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2019

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ALL THE RESULTS IN THIS ISSUE

LOOKING AHEAD:

Northern Trust's EMEA head Teresa Parker sets her sights on growth


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Northern Trust shows there is another way

You know what you're going to get with Northern Trust. The US financial services group, which includes among other things an asset manager and custody bank, has built a reputation over the past 130 years, including 50 years in London, as an ultra-solid, ultra-reliable entity.

While the bulging custody banks seem locked in a race for scale that has seen some of them accumulate in recent years upwards of an eye-watering $30 trillion of assets, Northern Trust has enjoyed more modest growth.

The Chicago-based bank's assets under custody and fund administration hit $11.32 trillion at the end of June, according to the firm, which was up significantly from $10.13 trillion at the end of 2018 but, looking back over recent years, the growth profile of the company tends to be gradual, incremental growth.

The October 2017 acquisition of UBS Asset Management's fund administration units in Luxembourg and Switzerland almost looks out of character for a firm like Northern Trust but that trade is now proving crucial as EMEA head Teresa Parker and her team look to expand across Europe.

The UBS deal doubled the firm's presence in Luxembourg and gave Northern Trust for the first time a solid foothold in Europe with which to compete with Europe's custody and fund administration incumbents.

Parker currently has some 3,500 staff across 11 locations in Europe and the Middle East, another market where Parker sees great opportunities.

As well as the platform for Northern Trust's European expansion plans, the Luxembourg office also took on greater significance in March 2019 when Parker picked this location as the location of the US group's European Union bank in response to the uncertainty caused by Brexit.

Speaking to Global Investor about this decision, Parker said: "We want to put resources in continental Europe with the idea that we want us to grow it. If you want to grow, you have to invest."

She added: "Going back to our areas of focus, continental Europe is a place that we think we should do more on. If we go back to that continental European strategy and our plan to put resources there, we increased the executive presence in Luxembourg and added a significant amount of management resource, including a CEO of that bank in Luxembourg, a CFO and a new compliance officer."

As one of the few female chief executives in our industry, Parker also has some interesting thoughts on the need to encourage greater diversity in financial services.

Northern Trust has signed up to the UK's Women in Finance charter, backed by HM Treasury and over 330 signatory firms, launched in 2016 following a review that found women made-up just 14% of executive committees in the financial services sector in 2015.

Northern Trust has set itself the target of having 35% women in senior positons by 2020 and is well on the way to achieving that target.

She has introduced a policy where women and ethnic minorities are central to hiring senior management.

For Parker, a diverse workforce is a crucial ingredient to a better functioning organisation. Diversity encourages a diversity of viewpoints which can be brought to bear when making crucial decisions.

As Parker explains in this issue's cover feature: "There are lots of studies that show the more diverse your organisation, the more you can't just assume a set of operating behaviours and rules that you don't explicitly explain."

Northern Trust has a long heritage as a solid, reliable entity but with Parker running EMEA, the bank looks well set to continue its growth trajectory in the region. ■

Luke Jeffs,
Managing Editor,
Global Investor Group

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MANAGEMENT

General manager Will Browne
Tel: +44 (0) 20 7779 8309
will.browne@globalinvestorgroup.com

EDITORIAL

Managing editor Luke Jeffs
Tel: +44 (0) 20 7779 8728
luke.jeffs@globalinvestorgroup.com

Securities finance editor Andrew Neil
Tel: +44 (0) 207 779 8858
andrew.neil@globalinvestorgroup.com

Special reports editor Louise Fordham
Tel: +44 (0) 207 779 8983
louise.fordham@globalinvestorgroup.com

Derivatives editor Sharon Thiruchelvam
Tel: +44 (0) 207 779 8248
Sharon.thiruchelvam@globalinvestorgroup.com

Associate securities finance editor Oliver Wade
Tel: +44 (0) 207 779 8430
oliver.wade@globalinvestorgroup.com

Derivatives reporter James Thursfield
Tel: +44 (0) 207 779 8544
james.thursfield@globalinvestorgroup.com

Fund services reporter Perle Battistella
Tel: +44 (0) 207 779 8028
perle.battistella@globalinvestorgroup.com

Contributors Matt Smith

Design and production Antony Parselle
aparselledesign@me.com

EVENTS

Head of events Yasmin Okolo
Tel: +44 (0) 20 7779 8109
yasmin.okolo@euromoneyplc.com

Events manager Velida Cajdin
Tel: +44 (0) 20 7779 8188
velida.cajdin@globalinvestorgroup.com

BUSINESS DEVELOPMENT

FOW Head of global business development Hanna DeBank
Tel: +65 6224 1040 / Mob: +65 8766 9841
hanna.debank@fow.com

Head of sales Tim Wilmott
Tel: +44 (0) 20 7779 7216
tim.willmott@globalinvestorgroup.com

Reprints Christine Jell
cjell@globalinvestorgroup.com

Divisional director Jeff Davis

Chairman Leslie Van de Walle

Chief executive Andrew Rashbass

Directors Jan Babiak, Kevin Beatty, Andrew Billingal, Tim Collier, Colin Day, Tristran Hillgarth, Imogen Joss, Wendy Pallot, Lorna Tilbian

SUBSCRIPTIONS
UK hotline (UK/ROW)
Tel: +44 (0)20 7779 8999
US hotline (Americas)
Tel: +1 212 224 3570
hotline@globalinvestorgroup.com

RENEWALS
Tel: +44 (0)20 7779 8938
renewals@globalinvestorgroup.com

CUSTOMER SERVICES
Tel: +44 (0)20 7779 8610
customerservices@globalinvestorgroup.com

GLOBAL INVESTOR
8 Bouverie Street, London, EC4Y 8AX, UK
globalinvestorgroup.com

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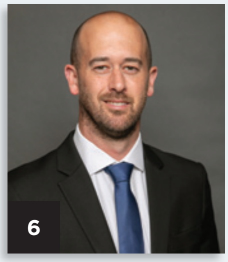

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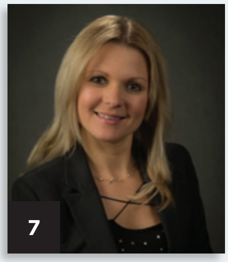

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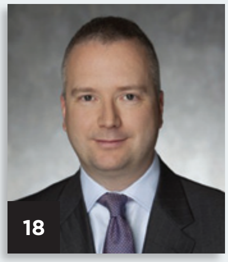

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THE RESULTS:

Trading Places

Asset management, securities finance, custody and the derivatives industry saw more senior moves in the middle of 2019.

ASSET MANAGEMENT:

Esma sets liquidity stress test guidelines

Europe's financial watchdog has published its final guidance on liquidity stress testing for investment funds.

European Securities and Markets Authority (Esma) said in September its complete guidelines would become applicable on September 30.

The measures require fund managers to stress test the assets and liabilities of the funds they manage.

They apply to both Alternative Investment Funds (Aifs) and Undertakings for the Collective Investment in Transferable Securities (Ucits).

"EU-based funds need to regularly test the resilience of their funds to different types of market risks, including for liquidity risk," Esma stated.

FSB names new supervision chief

The financial watchdog that insures international financial institutions keep to the reforms they promised after the 2008 financial crisis has appointed a new regulatory chief.

The Financial Stability Board (FSB) said in September it had appointed Ryozo Himino as chair of its standing committee on supervision and regulatory cooperation.


RYOZO HIMINO

Himino, currently chair of the Japanese Financial Services Agency, will serve a two-year term at the international standard-setter.

He succeeds Norman Chan, chief executive of the Hong Kong Monetary Authority, who has served as committee's chair since April 2017.

The unit's mandate includes addressing key financial stability issues relating to the development of supervisory and regulatory policies as well as advising on and monitoring best practice in meeting regulatory standards.

CUSTODY:

Northern Trust takes TM business Down Under

Northern Trust has hired a transition management expert in Sydney, a move which sees the Chicago-based bank establish a dedicated TM presence in Australia for the first time.

Mat Cook has been appointed to run Northern Trust's transition management offering across Asia-Pacific from the company's Sydney office.

Cook joins Northern Trust from State Street, where he worked for the past nine years as a transition manager.

Ben Jenkins, global head of transition management at Northern Trust Capital Markets, said: "Today's uncertain, often complex environment means our clients require sophisticated, bespoke solutions for their portfolio transitions.

"With trading desks in Chicago, London and now Sydney, Northern Trust is ideally-placed to support our


MAT COOK

clients' strategies ever more closely – in their home markets and globally."

BNP to cut staff across sec services in France

BNP Paribas said it plans to cut staff at its securities services division in France as the firm aims to reduce costs and simplify its business model.

France's largest bank said in late August the job cuts at BNP Paribas Securities Services, which handles clearing, custody and securities lending, would be made "without forced redundancies".

"BNP Paribas Securities Services has launched a programme with the aim of enabling the pursuit of sustainable and profitable growth, by optimising its operating model and simplifying its organisation," the bank said in a statement.

"It is part of a context of preserving BNP Paribas Securities Services' competitiveness, which is facing increased global competitive pressure and a low interest rate environment.

"The programme is considering a reduction in the number of jobs in France within three years."

It is believed up to 500 staff could be impacted.

SECURITIES FINANCE:

RMB lending head joins Strate

South African Central Securities Depository (CSD) Strate has named Farzana Khan as its new head of collateral management services.

Newly-appointed Khan has


FARZANA KHAN

replaced Steve Everett, who left the organisation in May and has relocated to Toronto to take on a new role at a different organisation, after heading-up the collateral management services division for three years.

Prior to joining the South African CSD, based in Johannesburg, Khan held various positions with Rand Merchant Bank (RMB) over a twelve-year period.

Before exiting RMB, she led the securities lending division for just over eight years and prior to that, was head of securities lending operations for fourteen months.

Khan began her career in the operations team of Merrill Lynch in 1998 – a position she remained in for eight years.

The new head of collateral management services joins Kelly Robinson, Strate's manager of collateral, who has been with the firm for six years.

Arlando joins EquiLend data arm in London

EquiLend has hired Dimitri Arlando to its data division in London.

The former BNY Mellon and State Street executive started working at DataLend in early September, Global Investor understands.

He is leading efforts for the securities finance data business in Europe, the Middle East and Africa.

For the past three-and-a-half years Arlando worked for BNY Mellon Markets.

Between 2008-2016 he was based in State Street's Dubai office covering business development for custody securities lending, foreign exchange, transition management and research.

He also had spells at Deutsche Bank and Merrill Lynch earlier in his career.

Scotiabank hires Fahmy in London

Omar Fahmy has joined Scotiabank's prime services division in London.

The executive arrived at the Canadian bank in September to take up the role of associate director, prime services at Scotiabank.

He joined after four years working as a director at Deutsche Bank Securities in London.

Prior to Deutsche Bank, Fahmy spent nearly a decade at Credit Suisse where he was a vice president focused on securities lending.

He began his career as an operations analyst at BNY Mellon.

Scotiabank's prime services unit sits within its global markets division.

The Toronto-headquartered bank offers cash and synthetic prime brokerage platforms, both providing access to global loan stock supply.

DERIVATIVES:

INTL FCStone SVP Barry White resigns

Barry White, a senior vice president at INTL FCStone in Singapore, has resigned after a year and a half at the global commodities broker.

White is currently on gardening leave, according to sources. A spokesman for INTL FCStone said he was unable to comment.

Prior to joining INTL FCStone in Singapore in April 2018, White spent five and a half years at Australian bank Macquarie Group.

White had initially joined Macquarie as an associate director in November 2012, working in the Singapore office before relocating to New York in August 2016 in the position of senior vice president.

Before joining Macquarie, White was regional director of Asia Pacific at tech firm Patsystems for six and-a-half years, spending a year in Sydney before acting as regional director of Asia Pacific in Singapore for five and a half years.

SGX hires ex-RJO saleswoman Patimova

The Singapore Exchange has hired former RJ O'Brien and LME saleswoman Elena Patimova to drive European sales of the Asian market's derivatives products.

Patimova, who left the London-based arm of US broker RJ O'Brien in August, joined SGX's London-based European team on September 9 following a search led by David Robinson of executive recruitment firm Sheffield Haworth.

Patimova reports to Alex Lenhart, SGX chief representative in the US and UK.

Lenhart, who joined SGX in 2016 from Credit Suisse where he was a managing director, told FOW: "Elena brings extensive experience, a specific skillset and strong network that will allow us to continue to expand our derivatives footprint across Europe, with a particular focus on our fast growing Asian foreign exchange, commodity and equity index futures contracts." ■


ELENA PATIMOVA

Breaking stories from Global Investor Group

Here are some of the top stories you may have missed at GlobalInvestorGroup.com

ASSET MANAGEMENT:

BNY Mellon's fund arm targets blockchain

BNY Mellon Investment Management has launched a fund focused on firms operating in blockchain technology and digital assets.

On September 12, the US firm said a new long-only equity fund will invest in bitcoin-related companies and stocks exposed to distributed ledger tech.

Erik Swords, a portfolio manager for Mellon Investments Corporation, based in Dublin, will manage the fund.

Hilary Lopez, head of European intermediary distribution at BNY Mellon Investment Management, said: "The BNY Mellon Digital Assets Fund offers investors the opportunity to gain exposure to digital asset companies that are early adopters of blockchain technology - companies that will ultimately set the standards within their respective industries."

The investment arm of BNY Mellon holds more than $1.8 trillion in assets under management and the introduction of this fund is the third of its type from the New York-headquartered bank.

Trade tensions to limit China inflows despite quota removals

Trade tensions look likely to hold foreign investment flows into China back in the near-term, experts claim, despite the upcoming removal of quotas.

China announced in mid-September plans to remove quotas for the Qualified Foreign Institutional Investor (QFII) and the Renminbi Qualified Foreign Institutional Investor (RQFII) schemes.

Although the move has been hailed as a milestone which underscores a commitment to opening the market, trade tensions between the US and China remain a concern for overseas funds.

Colin Brooks, vice president, securities services at Standard Chartered, said: "The only question is whether that will lead to an immediate increase in investment. Given the size of the economy and stock market along with high growth levels, sentiment about China is highly positive but there are also short-term concerns about trade tensions between China and the US."

CUSTODY:

Seed CX unveils custody for crypto-derivatives

US digital assets exchange group Seed CX has extended its custody services to include crypto-derivatives, allowing participants to trade and settle cryptocurrency forwards.

BRIAN LISTON

Seed CX's digital asset and fiat currency custodian subsidiary Zero Hash extended its services in September to include forwards, and confirmed that options will be added at a later date.

The additional services will allow participants to settle bilateral derivative transactions and allow flexibility to institutional investors in performing the transactions.

"Derivatives are a rapidly evolving area within the digital asset industry, yet there is a critical demand in the market for a regulated post-trade settlement utility, like Zero Hash," said Brian Liston, Seed CX co-founder and president of Zero Hash.

Zero Hash will provide collateral management for crypto-derivatives including the calculation of variation margin, initial margin and settlement values, as well as sending margin call notifications and moving funds on behalf of clients.

"We're excited to service that demand with the launch of this new functionality. Zero Hash can now enable any trading platform or set of participants to trade and settle forwards in an efficient and secure manner," Liston added.

Blockchain firm R3 to open Dublin office

Blockchain fintech R3 is to open a Dublin office next year as part of the firm's "rapid" expansion plans.

The New York-based business, led by former Icap broker David Rutter, doubled the size of its London hub over the summer.

R3 said in August the Dublin branch will serve as another of the company's tech hubs and will be primarily staffed by engineering specialists who will work closely with the London team.

R3 is best known for Corda, a blockchain platform that allows direct transactions between parties in privacy.

Switzerland's stock market operator SIX is using R3's technology as the underlying system for its digital asset listing, trading, settlement and custody service, SIX Digital Exchange (SDX).


JONATHAN LEE

SECURITIES FINANCE:

Number of firms ready for SFTR "concerning"

The small number of firms ready to meet the EU's Security Financing Transactions Regulation (SFTR) requirements is "concerning", according to Cappitech and Kaizen Reporting.

In a survey, the intelligence firms revealed that just 37% of the securities lending industry has started or completed its preparation for the upcoming stock loan and repo reporting rules.

Meanwhile, 56% of banks are still only in the pre-implementation planning stages, and 11.5 percent have yet to begin SFTR preparations.

On the data, Jonathan Lee, senior regulatory reporting specialist (SFTR) at Kaizen Reporting, said: "The findings from the SFTR survey make it clear that many companies are not as prepared as they should be at this stage.

"In order for firms to be ready by April 2020, there is a need to accelerate their plans and make sure that they allow enough time for testing and implementation."

Savers claim US fund failed in stock loan negotiations

Savers in a retirement fund run by a Texas grocery company have claimed the trustees failed to negotiate a reasonable securities lending deal.

A class action lawsuit filed in San Antonio at the start of September alleges that the investment committee at H.E. Butt Grocery Company did not carry out a number of key fiduciary duties.

One of them includes a "failure to properly investigate and negotiate" a reasonable share of returns for the 401k plan's securities lending program.

"It is customary for securities lending revenue to be split between a plan and the securities lending vendor, which in this case was State Street," the legal document states.

"With over $400 million in assets enrolled in the securities lending program, the plan should have been able to negotiate an arrangement whereby the Plan was retaining 70 to 80% of securities lending revenue.

"Yet under the deal struck by defendants, which has never been renegotiated, the plan receives only 40 percent of securities lending revenue, resulting in higher fees and lower investment returns to the plan."

DERIVATIVES:

ICE takes first step into Middle East

The Intercontinental Exchange (ICE) has made an application for a new Market Identifier Code for a new exchange called ICE Futures Abu Dhabi, representing the exchange's first major venture into the Middle East.

An application was made to the International Organization for Standardization (ISO) in September 2019, for an exchange with the market operating name "IFAD" and the note: "Electronic platform to trade futures and options products."

If launched, Ice Futures Abu Dhabi would be ICE's first major venture into the Middle East, one of the largest centres of oil production in the world.

ICE is one of the largest energy exchanges, hosting a network of oil, natural gas, emissions and power markets.

Alongside the Abu Dhabi Securities Exchange (ADX), Ice Futures Abu Dhabi would be the Emirates capital's second exchange.

ADX does not currently trade derivatives but announced its intention in October 2018 to introduce single stocks futures this year.

Nasdaq software caused HKEx outage

Nasdaq was the provider of the technology to the Hong Kong Stock Exchange (HKEx) which experienced a failure in September, causing the exchange to suspend derivatives trading for the rest of the day.

Nasdaq has declined to provide public comment, but Global Investor understands that the technical failure in Nasdaq's matching engine software provided to HKEx was an isolated case.

HKEx chief executive Charles Li said in September that, at the same time as experiencing the software failure, the exchange was subject to a distributed denial-of service attack (DDoS), in which a malicious actor overwhelms a server with requests causing it to slow down and preventing it from functioning.

Global Investor understands that the software failure was not related to the hack on the Hong Kong Stock Exchange.

HKEx said it will undertake an inquiry into the vendor software issues, the conclusions of which will be made public. ■

Northern Trust's Parker eyes European growth

Some fifty years after Northern Trust set-up its first European office in London, **Teresa Parker,** the chief executive of the group for EMEA, said the firm is still looking to grow in key markets such as the Nordics and the Netherlands. By **Luke Jeffs**

In her third year as the London-based head of Northern Trust's various interests in Europe, Middle East and Africa, Parker is also dealing with macro-trends such as the need for greater diversity in the workplace and the impact of new technology.

Parker is a Northern Trust lifer who started at the firm in 1982, moved to London in 1994 and assumed the top European job in the middle of 2017.

She wasted little time in stamping her mark on Northern Trust's European business by completing in October 2017 the acquisition of UBS Asset Management's fund administration units in Luxembourg and Switzerland.

