	3.43	7.04	4.43
State Street	**6.65**	4.19	**9.04**	**6.50**

COMPANY	MARKET COVERAGE DM	MARKET COVERAGE EM	PROGRAMME CUSTOMISATION	PROVISION OF MARKET & REGULATORY UPDATES
Citi	3.79	2.62	4.34	3.05
JPMorgan	4.38	2.77	**5.32**	**3.83**
RBC Investor & Treasury Services	3.45	2.31	3.75	2.77
State Street	**4.39**	**2.95**	**5.32**	3.70

COMPANY	RELATIONSHIP MANAGEMENT	REPORTING TRANSPARENCY	RISK MANAGEMENT	SETTLEMENT AND RESPONSIVENESS
Citi	5.90	6.23	9.53	6.67
JPMorgan	7.00	**8.48**	11.42	8.16
RBC Investor & Treasury Services	5.57	6.57	8.86	6.19
State Street	**7.10**	8.08	**11.52**	**8.21**

In the weighted category, Deutsche Agency Lending came first in income generated, market coverage in developed markets, programme customisation, provision of market and regulatory updates, relationship management, risk management, and settlement and responsiveness.

Survey respondents in Europe were particularly complimentary about the firm, highlighting a number of areas where Deutsche Agency Lending excels, including its flexibility around reports, programme parameters, and delivering information about the market. Another added that they are "very happy" with the relationship they have built with the firm.

RBC Investor & Treasury Services:

RBC Investor & Treasury Services (RBC I&TS) achieved the highest unweighted score for the Americas (6.44) among custodial lenders. It also qualified in the EMEA region, where it ranked third with a score of 6.23.

It came first among custodial lenders for income generated (6.33) on an unweighted basis, and achieved the second highest score in the reporting transparency and engagement on corporate actions service categories.

In the overall unweighted tables for all lenders, the organisation received a score of 6.44 in the Americas and 6.23 in EMEA.

Respondents viewed relationship management and lending programme parameter management as RBC I&TS's strongest performance areas across service categories, giving it a score of 6.6 in both of these areas in the table comparing all lenders on an unweighted basis.

A European beneficial owner respondent praised RBC I&TS for its ability to react quickly to changing client needs. Some Americas-based respondents noted the professionalism, operational efficiency, and transparency provided by the bank. These qualities were viewed by one respondent as facilitating a high level of trust in its lending programme with RBC I&TS.

Citi:

Citi maintained a consistent score throughout the all lenders unweighted and weighted tables, receiving average global scores of 5.89 and 5.37, respectively. The lender also saw a significant improvement on its score in Asia Pacific, scoring 5.8 and 5.36 in the unweighted and weighted divisions, as opposed to last year's 5.56 and 5.09.

In the unweighted service categories, Citi improved on last year's score in emerging markets coverage, achieving 6.25 in 2020. The lender demonstrated robust performances in

THIRD-PARTY AGENT LENDERS (UNWEIGHTED)

COMPANY	EMEA	AMERICAS	GLOBAL TOTAL	AVERAGE
Citi		6.22		6.22
eSecLending	**6.96**	6.02	12.98	6.49
Goldman Sachs Agency Lending	6.60	6.58	**13.18**	6.59
JPMorgan		**6.61**		**6.61**

THIRD-PARTY AGENT LENDERS (WEIGHTED)

COMPANY	EMEA	AMERICAS	GLOBAL TOTAL	AVERAGE
Citi		6.21		6.21
eSecLending	5.22	6.44	11.66	5.83
Goldman Sachs Agency Lending	**5.65**	6.09	**11.74**	5.87
JPMorgan		**6.66**		**6.66**

the risk management (10.08), settlement and responsiveness (6.87), and income generated (7.61) service categories on a weighted basis.

On a weighted basis, Citi came in third place among custodial lenders (5.27) and second among third-party agent lenders (6.21) in terms of global average scores.

When ranked against other third-party agent lenders, Citi claimed first place for its coverage of both developed and emerging markets on a weighted basis.

One survey respondent based in Europe noted that the lender was "very responsive to queries", while another in the Americas praised Citi for going out of its way to help accommodate its lending goals. Another respondent to this year's survey said that Citi had been instrumental in helping them to create and expand their lending programme. ■

THIRD-PARTY AGENT LENDERS SERVICE CATEGORIES (UNWEIGHTED)

COMPANY	COLLATERAL MANAGEMENT	ENGAGEMENT ON CORPORATE ACTIONS	INCOME GENERATED	LENDING PROGRAMME PARAMETER MANAGEMENT
Citi	5.62	5.83	5.92	6.08
eSecLending	**6.83**	6.50	6.27	6.45
Goldman Sachs Agency Lending	6.67	**6.61**	**6.50**	6.56
JPMorgan	6.50	6.50	5.75	**7.00**

COMPANY	MARKET COVERAGE DM	MARKET COVERAGE EM	PROGRAMME CUSTOMISATION	PROVISION OF MARKET & REGULATORY UPDATES
Citi	6.38	6.27	5.92	6.00
eSecLending	6.45	6.45	6.45	6.45
Goldman Sachs Agency Lending	**6.67**	**6.56**	6.72	6.59
JPMorgan	6.00		**6.75**	**7.00**

COMPANY	RELATIONSHIP MANAGEMENT	REPORTING TRANSPARENCY	RISK MANAGEMENT	SETTLEMENT AND RESPONSIVENESS
Citi	6.23	5.69	6.15	5.77
eSecLending	6.82	6.45	6.45	6.27
Goldman Sachs Agency Lending	6.72	6.44	6.50	6.61
JPMorgan	**7.00**	**7.00**	**6.75**	**6.75**

THIRD-PARTY AGENT LENDERS SERVICE CATEGORIES (WEIGHTED)

COMPANY	COLLATERAL MANAGEMENT	ENGAGEMENT ON CORPORATE ACTIONS	INCOME GENERATED	LENDING PROGRAMME PARAMETER MANAGEMENT
Citi	5.56	3.61	8.03	5.70
eSecLending	6.05	3.86	8.12	5.70
Goldman Sachs Agency Lending	6.00	3.84	**8.15**	5.61
JPMorgan	**6.53**	**4.22**	7.96	**6.70**

COMPANY	MARKET COVERAGE DM	MARKET COVERAGE EM	PROGRAMME CUSTOMISATION	PROVISION OF MARKET & REGULATORY UPDATES
Citi	**4.20**	**2.90**	4.65	3.35
eSecLending	4.03	2.82	4.78	3.47
Goldman Sachs Agency Lending	4.07	2.73	4.87	3.44
JPMorgan	4.02		**5.40**	**4.06**

COMPANY	RELATIONSHIP MANAGEMENT	REPORTING TRANSPARENCY	RISK MANAGEMENT	SETTLEMENT AND RESPONSIVENESS
Citi	6.33	6.96	10.35	6.98
eSecLending	6.68	7.58	10.39	7.12
Goldman Sachs Agency Lending	6.36	7.31	10.09	7.39
JPMorgan	**7.37**	**8.88**	**11.59**	**8.28**

US Beneficial Owners Roundtable

On December 6, 2019, executives from the lender, borrower, agent lender, consultant, and data provider community gathered in New York to discuss some of the key issues influencing the US securities lending landscape. Here, we present some of the highlights from the roundtable discussion.

PARTICIPANTS:

Nancy Allen, global product owner at DataLend

Elaine Benfield, senior counsel at Vanguard

Christopher Benish, CFA, managing analyst at State of Wisconsin Investment Board

John Fox, director, head of client management and sales for North America at BNY Mellon

Axel Hester, director of securities lending at State Street Global Advisors

Greg Korte, partner, custody advisory services at Aon

Michael Madaio, managing director, collateral funding and trading at Pershing LLC

Bill Smith, managing director, Americas sales executive at J.P. Morgan

Francesco Squillacioti, global head of client management for securities finance at State Street

Chair: Louise Fordham, special reports editor at Global Investor

CHAIR: What key trends have shaped the securities lending market in 2019?

NANCY ALLEN: As we look back on 2019, it's important to remember that 2018 was a record post-crisis year with gross revenue reaching nearly $10bn. The first three quarters of 2018 benefitted from rising markets which resulted in higher volumes, but in the fourth quarter markets really began selling off, driving balances down while fees remained flat, resulting in a drag on revenue. Ahead of 2018 year-end, we saw significant de-risking by hedge funds, and although we saw equity growth in Q1 2019, hedge funds generally sat on the side-lines into 2019 and maintained a long bias which is not beneficial for lending markets.

The key themes hitting both equity and fixed income markets in 2019 have been global macro uncertainty driven by trade wars, Brexit, and central bank actions, all resulting in a lack of conviction from hedge funds and alternative investment managers and decreased demand for high quality liquid assets from a collateral perspective.

Beneficial owner lendable assets were $20tn on average in 2019, up from $19.5tn in 2018. However, average balances dropped from $2.4tn in 2018 to about $2.2tn in 2019. Revenue in 2019 was down 13% relative to 2018, coming in at $8.66bn, with declines across all regions and across asset classes, driven by both lower balances and lower fees. The only exception is Asia Pacific, where there was a marginal increase in balances.

On a more positive note, we did see a bit of a recovery in Q3-4 2019, specifically in the equity markets where a handful of specials drove revenue higher. If we look at revenue by fee bucket, that also shows the impact of these high-earning securities; special securities, defined as those trading 500bps and above, made up 46% of total revenue this year, compared to 37% in 2018.

In 2019, the top five securities generated $680m – that's 8% of total revenue, whereas the top five in 2018 generated $465m, or 4.5% of total revenue. Revenue generated by Tesla in 2018 was $142m, eclipsing the top earner of 2017 which was Snap at about $110m. Meanwhile, Beyond Meat generated $193m in only eight months in 2019. So, although 2019 was a year where we saw a lack of conviction and global macro conditions that resulted in lower balances and lower fees, there was significant revenue generated by some very concentrated names and beneficial owners who held those names would have had a more positive 2019 experience.

As we look back on 2019, it's important to remember that 2018 was a record post-crisis year with gross revenue reaching nearly $10bn.

Nancy Allen, DataLend

FRANCESCO SQUILLACIOTI: We have also seen supply growing over the past 18-24 months. There has been a lot of interest from beneficial owners and asset managers who have never lent before looking to get into the market, which has had an impact on supply. On the other hand, as Nancy highlighted, demand has been a little bit depressed. And while specials have been few and far between, they have been name-specific and pretty impactful.

MICHAEL MADAIO: On our side, as a broker dealer with retail clients, we have seen our fully-paid lending product grow by 25% in terms of client numbers. Part of the reason is interest driven by these particular names; when they hit the press people ask what they can earn if they were to lend their securities. It's been good at driving participation.

JOHN FOX: I would agree that this year has been largely about the few names that have driven most of the revenue opportunity. That's an unusual state of affairs, but in Q3 2019 we had a single name that was representing 10-12% of the market's returns. When situations like that arise, it's very important to articulate that to clients.

MICHAEL MADAIO: In terms of volume, one of the things that happened in 2019 is that short sellers themselves were scared away. The market went against them to begin with, and while these particular specials are outliers there are still hundreds of securities that trade at negative rates. That creates an immediate negative return for the short seller, especially if there are also dividends to pay. It can get expensive very quickly, more so if the price moves against you.

There has been a lot of interest from beneficial owners and asset managers who have never lent before looking to get into the market.

Francesco Squillacioti, State Street

FRANCESCO SQUILLACIOTI: In some ways the fact that the market has been a little bit depressed compared to a few years ago has caused everybody to innovate and find new ways of doing things. There is a lot happening and a lot of information for clients to consume. Those of us who do this for a living and are immersed in securities finance all the time need to break it down and make it digestible for clients and their boards because they are very interested in, 'What are other people doing? How can we improve things? How can we generate revenue within a certain risk framework?'

JOHN FOX: Beneficial owner boards are often interested in best practices across the industry. They want to know, both in terms of their risk profile and in terms of the specific parameters of their programme, how they compare with their peer group. That's particularly the case when it comes to asset managers. They focus on their securities finance returns, and if their lending activity generates superior returns relative to their peers, they want to know what caused that deviation and why their fund family has outperformed another fund in a competing family when the investment profile is virtually the same.

