asset servicing times
The primary source of global asset servicing news and analysis
Issue 175 04 Oct 2017

US Volcker Rule not fit for purpose, says SIFMA

The US Volcker Rule is too broad, excessively complex, and uniquely prescriptive, according to the Securities Industry and Financial Markets Association (SIFMA).

Responding to the Office of the Comptroller of the Currency's (OCC) request for comments on the rule, SIFMA said: "[The rule] should be revised to better accomplish the purposes of the underlying statute and its impact on the efficient functioning of markets to facilitate growth."

SIFMA added that the complexity of implementing regulations, and the difficulties inherent in having five agencies tasked with implementing and interpreting the regulations, mean that many key interpretive issues remain unresolved.

In its letter to the OCC, SIFMA set out several recommendations for reform, including revising the definition of proprietary trading to focus on speculative short-term standalone proprietary trading; simplifying the prescriptive compliance obligations of the proprietary trading and covered fund provisions; and eliminating the quantitative metrics regime, among others.

"While we continue to believe the Volcker Rule is a solution in search of a problem, SIFMA appreciates the growing recognition by the Volcker Agencies of the problems with the current implementing regulations," said Kenneth Bentsen, SIFMA president and CEO.

"We remain concerned that the current regulatory framework goes beyond statutory intent and is overly restrictive, impeding beneficial market activity at the expense of the economy, and ultimately consumers."

He added: "SIFMA fully supports the efforts of the Volcker Agencies to streamline and simplify the implementing regulations, and offers our members' recommendations on necessary revisions to achieve this goal."

Tradeweb successfully executes first RFQ inflation swap transactions

Tradeweb has completed the first cleared inflation swap transactions using request-for-quote (RFQ) protocol on its European Interest Rate Swap platform.

The platform can now aggregate inflation swaps liquidity on a single screen, allowing traders to request prices from several dealers simultaneously.

It is intended to complete transactions more quickly and efficiently, and to meet transparency obligations under the second Markets in Financial Instruments Directive (MiFID II).

It also allows for straight-through processing (STP), and gives traders access to new solutions such as compression links.

The trade was executed by Legal & General Investment Management (LGIM) and cleared by LCH.

Enrico Bruni, head of European and Asian business at Tradeweb, commented: "Our market-leading, global offering in interest rate derivatives is now even more comprehensive with the addition of inflation swaps."

He added: "Buy-side firms look to Tradeweb to conduct their business in all major currency interest rate swaps, benefitting from both flexible and compliant solutions."

"By executing on our platform, clients can also rest assured that their pre- and post-trade transparency obligations under MiFID II are taken care of, thus avoiding unnecessary costs and implementation burdens."

Philip Hunter, head of rate trading at LGIM, called the trade a "significant milestone for the inflation swaps market".

He said: "The STP benefits of electronic execution, coupled with the improved price discovery achieved via the RFQ model satisfy the industry's increasing need to streamline trading desk procedures, while simultaneously enabling buy-side firms to demonstrate best execution."

Asset Servicing Times issue 175

Real-time settlement key in collateral

Real-time settlement is the most important consideration when choosing a new collateral management provider, according to research from SIX Securities Services.

In a survey of industry professionals spanning the collateral and IT businesses, 83 percent said they consider real-time settlement as the most important factor when selecting a collateral management provider, while 75 percent said they consider collateral acceptance as important.

Real-time reporting was considered important by 63 percent, while 54 percent value flexibility with regards to regulatory changes.

A quarter of respondents said they consider transparency of collateral pools as an important point, regardless of where they're published.

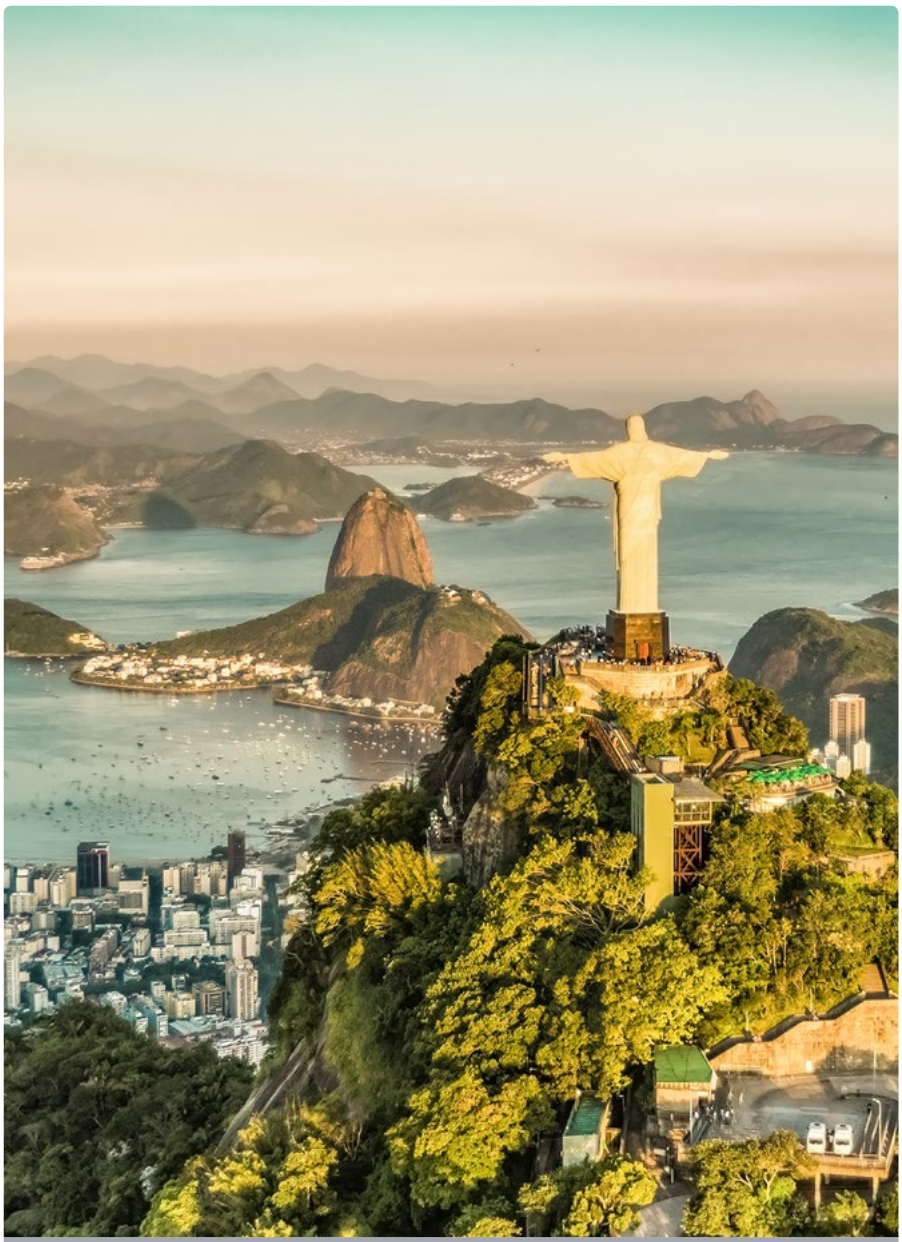
Only 21 percent named cost as an important factor in their decision.