Reflecting on her time in charge of EMEA, which included most of the fall-out from the UK's 2016 decision to quit the European Union, Parker told Global Investor: "During that time, the franchise has done really well and grown nicely throughout the organisation, and that has been on top of an interesting geopolitical situation."

The UBS deal in late 2017 significantly increased Northern Trust's presence in Luxembourg which became in March 2019 the location of Northern Trust's EU bank, a response to the uncertainty around Brexit (see box).

Despite the Brexit turmoil, Parker and her team are working hard in some of the key European markets.

"We've done incredibly well in the UK and Ireland and we want to maintain our position there. We've also focused a lot of resources on continental Europe. The acquisition of UBS fund services doubled our size in Luxembourg and added a Switzerland presence, where we are now the largest fund administrator by assets," Parker said.

"We're growing nicely in the Nordics and the Netherlands. We have the resources in continental Europe and we are focusing on growth there."

Parker leads 3,500 staff across 11 locations including offices in Abu Dhabi and Saudi Arabia, which are also yielding growth.

Parker said: "Investors in the Middle East have become much more sophisticated. Whereas they used to prefer that they were serviced from either London or the US, they have actively been working with us to move servicing closer to them in the region.

She added: "We have a Saudi office that we've had open for five years, which we are growing considerably. We're doing well in Kuwait as we spent a lot of time there, but the biggest change is we've moved services there from the US and London and that's not only the relationship management but some technical folks working on investment risk and analytics, performance measurement and compliance."

Parker concluded: "We will see both the Middle East and continental Europe grow further over time. We think there's a great opportunity there for the product set. The biggest testimony is clients telling us we are different

> "We made the decision after the vote that we had to move the headquarters of that EU bank. Instead of creating a new Luxembourg based bank, we were able to move the bank's entity from London to Luxembourg."

Northern Trust and Brexit

What challenge did Brexit pose for Northern Trust?

Parker: "Our EU bank was headquartered in London that allowed us, through the financial services passporting system, to be able to serve EU clients across the continent. When Brexit came up and the indecision was there, we couldn't wait to find out what was going to happen.

"So we made the decision after the vote that we had to move the headquarters of that EU bank. Instead of creating a new Luxembourg based bank, we were able to move the bank's entity from London to Luxembourg."

Why Luxembourg over Dublin?

Parker: "It would've been maybe efficient to put it in Dublin, but it would not have been strengthening us. In Ireland we are the third largest (and I think soon to be second largest) custodian, but what we said is this is an opportunity to think strategically. We want to put resources in continental Europe with the idea that we want us to grow it. If you want to grow, you have to invest.

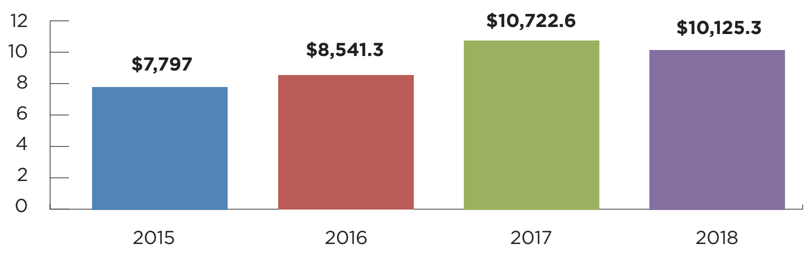
"Going back to our areas of focus, continental Europe is a place that we think we should do more on. If we go back to that continental European strategy and our plan to put resources there, we increased the executive presence in Luxembourg and added a significant amount of management resource, including a CEO of that bank in Luxembourg, a CFO and a new compliance officer."

What is the latest?

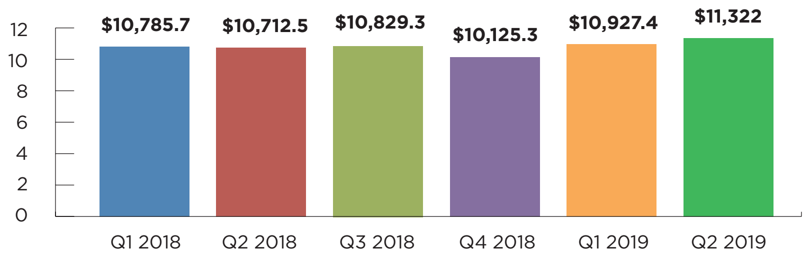
Parker: "London remains our regional headquarters with our EU bank headquartered in Luxembourg and we have developed a significant executive presence in both Luxembourg and in Ireland.

"The big thing that we focus on with Brexit is the macro and economic impact, so that is the geopolitical risk that we're paying attention to. We have also been working with our clients to ensure that they're structured and ready for the Brexit situation, and their products are in the right locations with the right structures."

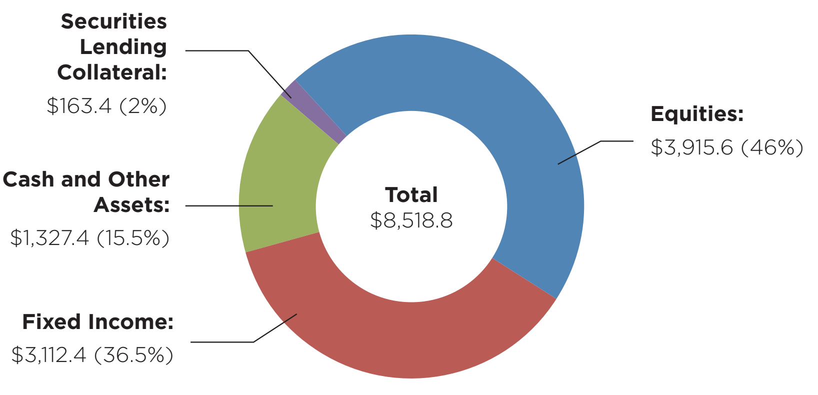
> Culture is important and we pay attention to it in the hiring process. So it's not just what you're able to do that matters but how you do it, how you collaborate, how you cooperate and how you think about what is value added to the organisation, clients and shareholders?



Northern Trust Assets under Custody and Fund Administration – Annually
(in millions) Source: Northern Trust



Northern Trust Assets under Custody and Fund Administration – Quarterly
(in millions) Source: Northern Trust



Northern Trust Assets Under Custody by Asset Class
(in millions) Source: Northern Trust

because we put them at the centre of what we do. We're not a product-focused group, rather we are a client-focused group."

Northern Trust prides itself on doing more with clients than its rivals, and this has become evident to Parker as she and her team have expanded their interests into more European and Gulf markets.

She said: "The clients' testimony is the thing that makes a difference. I've been here for a long time, so I just think this is how you do things. But when you start to get into new markets, you realise how different that proposition is. So that's starting with what is the client trying to accomplish? What are they trying to do? We can also impart our experience from our understanding of what other clients like, so we are bringing that to the conversation."

Parker added: "But you have to have the products, the service, the technology, the infrastructure and the operating model that backs all that up."

The European chief believes the culture at Northern Trust is different to those at its larger peers, some of whom have assets under administration of more than $30 trillion, which is more than three times the size of Northern Trust's book.

She said: "Culture is important and we pay attention to it in the hiring process. So it's not just what you're able to do that matters but how you do it, how you collaborate, how you cooperate and how you think about what is value added to the organisation, clients and shareholders?"

Parker said she has spent a lot of time working with European regulators including Britain's Financial Conduct Authority to help promote a productive and inclusive culture at Northern Trust.

The FCA published in early 2018 a paper on transforming culture in financial services based on 28 essays from academics, industry figures and regulators.

The watchdog wrote at the time: "Culture in financial services is widely accepted as a key root cause of the major conduct failings that have occurred within the industry in recent history. Given its impact, firms' culture is a priority for the FCA. We expect firms to foster cultures which support the spirit of regulation in preventing harm to consumers and markets."

Jonathan Davidson, FCA executive director of Supervision - Retail and Authorisations, said in March 2018: "Culture may not be easily measurable but it is manageable. So firms can and should take responsibility for ensuring their culture is healthy for both their employees and customers, which can complement and support their business strategy."

Parker said of the FCA: "Part of what they want to make sure is that people are able to bring up uncomfortable truths so here's an opportunity or here's an issue. Making sure you create that space is important."

For Parker, the adoption of a more inclusive culture that encourages staff to question established practices is closely aligned to another challenge faced by the financial services industry: the promotion of diversity in the workplace.

She said: "There are lots of studies that show the more diverse your organisation, the more you can't just assume a set of operating behaviours and rules that you don't explicitly explain.

"So people might question: What does that mean? Why did you say that? When everyone's the same, they all get into shorthand but when you have a diverse group, you actually have to ask questions a little bit more. You can't just take shortcuts. It does call out behaviours and norms a little bit more."

Parker added: "The evidence shows diverse groups, even though they may be a little bit more uncomfortable sometimes, actually get better results."

Northern Trust's policy on diversity, Parker said, is to encourage "a diverse group of people able to add the value they can bring to the organisation and that they can bring their full selves to the organisation".

Northern Trust has signed up to the UK's Women in Finance charter, backed by HM Treasury and over 330

"Culture may not be easily measurable but it is manageable. So firms can and should take responsibility for ensuring their culture is healthy for both their employees and customers, which can complement and support their business strategy."

Northern Trust and Environmental, Social and Governance

What is the Northern Trust's position on ESG?

Parker: "ESG is an opportunity. We do help asset managers with their ESG considerations. Our analytical services on performance, risk or compliance, we use those to help asset managers define ESG. Are they within their parameters? What's the performance of those assets?

"It is part of the DNA of what we do. It's an opportunity for us both on the asset management side and then for analytical services in asset servicing to help our clients in terms of how they're thinking about it."

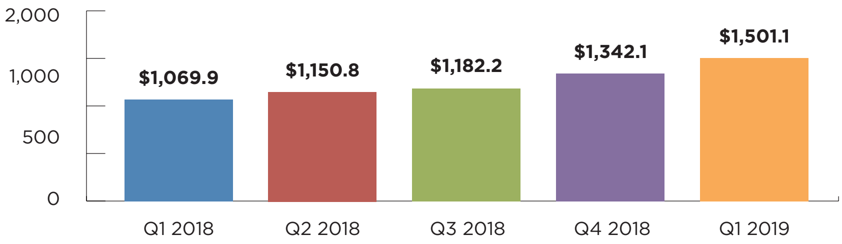
What are Northern Trust's ESG credentials?

Parker: "Our track record has been strong over the last decade because we were onto this quite early on. Now I think we're helped because of some of our northern European clients have been very much onto ESG. They were leaders on this.

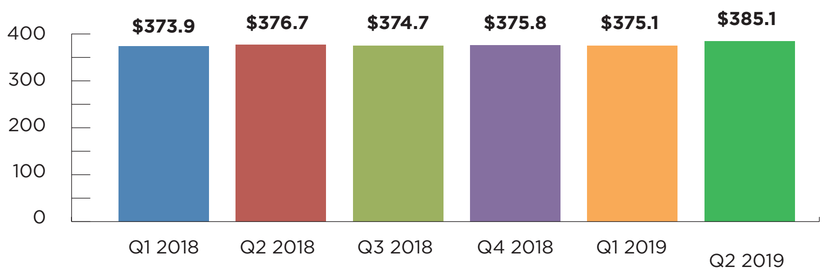
"Other places are picking it up but the Nordics was the first place I remember hearing about it. I mean, they didn't call it ESG then but sustainable investing, and that was maybe 15, 20 years' ago.

"Our own asset management business has a very strong track record and a 25 year heritage of offering sustainable investment products. Their products have done very well in this space, for clients from across our business."

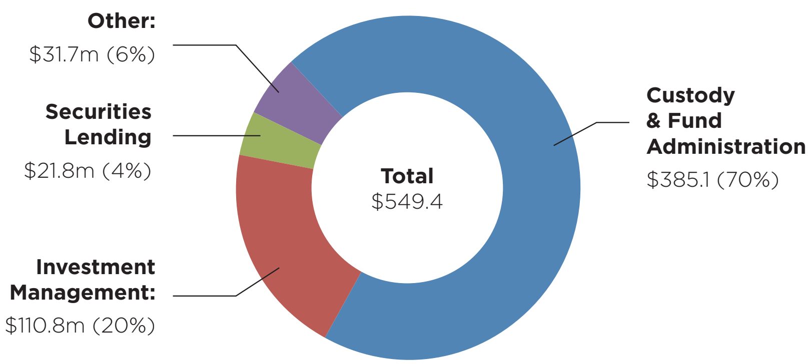
> "Every senior vice president and above needs to have a diverse slate of either women or ethnic minorities. We've done this across EMEA and every interviewing panel needs to have at least one senior woman on it."



Northern Trust Custody and Fund Administration Fees – Annually
(in millions) Source: Northern Trust



Northern Trust Custody and Fund Administration Fees – Quarterly
(in millions) Source: Northern Trust



Northern Trust Q2 2019 Fees by Business Line
(in millions) Source: Northern Trust

signatory firms, launched in 2016 following a review that found women made-up just 14% of executive committees in the financial services sector in 2015.

Northern Trust has set itself the target of having 35% women in senior positons by 2020.

Parker added: "We're generally doing pretty well and we're better than a lot of other organisations and finances but we continue to ask ourselves: What do we need to do to change to make that difference?"

She added one key decision was enforcing a diverse slate for senior hires. "Every senior vice president and above needs to have a diverse slate of either women or ethnic minorities. We've done this across EMEA and every interviewing panel needs to have at least one senior woman on it," she said.

Parker sits on a CEO diversity advisory group and she said this group has discussed the fact that women don't tend to put themselves forward for jobs as readily as men.

She added: "It doesn't mean either one of them are any different in terms of commitment. It's just that they go about the decision making processes differently. So we're thinking about moving women around more actively. We're not waiting for them to volunteer."

The chief executive said ensuring diverse panels has not slowed down the hiring process however.

Another challenge for chief executives like Parker is ensuring their firms remain attractive to the brightest of the next generation which has become increasingly difficult since the banking crisis of 2008 and its fall-out.

Parker said: "One of my colleagues on the advisory group was talking recently about having 50 interns that came through and they asked her the question: "Why would I want to go into financial services"? And she replied: "Why wouldn't you"? They said: "You work very hard and, if I'm a woman, it's a male-oriented environment, so it will be tough for me."

Looking back, Parker said: "When I started my career, I didn't think anything of that, that didn't bother me at all. I just thought it was a great career path and a great opportunity. And I was right. I was lucky. But I think this next generation of school leavers think about their lives differently. The workplace needs to think about that because otherwise it's going to only get a certain kind of person who's attracted to it."

To illustrate her point, she added that her two children, aged 18 and 20, have told her that they don't want to work as hard as she does.

But this is where parker sees technology playing a positive role, by automating mundane functions and freeing up staff to focus on more interesting, constructive work.

Parker said: "There's research out now that says some people work really hard but they're not really productive. They spend so much time being constantly available on their emails but are they really doing creative work? Are they really doing impactful work?"

"It's not going to be constantly at the other end of the phone or email. That's where I see the future - to make the jobs more impactful, more creative, more productive, but through technology. We want to be attracting people because technology has helped get rid of some of the elements that are barriers to good people taking those jobs."

Northern Trust has led the debate on the future of custody and published in October 2018 a paper that argued that, while "technology is an essential catalyst for the future of the investment industry, it cannot solve every problem".

Clive Bellows, head of global fund services EMEA at Northern Trust, wrote in Custodians 3.0: The Evolution of the Custody Bank: "Too much focus on technology alone risks losing sight of the core mission. Clients need to know their providers are going to keep their assets safe, with meaningful emphasis on transparency, integrity and regulatory changes."

Custodians currently find themselves dealing with various rapidly evolving technologies such as cybersecurity tools, artificial intelligence, cloud computing, advanced data analytics and blockchain to name but a few.

> "We opened our first office in London in 1969 and have grown to a considerable size in terms of our presence with 11 locations around EMEA and about 750 clients."

Parker said: "The role of a custody bank is bringing all those technologies together and integrating them to create that secure environment.

She continued: "As a custodian we used to look after physical assets, so that was keeping those assets warm and dry whereas now we are operating in a cyber-security world. Now the role is making sure you are able to secure those assets, do the independent valuations and provide value added services on that."

Northern Trust and Broadridge agreed in June 2019 that the US fintech firm would take ownership of the custodian's private equity fund administration platform and responsibility for its ongoing development.

Pete Cherecwich, president of Corporate & Institutional Services at Northern Trust, said in June: "Northern Trust pioneered the development of blockchain technology that supports the complex PE lifecycle."

He added: "For the benefit of our clients and the industry as a whole, it's now time to hand over the reins to a technology provider with deep FinTech expertise."

Parker continued: "We are continuing to invest in the asset servicing technology stack, around golden record ideas. We think that will impact the way we do our fund accounting, which is a big component of our business.

She added: "We expect to start evolving our operating model next year to use some of those capabilities, which we think will improve the quality of what we're delivering to clients and the speed at which we do that."

Reflecting on Northern Trust's 50 years in Europe, Parker concluded: "We opened our first office in London in 1969 and have grown to a considerable size in terms of our presence with 11 locations around EMEA and about 750 clients.

"At that time, there was the Cold War and globalisation was increasing while the term global custody was only just catching on. The social changes, changing ideas and the technology that supported all of that has been interesting to follow over those 50 years," Parker added. ■

Teresa Parker

Teresa Parker is president for EMEA, responsible for Northern Trust's business and regulatory affairs in the region. Teresa also sits on Northern Trust Corporation's Management Group.

Prior to her appointment to lead the Europe, Middle East and Africa (EMEA) region, Teresa spent three years as the chief operating officer for Asset Servicing with global responsibility for Northern Trust's business capabilities, technology and operating model.

Before taking up the COO role, Teresa spent five years as head of Asia-Pacific (APAC), overseeing the rapid and extensive expansion of the corporation's presence in the region.

Over the course of her 35 year career with Northern Trust, Teresa has been based in London, Singapore and Chicago and has held numerous executive leadership roles including head of institutional and wealth management businesses in EMEA, global head of asset servicing and global head of securities lending.

CSDR – fail to prepare, and prepare to pay the failure penalty!

"The clock is ticking" – an infamous catchphrase now synonymous with seemingly every Brexit update from Michel Barnier. As applicable as this line is to every twist and turn of this political psychodrama, the countdown to October 31 is by no means the only deadline front of mind for European financial institutions right now.

by **Heiko Stuber,** Senior Product Manager at SIX

Devised at an EU level, the Central Security Depository Regulation (CSDR) will force European CSD's to take measures to prevent settlement fails. These include penalty schemes, as well as forced buy-in and sell-out procedures which require trading parties to deliver either cash, or financial instruments in the event of non-delivery. This can be used to avoid the potential liquidity risks that can occur due to failed settlement instructions. CSDs will apply financial fines for failing to complete transactions on the Intended Settlement Date. The rule, enforced on September 14 2020, means that there will now be a legal obligation for one side of the trade to pay a hefty fine. There are multiple facets to this most complex of rules. But two of most immediate concerns include the reporting and calculation of cash penalties, and the settlement of transfer orders on behalf of clients on a bank's own account, rather than through a CSD. The latter, referred to as internalised settlement reporting, is of particular concern to custodian banks right now.

The main challenge is that custodians are struggling to access the granularity of information needed to assess the financial instruments that could fail to settle under CSDR. While they may be able to get cash amounts from CSDs, a custodian can't easily get hold of the reference and price data being used to work out exactly how the penalties were calculated. This includes really important insights such as how to determine the market valuation of any given instrument, not to mention the closing price of the Most Relevant Market within the EU.