CHAIR: Has there been a shift in the way beneficial owners think about lending?

CHRISTOPHER BENISH: What has been encouraging for me as a beneficial owner is that the discussions have evolved not from just, 'What is securities lending?' and 'What's my number at the end of the month in terms of earnings?' but to really thinking through, 'What is the securities lending market telling me about the broader market? How can I integrate what that information is sharing into the strategies that the portfolio managers are running?' It's a much more integrated discussion across our internal staff around securities finance in general, and that's one of the directions that we're trying to move in.

We don't want to think of securities lending as this isolated, standalone silo that's walled off from everybody else. We want it to be about, 'What are we seeing in lending? How does that impact what we're seeing in borrowing? Why are there differences? What strategies can we maybe employ or what arbitrage opportunities are out there that we could take advantage of? How do we best employ our balance sheet from a funding perspective, whether it's funding leverage or arbitrage opportunities?' Securities lending is one small piece of that discussion, and it's becoming a much more integrated conversation, which has been a really interesting development.

We are evaluating considerations outside of a narrow historical focus on returns in securities lending.

Axel Hester, State Street Global Advisors

FRANCESCO SQUILLACIOTI: We're seeing a lot more of an evolution among our client base where beneficial owners who historically were only lending securities are now also running leveraged strategies and crossing over to borrowing at the same time. This makes it important not just to have a securities lending discussion, but a broader securities finance discussion. And it's important to be able to meet those client needs in a holistic way.

AXEL HESTER: We are evaluating considerations outside of a narrow historical focus on returns in securities lending. We have started to look much more heavily at the whole holistic programme; for example, questions that are examined include 'What are the risks associated with lending? What is the risk-return trade-off that has actually been experienced here?' Additionally, 'Are we considering ESG (environmental, social, governance) aspects appropriately? When we participate in securities lending, are we considering QDI (qualified dividend income) aspects? How is this impacting our portfolios?' We are now considering all of this rather than just asking, 'What's my number at the end of the month?'.

I think that shift has allowed us to take a couple of steps forward in developing our organisational understanding and informing our investors. We are helping stakeholders understand that risks do exist but they are manageable if you know what they are and where they're coming from. Therefore we can strike the correct balance between risk and reward more effectively and understand how it's impacting our portfolio and investment philosophies as a whole.

CHAIR: Is traction building behind ESG considerations in the US securities lending market?

BILL SMITH: It is, although perhaps at a pace behind Europe for the moment. ESG will be something that is yet another factor that we will need to support in the future. Clients are going to have requirements around ESG and we are going to expand our platforms and product offerings to include customised collateral sets and customised lending rules that will be supportive of clients' ESG requirements. It will take technology investment to expand these capabilities.

NANCY ALLEN: The focus on ESG is a reflection of the shift of securities lending from a back-office commodity into a front-office investment product. With that comes additional overlays and strategies that need to be deployed. There is more to consider than simply ticking a box and enrolling in lending; now beneficial owners are considering ESG, collateral, different types of borrowers and new trade structures.

AXEL HESTER: As investment managers we want to know we are upholding our ESG principles and our governance standards throughout the investment process, which includes securities lending activities. There are ways that you can manage ESG principles effectively, accomplish our goals, and still participate in lending. They are not mutually exclusive. However, there may be different approaches on how one manages the investment process, and hence, how one manages their lending programme to satisfy those governance requirements.

CHRISTOPHER BENISH: Ultimately, I don't think it's fundamentally different from how most experienced beneficial owners evaluate securities lending today, which is, 'What's my fiduciary duty? What's the cost benefit, risk-reward of each individual name, transaction, etc?' This is one more dimension to that.

CHAIR: Are alternative lending models, such as peer-to-peer, gaining momentum in the US?

CHRISTOPHER BENISH: We're actively engaged in peer-to-peer discussions and in thinking through what it will take to put a better peer-to-peer model in place. I've been going to industry conferences for 14 years now and peer-to-peer has always been on the table but it feels different this time, it feels like there's actually some momentum behind it. We have live trades on with peers, not just in the securities lending space but in repo lending and borrowing, etc. It has legs. We see it as having a lot of benefits in terms of alignment of interests and in terms of counterparty credit. There's a diversification to including our peers as counterparties versus the traditional banks and broker dealers. I think they all probably have a place in the end, but peer-to-peer is something that we are very interested in and looking at in depth.

Might I suggest that we consider re-branding securities lending 'peer-to-peer'?

Elaine Benfield, Vanguard

MICHAEL MADAIO: A key consideration with peer-to-peer is infrastructure. If agent lenders are going to utilise their infrastructure then that makes it much more of a doable scenario, and I think we're starting to see that.

FRANCESCO SQUILLACIOTI: Peer-to-peer is a great way for diversification to happen, and it's another outlet for demand in some cases, so I do think it has legs and should grow. Given the evolving securities finance discussion, I feel the time is right in terms of clients being more comfortable with this type of structure. From the standpoint of the beneficial owner or the underlying lender we've been working with, there's been a period of gradually becoming comfortable with various types of lending structures and exposure.

State Street recently launched its Direct Access Lending product, which is our peer-to-peer model. What we sought to do was to make a model that, from the agent lending side and from the hedge fund side, looked as much like what they were used to as possible. So, a model where we're providing additional lending opportunities while diversifying the risk and indemnifying it as an agent lender. From the hedge fund point of view, we aimed to provide the benefits of direct exposure to a beneficial owner, but through a managed platform that mitigated potential operational burden.

ELAINE BENFIELD: Might I suggest that we consider re-branding securities lending 'peer-to-peer'? The terminology suggests peer-to-peer is a mutual fund lending to a mutual fund or a hedge fund lending to a hedge fund, for example, whereas it could actually be a mutual fund lending to a hedge fund. The name could be particularly confusing for those not familiar with the securities lending industry. Is it not simply approving lending securities to new types of borrowers under existing agency lending programmes?

BILL SMITH: Peer-to-peer means different things to different people at this stage. There is traction, but it is still in the formative stages. There are different ways for a beneficial owner to expand their distribution network through their agent lending bank simply by using non-traditional borrowers. That's different than saying, 'A pension plan is going to lend directly to another pension plan.'

The question I would have for beneficial owners is around the infrastructure they envision using for peer-to-peer. Do they see a market infrastructure built out and standardised to a point where it will be suitable to cover these activities, or do they expect to rely on their agents or existing infrastructures to change the way that they transact with borrowers, and potentially lenders, across existing platforms.

CHRISTOPHER BENISH: The way I think of it is, we have a limited number of cycles to spend on this kind of activity, and so where do I want to spend my energy? I want to spend my energy on maximising the utility of my balance sheet and maximising how we fund and monetise our asset base. I don't necessarily want to build out a securities lending infrastructure, I think that already exists in the market and it functions really well. My challenge to the traditional lending agents of the world is how to best integrate new participants and new counterparties that perhaps want to participate in a different way than they have in the past, how to best be that infrastructure for those who want to trade with each other.

BILL SMITH: I think many of us in the industry are looking at that as an opportunity. We have platforms through which we can connect an insurance company that's long cash that wants to do repo with a money fund directly. There are also Fintechs out there who are looking to engineer technology that can match borrowers and lenders. Ultimately, it's going to be a question of how can you get access to safety and scalability through a suitable platform's infrastructure. If you don't want to develop the back or middle office to facilitate peer-to-peer lending, then you might want to use an existing platform that gives you access to the names that you would choose to have as counterparties, and may even bring you names you didn't know might qualify as counterparties down the road.


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CHAIR: Is there similar momentum around other lending models, such as central counterparty clearing (CCP)? For example, DTCC is working on a securities finance CCP and OCC is expanding its exchange offering – is there significant appetite for such ventures?

NANCY ALLEN: Central counterparty clearing houses are one component of the anticipated growth strategies in the financing markets. Several years ago, we established EquiLend Clearing Services, which provides connectivity to global CCPs, including OCC and Eurex. We are well positioned to connect to any global CCP that enables clearing of securities lending transactions. We see central clearing as a route to market that is gaining more and more traction, and we are helping to facilitate that trade.

FRANCESCO SQUILLACIOTI: Everybody is trying to become as capital efficient as possible, and I think ultimately CCPs could be an attractive option for people to get into because it is very efficient from a capital standpoint.

JOHN FOX: We're always interested in alternative forms of distribution and different routes to market, but one of the elements we need to consider is that every distribution model has a unit cost associated with it and that unit cost often encompasses our cost of capital. We have to take into account the return-on-capital (ROC) hurdles that each of these models represent, and determine whether it's something that's going to be viable on a large scale or just to a more modest degree.

CHRISTOPHER BENISH: It's a model that works for options, it works for futures, it's working for repo, and it could work for swaps. I have yet to be convinced that CCPs won't work for securities lending. It might not be a wholesale change in terms of how the market operates but it is one more tool in the toolbox.

BILL SMITH: One of the pieces that I think is different for securities lending is the longstanding existence of indemnification risk mitigation that the lending agents provide, and to drive that through the CCP model becomes a bit of a different question. The CCPs have effectively been self-insured by and amongst the member entities. We have clients who would be more than happy to allow us to distribute through a CCP as long as we maintain the indemnification against the borrowers on the other side. The question, from our perspective, is whether that is a sensible capital and technology investment.

It will be about platform evolution and it will be achieved through investment.

Bill Smith, J.P. Morgan

CHAIR: As the market evolves and we enter a new decade, how can agent lenders safeguard their business models?

AXEL HESTER: I think that the model is relatively safe if it's well managed. The fixed costs to create the securities lending infrastructure are significant, and to the extent that agent lenders properly invest to maintain that infrastructure, and invest to maintain the leading edge in developing new infrastructure -- that's valuable. There are a few asset managers that have the economies of scale to support sufficient infrastructure in-house, but very few that can economically develop and improve it on the scale that agent lenders can.

That said, anything can be disrupted. We've seen that in other industries, such as the retail industry, so agent lenders always have to keep their eyes open and look at what may be coming from an unexpected direction.

NANCY ALLEN: As the market changes and evolves, agent lenders are investing more in data and technology. It's critical that they take the beneficial owner along with them as they make these investments. Maintaining an informative and active dialogue with beneficial owners will help position both parties to capture optimal value going forward.

BILL SMITH: I think to use the term 'safeguard' almost presumes that the model is static; the model is very active. We are investing in technology by either directly developing it ourselves, investing in bought technology, or investing in Fintech companies who are developing tools to continually try to stay ahead of the needs of our clients. The business that you will see us in three years from today will be very different from the business we were in three years ago, or that we are in today. It will be about platform evolution and it will be achieved through investment. As we go through the next phases of the Uncleared Margin Rules (UMR) that's going to drive a further convergence of traditional securities lending, collateral management, and liquidity management. This means we will be facing an environment where these are going to become increasingly interrelated. This is going to provide opportunities for clients to further leverage our securities lending platforms and services.

JOHN FOX: This is a market subject to constant regulation and complying with that regulation requires innovation. It's

great if you have talented, innovative people on your team, but you need the funding support of the firm behind the agent lending programme in order to be able to commit the necessary capital so that those innovations come to fruition. That's especially true in those years where securities lending returns aren't on the high side, because we are complying with a constantly changing regulatory environment, and it's important that the capital expenditure is there to allow agent lenders to solve these new issues.

GREG KORTE: There are some beneficial owners that don't have the resources to drive innovation. You can't leave those firms behind; you have to make sure you are innovating for them.

There are some beneficial owners that don't have the resources to drive innovation. You can't leave those firms behind; you have to make sure you are innovating for them.

Greg Korte, Aon

CHAIR: What types of new technologies are helping lenders, borrowers, and other industry participants to improve their operations?

NANCY ALLEN: We've spent nearly two decades focused solely on the securities finance market and automation, but we are now also looking at bringing greater automation to the swaps market and to the collateral markets. We're also looking at AI (artificial intelligence) and machine learning; for example, we recently conducted a proof of concept where we deployed these technologies to bring greater efficiency to the post-trade reconciliation processes.