Results differed slightly when comparing responses from the IT and collateral sides of the business.

While 100 percent of collateral respondents said they consider real-time settlement as a desired feature, only 73 percent of IT decision makers agreed. Perhaps more notably, 56 percent of collateral respondents said they consider the point of transparency in collateral pools as extremely important, compared to just 7 percent of IT respondents.

Of all respondents, 40 percent said their organisation has either replaced or added a new collateral management provider in the last 18 months. A further 18 percent said they are in the process of doing so.

Of those retaining their current collateral management provider, 61 percent said this is because of IT interfacing problems. Some 55 percent said there was a complication element involved, and 55 percent cited the length of the onboarding process as a reason.



BNP Paribas wins Brazilian custody mandate

Mizuho Trust & Banking has selected BNP Paribas Securities Services as its sub-custodian and settlement agent in Brazil.

As the Luxembourg subsidiary of Tokyo-based Mizuho Financial Group, Mizuho Trust & Banking provides asset servicing, custody, payments and treasury services to institutional investors into global markets.

Andrea Cattaneo, head of Brazil for BNP Paribas Securities Services, commented: "This is a significant mandate win, which demonstrates our strengths in Brazil."

He added: "Mizuho was looking for a local sub-custodian to support their clients investing in the country and selected us for our extensive local expertise and tailored custody and foreign exchange solutions."

BNP Paribas Security Services is expanding its Latin American presence, adding to service offerings in Colombia and Peru.

Marcus Harreus, head of clearing at SIX Securities Services, said: "Mobility of cash and securities is key in collateral management, especially in today's economic environment. SIX Securities Services offers its clients an efficient and coherent market for securities clearing and settlement in Switzerland and the euro area."

"With regulations such as Basel III (in particular liquidity coverage ratio) requiring banks to hold higher amounts of high-quality collateral (or cash), financial institutions are trying to cope with the reduced profitability of these positions by increasing operational efficiency and by optimising their cash and collateral management capabilities."

SIX Securities Services surveyed 60 professionals, with equal numbers from the collateral side of the business and IT decision makers, and with equal representation from the buy and sell sides. Respondents were from the UK, Germany, France, the Nordics and Switzerland.

10-year T2S saga comes to an end

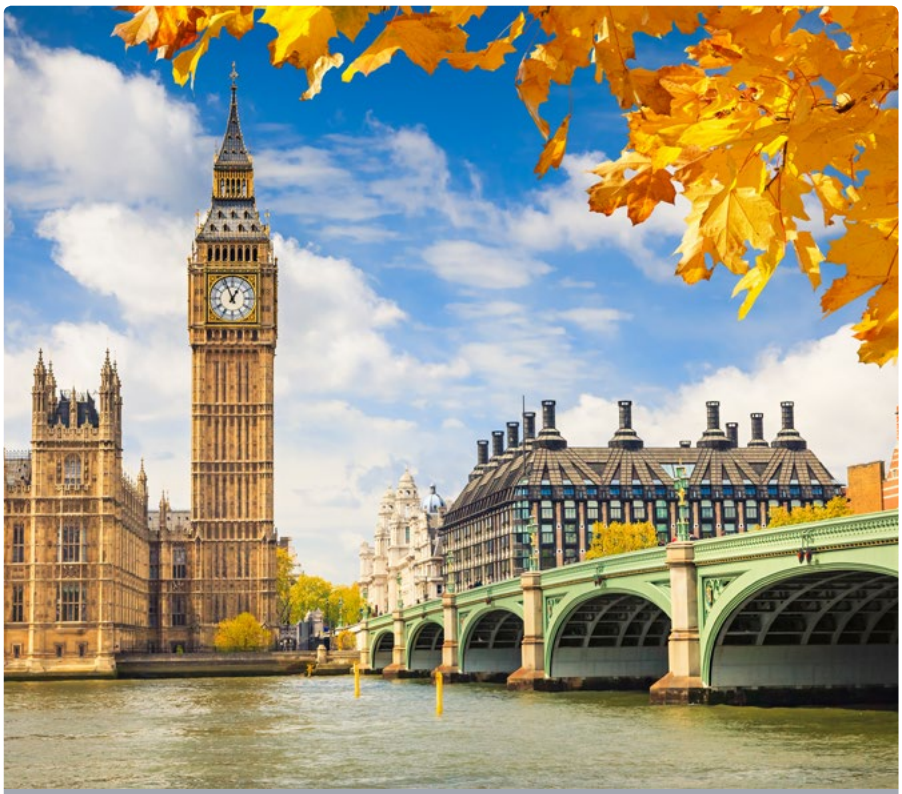
The Target2-Securities (T2S) pan-European harmonised settlement platform is finally fully operational, as the Spanish and Baltic markets completed their migration in the fifth and final wave on 18 September.

Spain's Iberclear moved to the post-trade system along with the central securities depositories in Estonia, Latvia and Lithuania, bringing the 10-year project to completion.

The T2S platform will now settle an average of 550,000 transactions per day, according to the European Central Bank (ECB).

Wave four of the project was completed successfully on 6 February, with the addition of Clearstream Banking in Germany bringing the platform to 80 percent of the final expected volumes.

Speaking to the ECB in an MIP Online report, Indars Ascuks, associate vice president and head of the Baltic markets at Nasdaq, said: "Thanks to its interconnectivity, T2S makes cross-border settlement easier and more efficient, ensuring more integrated and



Smartkarma opens European hub in London

Smartkarma is set to open a UK office, supporting its buy-side investor clients and its research analyst community in Europe.

The Asian research provider, which has 400 independent analysts based across 15 markets, is expanding into Europe in order to take advantage of the "fractured market" and the "significant stress" the second Markets in Financial Instruments Directive (MIFID II) has placed on the research industry.

Under MiFID II, set to come into effect on 3 January 2018, investment research must be bespoke to each institution, and investment firms must pay for research with their own funds, or through a separate designated account, which is charged to the client. Research fees also have to be separated from execution and trading fees.

According to Smartkarma, the move means European analysts can now register to join the data platform, offering a network approach to insights and publishing tools.

Arzish Baaquie, new head of the UK at Smartkarma, will lead the move and build the team from the office in Baker Street, London.