An issue is that not all trading venues provide closing prices. So, what does a custodian do for price information? Normally the price information would be based on final trade of the day. However, some trading venues do not even provide this information. If this wasn't enough, how does a firm arrive at an accurate turnover figure? As such, in order to be compliant, there needs to be a way to get all of the trade information summing up the volume and multiplying by the price in order to get the turnover figure. All this before then needing to compare the turnover figure with another venue where the same instrument is also listed or traded.

And here lies the Pandora's Box of problems that could open up not just for custodians, but also for anyone involved in a trade chain for a CSDR instrument. Trade fails and resulting penalties are, of course, less likely for say liquid equities or equity style instruments like ETFs or warrants. But for the more illiquid instruments, it is a different story. Take trying to identify the market value on the closing price of a credit bond as a prime case in point. It could be weeks, or even months, before the bond is even traded. The trouble is, with no accurate liquidity level for the instrument because it trades so infrequently, it becomes almost impossible to assign the correct penalty rate.

So, what can the financial sector as a whole do to ensure they do not fall foul of CSDR when it comes into full effect in September next year? 12 months will go by in a flash – which means the industry really needs to be gathering the information needed to test of the impact of trading in a "CSDR-like" regulatory environment. For CSDs, they will need the most up to date reference and pricing data in order calculate extra compensations or cash penalties. As for custodians and the any other market participants potentially involved in a CSDR sensitive trade, the focus has to be asking CSDs for detailed analysis about the likely instruments "in-scope" under CSDR. So much work to do and so little time – perhaps this should be ESMA's Barnier-style catchphrase for CSDR. It may just force the industry to accelerate its perpetrations. After all, no EU financial institution wants to face the inevitable consequences from a lack of preparation. ■

> "Two of most immediate concerns include the reporting and calculation of cash penalties, and the settlement of transfer orders on behalf of clients on a bank's own account, rather than through a CSD."

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Overcoming the T+0 Settlement Cycle in China

As China continues its economic ascent, investor interest in allocating a portion of their assets towards this market continues to rise along with it. By **Peter Oellers,** Director of Trading Services at BNY Mellon's Pershing.

The establishment of China's two Stock Connect mechanisms, HK-Shanghai in 2014 and HK-Shenzhen in 2016, marked an important milestone in the evolution of China's capital markets as it removed many regulatory and structural barriers that were impediments for foreign investors.

Investor interest was further stoked earlier this year when index provider MSCI announced that it would quadruple the weighting of the country's mainland shares in its emerging markets indexes.

While great strides have been made easing the barriers to entry—especially for foreign investors—there remain structural challenges which market participants need to carefully consider.

One particularly daunting issue is the T+0 settlement cycle requiring trades to settle on actual trade date, often within hours of execution. No other major equity market has a similar settlement cycle and, given the time difference between China and Europe and North America, this settlement convention can pose operational challenges for investors based in those regions.

In order to solve for these challenges, clients must have access to live trading and operational support during Chinese business hours allowing them to complete the lifecyle of the trade including trade instruction, cash funding, etc.

Acknowledging the challenge, in October 2018 the Hong Kong Stock Exchange confirmed it was developing a blockchain-powered solution intended to enhance the efficiency of the settlement process.

In the meantime, investors can take advantage of services available to help them navigate this terrain. Here are three key services in trade operations, which investors can leverage in order to solve for these challenges:

Live Trading Coverage

It is vital that investors are able to access trading desk personnel and operational support any time of day during the week. For clients who do not have real-time Asia Pacific coverage, there are services that investors should seek out which can provide order placement, trade confirmation, foreign exchange (FX) funding and, crucially, settlement.

Bespoke Settlement Solutions

To access the market in a more seamless way, it is important for investors to have a partner that can offer all aspects of the settlement cycle on your behalf—whether it be the transmission of instructions to your custodian or FX requests to fund the account in real-time.

End-to-End Coverage

With respect to the settlement lifecycle, investors should leverage available end-to-end services that bridge the myriad operational tasks required for successful trade settlement. These services can include having your execution partner instruct your custodian on your behalf thereby eliminating the need for the client to do so.

As China's capital markets continue to evolve and create opportunities for foreign investors, it is essential that market participants have solution providers that understand the unique challenges presented by the region's market structure, and the necessary partners to help them address their specific needs.

Lastly, as always, the best partner will be one who can anticipate and proactively develop ways to ease the trade implementation process, so that investors can make investment decisions and place orders with confidence. ■

"Acknowledging the challenge, in October 2018 the Hong Kong Stock Exchange confirmed it was developing a blockchain-powered solution intended to enhance the efficiency of the settlement process."

Africa's evolving capital markets are attracting a new wave of international investors

Charl Bruyns, Head of Financial Institutions and Investor Services for Standard Bank Group explains how Africa's evolving capital markets are attracting a new wave of international investors, with an exacting set of requirements for operational transparency.

How would you characterise recent development in the individual capital markets across Africa?

When you talk to portfolio managers it is clear that they anticipate greater allocations to Africa in the medium-term, thanks to the untapped resource and opportunities Africa offers coupled with the demographic dividend of a continent whose working-age population is expected to rise by 900m people between 2015 and 2050 [FT, Oct 2018]. But they are also aware of the leading role played by sentiment in these markets. Certain corporate or political events tend to trigger quicker responses in terms of capital flows than in other emerging or developed markets and portfolio managers remain wary of this fact.

Last year we saw this play out in liquidity shortages in Nigeria's FX market, and the impact of several high-profile corporate events. However, once those storms had been weathered, we saw foreign investor flows double, facilitated by the longer-term structural reforms the country has effected in recent years.

In Kenya a maturing savings industry is driving greater liquidity and infrastructure development, which has increased the country's appeal to foreign investors. In Ghana too we have seen significant flows, with a lot of interest in the securitisation of bank funding structures over the last two years.

Much is expected from Uganda in the next few years, given the growth of the country's oil reserves. For the time being, however, rapid investment in the country has driven down yields, which are now below the levels needed to attract foreign investors.

Angola is a market that international investors are watching increasingly closely. With two equity listings due over the next four months and another eight on the way next year, the market is reforming and developing fast.

South Africa, the region's biggest market remains something of an anomaly in terms of its GDP vs. the size of its capital markets, and the sophistication of its capital markets. This year has been a difficult one for investor sentiment so far, which has pushed flows out of the market. But there is still plenty of activity: it has been a bumpy year, but investors are well aware of the country's fundamental appeal.

What do international investors expect when investing in Africa?

Investors entering markets at any scale want to be closely involved in the market they are trading, since being directly involved and closer to the day-to-day shifts in the market provides them with a competitive advantage. However, for international investors asset allocation to Africa is still relatively low when compared to other regions. At the same time, the growing costs associated with compliance and risk management for all banks have increased the cost of maintaining relationships with multiple providers across the region. As a result, now more than ever, banks are looking to providers who can combine a comprehensive regional network with a high degree of knowledge and expertise in each local market.

The second noteworthy feature of international investors' and banks involvement in Africa is that their operational standards will often exceed those required by the individual countries they are investing in.

Regulatory requirements like AIFMD and UCITS has the impact that it drives a level of requirement in capital markets that far exceeds local regulatory requirements. These fiduciary requirements mean that the foreign investments bring high expectations regarding the level of infrastructure support, the

degree of oversight, the level of risk management, detailed independent controls, compliance, internal audit and the overview of operational risk. What constitutes best practice in operational or fiduciary terms typically therefore traces back to the markets in which these investors are domiciled, rather than those in which they invest.

The reality is that there aren't many regional providers, even less local providers who can provide the level of oversight, transparency and capability required to meet these standards set.

"In July the Nairobi Securities Exchange launched a derivatives market following two years of extensive work with market infrastructure and regulators, and the market is now working to develop a framework for securities lending."

What are individual markets doing to ease access for foreign investors and other participants and how are you contributing to these efforts?

Individual markets have been focusing on improving IT and regulatory infrastructure, introduce new products and develop local savings market to deepen capital markets and attract foreign investors.

Recently, we have seen a lot of activity in the second tier of African capital markets (South Africa's being the only member of the first tier), such as Kenya and Nigeria. In July the Nairobi Securities Exchange launched a derivatives market following two years of extensive work with market infrastructure and regulators, and the market is now working to develop a framework for securities lending.

In Nigeria the last three years have seen considerable progress in regulatory and market reform in launching securities lending, which is now launched. The treatment of deemed dividends needs further enhancement with local tax regulators and using different forms of collateral in securing transactions.

Then in the third tier, a group that includes countries like Tanzania, Malawi and Zambia, we are seeing rapid progress in the reform of local savings markets, which is paving the way for development of the industries. In Africa, State-owned funds will typically drive the pension market and lately there has been a big drive to reform local savings and pension fund regulations, which has resulted in the opening of savings markets to new products and improved operational infrastructures.

Standard Bank has been at forefront of driving new developments in active partnership with regulators and market infrastructure in markets across Africa.

Why is finding a provider with a local presence important in Africa?

Local presence is critical across Africa, just as it is in any frontier market. Flow businesses like investor services need to invest in the market in order to develop a robust local capability. Remotely managing an operation might give you a short-term gain, but over the long-term it is a risky approach and it will ultimately stifle the investment and development of the market.

Thus, investing in people and capability on the ground in the local market and building a scalable platform is key. Being a scale regional specialist makes it easier to invest and leverage core skill sets and capabilities. If you are a multi-regional player, it is hard to maintain direct coverage of several regions simultaneously and invest accordingly. Consider for example how diverse Europe, the Middle East and Africa are as operating environments: it is simply very tough to offer your best capability and focus in all those regions.

Conversely, if you have a focus on Africa or – even more specifically – on sub-Saharan Africa, you can develop real domestic and regional expertise. The more familiar you become with the region the more you have an opportunity to leverage learnings and best practices between markets in order to deliver a uniform experience.

To understand what services are needed, meanwhile, the crucial element is having a good combination of various client segments that bring together best global practice coupled with local developmental requirements. We are in a privileged position to partner large international banks and investors whilst having a strong local client base. This means we work with the local regulators in bringing best global practice with local demand and moving the market forward. That's how you develop best practice that enable foreign investor access and benefiting domestic investors.

Can you give us an example of how this local advocacy works in practice?

Market advocacy is a huge part of what we do. We are part of 85 market forums across the region, through which we advance the agenda of our clients both local and international.

We use these forums to drive changes, whether is growing market capability, bringing global best practices or creating sustainability within existing market infrastructure. Some of the items mentioned before are launching of derivatives markets in Kenya, securities lending in Nigeria and launching trustee services in Zambia. From a perspective of creating sustainability in the market we work closely on initiatives for instance driving electronic certificates of capital importation (ECCI) in Nigeria, investor protection in Tanzania on savings assets and CCP's in South Africa to name a few. We on average drive at a minimum least 3-5 market advocacy agenda items per market. Furthermore, we partner markets in setting up custody infrastructure for example the Angolan market to enable institutional investment. ■

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ASSET MANAGEMENT

CEO OF THE YEAR

MR. HISHAM EZZ AL-ARAB | chairman and managing director of CIB

Mr. Hisham Ezz Al-Arab has been chairman and managing director of CIB since 2002. He leads today a team of more than 6,500 professionals who have transformed the institution from a wholesale lender into Egypt's largest private-sector bank, leading the sector on key metrics including revenue, profitability, net worth and market share of deposits.

CIB serves more than one million customers, from individual customers to small and medium-sized businesses and leading corporations including Egypt's 500 largest companies.

The Bank's market capitalisation has grown from EGP 1 billion at the beginning of Mr. Ezz Al-Arab's term to EGP 90 billion, making its stock a blue chip component of the Egyptian Exchange which is the global investment community's preferred proxy for Egypt and a benchmark for the banking industry in emerging markets.

Core to the Bank's success is its unique culture, which balances an entrepreneurial spirit that prizes innovation with a commitment to global best practices in both corporate governance and risk management. That culture, nurtured over more than 15 years, is the Bank's natural competitive advantage and led directly to the establishment of the first-of-its kind employee stock ownership program (ESOP) in 2006, thus aligning the interest of employees to that of shareholders.

In 2010, Mr. Ezz Al-Arab brought to life the CIB Foundation, which is a leading Egyptian voice for universal access to quality healthcare extended to underprivileged children.

CIB was named Euromoney's Best Bank in the Middle East and Best Bank in Global Emerging Markets for 2017 and was named African Banker's 2016 Socially Responsible Bank of the Year. Mr. Ezz Al-Arab was recognised in 2016 by Euromoney for his "Outstanding Contribution to Financial Services in the Middle East" and was EMEA Finance's "Best CEO in Egypt and Africa" at the magazine's 2014 Banking Awards. Under his leadership, CIB was named the "World's Best Bank in the Emerging Markets" by Euromoney at the Global Awards for Excellence ceremony held in July 2017, thus becoming the first bank in Egypt, Africa and the Middle East to win this award.

Mr. Ezz Al-Arab also leads the Federation of Egyptian Banks as Chairman, is a member of the Institute of International Finance's Emerging Markets Advisory Council and serves as a director of Mastercard Middle East's Regional Advisory Board.

He is also the Chairman of Board of Trustees of the CIB Foundation. Mr. Ezz Al-Arab is Non -Executive Director of Ripplewood Advisors MENA Holdings, a Non -Executive Director of Fairfax Africa Board and a Non -executive Director of Atlas Mara.

Mr. Ezz Al-Arab joined CIB from Deutsche Bank and previously served with both JP Morgan and Merrill Lynch. ■

ASSET MANAGER OF THE YEAR

EMIRATES NBD ASSET MANAGEMENT

Emirates NBD continued to perform well in 2019 with its assets under management hitting $4.6 billion by the end of June.

Emirates Global Sukuk Fund assets under management is at $259.9 million, making it one of the largest global Sukuk funds. The fund, which has a three star three year rating from Morningstar as at June 30 2019, has returned 10.35% (gross) in the 1 year period.

Emirates MENA Fixed Income Fund has assets of $194.7 million, making it one of the largest funds in the fixed income space. The fund has returned 12.16% (gross) in the 1 year period.

Emirates Emerging Market Debt Fund has assets of $99.2 million. The fund has a three star three year rating from Morningstar as at June 30 2019, and has returned 13.07% (gross) in the 1 year period.

Emirates NBD has driven growth across all product lines from both internal and external channels, and has been in the region since 2006.

The company offers a diverse range of Sharia complaint and conventional funds that covers a wide and stable investor base across the retail and institutional spectrum.

The firm is in a unique position as it operates as an independent asset manager and has the backing of the largest financial services company in the country (Emirates NBD Bank PJSC), making it one of the strongest asset management companies in the region. The company continues to look for and extend its in-house product range with global leading partners, including UTI International and Jupiter Asset Management. ■

> Emirates MENA Fixed Income Fund has assets of $194.7 million, making it one of the largest funds in the fixed income space.

INTERNATIONAL ASSET MANAGER OF THE YEAR AND WEALTH MANAGER OF THE YEAR

ADS INVESTMENT SOLUTIONS LIMITED (ADSI)

ADS Investment Solutions Limited (ADSI) offers a global range of services including wealth and asset management, arranging custody, advice on investments or credit, arranging financial market deals, and collective investment fund management.

Founded in 2017, it is committed to serving the needs of investment professionals, high-net-worth individuals, family offices and institutions and provides world-class, tailored support. ADSI combines the best in fundamental research, systematic investing and cutting-edge financial technology to deliver pioneering portfolio solutions and innovative products.

ADSI has a Financial Services Permission (FSP), granted by the Financial Services Regulatory Authority (FSRA) of the Abu Dhabi Global Market (ADGM). It is a subsidiary of ADS Holding LLC and the sister company of ADSS, a global investment firm based in Abu Dhabi with offices in London, Singapore and Hong Kong.

This year has been a significant one for ADSI - it has collaborated with index provider FTSE Russell to launch a Saudi Arabian smart beta fund, and has launched two funds out of ADGM that offer unique propositions for investors.

The FTSE ADS Custom Minimum Variance Index has been introduced to meet growing demand for exposure to the Middle East's biggest and fastest-changing economy. Its smart beta, rules-based equity strategy minimises portfolio volatility, and was created ahead of the launch of the FTSE ADS Saudi Minimum Variance Fund, which tracks the index.

The US dollar-denominated fund is based in the UAE capital's financial centre ADGM and offers daily liquidity with one of the lowest annual management fees for a Saudi equity fund, at 0.40%. ■

> Its smart beta, rules-based equity strategy minimises portfolio volatility, and was created ahead of the launch of the FTSE ADS Saudi Minimum Variance Fund, which tracks the index.

BROKER OF THE YEAR

ADSS

ADSS has been a leading brokerage in the MENA region for the past eight years and is a provider of a variety of assets for institutional, corporate and retail clients.

The company's mission statement is defined by three core values: transparency, education and expertise. It is a firm believer that traders should be given the right tools to help them make informed decisions and minimise risk. ADSS offers market analysis and educational initiatives such as webinars, seminars and trading workshops.

Its online trading platforms, a bespoke version of MT4 and its in-house award-winning technology OREX, are suitable for experienced traders and new clients entering the markets. The company trades daily volumes up to $16bn, making it the largest trading platform by volume in the Middle East, and is one of the few brokerages in the UAE to be regulated and licenced by the Central Bank of the United Arab Emirates.

ADSS prides itself on the experience of its brokerage experts, first-class customer support, liquidity and competitive spreads. Its unique liquidity is distributed through three major data centres - Tokyo (TY3), London (LD4) and New York (NY4) and with offices in Hong Kong, Singapore and London, as well as its headquarters in Abu Dhabi, it has become the go-to firm for facilitating trading flows globally.

> The company's mission statement is defined by three core values: transparency, education and expertise.

A part of ADSS Group, which includes its wealth and asset management sister company ADS Investment Solutions Limited (ADSI), ADSS supports its clients through every step of their trading journey - from starting out as a retail trader, to managing advanced wealth management portfolios. ■

EQUITIES MANAGER OF THE YEAR AND UAE ASSET MANAGER OF THE YEAR

FIRST ABU DHABI BANK (FAB)

First Abu Dhabi Bank (FAB) is the largest bank in the UAE and one of the largest in the MENA region with over $200 billion in assets.

Despite market volatility and tough market conditions the firm has onboarded new mandates (conventional and Sharia) during the past 12 months. The firm has seen wins on multiple fronts with a good mix of fixed income, equity and asset allocation solutions participating to offer investors a well-diversified portfolio and superior performance.

The strength of the brand and its network provides the FAB investment management team with a deep resource base and strong customer relationships which help to build a unique understanding of companies in the region.

The team has a strong knowledge of the complex dealings and relationships in the region enabling them to sift through the publicly available information and understand which sources are reliable and which are not.

Investment Management offers a diverse range of offerings covering Equity, Fixed Income and Asset Allocation funds and mandates with dividend income and growth themes covering UAE, GCC, MENA, Markets as well as global asset allocation strategies. What is unique is that all the inflows at Investment Management have been into products built and managed in-house, rather than Investment Management fronting and distributing someone else's products.

Investment Management has in place a fully resourced research and fund management team to manage client assets. This has enabled the team to win a succession of institutional mandates and launch a number of mutual funds which has propelled FAB to be regarded as one of the biggest and one of the best asset managers in the region. ■

> The firm has seen wins on multiple fronts with a good mix of fixed income, equity and asset allocation solutions participating to offer investors a well-diversified portfolio and superior performance.

FIXED INCOME MANAGER OF THE YEAR

AL AHLY FINANCIAL INVESTMENT MANAGEMENT

Al Ahly Financial Investment Management, the asset management arm of the National Bank of Egypt, has EGP 16 billion under management which equates to an Egyptian market share of around one quarter. The firm currently manages seven mutual funds and several portfolios that belong to various large institutions.