BILL SMITH: There is a myriad of places where you see technology improvements, from enhancing inventory visibility through potentially broadcasting it to more platforms, to portfolio optimisation through AI, to trading platform integration, to incremental data sources. Technology can also be employed to address the convergence of collateral and securities finance, if for example, a beneficial owner is looking at their portfolio and asking, 'How many purposes can this security serve today? Which is the most efficient and how do I optimise that against the cost of moving it from one use to another?'

JOHN FOX: The velocity of change is accelerating, to the point where the concept of predictive analytics around loan activity, for example – which was something that was only just being talked about a year or two ago – is now something that's on the short-term horizon. We talked earlier about the ability to invest in these latest innovations and that there is a huge capital expense to consider to make these things come to fruition, but the motivation is that we're all working together – the beneficial owners, the borrowers and the agent lenders – to bring these tools to market.

FRANCESCO SQUILLACIOTI: I would underscore the use of predictive analytics, it is something that is becoming increasingly important and something that we are focused on. The other piece of the equation is client technology. It's about making sure that they have access to information, and to different cuts of information in a shorter timeframe.

AXEL HESTER: From our perspective, it's about front-to-back integration where we have one system where we can go and see when a trade is failing, when a trade gets delivered out, what rates it was delivered out at. It's about being able to see all that information simultaneously, have our cash traders be able to see it, have our portfolio managers be able to see it, trying to identify trends that are going on in the market on their own bonds in real time, trying to figure out if they want to trade on a short settle, being able to see whether a security is on loan, and whether it has settled on a return. Historically, all that information has been delivered next day, and that's if you're lucky. I think there is going to be a huge empowerment to beneficial owners when that lending information is brought live to the front office.

JOHN FOX: Banks are working on simplifying the number of systems and the workflow that lenders and borrowers have to contend with. Two years ago the focus was on reducing manual intervention and today it is on eliminating manual intervention altogether. In simplifying the workflow it's pragmatic to assume we will get to a point where there will be fewer systems involved, which will provide that increased transparency for all market participants.

NANCY ALLEN: Demand for data continues to grow, and the data is being used in non-traditional ways. Beneficial owners and portfolio managers are looking at securities lending data for portfolio construction or to drive more real-time trading decisions. They are looking at that data not just for securities lending, but across all financing to drive the efficient allocation of collateral.

GREG KORTE: It's part of my job to go around and see how firms are investing in technology this year and next year. One example of technology being applied is around

the trader – they now have five or six screens in front of them whereas a lot of it used to be phone based. AI is driving this person to be able to see a smaller and smaller set of decisions that they need to make.

Another example is using technology for a trading advantage, i.e. 'I want to go to market with my trade a millisecond before your firm, because that gives me an advantage of getting filled at a rate I want.'

CHAIR: Are US desks concerned by the impact of EU regulations, such as SFTR and CSDR? What are the most pressing regulatory issues on the agenda for the US securities finance industry?

ELAINE BENFIELD: I think most people are well versed in SFTR and its global impact, as well as CSDR from an operational and trading perspective. The macro issue is how these regulations in Europe will change the trading patterns of beneficial owners, and whether these regulations will negatively impact the securities lending industry in certain regions and push trading into other regions. As these global regulations evolve, it will be interesting to see how they impact market participation.

MICHAEL MADAIO: What about the mandatory buy-ins? Could that be an opportunity? In the US where we have Regulation SHO 204, stocks often become more expensive as broker dealers look to avoid potential buy-ins. I can imagine there could be scenarios where firms don't want to get bought in, and a market could develop to avoid those scenarios.

BILL SMITH: I think there is a lot of client education on evolving EU regulation underway currently. The hope would be that the regulation is not going to change non-EU client behaviour, but it is not insignificant. One of the challenges we have had in the Americas and in Asia Pacific is that this hasn't been part of the vernacular to the same extent that it has been in Europe, where it is more commonly understood. The implications of how it will impact clients domiciled here in the US or in Asia Pacific has not been fully concluded yet.

Looking ahead to the next year, we have a big push on upgraded infrastructure and incorporating more technology into not just securities finance but all aspects of our business.

Christopher Benish, State of Wisconsin Investment Board

What about the mandatory buy-ins? Could that be an opportunity?

Michael Madaio, Pershing LLC

FRANCESCO SQUILLACIOTI: Beyond SFTR and CSDR, Single Counterparty Credit Limits are set for implementation in January 2020. The good news is that some firms will be allowed to use their own internal models to calculate risk. However, it is not quite clear how risk-shifting is going to work for some of the transactions so that is something to keep an eye on.

CHAIR: What do you expect 2020 to bring for the US market?

GREG KORTE: Over the last couple of years, some clients have been reviewing their lending programmes in a thoughtful way to validate and put that diligence in their files, while others who are not lending want to know, 'What's the monetary decision that I'm making by staying out or going in?' That doesn't mean they don't want to engage in lending, but they do want to know what it costs or what the trade-off is revenue-wise. We also have some clients that, due to shifts in the market, are not earning as much as they did through securities lending as a couple of years ago. They are making the determination, 'Do I stay for this little bit of earnings? Is it worth it? Or do we sunset our programme?' I expect that to continue into 2020.

NANCY ALLEN: Data is being used to inform the answers to the questions Greg raises. More than ever, beneficial owners are directly consuming data and using it to drive the structure of their programme. They are also performing more detailed performance measurement to better identify opportunities and capture value. I expect these trends only to strengthen in 2020.

CHRISTOPHER BENISH: Looking ahead to the next year, we have a big push on upgraded infrastructure and incorporating more technology into not just securities finance but all aspects of our business. It's a real opportunity to better educate my investment peers within the organisation about what securities finance is and how we can better support and influence the work that they do. As an organisation, it provides an opportunity around how we can think about utilising more strategies that take some of this data, information, and infrastructure into account and perhaps look at doing different kinds of trades that maybe we haven't participated in in the past because either we weren't structurally set up to do them or we didn't have the staff or the resources to be able to dedicate to evaluating the risk-reward trade-offs.

MICHAEL MADAIO: 2020 will be all about the data – finding it, mining it. That's a huge challenge because important data is embedded in many places. We are very focused on analytics because we believe it will allow us to better position ourselves and protect our clients. We're likely to experience higher than normal volatility in the upcoming election year so we think it will be important to focus on the things we can control and the value we can deliver.

JOHN FOX: In the US, historically speaking, over a four-year cycle the presidential election year is generally the worst-performing year for markets. That uncertainty sometimes correlates to better securities lending returns, so there could potentially be some upside in securities finance revenues in 2020.

CHAIR: There remain some misconceptions around securities lending in certain quarters, so if there were one thing you would like people to know or better understand about securities lending, what would it be?

MICHAEL MADAIO: If you're a longer-term holder of a security, there's a good chance that the price of that security will be the same in six months whether or not you decide to lend your position today. However, if your peers do lend the difference between your performance and theirs will be that they monetized that opportunity and you did not.

AXEL HESTER: There are misconceptions about the risks associated with securities lending. A lot of people, who aren't familiar with and don't deal with it on a daily basis, still view securities lending as somewhat of a black box. We have to be able to communicate to this audience that it is an investment decision with a risk-reward trade-off, not all that different from other investment decisions. When properly structured, securities lending can be highly beneficial, but to structure it properly, the risks need to be understood. However, it is not just stating that fact, but rather explaining why and how. I think the only way that we can get over some of these hurdles is through further education and for people to understand that securities lending is just a different perspective than they may be accustomed to looking at investing from. It's an asset-liability match as opposed to a long-only strategy, for example, and there are additional considerations that that brings in.

I would like beneficial owners to focus on the little things.

John Fox, BNY Mellon

ELAINE BENFIELD: I am hoping that securities lending is viewed more as a front-office function as opposed to a back-office function because I think it is a critical element of the overall portfolio management strategy. Of all the portfolio management strategies, the beauty of securities lending is that it is fully collateralised and marked daily. If you structure your securities lending programme consistent with your investment strategy and risk appetite, it can be very valuable and relatively low risk.

JOHN FOX: I would like beneficial owners to focus on the little things. For example, understanding that small tweaks to the current parameters they have in the programme – whether that's expanding to additional forms of non-cash collateral where they are already potentially indemnified, or recognising that there may be a few securities that are generating a large return – can make a big difference to their performance.

GREG KORTE: I would like asset owners to recognise that the major risks in securities lending are in the cash collateral reinvestment and exposure to commercial paper and other items, and that it is very likely that the same exposure exists in their cash fund. I would also like all beneficial owners to make decisions based on data.

BILL SMITH: The business is evolving. When you think about the growing supply of securities and new beneficial owners entering the market, we are reminded that opportunities to create value are consistently opening and being taken away by the market. We don't think of securities lending as a static product. We offer a platform where we create value for clients, and in doing so provide liquidity into markets. The markets are going to evolve in ways where we have new opportunities to create value and some clients will take advantage of these or some won't. Our job is to bring investors and beneficial owners opportunities and articulate them in a way that enables them to make informed decisions on which to take advantage of. ■

OCC: Laying the foundations for a future-fit CCP securities lending model

Matt Wolfe, vice president of securities finance at OCC, talks through the steps the US equity derivatives clearing organisation is taking to ensure its stock loan programmes meet both the near-term and future needs of market participants.

Chicago-based OCC, the world's largest equity derivatives clearing organisation, has been operating stock loan programmes for 27 years. The stock loan/hedge programme was introduced in 1993 for its clearing member firms, while the market loan programme launched in 2009. In both instances, OCC acts as the principal counterparty to both the borrower and lender in the transaction.

Average loan balances for the stock loan/hedge programme reached $72.5 billion last year. Although this was down on 2018's total ($83.3 billion), significant growth has been achieved over the last decade. In 2012, for example, average loan balances stood at $10.9 billion. OCC noted that the continued bull market of 2019 contributed to an industry-wide decline in activity balances. However, the notional value of stock loan ended 2019 very close to when 2018 started. Despite this decline OCC continues to see increased interest in clearing as cost pressures increase; during 2019 OCC had an additional seven members sign up for the stock loan programmes bringing the total to 78 clearing members.

Average loan balances for the market loan programme jumped 70% from $918 million in 2017 to almost $1.6 billion in 2018, increasing by a further 52% to $2.4 billion in 2019.

Matt Wolfe, vice president of securities finance at OCC, points to the 2010 Dodd-Frank Act and establishment of minimum risk-based capital requirements as a key driver of increased CCP usage. More recent regulatory changes, however, may also generate additional interest in the CCP securities lending model.

"As the uncleared margin rules

> As the uncleared margin rules (UMR) for non-cleared derivatives continue to be applied to more and more counterparties, it is possible more firms might look for alternative ways to achieve the same financial outcome of gaining exposure to a security or hedging the risk of financing.
>
> **Matt Wolfe, vice president, securities finance, OCC**


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(UMR) for non-cleared derivatives continue to be applied to more and more counterparties, it is possible more firms might look for alternative ways to achieve the same financial outcome of gaining exposure to a security or hedging the risk of financing," explains Wolfe. "Securities lending through a CCP may provide opportunities to do that in an equivalent way on potentially a lower cost basis."

The fifth phase of UMR's roll-out will capture firms with an aggregate average notional amount (AANA) of non-centrally cleared derivatives greater than €50 billion from September 2020, and firms with an AANA of more than €8 billion will need to comply with the rules from September 2021. While it has predominantly been sell-side firms and some larger buy-side firms that have been captured by the first four phases of UMR, the upcoming phases are expected to impact more of the buy-side.

Building up the fundamentals and transforming for the future

OCC has been working to further improve its stock loan capabilities and ready its infrastructure and product offerings for the future needs of market participants via a three-step approach that aligns with the organisation's wider five-year plan.

Introduced by OCC's board in 2018, the strategic plan will be implemented in three stages, with the first phase known as 'reinforcing the foundation'. This focuses on strengthening the CCP's resiliency and liquidity resources, tightening its cybersecurity systems, and ensuring its technology is fit for the future.

OCC is also enhancing its risk management framework. In December 2019, the US Securities and Exchange Commission (SEC) approved phase two of OCC's Financial Safeguards Framework (FSF), which included changes to its rules, guarantee fund, stress testing and margin methodology that are designed to increase OCC's resiliency as a systematically important financial market utility (SIFMU). Phase two follows the first round of enhancements implemented in September 2018, which included resizing OCC's guarantee fund resources to cover the simultaneous default of OCC's two largest clearing members.