Jon Foster, co-founder and chairman of Smartkarma, said: "The research industry is under significant stress from MIFID II, and it is no secret that we plan to take full advantage of this fractured market."

He added: "Our transparent subscription model and open access to the complete ecosystem of research and analysts means that investors are MiFID II compliant and can access independent research through an innovative, cloud-based platform."

Baaquie said: "As the industry continues to evolve, we have already shown that we have reinvented how independent research is created, supplied and consumed."

"We are rapidly expanding our network of insight providers across Europe, and establishing operations in London is a natural next step."

cost-effective securities trading and post-trade services. We believe these changes will create valuable synergies for market participants, as T2S enables Baltic assets to be brought into the European pool and also makes foreign securities more accessible to Baltic investors."

"This will lead to an optimised market infrastructure and new business opportunities, meaning more efficiency and fewer risks to investors."

An Iberclear statement also noted that the move will allow Spain's post-trade system to be aligned with the rest of Europe, and will "increase its efficiency, optimise costs and enhance its competitiveness".

Iberclear CEO Jesús Benito told the ECB: "Links with T2S CSDs—which before migrating were complicated—have suddenly become delivery-versus-payment links that are fully harmonised with domestic settlement procedures."

"We believe this is an opportunity that Iberclear has to take advantage of for the sake of its current clients."

The ECB now plans to liaise with the market to assess the functioning of the new system over the next few months.

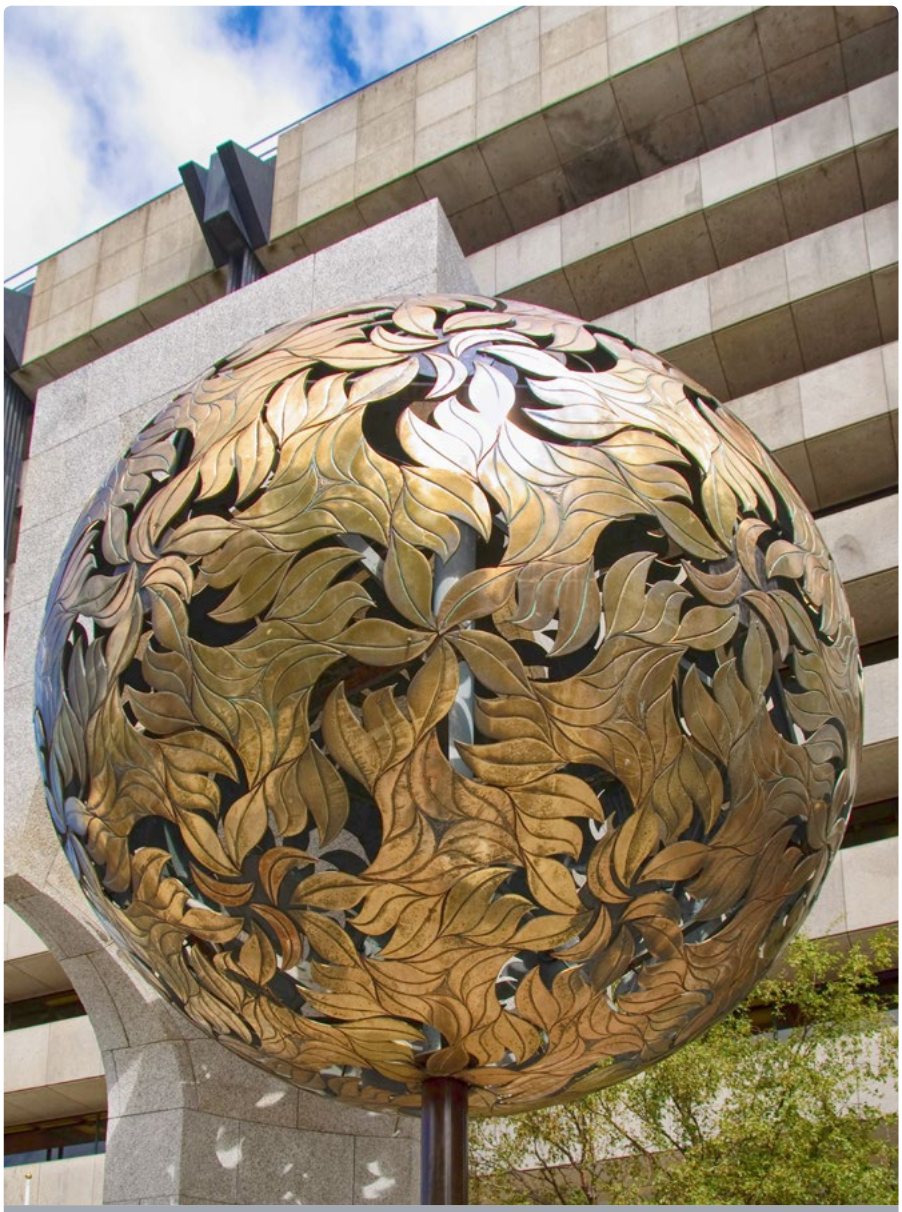
In October 2018, settlement for the first non-euro currency is expected to become available on T2S, with Danish CSD VP Securities, which migrated in wave four on 6 February, settling Danish kroner.

UCITS funds enjoy assets boom in Q2

UCITS funds registered net inflows of €174 billion in Q2 2017, compared to €202 billion in Q1, according to the European Fund and Asset Management Association (EFAMA).

As part of its latest quarterly statistical release, EFAMA revealed that UCITS funds attracted €377 billion in net new money in the first half of 2017, compared to €271 billion recorded during the same period in 2016.

The latest growth figures represent the highest level of net sales recorded since Q1 2015.



Sanne backed as fund administrator by Central Bank of Ireland

The Central Bank of Ireland has authorised Sanne Group Administration Services (Sanne) to deliver fund administration services in the country.

Under Section 10 of the Investment Intermediaries Act, Sanne will be able to provide services to Irish collective investment schemes and alternative investment managers, on top of its existing offerings.

The group opened its Dublin office less than a year ago and has plans to expand in Ireland.

Phil Godley, global senior managing director at Sanne, said: "Our new Irish licence enables us to strengthen the services we provide to our range of clients [including] large asset managers investment funds, corporate and financial institutions."

He added: "As a business, the awarding of our licence further enhances our EU-based funds capability, and we are pleased to see a healthy pipeline of new business, which includes some of our existing global clients."

In Europe, Germany saw the largest net asset growth (2 percent), followed by Ireland (1.5 percent) and Luxembourg (0.9 percent).

The largest net inflows into UCITS were recorded in Luxembourg (€70 billion), closely followed by Ireland (€68 billion), both of which saw strong net inflows into bond funds.