AFIM also manages the NBE Money Market Fund (MMF), which is the biggest and fastest growing MMF in Egypt which has nearly doubled in size over the 12 months to June 2019.

NBE MMF serves the biggest wide range of individual, private and public institutional investors including pension funds through NBE's extensive domestic and international network of branches and offices.

It contributes significantly to the effectiveness of the sustainable economic and social development efforts through supporting the public budget via the substantial investment in treasury bills and bonds and introducing a competitive return to pension and endowment funds.

> In terms of performance, NBE MMF shared the top rank in the region

In terms of performance, NBE MMF shared the top rank in the region with another fund, delivering some 50 basis points above market average during the assessment period. Looking back over five years from June 2019 the Al Ahly Financial Investment Management NBE Money Market Fund ranked first among all its peers.

Al Ahly Financial Investment Management said the historical performance of the fund shows that it can work efficiently under different economic cycles and regimes.

More broadly, AFIM's mission is to serve and work with its clients to achieve their long term investment objectives. The firm strives to provide attractive risk-adjusted returns while adhering to the highest levels of professionalism, integrity and alignment. ■

ALTERNATIVE ASSET MANAGER OF THE YEAR

WAHA CAPITAL

Waha Capital is one of the region's leading investment houses. Having traditionally been focused on managing private investments, the company has over the last seven years built-out a business investing in public markets including Credit and Equity products.

Over the last seven years Waha has invested in building a strong team around the asset management platform, and focused on delivering investors consistent, risk adjusted returns.

The investment philosophy was tested in 2018, as it was probably the most difficult that markets have witnessed for many years. According to Deutsche Bank, about 93% of global assets posted negative returns for the year - by this metric this was the worst year on record since 1901.

The team managed to preserve capital and perform in the highest percentile of its peer group during the year.

Waha's two flagship funds have been in the top performing funds both regionally, and internationally with both receiving acclaim. As of the end of May 2019, the Waha MENA Equity Fund has returned +107.3% net of all fees, since inception in 2014. In comparison, the S&P Pan Arab Index has returned +18.7% over the same period.

As of the end of May 2019, the Waha CEEMEA Credit Fund has returned +106.6%, net of all fees, since inception in 2012. In comparison, the JPM CEEMEA CEMBI Index has returned +54.4% over the same period.

Currently Waha Capital manages over $700m including seed money from Waha Capital, and third party money from both international and regional investors. Despite the tough macro environment, the firm has managed to deliver positive returns and outperformed peers consistently since inception. ■

> Waha's two flagship funds have been in the top performing funds both regionally, and internationally with both receiving acclaim

SHARIA FUND MANAGER OF THE YEAR

Al RAJHI CAPITAL (ARC)

Al Rajhi Capital (ARC) is one of the leading financial services company in the MENA region, providing clients with a range of diverse, innovative and Sharia-compliant financial products and services.

ARC operates regionally from 20 offices across the KSA, and with over 230 investment professionals.

Headquartered in Riyadh, ARC is a Saudi Closed Joint Stock Company with a paid capital of SAR 500m and is regulated/licensed by Saudi Arabia's Capital Market Authority to offer asset management, brokerage and investment banking services.

ARC is a pioneer and a market leader in offering Sharia-compliant products and has offered innovative products including uniquely structured capital protected funds.

ARC has a long term commitment to the Islamic investment industry through its pioneering position in the Kingdom, conventional and innovative product offering driving continuous growth of its businesses, maintaining high professional and ethical standards, fiduciary responsibility, investment in people, infrastructure and state-of-the-art technology to adapt to the dynamic global environment and competitiveness in the investment industry.

> ARC is a pioneer and a market leader in offering Sharia-compliant products and has offered innovative products

ARC's Real Estate Funds team is a widely recognised standard-setter in the industry, known for its high level of transparency and unique deal origination capability.

The Asset Management division of Al Rajhi Capital is uniquely positioned to provide its client base with seasoned advice based on global experience and regional expertise. It is among the fast growing asset management houses positioned as one of the largest Islamic Fund Managers in the Kingdom managing around SAR 42bn in assets at the end of June 2019. ■

SUKUK FUND MANAGER OF THE YEAR AND QATAR MANAGER OF THE YEAR

AL RAYAN INVESTMENTS

Al Rayan Investments has established itself as a leading manager of global sukuk and Gulf equities. All investments are Sharia-compliant. In addition to numerous segregated mandates, Al Rayan Investments manages the largest Sharia-compliant GCC fund in the world and the world's largest Islamic equity ETF.

The Al Rayan GCC Fund launched in May 2010 and this is the largest Sharia-compliant GCC Fund in the world at \$72m (total of both classes of the fund). The fund can invest in regional equities and sukuk without restriction. Since inception to June 2019, the fund has returned 65.5% vs S&P GCC Sharia index of 28.1% over the same period. Over the last 12 months, on average, sukuk represented 40.4% of the fund's invested assets.

Al Rayan Investments invests in sukuk and Gulf equities backed by a unified research team. Sukuk investors benefit from the perspective gained from researching and investing on both sides of the capital structure. This is especially valuable for higher-yielding sukuk where Al Rayan Investments has generally enjoyed a long established relationship with company management as an equity investor. Al Rayan Investments can therefore make detailed two-three year forecasts and arbitrage the considerable valuation and information anomalies unavailable to sukuk-only investors.

Al Rayan Investments' five-person investment team boasts more than 76 years of experience with members have previously worked globally and across the region.

The team is led by Akber Khan who in each year since 2013 has been in MENA Fund Manager magazine's Power 50 list of the "most influential, innovative and powerful figures in the MENA asset management industry". ■

> Sukuk investors benefit from the perspective gained from researching and investing on both sides of the capital structure.

BEST NEW FUND OF THE YEAR

AZIMUT EGYPT ASSET MANAGEMENT'S (PREVIOUSLY RASMALA) "MAASHY FUND"

Azimut Egypt Asset Management's (Previously Rasmala) "Maashy Fund" is a private placement investment fund established as a new investment tool for Private Pension Funds registered in Egyptian Financial Regulatory Authority.

Following the ministerial decree mandating the investment guidelines for Private Pension Funds issued late 2015 and the decree of Egyptian Financial Regulatory Authority (FRA) allowing private pension funds to sponsor investment funds in the form of a Joint Stock Company, Maashy Fund Company was established and introduced as the first investment tool to serve more than 700 Private Pension Funds with assets exceeding EGP60bn.

The fund sponsors include: the private pension fund of employees of Suez Canal Authority; the private pension fund of employees of the Ministry of Justice and its supporting functions; and the private pension fund of employees of a major private sector steel manufacturer.

The Maashy fund comprises up to 85% fixed income tools and up to 15% equity, subject to a detailed and complicated investment mandate.

From its inception in November 2018 to the end of July 2019, the annualised return since inception was 15.24% while the annualised year to date performance was 14.03%.

The target market is: private pension funds; inhouse pension schemes; life insurance companies; syndications; and labour unions

Maashy fund is considered a tailor-made vehicle honouring three laws: the law of joint stock companies; the capital market law; and the private pension funds law.

The main objective of this structure is to provide an easy investment vehicle that allows these types of Investors to be in full compliance with their regulations with minimal operational, accounting, legal and financial burden while providing them with best available returns. ■

CASH MANAGER OF THE YEAR

ARAB BANK

Arab Bank has an extensive network of over 600 branches through subsidiaries and affiliates spread across five continents. Arab Bank Group is present in Jordan, Lebanon, Palestine, UAE, Qatar, Bahrain, Yemen, Egypt, Morocco, Algeria, Oman, Saudi Arabia, Tunisia, Syria, Switzerland, Germany, UK, France, Italy, USA, Singapore, China, South Korea, Australia, Kazakhstan and Sudan.

The Bank's well-established network in the MENA region is designed to support regional cash management and liquidity requirements, allowing pricing considerations to be more advantageous.

The local expertise available throughout the network ensures that clients' requirements are met professionally. Arab Bank understands the local requirements for all transactions, while also being guided by the overall international expertise and guidance of a centrally managed cash management and liquidity business line.

Arab Bank's MENA expertise and entrenchment in regional and international business, and cash flows ensured that it continued to capture a leading share of MENA business.

Arab Bank established its operations in MENA with a focus on corporate banking services including cash management and liquidity, and has continually invested in it to ensure it stands out amongst competitors.

In line with the bank's digital strategy, Arab Bank provides innovative and comprehensive commercial banking solutions, including cash management and trade finance electronic platforms "ArabiConnect", which allow clients to efficiently manage banking transactions using state-of-the-art technology.

ArabiConnect includes an intuitive interface, offering corporations a single entry point to access all of their accounts and transactions, featuring comprehensive 360 visibility across all group entities, locally and across borders.

Specifically engineered around corporate needs, ArabiConnect can be accessed through the channel of choice including PCs, tablets and smart mobile phones. ■

GLOBAL CUSTODIAN OF THE YEAR

CITI

Citi has built a comprehensive structure to serve its clients around the world and is now recognised as an industry leader.

The US banking group continues to execute on its strategic plan for growth through the active pursuit of new business and the further development and build-out of targeted industry leading cross-product solutions.

This approach has proved successful and is validated by an annual growth rate of +6% in assets under custody since 2016, which have grown in that time from $18.1trillion to $21.7trillion.

The bank feels the progress reflects its unique and industry leading global custody solution which is a value proposition that has significantly resonated with clients.

This focused approach has also led to substantial success in strategic geographies. Specific to the Middle East, Citi has won the full custody mandate from two highly respected Sovereign Wealth Funds in the first 6 months of the year.

The bank believes its success in this region is driven by a number of factors, but none as important as the strength and flexibility of its Asset Owner Solution. This (Middle-East driven) effort was recently recognised when Citi was awarded the Custody Initiative of the Year for its Asset Owner Solution from the Central Banking Awards Committee. Citi was the only winner in the Custody and Fund Services category.

MENA remains fundamental to Citi's long-term strategic vision and the US bank inducted Saudi into its custody branch network in early Q3 ' 19. With the launch of Saudi, Citi's proprietary network will boast 63 branches - by far the latest custody network in the world. ■

SUB-CUSTODIAN OF THE YEAR

HSBC

HSBC has been supporting sovereign wealth managers, asset managers, pension funds and insurance companies for more than 100 years with its demonstrated global custody services.

This includes performance analytics, asset services and more. With its on-the-ground presence in key markets around the world and a robust custodian network that stretches across 96 markets, clients can benefit from direct access to the extensive experience and deep market insights of HSBC's international and local experts.

Maximising operational efficiency is key to successfully growing client businesses. Achieving that requires the ability to focus on core competencies and continually monitor the impact of industry and market developments.

Underpinned by state-of-the-art technology, HSBC's award-winning direct custody and clearing services free-up client time and resources to help them improve productivity across their entire organisation. In addition to delivering customised account-operator and third-party clearing solutions, HSBC has established a leadership position in emerging and frontier markets.

Its global network spans Asia-Pacific, the Middle East, Europe and the Americas, enabling the firm to build and foster relationships with key market authorities. That means clients have seamless access to exclusive connections and experienced guidance in every one of HSBC's direct custody and clearing markets.

Finding efficient cutting edge solutions for business and staying up-to-speed with evolving regulatory demands from market to market requires expert knowledge and insight.

HSBC's team of specialists support clients with one of the world's largest fund services networks backed by a global presence and particular emerging market focus. From fund accounting and valuation, to securities lending and foreign currency exchange, to cash management – HSBC will use its sophisticated traditional and alternative fund services to design a solution specific to client objectives. ■

> HSBC's team of specialists support clients with one of the world's largest fund services networks backed by a global presence and particular emerging market focus.

FUND ADMINISTRATOR OF THE YEAR

STANDARD CHARTERED BANK (SCB)

Standard Chartered Bank (SCB) currently provides fund services across 21 markets globally, including six markets (Oman, Bahrain, Qatar, Saudi Arabia, UAE and Dubai International Financial Centre) across the Middle East and North Africa (MENA).

SCB has a long history in MENA, dating back to 1920. Having witnessed and participated in the growth and development of the regional geography over the past century, and specifically over the past decades in its capital markets' infrastructure establishment, makes SCB ideally positioned to offer a unique service proposition and perspective.

SCB's Fund Services business supports both global and local clients with comprehensive network coverage and deep local market expertise across MENA. SCB provides a comprehensive fund Services product suite to clients including: fund accounting and administration services; transfer agency services; compliance reporting; performance measurement; and fiduciary and fund supervisory services.

The bank's MENA Securities Services (which includes Fund Services) franchise has experienced an overall 38% revenue growth in 2018 while assets under administration (AuA) continues to witness robust growth in particular in Qatar where it doubled its AuA in 2018.

SCB serves a diverse client base including traditional long funds, REITs, infrastructure funds, asset managers, alternative funds, multilateral and development organisations as well as government -related entities (including Corporates, Central Banks and Sovereign Wealth Funds) across the region.

SCB said its highly scalable operating model with state-of-the -art technology solutions enable the firm to handle volume fluctuations in a largely manual market environment whilst maintaining high service standards in dealing with the variety of specialised requirements of the MENA markets . ■

TRANSITION MANAGER OF THE YEAR

CITI

Citi is committed to providing a first class transition management service to MENA clients by delivering full and direct access to its extensive top-tier trading, settlement and advisory capabilities.

The bank has over 20 years of experience in the TM industry, covering a broad range of asset classes and strategies in various market conditions, making Citi one of the industrie's most experienced TM providers.

Citi consistently partners with the world's largest sovereign and pension funds, asset managers and insurance companies, the majority of which are within the MENA region.

Over the past year as the international investors' interest in the local MENA economies has increased, Citi has been helping its MENA clients to monetise their local investments while acting as providers of liquidity for foreign buyers.

Citi believes its strengths are as follows:

Commitment to the MENA region, TM industry & innovation: Citi has been in the transition management business for over 20 years, with broader banking relationships in the region for over 50 years.

Solutions Based Approach: Citi's philosophy is to provide a tailored solutions-based approach to each transition to ensure all client requirements are met and risks are managed.

Global Execution Platform: The Citi business model gives it an advantages vs. other TM providers primarily around costs and liquidity. In equities, Citi has local trading desks in over 80 countries so almost all trading takes place through Citi's own infrastructure.

> Citi has been helping its MENA clients to monetise their local investments

Highly Experienced Team & Robust Process Controls: The bank has a strong project management framework which is based around an exhaustive checklist, and a proven track record of implementing challenging restructures efficiently and without errors.

Process and Transparency: Citi has specialist project managers, managing a broad range of transition complexities, from strict project timelines to coordinating the various parties involved. ■

FINANCIAL CENTRE OF THE YEAR

ABU DHABI GLOBAL MARKET

Abu Dhabi Global Market has enjoyed strong growth in its fourth year, making it the fastest growing International Financial Centre in the region.

By the end of June 2019, the number of registered licences had skyrocketed 80% to 1,850 entities, while financial firms jumped 60% to reach 120.

Asset under management reached $27bn, from $20bn a year ago.

ADGM also became the first MENA regulator to introduce ground breaking regulations on digital banking, private financing platform, crypto exchange, stable coins, securities tokenisation and robo-advisory.

Some 25 public/private entities rallied behind ADGM's Sustainable Finance agenda to advocate investments that support positive ESG impact.

ADGM welcomed Citibank's market and treasury MENA hub. Other new notables include Banque of Lombard Odier, State Street Bank, HSBC, Blackstone Group, JOCIC Financial Group (Chinese state-owned financial services firm), AON Insurance and Transferwise.

ADGM issued MENA's first Digital Banking Framework with Anglo-Gulf Trade Bank being licensed as the world's first digitally-enabled trade finance bank.

The Belt & Road flows were strengthened with China Everbright Bank announcing its MENA hub in ADGM and China Nuclear Corporation's plan to establish its global investment and treasury centre in ADGM. Shanghai Stock Exchange is developing its Belt & Road Exchange platform in ADGM and fund passporting arrangements concluded with ESCA and DFSA to support aggregation of liquidity.

To bolster the move of digital asset mainstream, ADGM introduced the most comprehensive and widely-acclaimed crypto regulatory regime addressing key risks. Nine key regional and global exchanges have been granted in-principle approvals against stringent standards. ■

CONSULTANCY FIRM OF THE YEAR

INSIGHT DISCOVERY

Insight Discovery has for ten years supported financial services companies with research and press relations but the past 12 months have been its busiest with three new retained PR clients, includes a Sovereign Wealth Fund which has established three boutique asset management businesses in Abu Dhabi Global Market.

Insight Discovery's retained PR clients include some of the largest and best known asset management companies in the world, while 90% of its revenue derive from the MENA region.

Insight produces the Middle East Investment Panorama report, which is now in its tenth year. This report is recognised by many in the industry as the leading authority on the financial services industry in the GCC. It is essentially a report which highlights the latest trends amongst both independent financial advisers and banks and is an invaluable source of market intelligence for asset management companies.

Insight Discovery is also behind the launch of whichfinancialadviser.com, the region's first and only aggregator website which helps expats find qualified financial advisors from regulated firms and tries to stop people from using unregulated firms.

This website is making an impact in a number of ways:

It helps to change the poor perception of financial advisers as this website extolls the virtues of using a qualified financial adviser from a regulated firm

It lists every single regulated firm, by regulator, in the UAE and profiles advisers who are qualified and a member of a professional body

It helps educate consumers about the local regulations and through blogs, which are added to the website every three months, videos and articles

It helps promote the case for using mutual funds ■

> Insight Discovery's retained PR clients include some of the largest and best known asset management companies in the world while 90% of its revenue derive from the MENA region.

EXCHANGE OF THE YEAR

DUBAI GOLD & COMMODITIES EXCHANGE (DGCX)

Dubai Gold & Commodities Exchange (DGCX) is the largest and most diversified derivatives exchange in the Middle East, providing guaranteed settlement and reduced counterparty risk through the Dubai Commodities Clearing Corporation (DCCC), a subsidiary 100% owned by DGCX.

Over the course of the past twelve months, DGCX has witnessed remarkable growth and broken numerous records for trading volume, notional value and open interest. The exchange traded over 21.8 million contracts, setting a new overall volume record, with notional value exceeding $435billion.

Through diversifying its product range and launching several new initiatives, DGCX was able to widen investor participation and enhance liquidity in the market, whilst remaining the largest global liquidity pool for Indian Rupee trading.

DGCX is at the forefront of developing and shaping the Islamic finance sector. Since launching the region's first and world's only exchange-listed Sharia compliant Spot Gold contract in 2018, the contract has seen record trading and participation. DGCX is involved in further structuring the Islamic finance sector through partnerships with leading institutions.

> DGCX continues to focus on enhancing and improving the experience for market participants

DGCX continues to focus on and raise the bar for clearing and settlement, and over the last 12 months has benefited from the upgrade to its exchange and clearing technology platform with improved bandwidth usage and latency performance, allowing for cheaper and faster access.

DGCX continues to focus on enhancing and improving the experience for market participants, and recently partnered with McKay Brothers International to further increase the speed of transactions between DGCX and global trading hubs. ■

ETF PROVIDER OF THE YEAR

AI RAYAN QATAR ETF

With the listing of Al Rayan Qatar ETF (ticker QATR) in March 2018, Al Rayan Investments (ARI) established itself as the pre-eminent ETF issuer in the Gulf and now boasts an ETF larger than all other ETFs in the region combined.

Listed on the Qatar Stock Exchange (QSE), QATR tracks the QE Al Rayan Islamic index, an index of Sharia-compliant listed equities on the Qatar Stock Exchange, which meet the exchange criteria. These include adjusting stocks for market capitalisation, average daily trading and preventing any one stock from having too significant a weight in the index, regardless of market capitalisation.