> "With a stronger foundation in place we will be positioned to begin work on enhanced services, new products, and to consider new ways to help our clearing members gain capital savings."

The second stage of OCC's five-year plan revolves around 'growing the base'. Wolfe says: "With a stronger foundation in place we will be positioned to begin work on enhanced services, new products, and to consider new ways to help our clearing members gain capital savings.

"Once we have grown our base among our clearing members with our products and services, we will then look outside of our typical boundaries to see where OCC could benefit financial markets more broadly in new and possibly different ways." The latter aim embodies the third phase of the strategic plan: 'innovating for the future'.

Advancement of the stock loan programmes will follow the three-step trajectory outlined above. 'Reinforcing the foundation' includes the introduction of a new technology platform for clearing stock loans. OCC is working on a new stock loan system that will continue to support both hedge and market loan transactions in largely the same manner as the current system does but will also support a new enhanced model that will more closely align with market practices and better reflect OCC's role as counterparty.

"We are also anticipating rule changes to address some of the legacy limitations of the hedge programme in order to capture additional data, including full details of the rates and terms," adds Wolfe.

He continues: "Once we have that new programme and technology in place, we will begin taking steps toward introducing services such as support for baskets of loans for term financing, as well as non-cash loans, as part of the 'growing the base' phase of OCC's broader corporate strategy."

When it comes to 'innovating for the future' and expanding beyond its current boundaries, the clear target is engaging the buy-side, points out Wolfe. For buy-side firms, CCP securities lending creates potential for higher utilisation, lower costs, and improved pricing, he notes.

"The majority of buy-side firms' securities lending activities are facilitated by agent lenders, but banks are subject to capital requirements, as are the majority of borrowers," Wolfe says. "Clearing transactions through a CCP means that the regulatory capital requirements are typically about 95% less than uncleared bilateral transactions. Not only could that reduce the costs of agent lenders, it could also create potential for borrowers to be able to borrow greater amounts of securities or offer better pricing for the securities they are already borrowing."

> "Once we have grown our base among our clearing members with our products and services, we will then look outside of our typical boundaries to see where OCC could benefit financial markets more broadly in new and possibly different ways."

One question that emerges around the take-up of CCP securities lending among the buy-side is the impact it may have on the traditional role of agent lenders and indemnification.

Wolfe says: "Indemnification is a key risk management tool for almost all beneficial owners. Once you come into a clearing structure, many of the risk management features that we introduce make indemnification somewhat redundant, but I do not believe there will be a sudden decrease in the number of firms looking for indemnification from their agent lenders. However, OCC's credit rating and risk management framework could lower the cost of indemnification relative to existing counterparties."

As part of its efforts to widen access to its stock loan programmes, OCC has been designing a clearing framework that will suit the requirements of most market participants. "We have a lot of work to do around implementing new technology and working with regulators and the industry to bring that model to fruition," notes Wolfe. He goes on to explain that the organisation is working towards having the technology and framework in place that will enable agent lenders and beneficial owners to have better informed conversations about CCP lending and the OCC's role as a central counterparty.

He adds: "The core of what we do is stepping in and becoming the counterparty for lenders and borrowers, providing a guarantee of performance and mitigating the risk of loss because of failure by the original lender or borrower. That is not to say that there isn't an ongoing relationship between the borrower and lender, but this relationship exists against a much sounder foundation that is guaranteed by OCC. This enables market participants to engage with counterparties that they might not be comfortable dealing with on a bilateral basis and means that they may be willing to take much larger positions under the umbrella of protections that OCC provides."

"The core of what we do is stepping in and becoming the counterparty for lenders and borrowers, providing a guarantee of performance and mitigating the risk of loss because of failure by the original lender or borrower."

Modernising technology platforms and leveraging data tools

At the heart of the significant amount of work OCC is currently carrying out to achieve its goals for the future and complete the first step of 'reinforcing the foundation' lies the Renaissance Initiative. "The Renaissance Initiative is OCC's largest undertaking in at least 20 years," says Wolfe.

Announced in January 2019, this multi-year initiative will see OCC modernise its risk management, clearing, and data systems. In addition to the clearing system being developed with Nasdaq, new risk management features aim to deliver increased transparency for clearing members, while a new cloud-based data platform will be populated with at least 10 years' worth of historical data to allow for greater insight and intelligence capabilities for both OCC and its members. An extensive period of internal and external testing will take place to provide clearing members with the opportunity to ensure that their current systems will continue to operate alongside OCC's new systems and to try out the new features being introduced.

"The point of the Renaissance Initiative is to make sure we are delivering on what the industry needs. We are closely collaborating with our clearing members to understand what it is they need in the short term and also thinking about what we can do now to ensure we are addressing needs that may be unidentified, perhaps five or 10 years down the road," says Wolfe.

To support the introduction of its new systems, OCC is working with staff to develop their skills and enable them to leverage its new technology and tools. Wolfe adds: "We also have a team of process engineers who are going through OCC's processes and looking at ways to streamline them, introduce automation, and make them more efficient so we can better serve the users of our markets."

Beyond improvements to its own systems, Wolfe sees emerging technologies, such as smart contracts and distributed ledger technology, as creating opportunities for the industry to address some of the current pain points, namely, escalating costs, errors, and manual processing. "The immutability of changes to contracts with distributed ledger technology will reduce errors and reduce the amount of manual processing and the associated cost of reconciliation," he explains. "There are a lot of ways that technology could be employed in the industry that we haven't even envisioned yet." ■

"The point of the Renaissance Initiative is to make sure we are delivering on what the industry needs. We are closely collaborating with our clearing members to understand what it is they need in the short term and also thinking about what we can do now to ensure we are addressing needs that may be unidentified, perhaps five or 10 years down the road."

CSDR storm brewing for investment banks

Fundamental reforms across European securities markets could see trading costs skyrocket into the billions for investment banks. By **Daniel Carpenter,** Head of Regulation at Meritsoft (a Cognizant company)

The Centralised Securities Depository Regulation, better known as CSDR, is set to impose significant fines on trades that fail to settle on time. The trouble is that, currently, a major tier one investment bank may well experience 5,000 to 10,000 fails per day in the core European markets.

CSDR is a totally new process and large-scale change, and the issue is that most of the big banks have multiple legacy settlement systems, and many have outsourced their back-offices with clear Service Level Agreements (SLAs). Pre CSDR this was not an issue. If a trade matched, but there was a settlement failure, banks rarely charged clients penalties. They simply accepted the situation as a cost for doing business.

As of September this year, banks are going to have charges enforced centrally every time, and then they will be bought in. This means that an investment bank will be obliged to be bought in by their counterparties directly, as opposed to going through a CSD. One should not underestimate what a massive change this is to how an investment bank does pre-matching and associated settlement activities to mitigate the market risk of being bought in. There is a monumental operational impact on demonstrating compliance, processing and then having to manage the penalty claim process on a daily and intra-day basis. This includes validating a fail, reconciling a penalty, starting a buy-in process, as well as cancelling existing trades.

However, it is the buy-ins that tier one investment banks are particularly worried about. Clearly, if a bank is bought in, then there needs to be a market valuation of the risk sensitive instruments they are exposed to. There are also operational overheads to factor in. As things stand, there is no high volume or automated processes in place across the multiple different jurisdictions the major banks operate in. They will need to demonstrate compliance to the buy-in regime while demonstrating best execution to the CSDs, and implementing an effective claims management process.

While daunting, operational change, if approached in the right way, can mitigate the impact on investment banks. For example, a big European bank may have a claims management process for asset servicing, one for interest claims, and another for tax. The reality is that a lot of these processes are the same, or very similar. They have always been managed by different parts of the operations team, with separate silo investment and teams globally. With this in mind, there is a clear opportunity for operations to use CSDR to say to the COO "let's centralise these types of processes wherever humanly possible?"

For penalties, claims management, the all-important buy-in process, and many others across the bank, there is very little difference from say asset servicing or for interest claims processing. Investment banks that see this challenge as an opportunity to re-evaluate their operating models. During the re-evaluation, working out a way to centralise similar processes would certainly help to mitigate the impact of the new regime from an operational headcount, cost and risk weighted assets (RWA) perspective. In addition, new referential data, transparency in root cause and analytics will also be important.

After all, even if just over half of the 5,000+ current fails per day settle due to key processes being centralised, then banks will save money. Also, if say a third of the trades that settle are high-yield bonds that would have failed to settle previously, then the banks will start seeing bottom line benefits.

It is clear that one firm's penalty will be different to another firm's credit. Between now and the enforcement of CSDR in September 2020, investment banks must centralise their settlement processes. The more they act now, the more opportunity there is for collaboration and chances to develop new efficient processes across the trade lifecycle. Failure to do so will result in a larger cost than they initially thought. ■

"There is a monumental operational impact on demonstrating compliance, processing and then having to manage the penalty claim process on a daily and intra-day basis."

Mega deals and open ecosystems

In the next decade, asset management M&A will be an important trigger in containing cost growth, but this alone will not create scale and efficiency. Clear operating models and integrated systems are critical to supporting success. By **Klaus Holse,** chief executive officer at SimCorp

Key to providing this, are vendors who can take up the role of trusted partners, to expand their services and open up platforms, for long-term scale and assets under management (AUM) growth.

With a spell of new M&A deals already at play, it is safe to predict that in 2020 we will see the consolidation of the institutional investment industry continue at pace, in order to stem outflows and stay relevant in the long-term. In February alone, we saw the buyout of Merian Global Investors by rival firm Jupiter Asset Management and US fund giant Franklin Templeton acquire Legg Mason. Meanwhile, Morgan Stanley bolstered its wealth management business by purchasing E*TRADE.

M&A is no silver bullet

While global AUM growth, largely fuelled by Asia, may paint a positive picture, global asset management cost growth continues to exceed organic revenue growth, according to recent findings from McKinsey & Company. Meaning on the other side, is a tale of falling profit margins, where fee compression and unsustainable operational leverage are joined by a growing assault of market pressures.

Beyond short-term AUM growth, M&A needs to take a good look under the hood, to first rationalise the high operating leverage impacting profit margins. Today, AUM growth no longer guarantees as much revenue as it once did. In fact, according to Bain & Co, it now takes more AUM to generate the same amount of revenue as it did 10 years ago, squeezing the spread from 15bps in 2007, down to an estimated 8bps by 2021. In this tough climate, the key to protecting margins will be tighter control over costs. Investment operations in particular are increasingly contributing to the overall cost base of an asset manager, with costs in North America growing twice as fast as Western Europe.

While M&A can be considered a good starting point in bolstering a firm's defences from these market pressures, on its own it cannot create the scale and efficiency needed for long-term success. To build true scale and address the market challenges standing in the way of future prosperity, will require a fundamental shift. Moving away from the traditional operational status quo, of costly legacy systems, fragmented point solutions and outsourcing, to a clear operating model that can streamline a firm's architecture, and form an integrated backbone across operations. Ownership of data will be a core element to this, strengthening cost efficiency, scalability and delivering significant value to a firm, in a way that outsourcing simply cannot provide.

Delivering everything as a service

The bottom line is that asset managers will need to deliver more value at less cost. To achieve this effectively, we will inevitably see a significant shift in the way vendor services are consumed, and while many in the industry play catch up to a front-to-back way of service delivery for their clients, the goal posts are already moving. If we, as vendors, are to fully meet the needs of asset managers, both today and in the future, it will no longer be enough to simply provide a front-to-back platform in isolation.

While in the past, firms acted as fortified islands when it came to their operations, the future will necessitate open platforms supported by managed services and not tools and technologies alone, to truly aid M&A efforts and solve both industry and firm-wide challenges. Here, vendors in the industry have a significant role to play, demonstrating how greater value can be achieved, by delivering beyond their traditional remit. By forming trusted partnerships, vendors will need to manage a wider footprint of investment management operations, delivering everything as a service. Empowered by the cloud, vendors will need to take over the time-consuming maintenance of the systems, processes, and data owned by the asset manager, while also being more accountable for tangible business outcomes.