Equity funds in Ireland and multi-asset funds in Luxembourg also contributed to the strong results. Overall, total net assets of the European investment fund industry increased by 0.6 percent to €14.89 trillion at the end Q2 2017, while UCITS assets grew to reach €9.17 trillion.

SmartStream partners with Deutsche Börse on Regulatory Reporting Hub

Deutsche Börse Group has enlisted the SmartStream Reference Data Utility (RDU), for its new Regulatory Reporting Hub.

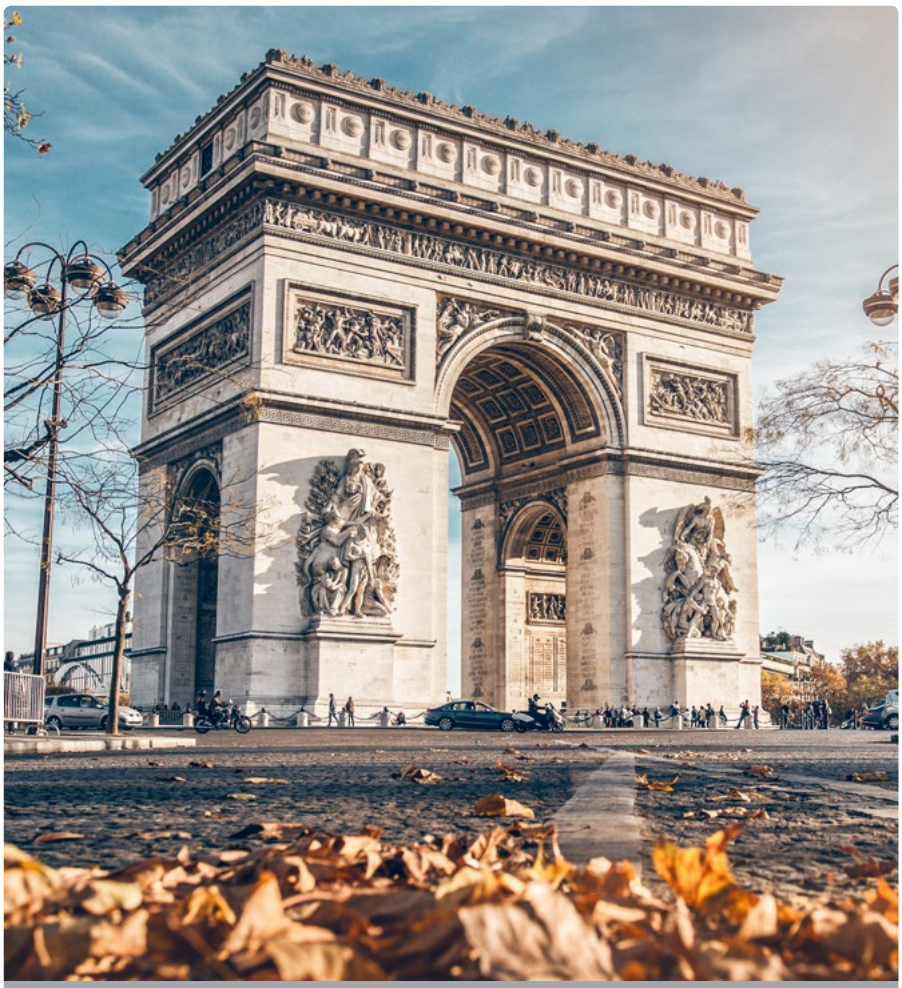
SmartStream RDU will deliver reference data for Deutsche Börse's regulatory offering, including data from the European Securities and Markets Authority and the global legal identifier foundation.

In addition, SmartStream RDU has launched a new Systematic Internaliser Register, a service also developed alongside Deutsche Börse, intended to address a gap in regulatory protocols under the second Markets in Financial Instruments Directive.

The new register allows systematic internalisers to publish the financial instruments they will offer, allowing them to be more easily identified within the Regulatory Reporting Hub.

According Georg Gross, head of regulatory services at Deutsche Börse, the new reporting hub will allow sell-side and buy-side clients to more easily meet regulatory obligations, "resulting in lower overall administrative costs for our users".

Gross said: "Fully-fledged and validated reference data is a key prerequisite of regulatory reporting."



BNP Paribas becomes first French OTC Clearing member

BNP Paribas has joined OTC Clearing Hong Kong as the clearinghouse's 17th member, and the first from France.

A subsidiary of Hong Kong Exchanges and Clearing (HKEX), OTC Clearing provides clearing services for over-the-counter (OTC) derivatives.

BNP Paribas will join OTC Clearing members including Citibank, Deutsche Bank and JPMorgan Chase.

Calvin Tai, joint COO and head of clearing at HKEX, said: "We are pleased to welcome BNP as a member of OTC Clearing."

He added: "The unique renminbi (RMB) clearing solution for RMB-focused products like US dollar-Chinese yuan offshore cross-currency swaps and Chinese yuan onshore seven-day repo non-deliverable swaps offered by OTC Clearing is one of the key drivers for major market makers like BNP Paribas to join and make use of our service."

Stephane Ritz, head of trading and global markets for the Asia Pacific region at BNP Paribas's Hong Kong branch, said: "OTC Clearing's innovative product offering is expected to help us effectively manage our capital requirements and counterparty risk exposure for RMB OTC derivatives."

"More importantly, OTC Clearing's extensive clearing member network, including major Chinese and local clearing members, will enable us to offer value-added services to many of our existing clients that have already joined OTC Clearing."

"By collaborating with SmartStream RDU we are able to offer a comprehensive offering via our hub, which meets all regulatory requirements, and processes are simplified."

He added: "The SmartStream RDU Systematic Internaliser Register, in particular, will be extremely valuable to our clients since it eliminates the need to bilaterally communicate systematic internaliser status in trade messages."

Peter Moss, CEO of the SmartStream RDU, said: "The SmartStream RDU delivers complete, accurate and timely reference data for use in critical regulatory reporting, trade processing and risk management operations, dramatically simplifying and reducing unnecessary costs for financial institutions."

DTCC and Linedata introduce new partnership for transcation matching

Linedata has extended its 10-year partnership with the Depository Trust & Clearing Corporation (DTCC), introducing transactions-matching capabilities.

Linedata has upgraded the interface between DTCC's platform for cross-border transactions, CTM, and its Linedata Longview solution, to generate automatic affirmations for matched trades, and to allow users to send trade allocations to broker-dealers.

The upgrade comes as part of Linedata and DTCC's efforts to support clients as they prepare for the implementation of the second Markets in Financial Instruments Directive, in January 2018.

The new updated programme, Extensible Markup Language, allows Linedata clients to match transactions across extended asset classes, and enables trade processing on one platform.