At end-June 2019, QATR was the world's largest Islamic equity ETF, 25% larger than its nearest competitor, and this was partly because QATR's Total Expense Ratio (TER) of 0.5% makes it among the cheapest single-country ETFs available in emerging markets.

QATR has two ETF peers which also offer exposure to Qatari equities. While QATR was listed most recently of the three, it is currently the largest and cheapest (data at June 2019).

ARI has invested over three years in working closely with the QSE and four Qatari regulators to help create the most advanced and comprehensive ETF regulatory rule book in the Gulf. Among other aspects, this allowed the regulatory recognition and licensing of ETF liquidity providers (LP), the ability for LPs to short-sell and up to 100% foreign ownership of a Qatari-listed ETF.

Having established this regulatory platform, ARI is now working on additional ETFs which would also be listed in Qatar. ARI is eager to further extend its dominance as the region's premier ETF provider. ■

> At end-June 2019, QATR was the world's largest Islamic equity ETF, 25% larger than its nearest competitor.

LAW FIRM OF THE YEAR

HERBERT SMITH FREEHILLS (HSF)

Herbert Smith Freehills' (HSF) Middle East practice, based in Dubai and Riyadh, continues to grow and flourish as the leading law firm for investment funds in the Middle East. HSF advises on some of the most innovative and ground-breaking conventional and Sharia-compliant investment funds in the region and globally, including several "market firsts".

The firm has advised on Middle East transactions for over 40 years and today its multidisciplinary team acts for international and regional clients conducting business throughout the Middle East and North Africa with legal experts working on notable deals in the UAE, Saudi Arabia, Qatar, Bahrain, Kuwait, Iraq, Iran, Oman, Jordan, Egypt, Pakistan and India.

Having worked on some of the largest transactions and highest profile disputes in the region, representing governments and their ministries, sovereign wealth funds, major corporates, banks and professional services organisations, HSF has an in-depth understanding of Middle East business culture and practices and the civil and Sharia law systems which apply.

Zubair Mir leads the Middle East practice and HSF Investment Funds and Corporate teams. Based in the Middle East since December 2000, he has been consistently named one of the world's leading corporate finance and investment funds lawyers by Chambers, Legal500 and The International Who's Who of Private Funds Lawyers. Zubair was inducted into The Legal500 EMEA Hall of Fame in 2018, and is the only specialist recognised for Investment Funds in this list in the UAE.

In April 2019, Geoffroy Hermanns was promoted to Of Counsel as a sign of HSF's strengthening Middle East practice. Based in the GCC since 2012, he is ranked as "Associate to Watch" (Chambers) and a "Next generation lawyer" (Legal500). ■

REAL ESTATE INVESTMENT FIRM OF THE YEAR

SFO GROUP

Beirut-based SFO Group is a multi-family office focused on direct international real estate investments. With a team of 25 seasoned professionals located across three continents, SFO manages in excess of $1bn of real estate assets across the USA, Continental Europe and Africa and has a proven reputation for successfully identifying, acquiring and managing high-quality assets generating superior risk-adjusted returns.

Since 2015, SFO has successfully structured and completed the private placement for $864m corresponding to the acquisition of twenty-four real estate assets located in the USA, Europe and Africa. Having completed the largest number of international private placements over the past four years, SFO is recognised as the financial institution of choice in Lebanon providing local and regional investors access to global real estate opportunities.

Acting as placement agent and structurer of the real estate transactions, SFO is responsible for placing the equity required, securing the debt from local providers, implementing the optimal holding structure, executing the respective business plans, monitoring performance, unlocking value and ensuring an exit strategy in line with its initial underwriting,

The last twelve months marked a record period for SFO, during which it has doubled the size of its real estate portfolio, covering more than 5 million square feet of assets, and has completed transactions with an aggregate value of over $440m including the private placement of $140m for the acquisition of fifteen real estate assets. The above is by far the largest number of transactions completed by any financial institution in Lebanon over such a short period from both a number and a value perspective. ■

INTERNATIONAL EXCHANGE OF THE YEAR

CME GROUP

Over the last 12 months, CME Group has gone from strength to strength. The Chicago-based exchange's benchmark products and deep, liquid markets enable clients to hedge their risk in all asset classes.

CME Group is the only exchange where customers can trade every investible asset class, all on one platform. In the second quarter of 2019, CME Group reached average daily volume of 20.9 million contracts with 5.3 million coming from outside the US, a new record.

Several key developments took place last year which have cemented CME Group's position as the exchange of choice to manage risk globally, particularly for the client base in the MENA region.

Globally, volumes have experienced double-digit year-on-year growth in five of six asset classes, ranging between 10% and 34%.

MENA volume growth has outpaced exchange industry peers with 32% growth in 2018.

Equity Indices were up 62.3%, FX rose 56.3%, Agriculture was up 34.9%, Interest Rates went up 24.2%), Energy rose 12%) and Metals were up 8.9% in the region.

CME has a longstanding relationship with the MENA region through its investment in Dubai Mercantile Exchange, which was established in 2007 as joint venture between CME, Dubai Holding and Oman Investment Fund.

DME has continued to develop energy benchmarks, particularly its flagship contract: DME Oman Crude Oil Futures contract. In 2018, Bahrain Petroleum Company and Saudi Aramco started implementing DME Oman into their crude oil pricing formula, becoming the third and fourth National Oil Company to do so. In addition, DME has launched 8 new oil contracts

DME Oman is the largest physically-delivered crude oil futures contract in the world and is the sole benchmark for Oman and Dubai's exports of crude oil. ■

> Several key developments took place last year which have cemented CME Group's position as the exchange of choice to manage risk globally

TECHNOLOGY PROVIDER OF THE YEAR

EAGLE INVESTMENT SYSTEMS

Eagle Investment Systems, a BNY Mellon company, has a long history of providing institutional asset management technology to global investment managers.

Today Eagle provides solutions for many of the world's leading asset managers and owners, with twelve of the top twenty-five largest global asset management companies using Eagle.

Eagle has a long-established presence in the MENA region as a leading solution provider for investment management technology to meet middle and back office needs, helping firms to manage their investment data and create powerful insights. Recently, Eagle has seen increasing interest in MENA, resulting in strong business growth.

Eagle has said it is finding success in the region from its pioneering the data-centric approach to offer a comprehensive, integrated suite of data management, investment accounting and performance measurement solutions that are available anywhere, at any time, through one platform to help investment managers make better investment and risk decisions.

Eagle's full-suite of data management, investment accounting and performance measurement solutions have acted as the central hub for a Middle Eastern firm's operational transformation, enabling it to become one of the first in the region to achieve GIPS® certification.

It was also among the first to have an online portal to provide transparency over its assets, with performance reporting available to stakeholders anywhere in the world.

Eagle is also deployed at both marquee investment houses across all asset classes for investment accounting, performance and attribution and data management.

An area of particular focus for Eagle over the last 12 months has been the development of its open ecosystem of strategic alliances, conceived to simplify the integration of third-party technologies and enhance the services Eagle delivers to its clients in the region. ■

PRIVATE EQUITY FIRM OF THE YEAR AND BAHRAIN ASSET MANAGER OF THE YEAR

GFH FINANCIAL GROUP (GFH)

GFH Financial Group (GFH) is a dynamic financial investment group with a clear vision to develop a high growth, diversified investment and commercial portfolio.

GFH actively seeks unique opportunities to grow the value and potential of its investments. To achieve industry-leading performance, GFH deploys its deep market insight, innovative thinking and investment intelligence, which are hallmarks of the brand and its approach.

In line with its strategy focused on bringing to market a well diversified and unique offering of investment opportunities for its regional investor base, during the 12 month period between June 2018 and June 2019, the Group successfully undertook landmark deals in Education, Technology, Real Estate and Healthcare.

These were concluded by the Group exclusively as well as in partnership with some of the region's leading investors and global partners on the ground with strong track records of experience and expertise in sectors in which the Group invests and continues to build its portfolios.

These partnerships and co-investments reflect GFH's position and reputation as a valued and well respected investment partner both among regional peers and well-known investors in UK market as well as in the US, where the Group has been particularly active and over the past five years alone has concluded deals in excess of US$1 billion. ■

> To achieve industry-leading performance, GFH deploys its deep market insight, innovative thinking and investment intelligence, which are hallmarks of the brand and its approach.

RESEARCH PROVIDER OF THE YEAR

AL RAJHI CAPITAL

Al Rajhi Capital is one of the leading research houses in Saudi Arabia, focused on delivering timely and detailed investment analysis of local equity markets and the Saudi economy, through both Arabic and English language reports.

This year, as the Saudi Arabian index (TASI) was included in MSCI and FTSE indices, there has been significant interest from foreign investors. To capitalise on this interest, Al Rajhi conducted its first ever conference in New York with a US partner, where the firm invited around 10 Saudi companies to meet with global fund managers.

The Saudi firm also conducted analyst roadshows, opened institutional accounts this year and has signed research agreements with leading institutional clients.

Additional developments over the past year included conducting Primary Surveys which covered the changing spending behaviour of Saudi and expatriate consumers, as well as assessing investment sentiments on the stock market, economy and real estate sector.

Given the increased foreign investors interest in the domestic insurance sector, Al Rajhi has recently expanded its coverage to the insurance sector with the market leader in the Kingdom.

The firm actively covers 30 prominent stocks across eight different sectors. The differentiated offering is local on-the-ground insights not restricted to companies/sectors as the firm tracks all sectors.

Al Rajhi also facilitates calls for clients before IPO with the companies. The company's equity research team consists of highly qualified (CFAs and candidates) and experienced sector analysts. Each analyst covers around 8-10 companies, working closely with sales and other teams in the company. ■

> Al Rajhi has recently expanded its coverage to the insurance sector with the market leader in the Kingdom.

EGYPT ASSET MANAGER OF THE YEAR

CI ASSET MANAGEMENT

CI Asset Management continued to top Egypt's Funds' Performance Ranking in 2018.

These achievements reflect the consistency of out-performance of CI Capital Asset Management's managed funds in all funds' categories and its outstanding track record as per the followings:

For the Conventional Equity Fund Category, the "Estithmar" Fund is ranked first equity fund in terms of its positive 2018 returns of 4.72% compared to EGX 30 's negative returns of 13.21% in 2018, in addition, to outperforming the average negative returns of all peer equity funds in the Egyptian market of -8.16%.

Additionally, the Fund held the top ranking for the two years as well as the three, five and six-year periods cumulative returns of 50.95%, 159.24%, 168.88% and 222.68% respectively and outperforming the EGX 30 with an Alpha of 45.35%, 73.17%, 77.69% and 84.04% respectively.

For the Sharia Complaint Equity Fund Category, CI Asset Management topped the 2018 rankings through "Helal Fund", with a positive cumulative returns of 3.8% compared to the negative average returns of all peer funds in the Egyptian market of -8.65%.

It is also worth noting that "Aman Fund", ranked first among local peers in the same funds category for its two, three, five and six year periods' cumulative returns of 41.44% , 130.90%, 114.89% and 145.47% respectively, outperforming the average returns of all peer funds.

CI Capital Asset Management is also ranked first in the Balanced Funds Category (for funds with a maximum equity exposure limit of 70% of their NAV), with "Takamol Fund's" 2018 returns of 6.85% compared to a negative average return of -0.69% for funds with the same specifications. ■

> The Fund held the top ranking for the two years as well as the three, five and six-year periods cumulative returns of 50.95%, 159.24%, 168.88% and 222.68% respectively.

JORDAN ASSET MANAGER OF THE YEAR

AB INVEST

AB Invest was established in 1996 and, after its acquisition by Arab Bank in 2004, AB Invest accelerated the roll-out of its regional coverage, funds and products.

With respect to asset management, AB Invest is the largest private asset manager in Jordan in terms of third party assets under management. In addition to offering discretionary customised portfolio management investment solutions, asset management launched a series of MENA funds, both conventional and Sharia-compliant, investing across the available asset classes.

The flagship Arab Bank MENA Fund, launched in 2005, is one of the oldest funds in the region, with a consistent outperformance track record in absolute terms and on risk-adjusted bases. 2018 witnessed severe pressures on the region's markets and especially in Dubai where the market fell almost 25%.

Moreover, key markets for funds such as Jordan and Oman dropped by around 10% and 15% respectively. The same pressures faced the firm's IIAB Islamic MENA Fund, which was launched in 2008.

Despite the deep downturns, the funds managed to maintain their since-inception outperformance relative to the Dow Jones MENA Index and the Dow Jones Islamic Markets MENA Index, with an alpha of 26% and 9% respectively at the end of 2018.

It is of absolute importance to note that AB Invest's investment philosophy is focused around managing the downside risks during the investment cycle. AB Invest views investing in essence, as a process of forecasting and managing volatility and risk, maintaining thereby consistency of returns on a risk adjusted basis for the long term. ■

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KUWAIT ASSET MANAGER OF THE YEAR

MARKAZ ASSET MANAGEMENT

Markaz Asset Management prides itself on developing simple yet innovative products to serve the local and regional investing public. The company's vision to hold a unique place of trust with its clients, while meeting client goals and objectives is central to Markaz Asset Management's investment philosophy.

Asset Management services offered by Markaz include Investment Advisory Services, GCC & International Investments, Real Estate, and Private Equities. These offerings include diverse proprietary and customised investment solutions, and aim to deliver long-term value creation for our investors.

The Markaz investment decision-making process is backed by extensive qualitative & quantitative analysis and stringent guidelines. The Kuwait-based asset manager has an investor-first approach, and seeks to provide customers with the best opportunities for sustainable wealth creation.

As a contender, Markaz Asset Management wants to be evaluated not only on the type of products it delivers but also for engaging with the capital markets to forge better standards through education and creation of new tools that provide value and fundamental structure to the markets. The firm's ambition is to offer clients a wide range of high-quality products.

The company believes in a process that results in diversified funds which helps clients to outperform the market, participate in market rally when the market is up and keep the losses under control if the market is in turmoil. What sets Markaz Asset Management ahead of the other nominees is the diversification into funds with several structures to bridge the gap between its institutional, sovereign, high net worth and retail clients' needs.

Markaz' assets under management totaled over KWD 1.11 Billion (USD 3.66 Billion) at the end of June 2019. ■

> The Markaz investment decision-making process is backed by extensive qualitative & quantitative analysis and stringent guidelines.

LEBANON ASSET MANAGER OF THE YEAR

BLOM ASSET MANAGEMENT

Since its inception in 2008, just months before the onset of the global financial crisis, BLOM Asset Management has been at the forefront of sustainable investment funds development for more than a decade.

The driving force behind the rapid build up of funds at BLOM has been the innovative product development methodology of the asset management team.

Their expertise in engineering financial products not only hedged investors from the effects of the 2008 financial meltdown but have since provided them with steady returns that surpassed other investments in the same class.

While the trust of clients was earned in a turbulent decade after the 2008 financial crisis, behind this trust has been the parent group's philosophy of delivering 'Peace of Mind ' to its clients which has been at the forefront of the funds business strategy.

Over a decade, the executive committee's vision of establishing an asset management company was realised after years of preparation and achievements. In the meantime, presences were established in Saudi Arabia and Egypt to expand regionally to tap into new sources of funding and client diversification.

Top performing BLOM Asset Management funds over the first six months of 2019 were: the BLOM-Golden Multi Asset Fund, which was up 11.27%; the Saudi Arabia BLOMINVEST KSA BLOM SAUDI Arabia fund which rose 16.55%; and the BLOM MSCI Saudi Select Min Vol Fund which increased 14.76%.

The BLOM MSCI Saudi Arabia Select Min Vol Fund (BLOM MSCI SASMV) is the first Strategic Beta fund in the region developed as a result of the collaboration between BSA and MSCI. It is an open-ended, Sharia-compliant investment fund established in accordance with the Investment Fund Regulations and approved by the Capital Market Authority in Saudi Arabia.■

OMAN ASSET MANAGER OF THE YEAR

BANK MUSCAT

The Private Equity & Asset Management (PE&AM) business of bank muscat is one of the leading asset managers in MENA region with asset under management of $2.84bn at the end of June, spread across a wide range of investment solutions covering equities, fixed income, real estate and alternate investment asset classes.

The Bank Muscat Oryx Fund is the flagship fund that invests in MENA and generated 15.6% returns in H1 2019 vs 9.8% by the benchmark index. The Fund ranks well versus rival products generating 1.26x and 1.19x returns over the nearest peer across three year and five year periods.

The MENA Dividend Aristocrats Fund, launched in 2018, provides attractive dividend income and long term capital appreciation by investing in MENA. The portfolio comprises stocks with high and sustainable dividend history lending resilience against any decline in stock prices. The fund has delivered attractive returns of 19.06% in H1 2019, which is above the benchmark index return of 9.8%

PEAM launched the Muscat Capital Dividend Growth Fund in April 2019. The fund aims to provide dividends and long-term capital appreciation by investing in sharia-compliant stocks. Since its launch, the Fund has garnered good interest from investors and has delivered attractive returns outperforming the benchmark by 2.26%

The Bank Muscat Money Market Fund is the only of its kind, offering a short-term cash management tool for corporations in Oman with low risk, daily liquidity and ease of operation. The short-term Money Market Fund is generating an annualized net return of 3.31%

PE&AM is backed by a stable and experienced team with the ability to conceptualise and launch innovative investment solutions for its investors. ■

> The Bank Muscat Oryx Fund is the flagship fund that invests in MENA and generated 15.6% returns in H1 2019 vs 9.8% by the benchmark index.

SAUDI ARABIA ASSET MANAGER OF THE YEAR

HSBC SAUDI ARABIA

HSBC Saudi Arabia is one of the largest asset managers in the Kingdom of Saudi Arabia and has a long track record of managing investments in the Kingdom having launched its first mutual fund in the Kingdom in the early 1990's.

HSBC is the only asset manager in the Kingdom that provides access to an international bank HSBC - and the attendant global connectivity as well as a strong local presence through the Saudi British Bank ("SABB"), the third largest commercial bank in the Kingdom. This unique combination of international exposure and connectivity and local presence sets HSBC apart from other asset managers.

Last year was a particularly strong year for the firm, especially in terms of investment performance. HSBC SA's funds were ranked either top or in the first quartile for numerous Saudi and regional funds.

The excellent performance and rankings are underpinned by a robust and consistent investment process which is supported by a strong governance framework based on HSBC Group's global operating model and principles.

HSBC also utilises the investment expertise and infrastructure of the Group to deliver investment outcomes that are consistent with the investment objectives of its clients. The governance around the investment process sets HSBC apart from its peers. For example, asset allocation of all multi-asset mandates is determined in consultation with and based on HSBC Group's view of the risk/ return framework for all global asset classes to ensure consistent and similar investment outcomes for all of HSBC's Clients.

HSBC SA was also at the forefront of innovation by launching a new Sharia-compliant, short duration bond fund (HSBC Enhanced Murabaha Fund) that has provided investors another investment solution to manage their allocation to Sharia fixed income assets.■

EGYPT BROKER OF THE YEAR

EFG HERMES

EFG Hermes continued to dominate the market, topping the rankings and market shares for the past 13 years, despite the general weakness in the market due to the lack of liquidity. The firm's market leadership is supported by its long-term presence, unrivalled experience and strong reach to all tiers of investors.

EFG Hermes has increased its already significant market share in the first half of 2019. Additionally the firm is the top brokerage house in Egypt in terms of capturing both foreign and retail flows in the market.

The EFG Hermes award-winning research team boasts more than 10 years industry experience and supports EFG Hermes's strong market position. The EFG Hermes research department currently covers 47 companies, representing about three quarters of the total market capitalisation.