With the changing needs of institutional investors, the onus will be on vendors to provide a holistic, full service approach, with proven faster time to value and reduced operational burden, risk and cost. This will not only require a higher degree of support but also responsibility from vendors, if they are to increase efficiency and demonstrate additional value and expertise across the investment chain successfully.

Take for example, data management, which continues to create significant cost and a drain on already burdened operations teams. Vendors can support firms in capitalising on the mountains of data they hold, by utilising an open platform, augmented by a host of managed services. The combination of which, can rationalise the incredible volumes of market data that presently floods the front office. At the same time, it can liberate firms from arduous and costly data-driven reconciliation. Ultimately, this delivers one source of truth for all processes, enabling clients to move vital resources and manpower away from firefighting data and instead onto alpha-generating tasks.

> “With the changing needs of institutional investors, the onus will be on vendors to provide a holistic, full service approach, with proven faster time to value and reduced operational burden, risk and cost.”

The battle of ecosystems

As well as managed services that enable firms to focus on the core of their business, vendors will also need to facilitate the flexibility firms need, to differentiate from the competition and gain an edge. The creation of an open ecosystem is the way in which we believe vendors can deliver this flexibility, along with true optionality – choice without obligation. Doing so, will provide long-term scalability and positive change, not just to the industry's financial prosperity, but also its social and environmental contribution.

If the introduction of managed services extends the reach and responsibility vendors will have inside a firm's investment operations, then an open ecosystem is the means to connecting firms outside, to leverage innovation in the broader fintech space. This is fundamentally where we see the next race, beyond that of front-to-back platforms; The battle of ecosystems.

Put simply, open systems are increasingly overtaking those that are closed. Across both consumer and business domains, traditional business models are being put to the test. The creation of a highly networked industry ecosystem, one that enables real innovation, integration and co-creation, will in our view create greater flexibility and drive competitiveness, optimising both sides of the coin; AUM growth and cost control.

We are already seeing this change towards openness, with the number of cross vendor/custodian partnerships in the industry, including our own recent integration partnership with BNY Mellon. Today, SimCorp has over 50 partnerships within the industry, but we can easily predict this growing to a network of hundreds of partners, offering services, solutions and applications that are complementary to our core platform and managed services.

While these partnerships form a new co-dependency between service providers to offer something much bigger than themselves, it is ultimately the institutional investment industry that will be its biggest beneficiary. It is here, vendors can unlock further value for clients, taking away the research, development and integration work they would otherwise need to take on themselves, by delivering emerging technologies such as machine learning, in collaborations with a host of fintechs and start-ups. An example is SimCorp's recent announcement with New York start-up Alkymi, where we aim to solve the industry headache over processing unstructured data in alternative investments. It is here, we feel we can maximise the power and scale of fintechs, RegTech, cloud and data providers around the world, and even clients themselves, to offer proprietary, third-party and co-created outcomes, via our platform.

2020 will see the institutional investment industry undergo a dynamic transition, as it continues to address the operational baggage that has shadowed its potential for so long. M&A provides a substantial opportunity in overcoming current heightened conditions, as well as reducing spiralling costs. However, it will be the role of trusted partnerships with vendors who can take on more operational responsibility and offer enhanced services, that will be vital in driving the freedom to focus on success. In the battle for ecosystems, the successful partners will be those vendors who can open up their platforms and architectures, to deliver a thriving ecosystem and abundant opportunities for long-term, sustainable growth. ■

Institutional onboarding: a cocktail of dread and frustration

By **Simon Cornwell,** a director at Saffron IOS, considers the complex challenge of onboarding institutional funds

The onboarding of individual private wealth customers is an area where significant advances have been made – mainly due to improvements in technology. The automation of once archaic, paper-based processes has increased accuracy and speed, and generally made the whole onboarding experience for the private client far less painful. The software industry has responded to the challenge and developed a plethora of highly effective systems. It must be borne in mind, however, that this is a different process, primarily associated with identity, money laundering and the avoidance of mis-selling.

Transpose that activity into the institutional world and a very different picture emerges. For most institutional asset managers, the whole onboarding process fills entire teams with a heady cocktail of dread and frustration. Onboarding mandates from pension funds and life assurance firms is still reliant on spreadsheets, manual processes and duplication of effort. The avoidance of costly errors is maintained by a small number of highly skilled, specialist staff with many years of experience in the onboarding field. Given that forms of automation have been successfully introduced into so many functions within investment management, why is this area of onboarding institutional mandates still so labour-intensive and fraught with risk?

The answer is complexity. If one studies a typical, high-level project map from an agency that places pension fund money, it begins with an RFP process before moving on to the IMA (the Investment Management Agreement - covering investment objectives, risk measures to be monitored etc).

This agreement is then signed off and the next item on the roadmap is 'planning' – one simple word that does an injustice to a great swathe of very intricate, sequential tasks that must take place before trading can commence.

Most medium to large asset managers (from £30-60 billion Assets Under Management (AUM) and over £100 billion AUM respectively) will have staff that deal with this 'planning' activity, drawn from the front office and operations, sales personnel (and product managers when the task involves launching funds).

The vast majority of this post-IMA work is conducted on multiple spreadsheets - and even some of the tasks handled during the RFP and IMA construction stages. There is therefore sometimes a problem with the information flow stemming from tasks associated with negotiating the IMA.

Product teams, sales and fund managers are all part of the process, but sales teams tend to be less interested once the mandate has been won, fund managers just want to get on with running the fund and the product teams will not necessarily have the full picture of the project.

Despite having an onboarding team, larger asset managers will nevertheless always rely on operations and other functional departments to complete their share of the tasks. In a heavily siloed organisation, this creates multiple points of failure. For smaller asset managers or hedge funds, there is generally better communication and clearer delineation of task ownership.

A lot of problems occur because information does not always flow down the organisation from the people who know. Compliance and risk rules might be put into the system incorrectly through miscommunication, as different people interpret the rules in different ways. Management fees is another area where interpretation can vary. For example, when bringing on mandates, is the asset manager

calculating the fees based on the value at the end of each month, or six months, or the average of those six months?

Asset managers also have to consider which markets they are trading in and which brokers (because the firm has to be authorised for every fund for each broker in order to trade with it).

Launching new funds

A similar problem exists in the area of fund launches. There are many different product types to consider, such as Irish, Luxemburg, US and UK Fund structures. Imagine a scenario whereby an asset manager is transitioning from UK fund structures to CCFs (an institutional tax-efficient fund structure) in Ireland, as part of the UCITS programme.

The first stage is to get regulatory approval for the business proposition. Then at the point of launch the asset manager may have multiple underlying funds being tracked on Microsoft Project as well as the main fund being managed by the product team on spreadsheets. A project manager has to list all of the tasks that need to be completed to ensure the fund is launched on time, including every department of the asset management firm within the plan just in case that team has a task to undertake. In a situation where the asset manager is outsourcing, the process gets even more complex.

This kind of confusion around who is responsible for which tasks is very common within large firms especially. There are usually weekly conference calls with the fund administrator and other third parties coming up to launch date, and daily calls to manage the overall project. Events and actions are being monitored on multiple spreadsheets by numerous individuals, who are also having to participate in all of these progress calls. Setting up funds also involves internal compliance systems, risk systems and so on – taking up valuable time for staff that still have to get on with their day job.

The major issue with this situation is workflow. Each individual breaks the project down into smaller tasks that reflect their own input but does not necessarily provide the detail in their project plans so that everyone involved can understand it. Fund launches can therefore be very elaborate, involving multiple parties (both internal and external) which then introduces a significant keyman risk and duplication of effort associated with all of the hand-offs in the process. The launch of an individual asset class alone might comprise between 70 and 100 different tasks, involving multiple recipients.

Complexities associated with outsourcing

Large organisations will often have outsourced as well as inhouse processes to control. Many asset managers will have an outsourced back and middle office and utilise an enterprise system for their trading and middle office. There might be several third parties assisting the asset manager with onboarding as well as a team dedicated to onboarding and fund launches.

During a fund launch, due to the fact that it is a customer of the custodian or fund administrator, the asset manager has some leverage or control over what is being done and when. When bringing in a mandate, however, the relationship is between the fund administrator and the asset owner; the asset manager has no control over timescales. There are huge communication issues surrounding when tasks are being completed, accounts being set up and so on.

From an audit perspective, in 2016 a new form of the AAF Assurance control reports for outsourced activities was introduced. This is an FCA requirement that acts as a control for monitoring an outsourcer or fund administrator. Running off spreadsheets makes this reporting very difficult because the asset manager has to compile every email, event or action concerned with the process and be able to evidence that they have control over that process with the third party.

Improving the onboarding and fund launch processes

How can the fund launch and onboarding process for institutions be improved? The first requirement is for a workflow management system that captures all of the tasks down to a low level of granularity. For example, in the area of documents, a draft IMA could be uploaded as an event and communicated with a third-party or internally. Similarly, fund supplements, prospectuses, KIIDs and so on would be in a central store with all of the other documentation related to that fund or mandate, with the associated security permissions. In this way the sharing of information would be vastly improved and controlled.

Within each task or event, holding the relevant metadata would be invaluable. This might cover data such as fees associated with various asset classes. For example, for UK equities, the asset manager could reveal the performance management fees and secure client approval or otherwise, via an automated, traceable email. Similarly, compliance rules could be captured so that they are easily understood and retrievable.

Messaging capabilities could be integrated between all parties, so that, for example, a third-party would receive an email saying 'click on this link' to enable the third-party to update the task without the need for a conference call. All the organisations involved (investment manager, client, fund administrator, custodian, broker, depository) could be set up in distinct communication groups by department, for the transmission of reference and other data. The correct legal names, LEIs and SWIFT BICS could be available for all to view in one location, avoiding the risk of new identifiers being introduced incorrectly.

Data from investment management and CRM systems could be drawn into the onboarding ecosystem via APIs. Metadata could be available so that the asset manager could set up the fund automatically via an API, along with the compliance rules and trading route.

Once the mandate sales process has passed (where access to certain data and documents are restricted as it could affect the share price), a top-down dashboard of all tasks could be viewable by all parties so that each department knows what it needs to do and the corresponding deadline. The use of templates would mean that different activities could follow the same basic procedure.

An automated onboarding process might help asset managers to win mandates. Firms have certainly lost institutional mandates due to their inability to onboard effectively and a bad reputation in this area travels far. Automated onboarding could therefore provide asset managers with more operational and audit control, less risk of missing regulatory requirements and help them to secure new business. It would also improve profitability: delivering the onboarding of a $100 million mandate by just one month could increase revenues significantly.

It's a heady cocktail of benefits. ■

Trading Places: Q1 2020

An overview of the key people moves in the derivatives sector.

BNP European head of eSales Rowe quits firm

BNP Paribas European head of electronic sales James Rowe has left his position after exactly four years with the French bank.

Rowe, who joined BNP Paribas' London arm in late 2015, left his post as the bank's head of eSales listed derivatives for Europe, the Middle East and Africa just before Christmas and is now on gardening leave, according to his LinkedIn page.

The French banking giant hired Rowe to run electronic EMEA broking sales from London on December 23 2015, according to the FSA register.

Rowe reported to Declan Crosbie, the bank's head of listed derivatives execution for Europe, the Middle East and Africa, and was hired to help BNP grow its listed derivatives execution and clearing franchise.

LSE hires former Citigroup head of equities

The London Stock Exchange Group (LSE) has appointed Murray Roos, Citigroup's former co-head of equities, as group director, capital markets and a member of the exchange's executive committee.

Effective from April 1, Roos will report to David Schwimmer, CEO of LSE, and will look after the group's global capital markets business across primary and secondary markets.

Raffaele Jerusalmi will continue as the firm's group director, capital markets until Roos joins in April, who will remain in his position as CEO of Borsa Italiana after stepping down from his capital markets role.

Ex-Sheffield Haworth director Robinson joins PeopleSolved

South African recruitment firm PeopleSolved has hired former Sheffield Haworth director David Robinson as its European managing director and charged him with building a team across the region.

Robinson, who was a Sheffield Haworth director specialising in Markets and FinTech recruitment for five years, joined PeopleSolved as its London-based European managing director in January.

Robinson said he has been charged by the Cape Town-based firm with building a team in Europe and a presence in various European financial centres.