According to Linedata, the new interface uses CTM's PUSH technology, which pushes messages out to clients more quickly than was possible with legacy technology, which traditionally pulls messages at a scheduled time.

Matthew Nelson, managing director of institutional trade processing at DTCC, said: "Linedata is a strategic partner, and we work closely to ensure that our over 50 mutual clients can seamlessly connect from Linedata Longview to DTCC's CTM, which includes commission reporting features to meet MiFID II obligations."

The renewed partnership between Linedata and DTCC-Euroclear comes just weeks after Linedata hired new innovation director Sophie Février, and days after DTCC integrated its margin transit utility programme, GlobalCollateral, with Lombard Risk's Colline solution.

Euroclear announces Infinity Update

Infinity Release 2, an update of Euroclear's Infinity solution, will launch on 12 February 2018, the firm has said.

The announcement of the target launch date was made at the Finnish Market Advisory Committee (MAC) meeting on 26 September.

In a statement, MAC and Euroclear Finland said this confirmation of the launch date "brings clarity and encourages the whole Finnish financial community to get prepared for the transition".

The statement added: "Good progress has been made in the ongoing market acceptance testing, and we believe we are well aligned for a successful production launch."

Trade Informatics launches analysis tool

Trade Informatics has released a new Peer Analysis solution to its product suite.

The new addition, which has been in beta with selected clients for over a year, will provide asset managers with tools to analyse how they compete with other money managers.

According to Trade Informatics, the new update addresses the increasing need of asset owners to use peer reporting to benchmark themselves relative to industry competitors.

Peer Analysis will draw from trading activity from 80 countries, with firms placed into peer groups with those that align with their own characteristics.

The solution is intended to help asset owners understand sources of cost and return by region, while also giving them a better understanding of market caps, order size and momentum.

Joe Hipps, managing director at Trade Informatics, said: "Recognising that every firm has different order flow and trading criteria, the Trade Informatics approach to peer analysis ensures clients will be benchmarked against activity similar to theirs, providing a more accurate picture of relative performance."

SS&C on point with Precision LM 3.0

SS&C Technologies Holdings has launched the third version of its Precision Loan Management (LM) loan origination, servicing, accounting and asset management solution.

Improvements span across the solutions loan production, servicing and technology functions, and the Precision LM 3.0 upgrade also includes expandable web services, helping to streamline client integration and operational efficiency.

Developed in partnership with JLL, the software now provides automated reporting of required information to all agencies, including Fannie Mae E-servicing, Ginnie Mae GinnieNET, and Freddie Mac B2B.

According to SS&C, the latest version will strengthen the software's capabilities in origination, insurance administration and operating statements, while addressing the needs of its current diverse client base.

Mike Rulf, managing director of capital markets at JLL, commented: "We can see that our efforts will result in significant improvements in automation, efficiency, and reporting."

He added: "We are also pleased with version 3.0's expandable web services that streamline document management and workflow, and the enhanced borrower portal that supports online payments and access to billing statements."

Stan Szczepanik, vice president of SS&C Technologies, said: "Partnering with our customers to deliver innovation that furthers their business objectives is an important way in which our dedicated software engineers and subject matter experts deliver highly functional software."

Euroclear-DTCC and Lombard Risk link collateral management programmes

Lombard Risk has partnered its Colline solution with DTCC and Euroclear's GlobalCollateral margin transit utility (MTU) programme.

DTCC-Euroclear GlobalCollateral is a joint venture between the Depository Trust & Clearing Corporation (DTCC) and Euroclear.

Through this new agreement, users of Lombard Risk's Colline solution will be able to access MTU message statuses directly from their user interface.

They will also be able to match collateral transactions in Colline and submit them for settlement in MTU.

According to Lombard Risk, the agreement will enable a seamless and transparent collateral management process across all asset classes, by removing the need to enter transactions across multiple systems. The move is intended to ultimately reduce manual processes and promote data accuracy.

Mark Jennis, executive chairman at GlobalCollateral, said: "We look forward to delivering our first project under this alliance, the linking of MTU and Lombard Risk Colline, which will simplify current collateral management processes, creating a more efficient and streamlined process."

Alastair Brown, CEO of Lombard Risk, added: "The combination of solutions coupled with Lombard Risk's deep industry expertise and proven track record will enable us to provide new and comprehensive services that help improve operational efficiency and deliver real value to industry participants and customers."

Have a news story we should cover?
Let us know via:
theoandrew@blackknightmedialtd.com

Firm but fair

As the advent of MiFID II looms, the UK's FCA has taken a stance of pragmatism, but there are still some failings the regulator will not abide

Stephanie Palmer reports

In case you've missed it, the second Markets in Financial Instruments Directive (MiFID II) is careering towards us at an unrelenting pace. In the UK, the Financial Conduct Authority (FCA) is not only preparing for the challenge of implementation and the influx of data it will bring, it is also laying the groundwork to manage those firms that don't quite meet the 3 January go-date.

In a speech at the Association for Financial Markets in Europe European Compliance and Legal Conference 2017 in London on 20 September, Mark Steward, director of enforcement and market oversight at the FCA, suggested that the regulator is willing to accept a softer roll-out of MiFID II, saying: "We have no intention of taking enforcement action against firms for not meeting all requirements straight away."

In the speech, Steward suggested that the regulation is set to improve the FCA's view of the market, simply through increased data capture.

The FCA currently receives around 20 million transaction reports daily, Steward said, but this figure is likely to increase to 30 to 35 million come January. However, he welcomed the influx of data, saying it will "be a powerful tool that will provide substantial regulatory benefit in the public interest".

Linda Gibson, director of regulatory change and compliance risk at BNY Mellon's Pershing, suggests that the main point here is about the FCA getting better quality information. An incredible amount of additional data is going to have to be collected, stored and reported to the regulator.

Gibson agrees that the FCA is taking a pragmatic view to MiFID II implementation, but notes that there are two particular areas the regulator has previously called out, "where it is really looking for firms to be on point". One of these is the need for any additional permissions a firm will need before 3 January, and one is the legal entity identifiers (LEIs) that will be required for transaction reporting.

The FCA has suggested that firms conducting investment business without the required regulatory permissions could face civil, regulatory and even criminal consequences. Despite this, figures show that a significant number of firms did not file their permissions paperwork before the applications deadline of 3 July this year. Equally, there is some possibility, Gibson says, of the FCA prioritising applications from firms that find themselves under the scope of MiFID for the first time, meaning the potential of additional backlog for other applications.

At the AFME conference, Steward addressed the issue of permissions and the 3 July deadline for applications, saying: "Many firms have managed to meet this deadline, and some have not. Those firms really need to take action now."