EFG Hermes allows its clients to trade on multiple regional exchanges and across various asset classes at a click of a button, and from anywhere around the world, which puts the brokerage division in a solid position to grow its market shares in the region through aggressive acquisition of retail clients.

EFG Hermes also offers a wide spectrum of services to its clients, which includes margin finance and a professional smart mobile trading application. The firm is still the only brokerage platform in Egypt that offers an ATM machine service to its clients with the largest branch network consisting of 10 branches.

The firm has a resilient client base in excess of 51,000 clients with a wide range of profiles, including retail, VIP, high net-worth, local and regional institutions as well as foreign institutional investors. ■

> The EFG Hermes award-winning research team boasts more than 10 years industry experience and supports EFG Hermes's strong market position.

JORDAN BROKER OF THE YEAR

AI ARABI INVESTMENT GROUP (AB INVEST)

AI Arabi Investment Group (AB Invest) is the investment banking arm of the Arab Bank, and the leading full-service investment bank in Jordan. The banking group was established in 1996 and started to aggressively roll-out its coverage and products in 2004 after its acquisition by Arab Bank.

AB Invest is consistently one of the largest brokers on the Amman Stock Exchange and one of leading brokers for Jordanians investing in MENA and across Europe and the USA.

The broker maintains an ability to serve a large base of clients across multiple markets and adhere at the same time to the most stringent financial and regulatory standards by investing heavily in its human resources and technology infrastructure. The division also offers an unwavering commitment to complying with all rules and regulations governing the brokerage business in Jordan and beyond, with the ultimate aim of protecting client assets.

AB Invest distinguishes itself not only by supporting and investing in a highly qualified team of professionals but also by adopting and applying the highest code of ethics and standards of practice as a source of distinctive and sustainable competitive advantage. In this respect, the highest levels of transparency, disclosure, integrity and prudence are applied in the day-to-day operations, as well as when communicating with clients.

AB Invest's operational approach emerges from its ability to blend regional understanding, global reach, technology, a continuing education and learning sharing culture, and a risk management awareness into a capacity to deliver investment solutions in all market conditions. ■

> The broker maintains an ability to serve a large base of clients across multiple markets and adhere at the same time to the most stringent financial and regulatory standards.

KUWAIT BROKER OF THE YEAR

EFG HERMES IFA

EFG Hermes IFA, the brokerage arm of EFG Hermes in Kuwait, said it saw a noticeable increase in activity from all tiers of investors whether retail, foreign or GCC investors following Kuwait's inclusion in the FTSE Emerging Market Index over two tranches in September and December 2018.

EFG Hermes IFA's market shares and volumes increased significantly on the back of this, supported by its strong clients' reach and unrivalled experience in facilitating transactions.

The firm continued to dominate the market supported by its long-term presence.

In full year 2018, the firm was the top ranked broker by market share in Kuwait and has maintained that position into 2019 while trades from outside Kuwait almost doubled in that time.

EFG Hermes maintained its leadership position in terms of capturing foreign institutional flow, claiming almost three quarters of the foreign flows in the market in 2018 and more than 90% of the foreign inflows on the days of FTSE inclusion events in September and December.

The EFG Hermes IFA research team boasts more than 10 years' industry experience and currently covers 11 companies, which represents 51% of the total market's capitalisation.

EFG Hermes IFA has also launched EFG Hermes One - an innovative online platform developed in partnership with Saxo which allows clients to trade on multiple regional exchanges and across various asset classes at the click of a button and from anywhere around the world.

Furthermore, the firm was among the first brokerage houses to offer a professional smart mobile trading application in addition to normal phone order placement through Bloomberg & Reuters and call centre services. ■

> The firm continued to dominate the market supported by its long-term presence in the market.

OMAN BROKER OF THE YEAR

EFG HERMES

EFG Hermes Oman is the leading brokerage house on Muscat Securities Exchange having an unrivalled experience in facilitating transactions and providing trading executions.

EFG Hermes Oman has a robust client base with around 6,620 investors ranging from retail, VIP, high net worth clients, local and regional institutions as well as foreign institutional investors.

The firm offers a wide spectrum of services to its clients including a sophisticated online trading platform and a professional smart mobile trading system, in addition to normal phone order placement.

EFG Hermes' Securities Brokerage Division is the largest division across its MENA footprint and consistently leads rankings across exchanges. The award-winning division offers unsurpassed deep, on-ground access to MENA market opportunities for our clients.

The Division has more than thirty years of expertise across MENA, combined with best-in-class global practices result in an unrivalled service standard to our clients.

The award-winning research team boasts more than 10 years industry experience and supports EFG Hermes's strong market position highlighted above. The research department currently covers 14 companies, representing 47% of the total Oman market's capitalisation.

As part of EFG Hermes Oman's services to its client base, is the unique corporate access to senior and executive management teams of publicly listed companies on the Muscat Securities Market. Also part of reaching out towards facilitating investor familiarity with corporate Oman is arranging investor mission trips to the country.

EFG Hermes Oman also adheres to the highest international standards regarding compliance, risk management and internal auditing. The firm enjoys a fully dedicated compliance department as well as an operations department on the ground in Jordan. ■

QATAR BROKER OF THE YEAR

QNB

QNB was established in 1964 as the country's first Qatari-owned commercial bank with ownership split between the Qatar Investment Authority and the Qatari public. It has grown over the years and is now the top broker on the Qatar Exchange in terms of turnover and total market share with market share of 26% at the end of May 2019. QNB is also the number one listed broker in terms of corporate bonds listed.

QNB boasts an active and robust corporate access offering, and regularly arrange roadshows and conference calls between listed companies and investors.

The firm also annually hosts and conducts over 100 face-to-face meetings for local and global investment managers in Qatar with listed and non-listed entities.

QNB has strong connections with Qatari companies and provides institutional investors with deep access to company managements.

QNB also provides insightful and independent research, with coverage on more than 20 locally listed companies, in addition to market and sector reports, and reports on key stocks in GCC, making QNB the only broker that covers Qatari equities from Qatar.

The QNB institutional equity sales and execution traders have many years of industry experience in local, regional and global markets, deploying a range of modern trading techniques. The brokerage service model is built around clients with an emphasis on proactive support, communication and investment ideas.

QNB has positioned itself as a knowledge leader in the Qatari brokerage industry by constantly seeking to bridge the Qatar specific information and analytical gap that exists among the investment community - both local and international. ■

> QNB has strong connections with Qatari companies and provides institutional investors with deep access to company managements.

SAUDI ARABIA BROKER OF THE YEAR

AI RAJHI CAPITAL (ARC)

Al Rajhi Capital (ARC) is the leading brokerage house in the Kingdom of Saudi Arabia, having held the top position by market share in 2018.

The massive inflows of trading volumes that followed the inclusion of Saudi stocks in the MSCI and FTSE Emerging Markets Indices in March 2019 may have challenged that dominance but ARC has maintained a prominent position in the Saudi equities ranking throughout 2019.

The Saudi Arabian equities market is serviced out of Al Rajhi Capital's institutional equities division which is solely responsible for servicing local, regional and international institutional investors keen to invest in the Saudi equity market.

Staffed by teams of experienced brokers who are experts in the markets they cover, highest level of support is provided to investors enabling them to optimise the performance of their investment strategies and portfolios.

As the institutional investors rather than individuals dominate investment into the Saudi market, ARC plans to target further institutions by establishing and developing its institutional brokerage department.

Al Rajhi Capital's Brokerage Division offers a comprehensive brokerage and execution service utilising state-of-the-art technology which enables multi-platform stock trading across the GCC/MENA as well as other major international capital markets.

ARC's Brokerage Division enables clients to trade seamlessly on various Middle East exchanges including: the Abu Dhabi Securities Exchange; the Bahrain Bourse; the Dubai Financial Market, the Egyptian Exchange; the Kuwait Stock Exchange; the Muscat Securities Market; and the Qatar Stock Exchange.

It is for these reasons that Al Rajhi Capital remains the broker of choice for investors looking to access the fast-growing Saudi Arabian market and across the region. ■

> The highest level of support is provided to investors enabling them to optimise the performance of their investment strategies and portfolios.

UAE BROKER OF THE YEAR

EMIRATES NBD SECURITIES

Emirates NBD Securities is a subsidiary of Emirates NBD, the leading banking group in the Middle East and North African region. The brokerage arm provides end-to-end trading solutions for individual and corporate investors. Using the latest robust technologies, the firm provides clients with access to the major financial exchanges across the MENA region.

Emirates NBD Securities clients can trade on: the Abu Dhabi Securities Exchange; the Dubai Financial Market; the Dubai Gold and Commodities Exchange; Nasdaq Dubai; and the Saudi Stock exchange (Tadawul).

Emirates NBD said its satisfied customers choose them for their seamless services related to opening an investor account, trading, portfolio tracking, market information and portfolio reports.

As a leading brokerage and financial services company, Emirates NBD Securities offers its diversified client base a Customer Care Center and dedicated relationship managers. The firm's operations are compliant with global security best practice and privacy protocols, while the company ensures its systems run on the latest technology.

Emirates NBD provides clients with a consolidated report of all trade executions and portfolio value to their registered postal address at the end of every quarter.

The broker also offers price alerts so customers can stay updated with price movements in shares so they can make wise trading decisions. Emirates NBD also offers daily SMS alerts for any price movements of 4% or more on shares in a client's portfolio after trading hours.

The firm also assists clients by transferring shares between the Markets and Emirates NBD Securities as required. This procedure is related to DFM, ADX, and Nasdaq Dubai, and may be subject to change according to the respective market's instructions. ■

Gulf markets look ahead to key opportunities

A panel of local experts discussed the response to the index weighting changes in the region, the outlook for Middle East derivatives and the positive influence of financial technology

The various upgrades by the likes of MSCI and FTSE Russell and subsequent index weightings changes have brought in vast flows of institutional money to heavyweight stocks in Qatar, Saudi Arabia, the United Arab Emirates and now Kuwait. Yet bourse volumes remain fairly lacklustre. Have the upgrades had a significant impact in terms of increasing the percentage of bourse activity undertaken by institutional investors?

Salomons: I think that two effects from the index upgrades exist, both are positive. One is the direct effect of the inflow of passive funds that track the various indexes. The secondary effect, which is equally important for the broader development of the markets, is on active investors and active managers. For them a whole host of other factors come into play before they consider entering an emerging market: Are there attractive stock available? Is there enough transparency and disclosure? Are corporate governance standards developed? Is there enforcement action?

Barnett: In other jurisdictions, index upgrades have given a temporary boost to trading activity but haven't necessarily led to a sustained increase in liquidity – it's an in-and-hold strategy.

The upgrades introduce investors to the idea of investing in some markets which they may have considered less relevant, spurring more research and more investment into the underlying markets. That could lead to more active investors being more involved, but it's too early to say right now.

Sillitoe: A positive thing about these upgrades is that it will lead to more ETFs being launched, which are under-represented in the Middle East. We have seen ETFs launched in Saudi and Kuwait, one day there may even be an ETF for every country in the GCC, although I do know that Oman might be the most problematic to launch as its market is so illiquid

Marwah: I'll answer from a practitioner's perspective, because we invest in Saudi stocks and also have a Saudi fund which we set up specifically in recognition of the FTSE and MSCI upgrades.

Investors that have invested in Saudi following the upgrade have largely participated for the sake of the upgrade rather than to try to understand the market on a deeper level. Valuations in the Saudi market rose very sharply ahead of the upgrade. Passive funds have invested but data shows that those with the ability to create a tracking error are significantly underweight on Saudi versus the actual

PARTICIPANTS

- **Nigel Sillitoe,** Chief Executive of Insight Discovery
- **Steve Barnett,** Executive Director of Business Development at Abu Dhabi Global Market
- **Ashish Marwah,** Chief Investment Officer at ADS Investment Solutions Limited
- **Eric Salomons,** Director and Head of Markets at Dubai Financial Services Authority *– (Any views expressed by DFSA employees are their own personal views and not that of the DFSA)*

Salomons: "For the region as a whole it's quite a powerful development that the UAE, Qatar, Saudi and Kuwait now have the attention of foreign asset managers."

MSCI weightings for the Kingdom, for example, which is probably due to the steep valuations.

The commitment to buy is not yet there because institutional investor understanding of these markets is still nascent and they're early in their research.

They've limited understanding of how stocks operate here, how markets behave, the trading cycles, the regulations. We're still a long way from active foreign managers starting to buy in this market

The reaction to our products from investors interested in Saudi has been fairly conservative. They understand the upgrade trade, they don't yet understand the long-term value that this market presents to them.

The market itself or the companies or regulators have to do a better job in presenting themselves to active investors who don't see how as minority shareholders in an opaque market that they can have a voice. That needs to change before you see significant institutional interest appear.

What more could be done then to maximise the positive effects of the emerging market upgrades?

Salomons: In preparation for an upgrade, typically all stakeholders are pushing really hard to make changes. For the UAE that meant restructuring elements of how custody was done. Once an upgrade happens, the biggest challenge is to keep the momentum of change going, to ensure that the market continues to improve and to be attractive for international investors, not just those tracking MSCI or other indices.

It's both for regulators and market participants to keep that pressure on each other in order to make sure that the foreign investment continues to increase. For the region as a whole it's quite a powerful development that the UAE, Qatar, Saudi and Kuwait now have the attention of foreign asset managers.

Barnett: People have to be confident that the things they're investing in are what they think they're investing in. We should encourage more people to base themselves in the region to manage these assets. I wouldn't say there's necessarily a lack of transparency, but that transparency here is different. The lack of formal openness in reporting is greater. Transparency is there, but you have to go find it, to sit with people, and you have to understand the assets into which you might invest in a different way.

Marwah: Companies' increased foreign ownership limits were a signal to investors that they could become an active participant in how decisions are being made in the companies, that these companies want institutional shareholders to give their feedback to management. Hopefully, that will improve corporate governance and profitability.

From my interaction with international investors who are considering setting up here, the first question I'd get was about the kind of regulatory jurisdiction we're in. Take ADGM, for example. When it was new, people would ask me questions about the jurisdiction, I don't get those questions anymore, they accept it's a good jurisdiction.

The questions are now around the quality of the companies in which they might invest. It's much more incumbent on listed companies here to show they're responsive to minority shareholders and don't just listen to what the majority shareholder tells them to do.

Sillitoe: There are many international money managers who don't have people physically based in the region managing MENA money, whether it be equity or fixed income. Only a handful of companies, Aberdeen Standard Investments and Lazard and spring to mind, have PMs based here There are plenty in London and Boston who still manage money remotely, it would make a massive difference if IFCs in the Middle East offered incentives to make it more attractive for GCC/ MENA investment managers and analysts to move over.

Barnett: Perhaps there are some incentives that can reduce the resistance to change. It's a big ask for somebody to put a portfolio manager here in the region - there are a lot of associated risks and costs.

We've seen other financial centres worldwide deploy techniques to reduce that resistance to change. Singapore went from being a relatively quiet market at the end of the Asian financial crisis to a large asset wealth management centre today - they were smart about how they reduced the risks for people to get them to relocate. So, there are things the UAE and wider region can do.

Salomons: We've had now a number of years with no noteworthy IPOs to speak of. Although the DFSA has had discussions with some companies, but these have not progressed to the next stage. Not an unexpected development against the current low interest rate environment. However, for some of the family-owned companies or the large groups here the DIFC's listing regime would be an interesting way to start including external shareholders in their companies. On the flipside, the last 6 years has seen record volumes for debt capital raising through the DIFC and Sukuk admitted to NASDAQ Dubai, with now close to USD62 billion listed.

Marwah: We should colour our whole discussion with the fact that we're in an environment where emerging markets are not well liked. The overall capital allocation to emerging markets has been decreasing for the last 7-8 years, so that does impact the amount of money or the amount of interest you will see in our regional markets too.

We would all like them to grow, but the drivers for why money should come here on a global or regional macro basis is not there yet. We don't have the level of interest we had before the financial crisis or before the oil price slump in 2014/15.

Sillitoe: "It would make a massive difference if IFCs in the Middle East offered incentives to make it more attractive for GCC/ MENA investment managers and analysts to move over."

Nasdaq Dubai offers various derivatives contracts, while in February the bourse signed an agreement to launch derivatives on FTSE Russell's Saudi Arabia equity indices. Yet MENA markets remain predominantly long-only. What future do derivatives have in the GCC?

Salomons: I believe there are some great initiatives and platforms for derivatives trading and clearing in Dubai, which are not available elsewhere in the region. The platforms are world class. For example, the Dubai Mercantile Exchange (DME) trades a futures contract over its Oman crude oil benchmark A contract which has been widely accepted by market participants. The likes of Saudi, Bahrain, Oman and Dubai itself are now pricing part of their national oil deliveries against this benchmark. Nasdaq Dubai has launched its own Saudi single stock futures contract, which have gained some traction. It also offers trading in derivatives over the leading equities on the DFM (Dubai Financial Market) and ADX (Abu Dhabi Exchange). Outside of the DIFC, the DGCX (Dubai Gold and Commodity Exchange) has a successful, flagship contract for India Rupee-USDollar. Like the other DIFC trading platforms, it offers central counterparty clearing and provides access to remote members from the E.U.

Sillitoe: It would also help if media gave the local markets more exposure. There's hardly any coverage from international media and there isn't really any media within the GCC that focuses exclusively on these markets.

Marwah: That's true. When Nasdaq Dubai launched futures, we spoke to them about how the futures market would develop and what had enabled nascent futures markets in other countries to succeed.

A key factor was retail participation because futures provided retailer investors with an easy way to gain leverage. You'd see on television experts talking about how you should take positions using leverage, but we don't have that kind of promotion or interest from retail investors here. In mar-

Barnett: "If we can bring in more institutional investors to manage money here, if we can persuade local organisations, whether that's national champions, family businesses or whatever to fundraise on the markets, whether that's through IPOs or incremental fundraising, then we'll drive more activity in these markets"

kets like India, Korea there are large futures markets that are dominated by retail players because people can trade through their computer screens or mobiles and there's a huge amount of media coverage.

For an institutional player, volumes are so low that if I wanted to hedge a position, I'm hard pressed to find a counterparty. If I go to a bank, the bank will say, 'Why do you need to go to the futures market, I'll create a structured product for you that'll probably be cheaper and more efficient than your futures contract". How do you increase volumes in the futures market if institutional investors don't want to participate because they have better alternatives?

Barnett: We have collectively put the necessary infrastructures in place for derivatives trading, but ultimately you need two things - investable sums and investable assets. Without a growing depth of primary markets you're not going to get a growing depth of derivatives markets. Your market volume isn't going to increase substantially without new IPOs.

International markets tend to develop because of things like pension and insurance markets. You see some developments in that respect in the UAE, which will lead to more institutional rather than just private money in the market. That will expand the depth of primary markets and then derivatives will follow.

So, the infrastructure is in place, it just needs a kick-start to volumes?

BARNETT: DIFC and ADGM have been very good at creating infrastructure to allow these things to grow, whether that's regulations or market platforms. If we can bring in more institutional investors to manage money here, if we can persuade local organisations, whether that's national champions, family businesses or whatever to fundraise on the markets, whether that's through IPOs or incremental fundraising, then we'll drive more activity in these markets.

DFSA has agreed a passporting regime of funds in cooperation with the onshore market regulator and ADGM to provide seamless access to all three UAE stock markets through a single registration. How much of a gamechanger could these reforms be?

Salomons: The purpose of the passporting regime was to give more clarity to fund managers as to what they can offer across jurisdictional borders. DFSA has had some requests, but it hasn't necessarily been a rush through the door to be registered. We have however seen very strong growth in the licensing of DIFC collective investment funds in general including foreign funds distributed in the DIFC and private funds. In terms of ETF distribution, we have the likes of Blackrock and others active in the DIFC, distributing their funds.