ICE hires RJO's Oulhadj to run Abu Dhabi

Intercontinental Exchange has hired Jamal Oulhadj, the former chief of US broker RJ O'Brien in the Middle East, to run its new oil exchange in Abu Dhabi.

The US exchange group said Oulhadj, whose appointment is subject to regulatory approval, will be the first president of ICE Futures Abu Dhabi, the energy exchange that ICE plans to launch in the first half of this year.

ICE Futures Abu Dhabi (IFAD), which is backed by nine of the world's largest energy trading firms, will host the world's first futures contract based on Abu Dhabi National Oil Company's (ADNOC) Murban crude oil.

The Oulhadj hire is a key step for IFAD and comes less than four months after ICE cut a deal with the Abu Dhabi to build an energy market in the Gulf state's international financial centre.

OSTC focuses on innovation with staff moves

The proprietary trading group OSTC has hired a director from HSBC and reshuffled its senior management to increase its focus on innovation.

The firm announced in February current chief operating officer Ian Firla is moving to the new role of head of innovation. Former HSBC director Ian Cohen will join on February 11 to take-up the role of chief operating officer and deputy chief executive.

Ex-LME chief Garry Jones targets digital transformation

Garry Jones, the new chief of tech firm Perfect Channel and former head of London Metal Exchange, has said his new firm wants to work with "banks and brokers" but is not in the business of supplying trading systems to exchanges.

Speaking to Global Investor after he was appointed chief executive of London-based fintech firm Perfect Channel, Jones explained he and his team are keen to work with firms looking for digital transformation.

Jones said: "Perfect Channel enables digital transformation for a wide range of companies that are looking to take an analogue process into the digital age. As well as marketplace and auction technology, the company overlays artificial intelligence and machine learning to create further efficiencies."

Curve hires Grillo to run Americas sales

LSE Group-owned CurveGlobal has hired Robert Grillo as head of business development in the Americas.

In his new role Grillo is tasked with expanding the firms Americas customer base and will report directly to chief executive Andy Ross, Curve said in a statement.

Most recently Grillo spent just under four years heading up consulting firm RMAG LLC, having founded the business in 2016.

Prior to this, he amassed 25 years of experience at banks and asset managers, including as managing director at Bank of America Merrill Lynch and head of FIG rates sales at JP Morgan.

ED&F Man Cyprus chief Corrigan leaves firm

The chief executive of ED&F Man Capital Markets' Cyprus arm Danny Corrigan has left the firm six months after he became head of the broker's new division, sources have said.

Corrigan was chief executive officer of ED&F Man Capital Markets CEEMA, the Cyprus-based broker covering Central and Eastern Europe, the Middle East and Africa, from July 2019 until his departure earlier this month.

Before moving to Cyprus, Corrigan had been for 18 months an advisor to the European chief executive Stephen Hawskworth until just before he left the firm in August last year.

Callam rejoins Mako as managing director

David Callam, the former Scottish rugby international, has rejoined trading firm Mako as a managing director after just over a year at HSBC.

Callam rejoined Mako, the London-based derivatives specialist, as a managing director of trading in January.

He rejoins Mako Trading after 14 months at HSBC Global Banking and Markets where he was a London-based ETF sales trader.

Before joining HSBC in December 2018, Callam spent seven years as Mako Global's head of business development and did a short stint in sales trading at spread-better ETX Capital.

CME president Durkin to step down in May

CME Group has said its president Bryan Durkin will step down from his role in May.

Durkin currently oversees the company's technology, global operations, market technology and data services. Durkin is set to serve as a special adviser to the company upon stepping down.

Commenting on the development, chief executive of CME, Terry Duffy, said: "As a long-standing champion of the futures industry, Bryan has been an integral part of our leadership team for more than a decade."

Marex to hire RJO European chief Texier - sources

Marex Spectron is set to hire the former European chief of rival RJ O'Brien Thomas Texier to run its new clearing arm, according to sources.

The London-based broker will hire Texier in the summer after he has completed his six months' gardening leave at RJO, according to sources close to the firm.

Texier is said by sources to be joining the broker to run Marex Clearing Services, a new wholesale clearing and execution unit targeting banks, funds, asset managers, corporates and trading firms.

DGCX appoints Barbour as sales manager for Europe

Ling-Lyn Thakker, former head of sales for Europe and the USA at the Dubai Gold & Commodities Exchange (DGCX) since October 2018 has left the group, a source has confirmed.

Michael Barbour is now head of Europe at the Gulf derivatives exchange group, the source told Global Investor, saying the personnel change is part of a reshuffle.

Euronext hires COO from JP Morgan

European exchange group Euronext has hired JP Morgan veteran Georges Lauchard as its chief operating officer.

The group, which operates exchanges in seven European cities, said in an emailed statement Lauchard will become COO and a member of the Euronext Managing Board on March 17.

In the new role, Lauchard will oversee Euronext operational strategy, policies, and execution in support of Euronext's ambition to become the leading market infrastructure in Europe, the firm said in its statement.

MacGregor rejoins Jones at Perfect Channel

Paul MacGregor, the former head of sales at the London Metal Exchange, has reunited with former LME chief Garry Jones at his new fintech firm Perfect Channel.

MacGregor, who left LME two years ago to work for Berkeley Futures and then Britannia Global Investments after it bought Berkeley in May last year, joined Perfect Channel in March as its head of sales and marketing. ■

Deutsche Boerse extends chief exec contract

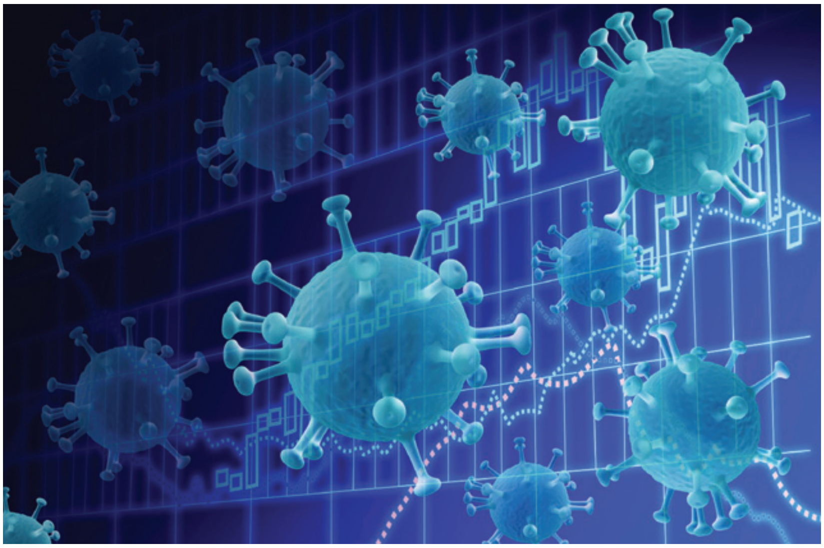
Deutsche Boerse has extended the contract of its chief executive Theodor Weimer by four years.

In a press release in February, the German exchange group announced that Weimer's current contract, which is set to end on December 31 2020, had been extended by four years until December 31 2024.

Weimer has been chief executive of Deutsche Boerse since January 1 2018. Weimer's predecessor, Carsten Kengeter resigned in October 2017 after an insider trading scandal.

Volatility and uncertainty in the shadow of Covid-19

Global Investor Group has tracked the market's reactions to the emergence and spread of the coronavirus



February 14:

Trade talks, coronavirus and Brexit drive SGX volume

Singapore Exchange has said the US-China trade talks, coronavirus, Brexit and civil unrest in India roiled the markets in January and boosted its foreign exchange (FX) trading volumes by a quarter.

SGX said in a statement the US-China trade negotiations were one of the top stories of 2019 and these moved forward in January when the two countries agreed the first phase of a deal.

The exchange said in a statement: "To be sure, as long as there remained a lack of details for a longer-term resolution, any relief was always going to be short-lived."

The Singapore exchange said: "The development was followed by the threat from a new coronavirus, which jolted markets and drove demand for protective gear such as facemasks, pushing up stock prices of healthcare-product manufacturers."

LME cuts Hong Kong events due to coronavirus

The London Metal Exchange has cancelled a dinner and postponed a seminar in Hong Kong due to the outbreak of the coronavirus.

The LME Asia Dinner and the LM Asia Seminar were set to be held on May 6 in Hong Kong.

In an update to members, LME stated the events will not take place as planned "for the safety of staff, customers and friends in the metals industry across the region".

On the potential for the virus to affect future meetings, an LME spokesperson told Global Investor: "LME Week 2020 in London is currently scheduled to go ahead as planned in October. However, we are evaluating all our events over the next few months, given the backdrop of COVID-19."

February 19:

JPX suspends events due to coronavirus

The Japan Exchange Group (JPX) said it has cancelled all public events due to the outbreak of the coronavirus.

In a release on February 19, JPX said the suspension includes public seminars, events and visits to its visitor facilities. The Japanese exchange also said people signed up to events will be contacted separately.

The Tokyo-based exchange group did not say how long the suspension will last.

Coronavirus hits trading revenue - Acuiti

Fears linked to coronavirus hit trading revenue in January as the number of traders reporting higher earnings fell across most of the main international financial centres.

The number of traders reporting higher revenue in Asia Pacific (APAC) fell to 20% last month from 43% in December, according to new data from research firm Acuiti.

Some 30% of European traders saw higher earnings in January compared to 43% the previous month and only 39% of North American traders saw a month-on-month increase in earnings versus 49% in December.

March 2:

Exchanges hit records due to coronavirus

The world's top derivatives exchanges reported record levels of trading as the coronavirus pandemic roiled international markets.

CME Group, the world's largest derivatives exchange, had last week four of its five busiest days on record.

The Merc traded 57.6 million lots on Friday, making February 28 the busiest trading day in its history, narrowly beating 57.2 million lots on Thursday, 55.3 million lots on Tuesday and 48.5 million contracts on Wednesday.

The CME's previous busiest day was 51.9 million lots on May 29 2018, according to data from the exchange.

ICE, the main rival to CME, has also seen record trading. ICE said its average daily volume in February was 7.6 million lots across all futures and options, which made last month busier than the previous record in June 2017.

March 3:

FIA cancels Boca event due to coronavirus

Trade body FIA has cancelled one of its main conferences, in Boca Raton Florida, due to Coronavirus, the latest industry event to fall foul of the epidemic.

The Washington DC-based trade association said in a statement: "It is with great disappointment that FIA has decided to cancel its 45th Annual Boca International Futures Industry Conference on March 10-12 due to concerns for the health and wellbeing of our conference attendees surrounding the spread of the COVID-19 Coronavirus."

The trade body said it had made the decision "after discussions with FIA's board of directors this morning as well as with key stakeholders in the industry".

March 10:

ICE, CME energy markets hit record

The world's top energy exchanges hit new records for trading volumes as Intercontinental Exchange had its busiest day and CME Group's energy market reached new levels.

Intercontinental Exchange, which trades commodities, rates and equity products, said on Tuesday it traded 13.12 million lots on Monday March 9, making that day the Atlanta-based exchange group's busiest on record.

The Monday total, comprising futures and options across all asset classes, beat the previous record of 12.8 million lots on September 16 last year after the Saudi Aramco oil plant was attacked on Saturday September 14.

ICE hit new records across the board with 11.7 million lots of futures, 8.7 million contracts of commodities and 7.9 million lots of energy contracts comprising new records in its Brent, WTI, natural gas and Dubai markets.

CME Group, which reported its busiest single day of 57.6 million lots on February 28, traded 6.8 million energy futures and options contracts on March 9, making Monday the CME's busiest for energy products.

March 13:

India plans $2bn dollar-rupee swap

The Reserve Bank of India (RBI) in Mumbai has said it is closely monitoring the "rapidly evolving global situation" after announcing that it will conduct six-month US dollar-rupee sell/buy swap auctions on Monday to provide liquidity to the foreign exchange markets, starting with swaps worth $2billion (£1.56bn).

The first auction will be conducted in multiple tranches on March 16 between 09.30 and 11.00 with a minimum bid size of $10 million and in multiples of $1million thereafter.