On the issue of LEIs and transaction reporting, Steward said: "All legal entities and individuals acting in a business capacity who are clients of firms subject to MiFID II transaction reporting obligations and firms themselves must have [an] LEI if they wish to carry out transactions from 3 January 2018. Firms must ensure these clients have an LEI before effecting transactions covered by MiFID II on their behalf."

Gibson particularly stresses: "I don't think there will be any leeway there."

She adds: "The FCA is going to be very firm here because, as we know, at a European level, if you don't have an LEI and you are required to have one, you won't be able to trade. The regulator will be to-the-letter on LEI collection, which really reflects on the transaction reporting element."

Actuare

Connecting business. Efficiently.

Straightforward messaging solutions for distributors and transfer agents alike

Actuare's out-of-the-box messaging and integration solutions have been giving market participants the freedom to connect in ways that suit them since 1997.

Our products and services are secure and reliable. They're also highly scalable and flexible whether you're dealing in boutique alternatives or running a critical funds infrastructure:

- Pricing
- Subscriptions, redemptions and switches
- Netting
- Settlement
- Transfers and conversions
- Statements and reconciliation

Plain-dealing and simplicity are core to offering you interoperability without restrictions.

Or to put it another way: ***Connecting business. Efficiently.***

actuare.com
info@actuare.com
+44 (0)1582 468 000

There is still a significant percentage of affected firms that are not prepared for the fast-approaching finish line of MiFID II

It is also worth noting that the FCA's transaction reporting test systems have been up and running for more than two months, and firms should be focused on their testing and overall readiness.

Gibson suggests that this will be a "litmus test" as to whether firms have taken the right approach to MiFID II more generally, proving whether they're prioritising their requirements appropriately. Because transaction reports will be on a T+1 basis, the first set are due to be with the FCA on 4 January 2017.

She warns: "The FCA has high expectations of firms already subject to transaction reporting rules—their projects must cover what is required for the uptick of transactions under MiFID II."

Although Steward reinforced the FCA's position that it will not "take a strict liability approach" to MiFID II enforcement, given the "size, complexity and magnitude of the changes that are required", his speech did also clarify that those firms that have not made sufficient effort to comply may not be shown the same mercy.

He said: "Many firms have been working well to prepare for next year and they should feel assured and confident that they can continue to work with us to meet the starting line."

"At the same time, we cannot create a floor for compliance below the required MiFID II standards and so our disposition is likely to be different where firms have made no real or genuine attempt to be ready or where key obligations are deliberately flouted."

Gibson says: "The FCA has said that, as always, it intends to act proportionately in its approach."

If a firm doesn't manage to get every part of its MiFID II project ready for 3 January, as long as the permissions part is complete and the LEIs are in place, it may be given some leeway if not all requirements are met—if it has a credible project plan in place to evidence that sufficient steps have been taken. This plan should "document the firm's logic and the assumptions they've made", Gibson says.

"If a firm is not compliant in a certain area, it can't just be because the requirement was overlooked. It would have to demonstrate that compliance has been thought through and measures agreed with oversight from a senior level."

A firm but understanding approach from the FCA is doubtless intended to encourage those firms in the scope of MiFID that have been striving to meet the compliance deadline, and most firms fall into this category.

But, according to a survey from TeleWare, there is still a significant percentage of affected firms that are not prepared for the fast-approaching finish line.

The communications technology business surveyed 100 senior decision makers at financial services firms, and found that some 47 percent admitted better education is required on the details of what MiFID II requires of them.

Only 42 percent said people in their firms are "aware of MiFID II and are familiar with the requirements".

While 4 percent said that only those directly affected are familiar with the requirements, a worryingly high 7 percent said employees are "not aware of MiFID II and are not familiar with the requirement".

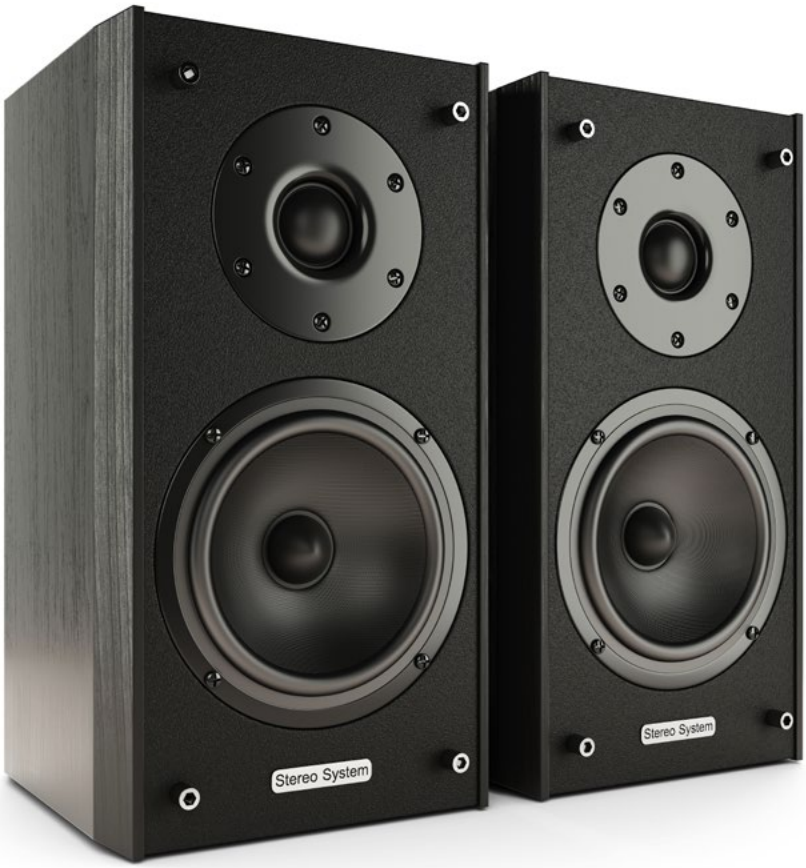
Perhaps even more concerningly, this statistic gets worse among larger firms. Among respondents from firms with 500 employees or more, 19 percent admitted that the correct people are not aware of or familiar with their MiFID II requirements. This fell to 5 percent among respondents from firms with between 250 and 500 employees, to 9 percent among firms with 100 and 249 employees, and to 5 percent among firms with 50 to 99 employees.

While there may be a case for more information required, it is unlikely that claiming uncertainty around the requirements will be a suitable reason for non-compliance to MiFID II, come January.

Gibson says: "It would be very hard to make a case pleading ignorance, especially since there has been a year's delay in implementation."

Indeed, she points out, the day after the UK's Brexit vote, the FCA announced it would be continuing with MiFID II implementation, and barely a day goes by without the regulation appearing in trade press.