Barnett: We don't yet see a lot of uptake on fund passporting, but it's a positive development. We need to give people more regulatory certainty. This is a way of formalising and clarifying the rules and making sure people understand it's possible to take a prospectus from one place and distribute it in the rest of the UAE.

If we're able to expand this to cover the GCC so that we have the equivalent of what you see across the European Union, you will make the markets much bigger, you will make the number of assets you can bring into an ETF much bigger. Then you'll get deeper markets.

If you've an ETF where a small number of major companies have such large weightings, why not just hold the stocks directly? There's not a massive amount of incremental value in creating a local ETF. If you connect the markets in a better way, you've more opportunity for these products to grow and flourish.

Marwah: Foreign fund managers tell us "We find there is much more traction among local investors if we have a product based here", and they're interested in creating regional products that are domiciled here and which follow exactly the same strategies as funds elsewhere but are specifically catered to the sensibilities of local investors.

Within our business we see a trend for these products to gain traction. What we need for further growth is for the distribution channels like banks and other wealth managers to also understand that these jurisdictions are in no way inferior to developed markets.

There's a great opportunity for funds to be domiciled here and distributed within the region. It may require some more coordination between all the jurisdictions like we're seeing with the passporting regime, maybe GCC-wide, but I see potential for UAE to become a great funds jurisdiction.

Salomons: How domestic is the UAE market in reality? Expats make up a vast majority of the population living here and few hold assets here – they prefer to move assets to their home countries. There are some local high net worth individuals that are sizable, but is really a market ready for its own ETFs? If people would increasingly decide to keep assets such as pensions here, over time that will create the comfort that jurisdiction-wise, this is for everybody regardless of where you come from. That transition will take time and initiatives like the DIFC's changes to the end of services gratuity regime could expedite those changes.

Barnett: Two things can improve the situation. One is the visa changes that now enable residents to remain longer in the UAE - in the past if you were only able to stay until the end of your employment contract, you would manage your money outside the region.

Another big development is changes to the way in which people and companies manage end-of-service benefits, which will help improve the scale and liquidity of institutional investment in the market.

Marwah: "Even though there's been a lot of noise about how dominant passive investment has become, its dominance is likely to increase because most investors are better off buying indices or passive products than daily trading their investments."

Sillitoe: As announced the other month the DIFC will be introducing an Employee Workplace scheme during January 2020. All employees working within this freezone, unless a comparable scheme is in existence, will move in to this ringfenced scheme, which has several external partners, such as Zurich Middle East and Mercer.

I believe the DIFC is looking to have local funds added to this platform, which might give a much-needed boost for the local asset management industry. In time I expect other freezones will follow the DIFC initiative, which can only be good news for the industry as a whole as it means that the much debated gratuity reforms will finally happen!

Fintech firms claim their proprietary technology provides unparalleled, near-instant research insights and analysis across a variety of asset classes. In the long term, will active fund managers still provide investors with a competitive edge or will algorithms ultimately prevail?

Marwah: Even though there's been a lot of noise about how dominant passive investment has become, its dominance is likely to increase because most investors are better off buying indices or passive products than daily trading their investments.

Active investing will have its place, but it will be a much more reduced form and fashion, and that's how it should be. It's very hard to generate alpha consistently by active investing.

With differing transparency standards in the Middle East, does that give active managers an advantage?

Marwah: Definitely, and that's why if you want to invest money in the Middle East you should be based here. In our portfolios, the bonds we hold are perceived differently within the region than outside of it. There are many examples of investors from outside selling a bond or stock due to a minor bit of macro news without understanding what the implications of that news is, or if it's even applicable to that asset.

How we understand the management

of a company domestically is very different to how investors based hundreds or thousands of kilometres away would. They don't have the regular contact with management that we do. Is this going to last? I'm not sure, but for now there's an advantage in being on the ground here and generating alpha.

How will FinTech change the regional asset management sector?

Salomons: There are a wide variety of new business models being explored in the DIFC's Hive and the DFSA's Innovative Testing Licence (ITL) framework. The first robo-advisor has entered the DIFC, but we have also seen business models using tokenization of securities or disintermediated custody services.

Marwah: To me the essence FinTech is two-fold. What FinTech should do is make financial transactions easily accessible to the general public. The second purpose is to reduce transaction costs. So, if any technology applied to financial markets meets these two objectives it will be successful.

Sukuk issuance in the first half of 2019 increased by more than one-third. What's investor demand like for sukuk?

Marwah: We're working on a global Sukuk fund in partnership with another asset manager, so yes there's demand but regionally there's a lack of product. We have one fund, but there is not much else out there. Our clients want to invest in sukuks, especially those specifically focused on investing in sharia-compliant products. In our business plan we aim to become fully sharia-compliant this year.

Barnett: A couple of years ago, we saw a dip in non-public sector Sukuk issuance, the public sector stayed strong and to some extent filled the gap. But there were a couple of disputes over the qualifying nature of the assets underlying the product and that damaged the market for private sector issuance.

We're seeing some of that coming back now, with some creative structures for things like asset financing, aircraft financing. People have more confidence in public sector sukuk because there's less contention over whether a sukuk can be challenged. In the private sector the lack of standard documentation remains a constraint

Issuing a bond takes much less time than it does to issue a Sukuk, is that a deterrent from more local corporates or major family offices?

Salomons: The Ijari structure is used frequently - any of the leading law firms will provide you with the structure, incorporation and disclosure documents relatively quickly, so there's no reason why a standard Islamic finance product or Sukuk should take longer than a conventional one. On the supply side there is definitely a wider variety of issuers coming to market.

Abu Dhabi's government has successfully consolidated the emirate's banking industry, strengthening its financial sector. Various other bank mergers are either mooted or in progress. How much more consolidation is likely in the Gulf financial services industry?

Sillitoe: It's inevitable when you consider there are around 30 local UAE banks, compared to, for example, just four in Australia.

Most local banks have been slow to embrace Fintech, hence they are probably the most vulnerable when the consolidation gathers momentum.

Salomons: And the point could be equally made for other financial services, like brokers or trading platforms. The UAE is serviced by at least 40 securities brokers, so one could imagine a case for consolidation in that industry as well. For trading platforms, we have 5 platforms with even more platforms on the horizon. In absence of a regulatory risk, this is ultimately a call for the shareholders of the market operators to male. ■

ISF Survey 2019

The International Securities Finance survey 2019 monitors how the world's top securities lenders and borrowers rate each other across different asset classes, regions and functions. The main body of the study covers equities lending and borrowing, breaking the constituent companies down into two groups, with group one (G1) comprising the 15 largest players and group two (G2) representing mid-tier financing firms. The survey also covers fixed income lending as well as technology vendors and data firms.

The survey publishes the leading six firms based on their counterparties' rankings across the different categories so the entire lists are not included.

The survey includes both weighted and unweighted scores. Weighted scores take into account the importance that the individual respondents give to that particular category while the unweighted scores are based on each category being given equal importance.

BNY Mellon took the top spot in the group one equity lenders table, as well as in the fixed income lending rankings. Candriam came out on top among group two equity lenders, climbing up four places over 2018 in the global weighted and unweighted tables.

2019 has seen UBS take the lead in the global group one borrowers table. Scotiabank retained first place in the unweighted global table for group two borrowers, while Natixis moved to the top of the weighted table.

EquiLend and Pirum Systems were among the firms recognised in this year's technology vendor tables. ■

LIFETIME ACHIEVEMENT AWARD:

Roy Zimmerhansl

Roy Zimmerhansl is a recognised expert in securities finance and collateral management with a strong custody and clearing background. Roy has a track record of success, leading businesses at agent banks, in prime brokerage, collateral trading and fintech, both in start-up mode and revitalising stale enterprises.

Roy believes that education is critical to progress in securities finance and has led both in-house and open training sessions in 15 cities around the world. He regularly appears as conference chair, moderator or panellist in North America, Europe, and Asia.

He has been vice-chair of the International Securities Lending Association, a director of the Pan Asia Securities Lending Association, a member of the Bank of England's Securities Lending and Repo Committee and has acted as expert witness in securities finance legal cases in both the USA and UK.

Roy has worked for Nomura, Rabobank, Deutsche Bank, and ICAP during his career. From 2013-2018 he was global head of securities lending at HSBC Securities Services. ■

G1 EQUITY LENDERS

BNY MELLON:

The New York-based group improved on last year's solid performance where it finished second in most of the top group one equity lenders main categories by taking top spot in the global weighted and unweighted categories. BNY Mellon also dramatically improved its score to 973.92 in the unweighted list compared to 784.17 last year, and to 812.96 in the weighted category in 2019 from 651.25 last year.

BNY Mellon came top in the Americas weighted category, improving on last year's second place by leap-frogging State Street. The firm came second to State Street in the Americas unweighted group and improved its score on last year.

BNY Mellon was also top-rated in both EMEA weighted and unweighted categories, improving on last year's second in the unweighted list and third in the weighted list.

In Asia Pacific, BNY Mellon maintained last year's third positions in both categories and managed to increase its scores to 190.17 in the unweighted list and 153.02 in the weighted group.

STATE STREET:

State Street improved on last year's scores in both the unweighted and weighted sections increasing its total to 938 in the unweighted list from 800.33 last year, and to 790.53 in the weighted group from 675.33 last year.

The US group came top in the Americas unweighted category, beating BNY Mellon into second place while increasing its score to 455.17 from 433.17 in 2018. State Street was second in the Americas weighted group and increased its score slightly to 379.50.

State Street was second in both categories in EMEA, increasing its score in both lists and moving up one place in the unweighted group. The firm also demonstrated solid performance in Asia Pacific where it retained last year's second places in both groups, and increased its scores to 213.17 in the unweighted group and to 179.4 in the weighted table.

CITI:

Citi consolidated on last year's performance by coming third overall in the weighted and unweighted categories, the same results as last year. The US banking giant improved its scores from last year, to 693.33 in the unweighted list from 613.75 last year, and to 590.07 this year compared with 521.31 in 2018 (weighted).

In the Americas, Citi was fourth in the unweighted list, which was the same result as last year though the firm did increase its individual score. In the Americas weighted list, Citi increased one position to fourth after boosting its score to 162.57 from 129.98 last year.

Citi maintained its dominance in Asia Pacific, reflecting its hegemony in 2018. The firm came top in both categories this year with an unweighted score of 239.33 and a weighted total of 203.94.

Citi did well in the group one lenders rated by group one borrowers category, finishing third behind State Street and BNY Mellon in both the weighted and unweighted categories.

The US firm improved its scores in this section, to 490 from 390.83 in the unweighted section last year, and to 418.22 from 334.60 in the weighted group last year.

G1 LENDERS
Most Innovative
BNY Mellon

LENDERS
One to Watch
CACEIS

> RBC Investor & Treasury Services improved its rankings in Asia Pacific.

RBC INVESTOR & TREASURY SERVICES:

The Canadian banking group returned better scores than last year. RBC Investor & Treasury Services came fourth in the global unweighted list with a score of 588.17 compared with 473 last year, and fourth in the weighted category with 480.56 versus 389.74 in 2018.

RBC Investor & Treasury Services came third in the Americas across both lists with 265.67 in the unweighted list, compared with 196.67 last year, and third in the weighted group, with 214.96 versus 162.2 in 2018.

RBC's custody unit was again fifth in EMEA and improved its totals in both the unweighted and weighted categories.

RBC Investor & Treasury Services improved its rankings in Asia Pacific where it came fourth this year, up from sixth last year. The Canadian custodian increased its score in the Asia-Pacific unweighted group to 107.83, up from 86.42 last year, and to 85.77 in the weighted table from 73.29 last year.

UBS SWITZERLAND:

The Swiss arm of the banking group also performed consistently with last year. UBS Switzerland came fifth overall in the unweighted and weighted categories, increasing its scores in both lists. UBS was fourth in EMEA and fifth in Asia Pacific across the weighted and unweighted groups which was consistent with last year.

The Swiss business was fifth overall among group one lenders being scored by group one borrowers, increasing its score in the unweighted list to 302.33 from 235.83 last year, and to 246.06 in the weighted list from 195.51 last year.

BLACKROCK:

The US asset management giant came sixth in the overall unweighted and weighted lists which was consistent with last year, as its scores fell slightly in both groups.

BlackRock slipped a place to sixth in the Americas unweighted list and two places to sixth in the weighted category after Citi and JP Morgan made ground. BlackRock came sixth in the Americas weighted table of group one lenders as rated by group one borrowers, emulating its score last year. The firm was also sixth in the Americas when ranked by group two borrowers.

JP MORGAN:

The US banking group came fifth in the Americas across both measures, which was an improvement on last year when it failed to make the top six. JP Morgan scored 133.17 in the weighted category and 109.34 in the unweighted list.

JP Morgan was ranked sixth among global group one lenders as ranked by group two borrowers. The firm did particularly well in the Americas where it was ranked fourth by group two borrowers.

BNP PARIBAS SECURITIES SERVICES:

The French custody provider came sixth in the unweighted and weighted categories in EMEA with scores of 136.83 and 112.44 respectively. This represents an improvement on last year when BNP Paribas Securities Services failed to make the top six.

HSBC SECURITIES SERVICES:

HSBC's custody division came sixth in the Asia-Pacific unweighted and weighted categories with scores of 85.33 and 71.06 respectively. These were down on last year's Asian unweighted and weighted totals of 112.5 and 95.64, which saw HSBC Securities Services rank fourth in Asia.

HSBC Securities Services also came fifth in Asia Pacific among group one lenders ranked by group two borrowers, which was an improvement on its performance in this section last year.

G1 LENDERS: GLOBAL — UNWEIGHTED

Rank		Score
1	BNY Mellon	973.92
2	State Street	938.00
3	Citi	693.33
4	RBC Investor & Treasury Services	588.17
5	UBS Switzerland	454.83
6	BlackRock	300.50

G1 LENDERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	812.96
2	State Street	790.53
3	Citi	590.07
4	RBC Investor & Treasury Services	480.56
5	UBS Switzerland	371.81
6	BlackRock	262.20

G1 LENDERS: AMERICAS — UNWEIGHTED

Rank		Score
1	State Street	455.17
2	BNY Mellon	447.83
3	RBC Investor & Treasury Services	265.67
4	Citi	192.17
5	JPMorgan	133.17
6	BlackRock	118.33

G1 LENDERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	381.24
2	State Street	379.50
3	RBC Investor & Treasury Services	214.96
4	Citi	162.57
5	JPMorgan	109.34
6	BlackRock	104.24

G1 LENDERS: EMEA — UNWEIGHTED

Rank		Score
1	BNY Mellon	335.92
2	State Street	269.67
3	Citi	261.83
4	UBS Switzerland	246.33
5	RBC Investor & Treasury Services	214.67
6	BNP Paribas Securities Services	136.83

G1 LENDERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	278.70
2	State Street	231.64
3	Citi	223.55
4	UBS Switzerland	200.50
5	RBC Investor & Treasury Services	179.83
6	BNP Paribas Securities Services	112.44

G1 LENDERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Citi	239.33
2	State Street	213.17
3	BNY Mellon	190.17
4	RBC Investor & Treasury Services	107.83
5	UBS Switzerland	101.67
6	HSBC Securities Services	85.33

G1 LENDERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Citi	203.94
2	State Street	179.40
3	BNY Mellon	153.02
4	RBC Investor & Treasury Services	85.77
5	UBS Switzerland	83.50
6	HSBC Securities Services	71.06

G1 LENDERS RATED BY G1 BORROWERS: GLOBAL — UNWEIGHTED

Rank		Score
1	State Street	681.17
2	BNY Mellon	672.33
3	Citi	490.00
4	RBC Investor & Treasury Services	352.00
5	UBS Switzerland	302.33
6	Brown Brothers Harriman	222.67

G1 LENDERS RATED BY G1 BORROWERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	State Street	573.51
2	BNY Mellon	560.36
3	Citi	418.22
4	RBC Investor & Treasury Services	287.58
5	UBS Switzerland	246.06
6	Brown Brothers Harriman	189.30

G1 LENDERS RATED BY G1 BORROWERS: AMERICAS — UNWEIGHTED

Rank		Score
1	State Street	338.67
2	BNY Mellon	315.67
3	RBC Investor & Treasury Services	195.00
4	Citi	136.00
5	UBS Switzerland	95.00
6	eSecLending	73.00

G1 LENDERS RATED BY G1 BORROWERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	State Street	281.38
2	BNY Mellon	268.94
3	RBC Investor & Treasury Services	159.35
4	Citi	115.38
5	UBS Switzerland	77.63
6	BlackRock	65.13

G1 EQUITY LENDERS

G1 LENDERS RATED BY G1 BORROWERS: EMEA — UNWEIGHTED

Rank		Score
1	BNY Mellon	222.33
2	State Street	194.00
3	Citi	187.33
4	UBS Switzerland	145.00
5	RBC Investor & Treasury Services	104.67
6	Brown Brothers Harriman	74.33

G1 LENDERS RATED BY G1 BORROWERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	183.55
2	State Street	166.42
3	Citi	160.67
4	UBS Switzerland	117.84
5	RBC Investor & Treasury Services	87.69
6	Brown Brothers Harriman	64.22

G1 LENDERS RATED BY G1 BORROWERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Citi	166.67
2	State Street	148.50
3	BNY Mellon	134.33
4	Brown Brothers Harriman	81.00
5	UBS Switzerland	62.33
6	RBC Investor & Treasury Services	52.33

G1 LENDERS RATED BY G1 BORROWERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Citi	142.17
2	State Street	125.71
3	BNY Mellon	107.87
4	Brown Brothers Harriman	70.80
5	UBS Switzerland	50.59
6	eSecLending	42.88

G1 LENDERS RATED BY G2 BORROWERS: GLOBAL — UNWEIGHTED

Rank		Score
1	BNY Mellon	301.58
2	State Street	256.83
3	RBC Investor & Treasury Services	236.17
4	Citi	203.33
5	UBS Switzerland	152.50
6	JPMorgan	141.83

G1 LENDERS RATED BY G2 BORROWERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	252.60
2	State Street	217.02
3	RBC Investor & Treasury Services	192.98
4	Citi	171.85
5	UBS Switzerland	125.74
6	JPMorgan	120.51

G1 LENDERS RATED BY G2 BORROWERS: AMERICAS — UNWEIGHTED

Rank		Score
1	BNY Mellon	132.17
2	State Street	116.50
3	RBC Investor & Treasury Services	70.67
4	JPMorgan	63.50
5	Citi	56.17
6	BlackRock	45.67

G1 LENDERS RATED BY G2 BORROWERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	112.30
2	State Street	98.12
3	RBC Investor & Treasury Services	55.61
4	JPMorgan	53.23
5	Citi	47.19
6	BlackRock	39.11

G1 LENDERS RATED BY G2 BORROWERS: EMEA — UNWEIGHTED

Rank		Score
1	BNY Mellon	113.58
2	RBC Investor & Treasury Services	110.00
3	UBS Switzerland	101.33
4	State Street	75.67
5	Citi	74.50
6	Credit Suisse Zurich	73.83

G1 LENDERS RATED BY G2 BORROWERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	95.15
2	RBC Investor & Treasury Services	92.14
3	UBS Switzerland	82.66
4	State Street	65.22
5	Citi	62.88
6	Credit Suisse Zurich	60.52

G1 LENDERS RATED BY G2 BORROWERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Citi	72.67
2	State Street	64.67
3	BNY Mellon	55.83
4	RBC Investor & Treasury Services	55.50
5	HSBC Securities Services	41.67
6	UBS Switzerland	39.33

G1 LENDERS RATED BY G2 BORROWERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Citi	61.78
2	State Street	53.69
3	RBC Investor & Treasury Services	45.22
4	BNY Mellon	45.15
5	HSBC Securities Services	34.39
6	UBS Switzerland	32.91

The US bank improved its scores on last year with sixth place in both the unweighted and weighted categories.