ISDA postpones annual meeting in Madrid

The coronavirus pandemic has led the International Swaps and Derivatives Association (ISDA) to postpone its AGM, which was due to take place in Madrid in May.

"We believe postponement is the best possible outcome that will both keep attendees safe and ensure we can deliver what is an extremely important and exciting event for the global derivatives industry," ISDA said in a statement.

The AGM will now take place in Madrid on November 3-5. "We will continue to monitor the situation closely, and will adapt conference policies and procedures as necessary as public health advice changes," ISDA said.

March 16:

LME ring-dealer has COVID-19

The London Metal Exchange (LME) said it has taken measures to keep its trading ring open after learning an employee of a ring-dealing member has been diagnosed with COVID-19.

In a statement emailed to Global Investor, an LME spokesperson said a number of precautionary measures have been taken since the exchange was informed of the diagnosis, including a deep clean of the trading venue.

"The LME understands from its Ring-dealing members - that they wish to continue open-outcry trading from London, and will facilitate this as long as desired and practicable," the spokesperson said, adding that the LME is putting contingency plans in place, which include relocating Ring trading to Chelmsford, as well as moving to electronic pricing.

March 17:

Nodal delays NFX gas migration due to virus

US commodities market Nodal Exchange has postponed the migration of Nasdaq Futures' (NFX) US gas contracts to its platform to mid-April following disruption to the market caused by COVID-19.

Virginia-based Nodal, a subsidiary of the European Energy Exchange (EEX), completed the migration of all NFX's US power contracts to its platform in February, saying at the time that it would move the gas contracts across this month.

Paul Cusenza, chair and CEO of Nodal Exchange and Nodal Clear, told Global Investor that Nodal was happy with the migration of freight and power to the EEX group and had planned to move the gas piece "around now". But as a lot of financial entities are preoccupied with the market impact of COVID-19, Cusenza said Nodal had been asked to delay the move.

March 18:

"Shorter hours make no sense" - CME's Duffy

CME Group chief executive Terry Duffy has issued a strongly worded statement that shortening US trading hours would "make no sense" after US Treasury secretary Steven Mnuchin said he was considering that step.

Duffy issued the statement just three hours after Mnuchin had said US markets will remain open during this time of stress but trading hours could be shortened.

Duffy, the CME Group chief executive officer and chairman, said: "We were quite surprised to hear Secretary Mnuchin say he is coordinating with the New York Stock Exchange on possible shortened trading hours, even though he has not reached out to all cash equity and futures markets including CME Group and Nasdaq. Shorter hours make no sense."

HKEx's Li tells exchanges "rise to the challenge"

The chief executive of Hong Kong Exchanges and Clearing Charles Li has called upon exchanges to "rise to the challenge" presented by the coronavirus outbreak.

Li, who has been chief executive of the exchange group for a decade, issued a statement early on Wednesday highlighting the important role that market operators have to play at times of heightened financial stress.

The chief executive said HKEx markets had performed well, "upholding a fair and orderly trading environment while at the same time ensuring the safety and wellbeing of our colleagues".

March 19

ISDA extends fallbacks consultation

The International Swaps and Derivatives Association (ISDA) has blamed COVID-19 for its decision to extend its consultation on pre-cessation fallback language as part of the migration away from Libor.

The New York-based trade body said in a statement that extending the deadline for comments to April 1 from March 25 reflects the market environment resulting from COVID-19.

NYSE to close trading floors due to virus

The New York Stock Exchange (NYSE) is to close its options and equities trading floors in response to COVID-19 and move to fully electronic trading.

The iconic equities trading floor and American options trading floors in New York are to close, as well as the Arca options trading floor in San Francisco.

NYSE president Stacey Cunningham said the exchange's trading floors are fully capable of operating in an all-electronic fashion. "While we are taking the precautionary step of closing the trading floors, we continue to firmly believe the markets should remain open and accessible to investors," she said. "All NYSE markets will continue to operate under normal trading hours despite the closure of the trading floors."

"Volatility to last months" - traders

Traders expect the current levels of market volatility to last months rather than weeks, according to a new study.

Some 44% of respondents to the latest Acuiti monthly survey expect the current period of heightened market activity to last months rather than weeks.

This compares to 41% who expect the volatility to last a matter of weeks and some 8% that expect the current conditions to last for only days longer.

LME to close trading ring

The London Metal Exchange (LME) said it plans to close its trading ring, the last in London, and move to electronic pricing, saying it is conscious that the nature of the trading ring gives rise to specific considerations in respect of the potential for coronavirus transmission.

The move to fully electronic pricing on March 23 would see ring trading suspended until conditions normalise, when ring trading will resume. During this period, trading will be conducted via LMEselect and the inter-office market.

"This approach offers the minimum potential for cross-contamination with other financial services businesses and the broader population, while maintaining the LME's core pricing functions," the LME said.

March 20

CME widens limits for oil circuit breakers

CME Group has increased the limits at which circuit breakers kick-in on its main oil contracts in response to increased volatility due to the coronavirus outbreak.

The Chicago-based exchange said it had doubled the price fluctuation limits on its light sweet crude and brent crude oil last day financial futures contracts to 15% from 7%.

CME Group said in a statement to clients: "On Thursday, March 19, 2020, the Global Command Center took emergency action by modifying the special price fluctuation limits applicable to the Light Sweet Crude Oil and Brent Crude Oil Last Day Financial Futures contracts, and all related Associated Contracts effective immediately and until further notice."

US markets must stay open - exchanges

The Futures Industry Association (FIA), CME Group and Nasdaq are among 17 signatories to an open letter urging the Financial Stability Oversight Council to pledge that US markets will stay open during the COVID-19 outbreak.

"Closing the markets would have a devastating impact on the US economy. Even persistent rumors about closing the markets are themselves causing adverse effects," states the letter, which has been sent to Treasury secretary Steven Mnuchin, Federal Reserve chairman Jerome Powell, Commodity Futures Trading Commission chair Heath Tarbert and Securities and Exchange Commission chair Jay Clayton.

US prop trading firm Ronin goes bust

Chicago-based prop trading firm Ronin Capital has gone bust and had its assets liquidated after it failed to meet a margin call.

Ronin Capital, one of Chicago's best known proprietary trading firms, was liquidated after its remaining portfolios were auctioned off by CME Clearing, where Ronin was a a direct member.

The Chicago-based group said in a statement: "CME Group today confirmed that, pursuant to its rules, CME Clearing auctioned off portfolios of Ronin, LLC. The auction process was completed this morning, March 20, 2020."

CME continued: "Though Ronin is a direct clearing member, it does not handle customer business; and no clients were impacted by the auction. The firm was unable to meet its capital requirements going forward."

March 23

ESMA extends regulatory response dates

The European Securities and Markets Authority (ESMA) will extend the response date from market participants for ongoing consultations, the regulator said in an announcement.

The response dates will apply for four weeks or more, depending on the consultation.

The extension applies to responses for the consultation on Markets in Financial Instruments Directive (Mifid II) and Markets in Financial Instruments Regulation (Mifir) reports on transparency for equity.

March 25

ASX delays DLT-based CHESS launch

The Australian Securities Exchange has delayed the launch of its much-anticipated distributed ledger-based back office due to the coronavirus pandemic.

Sydney-based ASX, which was due to launch the CHESS back office a year from now, said it "is replanning the CHESS replacement implementation timetable due to the uncertainty created by the unfolding COVID-19 pandemic".

ABN Amro loses $200 million on US client

ABN Amro said its clearing bank will incur a net loss of around $200 million after it was forced to liquidate a US client's positions amid market volatility caused by the Covid-19 pandemic.

"The client had a specific strategy, trading US options and futures, and failed to meet the minimum risk and margin requirements following extreme stress and dislocations in US markets," the Dutch bank said in a statement.

"To prevent further losses, ABN Amro Clearing decided to close-out the positions of this client."

ABN Amro Clearing will incur a $250 million pre-tax incidental loss as the result of the decision, the bank said. The net loss of approximately $200 million (€183 million) will be included ABN Amro's Q1 results.

March 26

ISDA calls for initial margin delay

The International Swaps and Derivatives Association has called on global regulators to delay the next phases of initial margin (IM) implementation, saying efforts to meet the compliance dates are being severely impacted by the Covid-19 pandemic.

"We believe the IM requirements present an insurmountable hurdle for the industry given the rapid escalation of the coronavirus outbreak," said Scott O'Malia, CEO of the New York-based trade association.

Libor deadline stands despite Covid-19 - FCA

The end of 2021 remains the deadline for ditching Libor despite the impact of the coronavirus on firms' transition plans, the Financial Conduct Authority (FCA) has said.

The UK regulator and its international peers have set the end of next year as the ambitious deadline for firms to start using one of the new so-called risk-free rates but have in recent weeks been pressured to postpone because of the coronavirus pandemic.

"The transition from Libor remains an essential task that will strengthen the global financial system," the London-based financial regulator advised, after discussions on the issue with the Bank of England (BoE) and members of the Working Group on Sterling Risk-Free Reference Rates. "The central assumption that firms cannot rely on Libor being published after the end of 2021 has not changed."

CFTC chief outlines Covid-19 "hurdles"

US derivatives markets have acted as "shock absorbers" during unprecedented market volatility caused by the coronavirus pandemic, Commodity Futures Trading Commission (CFTC) chairman Heath Tarbert has said.

Tarbert made the remarks at a meeting of the US Treasury's Financial Stability Oversight Council (FSOC) to discuss measures to safeguard the US financial system.

"The number of futures, options, and swaps contracts and trades has surged to an all-time high. Yet far from amplifying risk throughout our financial system, our derivatives markets so far have acted as shock absorbers for this historic volatility," Tarbert said. ■

For the full story and daily updates go to www.globalinvestorgroup.com

Uncleared Margin Rules: to clear or not to clear?

By **Jeroen Bakker,** Benelux consulting lead at Pierpoint Financial Consulting

As a result of the financial crisis that began in 2007, the G20 agreed to introduce regulations to reduce systemic risk in the financial markets. In 2011 the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions (IOSCO) were tasked to create a framework for margin requirements for non-centrally cleared derivatives. Under these globally agreed standards, all financial firms and non-financial entities that engage in non-cleared derivatives will have to exchange initial and variation margin to reduce counterparty risk. The general idea is that this will reduce risk as well as promote central clearing.

Products covered include FX swaps/forwards (physically settled), interest rate swaps, currency swaps, covered bond swaps and equity swaps. A full list of in-scope products can be found on the ISDA website.

These new standards will be rolled out in a phased approach based on Average Aggregate Notional Amount (AANA) of non-centrally cleared derivatives at group level:

Phase I Sept 2016 AANA > $3tn
Phase II Sept 2017 AANA > $2.25tn
Phase III Sept 2018 AANA > $1.5tn
Phase IV Sept 2019 AANA > $750bn
Phase V Sept 2020 AANA > $50bn
Phase VI Sept 2021 AANA > $8bn

Phase I-IV have been implemented however estimates are that this only applies to around 100 entities, the majority of the impact will be in phase V and VI which include over 1000 entities that will need to adhere to the new legislation.

As of the implementation date, firms will be required to calculate initial and variation margin on a daily basis as well as post and receive collateral in a bankruptcy-remote segregated account.

Prior to this, all firms will need to update and or negotiate new Credit Support Annexes to their ISDA Master Agreements to comply with EMIR standards with each individual counterpart you have derivatives transactions with or want to deal derivatives with in the future.

Initial Margin Calculations

Firms have universally agreed to adopt the ISDA's Standard Initial Margin Model (SIMM), whereby the first step is to determine if trades are in or out of scope and labelled with appropriate sensitivity. These sensitivities will then need to feed into the SIMM model to calculate the IM exposure amount for both collector and pledgor perspective.

Funding Requirements

These calculations will provide an understanding on your margin costs per counterpart as well as the overall impact on your funding. Assessments will need to be made as to whether the funding is sufficient taking into account the fact that received collateral cannot be reused or rehypothecated.

Dispute Resolution

Due to the complexity of the IM calculation which is based on sensitivities, many factors can result in IM disputes such as differences in market data and constituencies of indices. A standardised pricing and data provider will reduce the disputes but a firm will need to agree on dispute resolutions with each counterparty.