Gibson concludes: "It would question the effectiveness of that firm's whole risk, compliance and legal support. A complete lack of awareness would not be a valid enough reason for non-compliance." AST



Pump up the volume

Shifting market demands and new regulations are making for an interesting year in the collateral marketplace, says Northern Trust's George Trapp

Drew Nicol reports

How have interest rate hikes in the US affected demand for corporate bond collateral?

Rate hikes in the US have an offsetting effect between cash and non-cash collateral. For example, you tend to see spread compression in the lead up to a rate hike. I've seen anticipation of higher rates recently, which created some improved value in cash collateral. At the same time, last year's money market reform in the US also created value in the investment of cash collateral.

From 2016, there was a differentiation between yield on US government bonds and yield in short-duration fixed-income credit products. That's where there was some value creation and difference between the overnight rate in the cash market for US dollars and the three-month libor rate. But, in the first half of 2017, that spread difference has lessened, so the benefit of taking cash has been reduced, compared to 2016.

Generally, the economy and the geopolitical environment have adjusted expectations for interest rates and growth. Expectations are that the Federal Reserve's interest-rate hike cycle has probably slowed down relative to what the market anticipated in 2016. We saw rate hikes last year in December, and in March and June this year, but I don't think we'll see another one for the rest of this year. At the same time, the Trump administration hasn't generated the environment for growth that was expected. I think there is still a big question around the impact of higher interest rates on the securities lending market.

We've seen innovative new models come and go through the years and it's hard to say what a change in regulation would do to new platforms, other than continuing to stimulate activity

George Trapp, Global head of securities lending, Northern Trust

The US market has been shifting towards greater use of non-cash collateral. Are the recent hikes causing a blip in the trend or are we likely to see a more significant slowing or reversal of this trend?

I do think the trend will continue. In the US, some of our client base can take equities as collateral and the concern is how balances will be affected for those clients that don't accept a wide range of collateral. For example, corporate pension plans can't take them today, due to regulatory constraints. But, we do have public funds, foundations and endowments that take equities with collateral.

Cash is still a very efficient way to clear a securities lending transaction in the US. You have some restrictions around taking securities like equities as collateral in the US, both for mutual fund and Employee Retirement Income Security Act clients. I think those barriers affect the volumes increasing in terms of equities as collateral rising higher. Until those rules change, you will see cash as a popular form of collateral.

Do you see a push from your lending client base to achieve some regulatory reform on collateral usage?

I don't see that push coming from our beneficial owners. That push comes more from the borrowers, who are incentivised to have reform so that they can pledge more of their equities as collateral. That's probably one of the primary drivers.

Lending agents, like ourselves, working on behalf of our clients, also try to broaden that collateral to include equities, but I just don't see that push from them.

If the Dodd-Frank Act is rolled back in a significant way, do you think it will have a big impact on securities lending?

It will have an impact, but I am not sure how big. The demand to borrow securities, generally, has been cut in half, even though the supply of securities to lend is back to where it was pre-crisis. A lot of leverage has come out of the system, and a lot of investment has gone into regulatory requirements and the capital required to support that.

If regulation is rolled back or lessened to the benefit of the industry, I think there will be an increase of activity and some of the lower-spread trades that aren't happening today may come back into favour.

Any change in regulation that reduces that cost will ultimately help activity. It might not be immediate, but the market will react to it and benefit over time.

Might a regulatory rollback allow banks to re-engage in the market and subsequently curb the rise of all-to-all platforms?

That has a lot to do with diversifying counterparty risk and having more efficient ways to getting supply and demand together. I think some of that rollback of regulation would just generally stimulate activity in the marketplace, although I don't know what the direct impact would be on some of the peer-to-peer platforms.

I don't know if we would change our own activity in response to that. Northern Trust's activity has been pretty consistent and in line with the industry.

Currently, there is $2.2 trillion on loan and closing in on $20 trillion in terms of securities available. We've seen innovative new models come and go through the years and it's hard to say what a change in regulation would do to new platforms, other than continuing to stimulate activity.

Securities lending revenue dropped significantly in the first two quarters of this year. Was that more to do with a bumper 2016 rather than a downturn this year?

Clients that were taking cash collateral that could be invested in prime money market funds experienced strong returns at the end of 2016 and beginning of 2017, so it wasn't bad news for everyone.

But, there was a drop in revenue from the intrinsic demand component in the equity markets for securities lending, as well as less demand for specific trades and trade activity. That probably had more to do with the lower volatility and higher equity prices.

There was less demand for the 'end user' of the securities and hedge funds that are borrowing.

The volatility in the marketplace has been at an all-time low, but I think those were really the main contributors to a lessening demand in the first half of the year for securities lending. AST

