



Trending Topics: Highlights from a BNY Mellon Markets Roundtable

At our April 2016 Buy-Side Forum in London, we gathered clients, consultants and industry experts to discuss trends around collateral management and securities lending. These trends can potentially affect market participants' day-to-day activities, counterparty relationships and documentation and are topics that are starting conversations within many organisations as each looks to plan and prepare for the evolving global financial landscape.

SECURITIES LENDING

TREND: TRANSFER OF TITLE VS. PLEDGE

For EMEA securities lending transactions, margin is usually handled under a transfer of title arrangement. However, recent discussions with both borrowers and lenders are exploring the potential use of the pledge structure which is fairly common outside of EMEA. Driving this conversation are balance sheet and leverage ratio considerations. Under a pledge arrangement, the haircut, and in fact the full collateral amount, would receive more favourable treatment for balance sheet and leverage ratio calculations.

Impact: Current legal documentation is based on transfer of title so changing to a pledge arrangement would involve significant changes.

TREND: NON-CASH COLLATERAL

According to International Securities Lending Association (ISLA) research presented during the forum, the proportion of non-cash collateral used in securities lending transactions in EMEA continues to increase, but there may be a ceiling on this growth due to the fact that many U.S. beneficial owners can only accept cash as collateral. Equities account for a significant percentage of this non-cash collateral, while corporate bonds are out of favour due to liquidity issues.

Impact: Recognising that beneficial owner investment guidelines are a major driving force behind the assets received as collateral, beneficial owners may wish to review how equity collateral would work within their securities lending programmes.

Q2 2016



Written by: Alistair Griffiths
BNY Mellon Markets



REGULATORY ROUND-UP

Securities Financing Transaction Regulation (SFTR) – SFT technical reporting standards are due at the end of 2016 with mandatory SFT reporting by banks scheduled for one year after the technical reporting standards are delivered. Other SFTR ramifications include:

- T+1 reporting – T+1 presents issues because with non-cash collateral, a full picture of a transaction isn't available until S+1.
- Dual-sided reporting – In a securities lending transaction, dual-sided reporting isn't always achievable because certain data is only available from one participant in the securities lending trade. For example, when a lender receives collateral, either bilaterally or through a tri-party agent, only the lender or its agent knows how the collateral has been allocated and where the collateral is being held. The broker can only report on the data that the lender or its agent has supplied.
- Risk disclosure requirements – Article 15 of the SFTR covers risk disclosure requirements that will come into effect July 13. Risk disclosure is required for collateral re-use.

Markets in Financial Instruments Directive (MIFID) – Forum participants shared their thoughts on MiFID's impact on securities lending.

- Best execution requirements – MiFID's best execution requirements for agency securities lending will be challenging, and industry bodies are working on providing guidance in the form of best execution practice and principles.
- SFT reporting – MiFID also has SFT reporting requirements. There may be further changes underway, as the ECON Committee of the EU Parliament is reconsidering SFT pre-trade and post-trade transparency reporting requirements under MiFID.

– Transfer of Title – MiFID requirements do not allow transfer of title arrangements with retail clients. The distinction between professional clients (e.g., national institutions, large corporations and governments) and retail clients can become challenging when dealing with smaller local authorities. These local authorities are not defined as professional clients under MiFID, but they can elect to be treated as professional clients. This distinction will be important when assessing counterparties to financing transactions.

Central Securities Depository Regulation (CSDR) – The CSDR's mandatory buy-in provision has potential negative effects on liquidity, but it shouldn't come into effect before the transition to T2S. Industry participants are currently reviewing ESMA's proposed exclusion of repos of <30 days from the mandatory buy-in process. The CSDR also intersects with the SFTR in terms of reporting; accurate reporting under the SFTR can help manage the possibility of mandatory buy-ins and fines under CSDR. An efficient post-trade operating environment, perhaps including the use of a tri-party agent or a CCP, can help support this need for accurate reporting.

There are industry resources available that map the various regulations along the trade cycle. This mapping can help market participants prepare in terms of operations, technology and reporting.

Thank you to our Buy-Side Forum participants for sharing their insights and helping us all to gain a better understanding of collateral management and securities lending in today's market

bnymellon.com

The views expressed in this Roundtable are solely those of the Roundtable participants, and do not represent the views of their employers, or its representatives. The material is for general information purposes only and is not intended to provide or be construed as legal, tax, accounting, investment, financial or other professional advice on any matter.

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorised and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organised pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorised by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorised and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorised by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorised, or where there would be, by virtue of such distribution, new or additional registration requirements.

Neither BNY Mellon nor any of its respective officers, employees or agents are, by virtue of providing the materials or information contained herein, acting as an adviser to any recipient (including a "municipal advisor" within the meaning of Section 15B of the Securities Exchange Act of 1934, as amended, "Section 15B"), do not owe a fiduciary duty to the recipient hereof pursuant to Section 15B or otherwise, and are acting only for their own interests.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2016 The Bank of New York Mellon Corporation. All rights reserved.

06/2016 GLOBAL