Cleared vs. Non-cleared

The overall size of non-cleared (OTC) vs cleared is difficult to calculate, however, it is clear that OTC derivative transactions will always be a requirement for investors. In the meantime, market participants should assess the pros and cons of centrally clearing derivatives. Pros being reduced credit risk, netting potentials, standardisation and reduced margin requirements while cons are avoiding IM (until UMR), and avoidance of clearing costs. Part of this assessment should also include questioning the need for derivatives trading; should certain hedging strategies still be executed or can risk be managed in a different way via plain vanilla or reduced delta?

UMR - to outsource or not to outsource?

Where to start?

Market participants captured in Phase V and VI have a huge task ahead of themselves and ideally should have started the work already. In time-sensitive order: determine the scope, arrange documentation, custodial set up, agree on the calculation model, upgrade/update internal IT systems, enhance operational departments and calculate funding requirements.

One part of the assessment is to determine what can be done in-house and what can or has to be outsourced. Questions should be raised as to "do we have enough skilled staff?", "are we able to manage the systems upgrade?", "can we raise sufficient funding/how will we source the necessary collateral?", "do we need to trade with our current set of counterparties?", "can we operationally manage the increased transaction flow?", and "-do we receive sufficient support from our current service providers?"

What to outsource?

Depending on the answers to the above-mentioned questions, certain parts of the process can, will or have to be outsourced to third-party service providers.

Legal and documentation updates

Updating your ISDAs with the required CSAs is time-consuming, however as long as you set the boundaries as to what the minimum requirements for your company are, you can outsource the negotiating itself to different law firms.

Pricing and data management

Ensuring your systems can calculate the correct initial margin requires a precise set of data points, obtaining these on your own could result in many disputes. Outsourcing could prevent time-consuming work in the future.

Collateral management

In order to minimise the operational burden and transaction volume for your bilateral collateral movements, one can decide to outsource - collateral management to a third-party collateral management provider. This will also capture the validations and valuation of collateral received and pledged as well as the segregation of accounts.

Funding requirements

Once you have calculated your funding requirements you might find that you have insufficient collateral or the incorrect type of collateral. Your prime broker or bank can assist you via repo, SBL or collateral transformation transactions to get the right type required collateral.

Conclusion

The first four phases of UMR showed that the implementation of the new regulatory framework was cumbersome with even large institutions needing additional implementation time resulting in halting new OTC derivative transactions. Come September 2020, when Phase V will come into effect, we might see similar disruptive situations. Review your clearing requirements and check your need for outsourcing. ■

Open access in fixed income: the clear choice

By **Bruce Kellaway,** Global Head of Rates and Securities at LCH

Transparency and customer choice. These two concepts underpin the principles of free markets. The fixed income space is no exception. It is widely acknowledged that competition ultimately benefits end-customers, driving innovation, efficiencies and customer service. In fixed income, this translates to market participants having a choice of where to trade, clear and settle their bond and repo activity. In clearing, CCPs (central counterparties) offer their members enhanced counterparty risk management, increased operational efficiency and greater capital benefits, thanks to the lower risk weighting of centrally cleared trading activity and netting benefits. Open Access allows the clearing model to operate as efficiently and effectively as possible.

It's a common misconception that Open Access equates to greater complexity. In fact, in the European fixed income market, an Open Access approach has fuelled the development of deeper liquidity and netting pools. These deep pools of liquidity allow banks and market participants to benefit from greater capital efficiency as well as robust risk management. For example, in 2019, LCH's RepoClear service reported a peak gross nominal of outstanding of €3.8 trillion across its services. This concept of robust risk management contrasts with the risks that have been concentrated via artificial barriers and siloes in other areas of the market.

Open Access ensures non-discriminatory access to trading, clearing and settlement infrastructures. This allows investors to trade on alternative platforms benefitting from lower trading fees, while retaining the opportunity to access a compelling pool of cleared liquidity. And while Open Access may be considered by some to be complex, clearing in fact removes many operational challenges, and the choice it involves ultimately results in more efficient markets.

In the fixed income market, we continue to see demand from our customers for a broad range of cleared products spanning multiple debt markets. As such, LCH has continued to expand its coverage in recent years to cover 14 sovereign debt markets, spanning all the largest European markets. It has also diversified the types of market participants through initiatives such as Sponsored Clearing, which enables buy-side firms to access clearing by getting a bank to sponsor their fixed income clearing activity.

Another priority for the market is retaining true choice, in terms of where to execute and where to settle their debt portfolios.

Competition between trading venues encourages greater efficiencies. Meanwhile, the choice of settlement venues available in Europe encourages an element of healthy competition between central securities depositories (CSDs). It's important to many customers to continue to have an open choice of where to settle their trades. For example, LCH is directly connected to multiple settlement venues. This choice enables end-users to derive the greatest possible benefits from netting – whereby participants can offset appropriate positions to achieve savings for their balance sheets and in turn, execute more business.

It's our belief that the fixed income market operating under the principles of Open Access are more efficient, more innovative, and importantly, more customer-centric. This tallies not only with our own experience but with the conversations that we have with members and other market participants.

Transparency and choice will continue to provide compelling benefits for the financial markets, driving innovation and efficiency. Open Access continues to be the clear choice for the fixed income market, both now and for the years to come. ■

Market structure and regulation dominate FOW Amsterdam

The **FOW Trading Amsterdam** conference began with trading experts clashing over the state of the European market place as they argued whether the current fragmentation of liquidity is good for clients.

Speaking at the conference on Thursday March 5, a panel of traders and exchanges discussed the European market structure two years after the Mifid II reforms took effect across the trading bloc.

Frank Borggreve, CIO at All Options, a trading firm, told the delegation: "We are all trying to find liquidity so a solution would be to bring all the market participants together in one place to show the liquidity there."

Borggreve said: "Ultimately, we want price competition rather than venue competition. Mifid II tried to fix something that is inherently broken. The only way to do it is to put everything on one exchange."

Randolf Roth, member of the executive board at Eurex, the largest exchange in Europe, disagreed: "I'd suggest there is nothing wrong with the current model. The only way for me as an exchange to maximise shareholder value is to maximise volume."

Roth argued that interests of shareholders and clients are aligned because exchanges derive revenue from trading fees drawn from clients. The panel discussed the dynamics of an exchange being owned by its users but Roth was sceptical.

"We have seen exchanges being owned and built by participants but they ultimately don't succeed because of disagreements ," he said.

Borggreve questioned the assumption that exchanges have aligned the commercial interests of clients and shareholders by citing the growing cost of exchange data.

He said: "Market data costs are increasing year on year and the only reasons the exchanges are doing that is to maximise shareholder value."

Guillaume Battini, head of market structure and UK business development for cash and derivatives at Euronext, said there are other ways of delivering economies of scale.

"Exchanges have a central role to play in concentrating liquidity but I think the aggregation of liquidity could be something that happens on the post-trade side."

Joost Wokke, head of principal trading groups at ABN Amro Clearing, said he is concerned about the lack of competition among exchange members.

"I prefer it when everything is centrally cleared but I am concerned about the lack of General Clearing Members at the clearing houses."

Rolf admitted there is pressure on exchange clearing members: "Interest rates are low and firms can't charge for execution, so the only way for some firms to get paid and that is selling the

client flow. Clients need to be aware there is another price to pay and that's that their flow will be internalised."

Following the trading debate, regulatory experts have expressed concerns about the review of the Mifid II regulation taking without the UK, one of the driving forces behind the original rules.

Speaking at the conference, a panel of regulatory experts reflected on the fact that the Mifid II trading reforms are being reviewed at the same time that the UK is leaving the European Union.

Piebe Teeboom, secretary general of trade body the FIA, said: "In Mifid I, the emphasis was on competition and this was still the case in Mifid II but the picture from the financial crisis came in so there was strong emphasis on resilience and transparency."

Teeboom, who represents the interests of proprietary trading firms, said: "We need to keep the competition in the market whereas the UK is no longer a participant in these discussions. This is something we need to have in mind as we start these conversations."

Matthijs Geneste, capital markets supervision and policy at Dutch regulator AFM, told the delegation: "It is important to look at the different asset classes covered by Mifid II. For exchange-trade derivatives, I think we did pretty well. The markets are fair, open and transparent so it is a relatively good picture. On fixed income, there is still some room for improvement."

The Dutch regulator added: "After a relatively short period of time, Mifid II is already under review. The regulators are looking at what has gone well and where we still see room for improvement."

Geneste concluded: "In Europe, you have to look at it from a historical perspective. Europe is evolving from a market dominated by national exchanges to one of pan-European exchange operators."

Matthijs Pars, director of the Association of Proprietary Trading (APT), added: "We need to look at this from a global perspective. The European equities market is falling behind those in the US and Asia so we should stop looking at this in terms of competition between the European Union and the UK."

The European Commission opened on February 18 a public consultation on the Mifid II regulatory framework for investment firms and market operators, namely exchanges, banks and brokers. ■

> **"Ultimately, we want price competition rather than venue competition. Mifid II tried to fix something that is inherently broken. The only way to do it is to put everything on one exchange."**
>
> **Frank Borggreve,** CIO at **All Options**

Trading Israel tracks key market and tech trends

Trading Israel 2020, in its fourth year and held in February as COVID-19 was beginning to emerge, was opened by Haim Israel, Global Strategist, Head of Global Thematic Investing Research at Bank of America Merrill Lynch, who provided a keynote address entitled "Transforming World!"

He described a world where a few tech companies have been able to amass so many customers so quickly, their earnings are on par with entire countries (Facebook: $621bn vs India: $552bn).

But Israel said this new world is characterised by disruptive factors such as changing demographics, new artificial intelligence technologies and climate change.

The International Trading panel focused on the impact of Libor and the fast-developing threat of COVID-19, which at the time felt like an Asia problem, with some noting that it could become a world problem soon.

The panel said liquidity was a big concern for investors and hedgers, and too few indices and exchanges showed sufficient liquid to trade.

In the Technology Innovation panel, Daniel Rapoport, Head of Global Sales, Equities & Derivatives at Bank Leumi, discussed the new technologies at his firm and how it is staying competitive by working with start-ups. Israel is famous for its fintech start-ups such as eToro, curve, and Pagaya. But he shared some of the main barriers he saw in fintech solutions collaborating with banks.

Haim Ben Ami, CEO, RAFT Technologies, discussed that firm's latest developments in trading connectivity - a wireless, low latency, transcontinental communication system for high-frequency trading firms.

"The Beginner's Guide to Start-ups" panel, chaired by Lital Dagan, CEO IHFA- Israel Hedge Funds Association, considered the prospects for the some 500 Fintech start-ups in Israel, many of which support the 150 active Israeli hedge funds and dozens of prop trading firms.

The panel discussed the reasons why some prop firms are becoming hedge funds, the main one being funding.

One of the main advantages of such a structure is the ability to raise trading capital without giving away equity in the company.

The panel agreed the most important thing regarding raising capital is to be aware of the relevant regulation in the relevant jurisdiction. The rules and regulations tend to vary from jurisdiction to jurisdiction,

and the potential exposure could be significant. Also, it is crucial to have good investment agreements in place, that protect the fund manager, and at the same time provides investors with transparency and a good reporting mechanism.

The Opportunities for Israel panel, chaired by Uri Peles, the Head of Business Development at Barak Capital, agreed Israel's location between Asia, Europe and the US is no longer a big advantage - the world is global now, and distance and time zone are less important.

The panellists said they were most interested in the US markets, particularly dual-listings between New York and Tel Aviv.

The final panel looked at the future of technology, moderated by Josi Rosenfeld, Senior Quant Analyst, Eastmore Group, who set the stage by asking if financial firms needed to worry about possible entrance of big technology companies such as Google and Facebook.

Many in the panel did not see them as possible competitors and felt that there would be more partnership opportunities then direct competition.

Chris Jenkins, Co-Head, ZISHI, part of OSTC Group, highlighted how new technology tools can be used to increase worker productivity.

This fuelled a debate about whether AI solutions are inherently black box solutions, and led to a discussion between Didier Essemini, CEO, Finotec Trading UK, and Daniel Giamouridis, Global Head of Scientific Implementation Data and innovation Group, BAML, on the viability of true black box solution. ■