Pick up your copy of Asset Servicing Times

Sibos

Canada

October

16-19

sibos.com

GAIM Ops West Coast

US

October

23-25

finance.knect365.com

The Network Forum Americas Meeting

US

November

07

thenetworkforum.net/americasmeeting

The Network Forum Asia Meeting

Hong Kong

November

13

thenetworkforum.net/asiameeting

NEX TriOptima

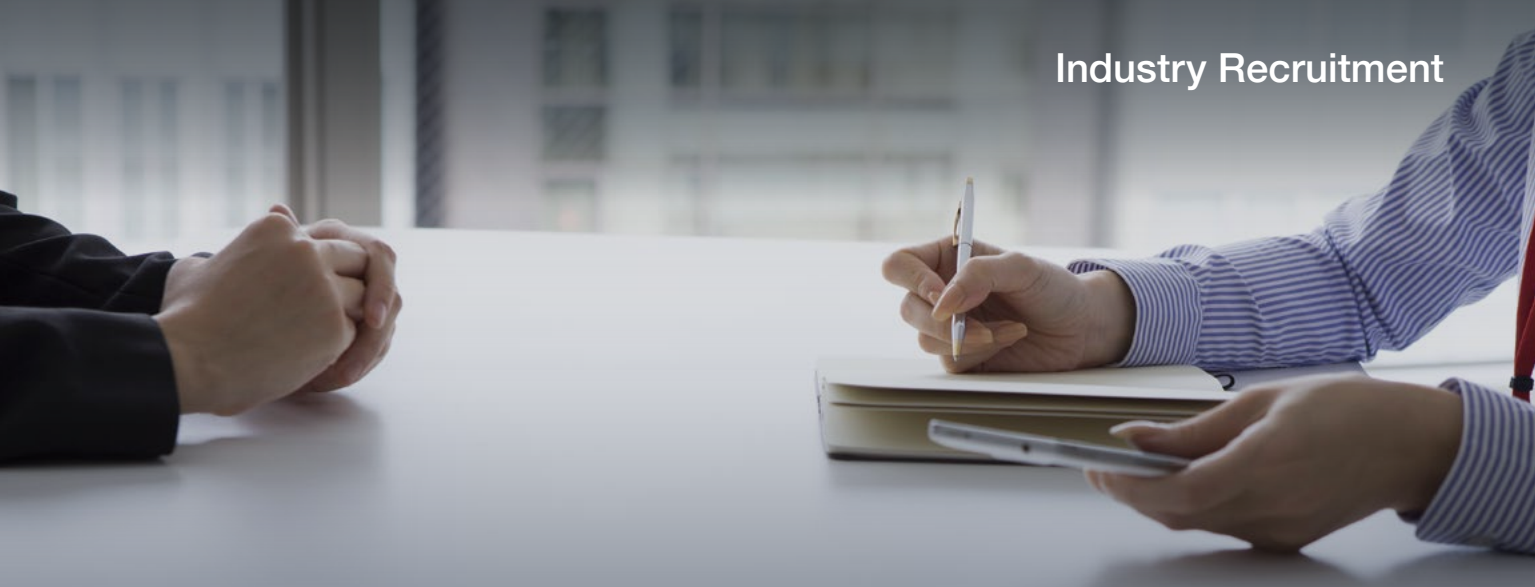
triResolve

Reconcile your portfolio,
validate your repository data
and manage your collateral.

Quickly, efficiently, accurately.

A NEX GROUP BUSINESS

info@trioptima.com
www.trioptima.com



The latest industry vacancies

For more positions, visit www.assetservicingtimes.com/recruitment

Senior systems engineer

Selby Jennings

Washington DC

This multi-billion dollar hedge fund specialises in research and technology trading, and is based just outside the Washington DC area in Chevy Chase. It is actively growing its infrastructure team and is looking for a senior Windows systems engineer

Senior vice president for regulatory compliance

Selby Jennings

Singapore

A leading global European bank is seeking a high-calibre candidate to join its regulatory compliance team as senior vice president/vice president. This role sits in a newly established team and the successful candidate will report to the head of regulatory affairs and conduct compliance

Java developer

Alexander Ash

London

A leading global tier-one investment bank has recently injected a large amount of investment into its repo team in order to continue its current projects while also working on new and future projects. It is currently looking for a Java developer to work within a team of six

Senior investment risk manager

Bruin

London

A leading Investment Manager is looking for a senior risk manager with extensive fixed income knowledge to join its global bond team. The candidate will monitor risk levels and exposures across global bond portfolios and share insights on overall risk with the investment team

Comings and goings at Calastone, IHS Markit, PwC and LRI Group

PwC has promoted Elizabeth Stone to leader of the UK asset and wealth management practice in the UK, replacing Mark Pugh, who has become leader of the asset and wealth management business in PwC's Assurance business.

Stone will be responsible for working with asset and wealth management clients across audit, tax, advisory, deals and legal services across the UK.

Having been with the advisory group for the last 17 years, she brings 20 years of experience working both in the UK and Australia, and has led PwC's tax team since February 2013.

Pugh will now continue to grow PwC's Assurance business as the industry faces increased regulation, technological advancements and changing operating models.

Stone said: "The UK's asset and wealth management industry is an exciting place to work and there are undoubtedly a number of challenges as well as opportunities on the horizon."

Andrew Kail, UK financial services leader at PwC, said: "Asset and wealth management is a vital part of the UK financial services industry and a key industry sector for PwC, so I am delighted Elizabeth Stone has taken on the leadership of our UK practice."

Calastone has appointed Stephen Mohan as COO, responsible for managing its UK and European business and global operational functions.

Mohan joins from DST Systems, formerly IFDS, where he was most recently executive director of transformation and innovation.

He has over 20 years of experience in the mutual funds sector, and has also held executive positions at financial firms including Bank of New York, M&G and Cofunds.

Julien Hammerson, chief executive of Calastone, said: "Stephen Mohan has a proven track record in delivering significant growth at speed and scale for successful financial services businesses, specifically within the mutual funds sector, and I look forward to working with him as we continue to extend our reach across major global financial markets."

Mohan said: "I've long admired the journey Calastone has been on in transforming the mutual funds market by bringing benefit to many of the world's leading financial services organisations and their clients. Calastone's growth from a UK domestic business, to a business that now connects over 1,200 clients across 34 countries and territories worldwide is extremely impressive."

asset servicing times

www.assetservicingtimes.com

Twitter: @ASTimes_

Acting Editor
Stephanie Palmer-Derrien
stephaniepalmer@blackknightmedialtd.com
+44 (0)203 750 6019

Deputy Editor
Becky Butcher
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6018

Reporter
Theo Andrew
theoandrew@blackknightmedialtd.com
+44 (0)203 750 6019

Editorial Assistant
Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0)203 750 6018

Contributors
Drew Nicol and Barney Dixon

Designer
James Hickman
jameshickman@blackknightmedialtd.com
+44 (0)203 750 6021

Associate Publisher
Joe Farrell
joefarrell@assetservicingtimes.com
+44 (0)203 750 6027

Publisher
Justin Lawson
justinlawson@assetservicingtimes.com
+44 (0)203 750 6028

Published by Black Knight Media Ltd

Mohan added: "The business sits firmly in the exciting, fast-evolving financial technology sector and is leading the market by some margin in its scale and ambition."

IHS Markit has appointed Tom Cunningham as COO of thinkFolio, its cross-asset class order management programme.

Cunningham will lead thinkFolio's product management, services, support and managed service offering.

He will report to Spiros Giannaros, global head of thinkFolio and enterprise data management.

Before joining IHS Markit, Cunningham was chief technology officer at Jupiter Asset Management.

He also has prior experience using thinkFolio on the buy side.

Giannaros said: "I'm delighted to welcome Tom Cunningham to the growing thinkFolio team."

He added: "[He] joins us at an exciting time when we are expanding our presence across regions and investing heavily in the next-generation architecture of thinkFolio, as well as adding the solution to our managed service offering."

Investment services firm LRI Group has appointed Bastian Dittrich as global head of business development for real assets.

Dittrich will be responsible for acquiring new clients specifically focused on real estate, private equity and infrastructure projects.

According to LRI Group, his appointment will strengthen the position of the group in the real assets sector and support further expansion.

Previously, Dittrich was at LC Germany, where he was managing director and executive director for 10 years.

Before that, he was managing director and member of the board at Koenig & Cie.

Michael Sanders, managing director of LRI Invest, said: "Due to increasing regulatory requirements globally, we are seeing a growing demand for investments in real assets, in an alternative investment fund managers directive-compliant format."

"Bastian Dittrich's experience, knowledge and approach will be an invaluable asset to the business."

Dittrich commented: "I am excited to have joined LRI Group at what is an important time in its development."

He added: "LRI Group has developed to an internationally accredited company and I look forward to being part of its continued growth plans." AST