BROWN BROTHERS HARRIMAN:

The US bank improved its scores on last year with sixth place in both the unweighted and weighted categories of the group one lenders ranked by group one borrowers section. BBH scored 222.67 in the unweighted category and 189.3 in the weighted category.

BBH also came sixth in group one lenders rated by group one borrowers in EMEA with an unweighted score of 74.33 and a weighted score of 64.22. The firm did not make the top six last year.

Brown Brothers Harriman also came fourth in the group one lenders scored by group one borrowers for Asia, which was an improvement on last year's sixth place.

ESECLENDING:

eSecLending came sixth in the unweighted table of group one lenders rated by group one borrowers with a score of 73. The firm did not make the top six in that category last year. The lending specialist also came sixth in the weighted category of the group one lenders rated by group one borrowers in Asia Pacific with a score of 42.88.

CREDIT SUISSE ZURICH:

The Swiss-based division of the investment bank came sixth in the section that monitors group one lenders being ranked by group two borrowers in EMEA with 73.83 in the unweighted list and 60.52 in the weighted table. This is an improvement on last year when Credit Suisse failed to make the top six in this group.

Leveraging new initiatives and innovation in securities finance

Bill Kelly, Global Head of Agency Securities Finance at BNY Mellon Markets, explains how a challenging year for securities lending has seen the company focus its energies into creating new distribution channels while improving operational efficiencies for clients.

How has the last 12 months been for the securities finance market?

Securities lending has generally underperformed in 2019 due to a number of factors. These include falling interest rates which have made the investment landscape tougher for investors looking for yield, while lower spreads have made for a very challenging environment. Demand for securities with high intrinsic value has been dramatically depressed, probably to historic lows, coupled with an increase in supply as managers expand their lending participation in order to seek alpha.

This downturn follows 2018, which, despite being probably the strongest year for securities lending since the financial crisis, proved to be a tale of two halves. The first six months of the year were particularly strong in fixed income, but the second half was characterized by lower spreads, contributing to poorer earnings, setting the scene for 2019 which has continued on this lower trajectory.

Two green shoots this year have come in the form of lucrative exchange trades in the securities of Eli Lilly, the US American pharmaceutical company and Coty, the beauty and cosmetics business. In addition, activity has been buoyed by a strong pipeline of IPOs during the second quarter, which has included Beyond Meat, Lyft, Uber and new listings in the healthcare sector. But these have been isolated examples and have been unable to buck the trend of a poor year so far.

While volatility has ticked up somewhat in recent weeks, three things preoccupy markets currently. The first is Brexit, with most participants impatient for things to be concluded as quickly as possible. The second is the continuing ebb and flow of the current trade war between the US and China. The third is the beginning of a return to more accommodative monetary policy from central banks, which in the midterm should support risk assets and allow markets to climb a little higher, providing some volatility along the way. Currently, however, demand remains muted due to a lack of conviction in the deployment of capital.

What new routes to market have repo participants seen in the last year?

Two new clearing initiatives have become available to beneficial owners recently, providing new distribution channels and the potential for improved trade economics for both beneficial owners and borrowers.

The first is sponsored cleared repo at FICC, the central counterparty. Recently introduced regulations have reduced the availability of dealer balance sheets, driving up costs for bilateral repos and constraining overall capacity in the marketplace.

We have focused considerable efforts, therefore, to facilitate the most efficient use of what are increasingly limited financial resources for both borrowers and lenders.

Centrally clearing repo trades at FICC has been

“We have focused considerable efforts, therefore, to facilitate the most efficient use of what are increasingly limited financial resources for both borrowers and lenders.”

> "Both BNY Mellon and the industry have focused their efforts in recent years on improving the technology underpinning both the repo and securities finance markets."

a valuable avenue to ameliorate these constraints, helping to increase capacity in the repo market.

The benefit of this initiative has been amply demonstrated by steadily climbing cleared balances this year, as clients have embraced cleared repo through BNY Mellon's Sponsored Repo program. The swift uptake is unsurprising, given that the program improves the management of a scarce resource, by bringing together those with high quality collateral on the one hand and those with cash on the other, in a highly efficient fashion.

The popularity of the new program represents the strongest indication yet that cleared repo transactions are a practical and appealing solution for participants on both sides of the trade.

Have there been developments in central clearing for securities lending transactions?

Yes. The market has been seeking a cleared securities lending model that works for the buy side for some time – especially one that allows buy-side firms to clear trades through their agent lender.

In June, BNY Mellon became the first agent lender to centrally clear a securities lending transaction on behalf of a buy-side client through Eurex Clearing's Lending CCP platform. The trade originally faced Morgan Stanley as counterparty, and ultimately cleared with Eurex.

This is a major new distribution channel for clients, offering operational efficiencies and potentially improved trade pricing. We are the first to bring such a solution to market and it means that our clients can now capitalize on growing market demand to undertake securities finance within a centrally cleared environment, without the obligations and responsibilities they would face with traditional clearing house membership.

With this solution borrowers are becoming increasingly focused on the capital treatment of lending clients. Clearing provides benefits to clients who may be disadvantaged by their capital treatment.

It is an important precedent and it has created a groundswell of interest from both borrowers and asset owners. If the solution is to grow quickly, however, we need to ease the path to its wider adoption by clients and agents, which, as an example, means focusing on making the documentation more streamlined. Devoting time and effort to this area will be crucial if the industry is to harvest the full benefits in terms of scale and liquidity. But with the precedent now set, this is an exciting development.

What progress is your company and the industry more widely making in applying technology to securities lending?

Both BNY Mellon and the industry have focused their efforts in recent years on improving the technology underpinning both the repo and securities finance markets. The industry is ripe for the full application of technology: as the largest agent lender we see this potential clearly and have made a considerable move this year with the purchase of the agency securities finance software and associated intellectual property of Trading Apps.

While we've been a multi-year user of this technology which has allowed our agency lending program to achieve better pricing by feeding multiple sources of price inputs and other market information into a smart algorithm, providing the speed and responsiveness needed to handle high volumes of activity, and allowing prices to adjust more quickly to changes in demand in the market for securities, we look forward to the opportunity to accelerate our continued advancement in this area.

It has also provided us with an exclusive advantage to build on a vendor relationship that will ease our engagement with borrowers. In addition, it's our expectation that asset owners will benefit from our growing market share in terms of lending, which increases their lending opportunities.

What future progress in this area can participants expect?

I anticipate that the industry will see greater automation across the lifecycle of securities finance in the coming years as machine learning and smart automation – sophisticated technologies whose potential is still hard to evaluate – are increasingly brought to bear.

There remain huge inefficiencies in this process, including around reconciliation, dividends, interest and corporate actions. Progress leveraging new automation, alternative channels and new conventions will reduce expense, minimize operational risk and, in turn, mitigate financial risk. The willingness on the part of the industry is certainly now in place: by and large we all understand the importance of moving forward from what has been a voice-brokered and email mediated OTC market to better keep pace with the progress seen in other sectors. Clearly the more you automate, the more you release traders from dealing with lower volume, lower value cases to concentrate on exceptions and higher value cases. ■


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G2 EQUITY LENDERS

CANDRIAM:

Candriam reached the top spot in this year's global tables, up from fifth place in 2018. It saw its unweighted global score improve from 266.67 in 2018 to 320.08 in 2019. As in 2018, Candriam was first when rated by group one borrowers globally.

Candriam was particularly strong in Asia Pacific, ranking in first place this year after failing to make the top six in 2018. It was also rated top in this region by group one borrowers.

Group one borrowers also ranked the firm highly in EMEA and the Americas, where it took second place across the weighted and unweighted categories.

NATIXIS:

Natixis was selected as the top lender both globally and in EMEA by group two borrowers. This year it moved up from fourth to third place in the Americas when rated by group two borrowers.

In the overall tables, Natixis came in second globally and in EMEA on both a weighted and unweighted basis. Group one borrowers placed it in the top three globally.

BMO GLOBAL ASSET MANAGEMENT:

BMO Global Asset Management was the winner in the Americas this year, up from second place in in 2018. Both group one and group two borrowers placed it top of the tables for this region.

The firm performed well in Asia Pacific, ranking fifth overall and when rated by group one borrowers alone.

Globally, BMO Asset Management was ranked fifth in the overall tables, both weighted and unweighted.

G2 LENDERS

Most Innovative

BNP Paribas Securities Services Principal Lending

G2 LENDERS: GLOBAL — UNWEIGHTED

Rank		Score
1	Candriam	320.08
2	Natixis	309.50
3	Amundi	283.67
4	Sumitomo Mitsui	256.33
5	BMO Global Asset Management	230.33
6	Nordea	220.83

G2 LENDERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	Candriam	270.02
2	Natixis	258.46
3	Amundi	240.24
4	Sumitomo Mitsui	213.13
5	BMO Global Asset Management	194.03
6	CACEIS Bank	184.72

G2 LENDERS: AMERICAS — UNWEIGHTED

Rank		Score
1	BMO Global Asset Management	160.00
2	Sumitomo Mitsui	75.50
3	National Bank Financial	63.67
4	Mitsubishi UFJ Trust Int	44.00
5	BNP Paribas Sec Services Principal Lending	43.00
6	Candriam	42.00

G2 LENDERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	BMO Global Asset Management	134.43
2	Sumitomo Mitsui	61.64
3	National Bank Financial	55.87
4	Mitsubishi UFJ Trust Int	37.64
5	BNP Paribas Sec Services Principal Lending	36.77
6	Candriam	34.93

G2 LENDERS: EMEA — UNWEIGHTED

Rank		Score
1	Amundi	262.67
2	Natixis	248.00
3	Nordea	190.83
4	CACEIS Bank	181.83
5	Candriam	176.08
6	Aviva	147.42

G2 LENDERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	Amundi	222.78
2	Natixis	206.87
3	Nordea	156.60
4	CACEIS Bank	154.29
5	Candriam	150.26
6	Aviva	120.56

G2 LENDERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Candriam	102.00
2	Sumitomo Mitsui	67.00
3	Mitsubishi UFJ Trust Int	65.00
4	BNP Paribas Sec Services Principal Lending	50.83
5	BMO Global Asset Management	37.67
6	CACEIS Bank	37.00

G2 LENDERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Candriam	84.83
2	Mitsubishi UFJ Trust Int	56.45
3	Sumitomo Mitsui	55.38
4	BNP Paribas Sec Services Principal Lending	43.63
5	BMO Global Asset Management	31.39
6	CACEIS Bank	30.43

G2 LENDERS RATED BY G1 BORROWERS: GLOBAL — UNWEIGHTED

Rank		Score
1	Candriam	270.00
2	Amundi	178.00
3	Natixis	160.83
4	Nordea	155.67
5	BNP Paribas Sec Services Principal Lending	145.67
6	Sumitomo Mitsui	135.00

G2 LENDERS RATED BY G1 BORROWERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	Candriam	227.52
2	Amundi	151.31
3	Natixis	135.09
4	Nordea	128.98
5	BNP Paribas Sec Services Principal Lending	122.65
6	Sumitomo Mitsui	110.39

G2 LENDERS RATED BY G1 BORROWERS: AMERICAS — UNWEIGHTED

Rank		Score
1	BMO Global Asset Management	91.00
2	Candriam	42.00
3	BNP Paribas Sec Services Principal Lending	36.00
4	National Bank Financial	35.00
5 =	Mitsubishi UFJ Trust Int	30.00
5 =	Sumitomo Mitsui	30.00

G2 LENDERS RATED BY G1 BORROWERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	BMO Global Asset Management	77.39
2	Candriam	34.93
3	National Bank Financial	31.50
4	BNP Paribas Sec Services Principal Lending	29.94
5	Mitsubishi UFJ Trust Int	27.00
6	Zurcher Kantonalbank	24.95

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- Meet regulatory and market requirements

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G2 EQUITY LENDERS

G2 LENDERS RATED BY G1 BORROWERS: EMEA — UNWEIGHTED

Rank		Score
1	Amundi	178.00
2	Candriam	144.00
3	Natixis	136.83
4	Nordea	125.67
5	CACEIS Bank	85.00
6	Aviva	80.00

G2 LENDERS RATED BY G1 BORROWERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	Amundi	151.31
2	Candriam	122.73
3	Natixis	115.13
4	Nordea	104.03
5	CACEIS Bank	73.52
6	Aviva	65.52

G2 LENDERS RATED BY G1 BORROWERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Candriam	84.00
2	Sumitomo Mitsui	67.00
3	Mitsubishi UFJ Trust Int	65.00
4	BNP Paribas Sec Services Principal Lending	40.33
5	BMO Global Asset Management	37.67
6	CACEIS Bank	37.00

G2 LENDERS RATED BY G1 BORROWERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Candriam	69.86
2	Mitsubishi UFJ Trust Int	56.45
3	Sumitomo Mitsui	55.38
4	BNP Paribas Sec Services Principal Lending	33.48
5	BMO Global Asset Management	31.39
6	CACEIS Bank	30.43

G2 LENDERS RATED BY G2 BORROWERS: GLOBAL — UNWEIGHTED

Rank		Score
1	Natixis	148.67
2	Sumitomo Mitsui	121.33
3	Amundi	105.67
4	Societe Generale Agency Lending	101.42
5	BMO Global Asset Management	100.00
6	CACEIS Bank	96.83

G2 LENDERS RATED BY G2 BORROWERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	Natixis	123.38
2	Sumitomo Mitsui	102.74
3	Amundi	88.93
4	Societe Generale Agency Lending	84.92
5	BMO Global Asset Management	84.44
6	CACEIS Bank	80.77

G2 LENDERS RATED BY G2 BORROWERS: AMERICAS — UNWEIGHTED

Rank		Score
1	BMO Global Asset Management	69.00
2	Sumitomo Mitsui	45.50
3	Natixis	37.50
4	National Bank Financial	28.67
5	NBC Global Finance	18.83
6	Mitsubishi UFJ Trust Int	14.00

G2 LENDERS RATED BY G2 BORROWERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	BMO Global Asset Management	57.04
2	Sumitomo Mitsui	39.44
3	Natixis	31.63
4	National Bank Financial	24.37
5	NBC Global Finance	15.38
6	Mitsubishi UFJ Trust Int	10.64

G2 LENDERS RATED BY G2 BORROWERS: EMEA — UNWEIGHTED

Rank		Score
1	Natixis	111.17
2	CACEIS Bank	96.83
3	Amundi	84.67
4	Sumitomo Mitsui	75.83
5	Societe Generale Agency Lending	74.42
6	Aviva	67.42

G2 LENDERS RATED BY G2 BORROWERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	Natixis	91.75
2	CACEIS Bank	80.77
3	Amundi	71.47
4	Sumitomo Mitsui	63.29
5	Societe Generale Agency Lending	62.24
6	Aviva	55.04

G2 LENDERS RATED BY G2 BORROWERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Amundi	21.00
2	Candriam	18.00
3	Societe Generale Agency Lending	15.00
4	BNP Paribas Sec Services Principal Lending	10.50

G2 LENDERS RATED BY G2 BORROWERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Amundi	17.46
2	Candriam	14.97
3	Societe Generale Agency Lending	12.47
4	BNP Paribas Sec Services Principal Lending	10.15

G2 LENDERS

Most Improved

BMO Global Asset Management

NATIONAL BANK FINANCIAL:

National Bank Financial made the top six again this year in the Americas. In the 2019 tables, it came third in the overall weighted and unweighted categories. It also achieved this spot in the Americas weighted category when ranked by group one borrowers.

Among group two borrowers, National Bank Financial was placed fourth in the Americas region.

CACEIS BANK:

CACEIS jumped from fifth position in the EMEA tables in 2018 to fourth this year, bettering last year's scores in both the weighted and unweighted categories. When ranked by group two borrowers alone, it achieved second place in this region.

Group one borrowers placed the bank in the top six for EMEA and Asia Pacific. In the overall global tables, it came sixth in the weighted category.

CACEIS was also named the 'one to watch lender 2019'.

AMUNDI:

Amundi rose up to take first place in EMEA, moving to the top spot for the weighted and unweighted categories.

In the global tables, it ranked third overall, second among group one borrowers, and third among group two borrowers.

For group two borrowers, Amundi was seen as the top group two lender for Asia Pacific.

> Amundi rose up to take first place in EMEA, moving to the top spot for the weighted and unweighted categories.

NORDEA:

Nordea made the list of top six group two lenders this year, ranking in sixth place in the unweighted category.

It did well in EMEA, coming in third place overall, and ranked fourth by group one borrowers.

Among group one borrowers, Nordea rose from sixth place in the global weighted category in 2018 to fourth place in 2019.

SUMITOMO MITSUI:

Sumitomo Mitsui broke into the top six global table this year to claim fourth place. It also demonstrated a strong performance in Asia Pacific and the Americas, where it was ranked in third and second place, respectively.

Group two borrowers catapulted Sumitomo Mutsui from fourth place globally in 2018 to second place, weighted and unweighted, this year.

MITSUBISHI UFJ TRUST INTERNATIONAL:

Mitsubishi UFJ Trust International achieved fourth place in the Americas overall. In Asia Pacific, group one lenders rated the firm in second place in a weighted basis, and in third place on an unweighted basis.

As in 2019, group two borrowers ranked Mitsubishi UFJ Trust International in sixth place in the Americas.

BNP PARIBAS SECURITIES SERVICES PRINCIPAL LENDING:

BNP Paribas Securities Services Principal Lending came fifth in the Americas and fourth in Asia Pacific after failing to reach the top six in 2018.

It was highly rated among group one borrowers, taking fifth place in the global tables and third (unweighted) in the Americas.

BNP Paribas Securities Services Principal Lending won the most innovative lender category among group two lenders.

AVIVA:

Aviva reached sixth place in EMEA in both the weighted and unweighted categories overall.

Although it did not place in the top six for EMEA when rated by group one borrowers last year, it came sixth in this year's tables. It also held this position when rated by group two borrowers, as it did in 2018.

SOCIETE GENERALE AGENCY LENDING:

Societe Generale Agency Lending was well rated among group two borrowers. It claimed fourth place when rated by this group for the global tables.

It also rose up to third place in Asia Pacific, and took the fifth spot in EMEA when ranked by group two borrowers.

G1 BORROWERS

UBS:

UBS took the top spot overall among group one borrowers in this year's survey in both the weighted and unweighted category.

The Swiss banking giant, second overall to Morgan Stanley in the 2018 survey, topped the tables in 2019.

UBS once again scored highly in Asia Pacific, coming first place in the region across both the weighted and unweighted categories.

EMEA, however, was where the company gained the most ground, coming second (unweighted) and first (weighted) in 2019 compared to fourth in both tables last year.

When ranked by group one lenders alone, UBS was well ahead of rivals in Asia and Europe and finished third in the Americas.

MORGAN STANLEY:

Morgan Stanley dominated the Americas tables in both the weighted and unweighted categories this year.

The US banking giant was well ahead of rivals in the region when rated by the largest (group one) lenders in the market.

Although second to UBS overall on a global basis, the US banking giant came in first place globally when ranked by group two lenders alone.

Morgan Stanley was first in EMEA and Asia Pacific when rated by group two lenders.

Group one lenders also placed the firm top of the tables in EMEA in the unweighted category.

Morgan Stanley has also been named most innovative group one borrower in 2019.

> The US banking giant was well ahead of rivals in the region when rated by the largest (group one) lenders in the market.

G1 BORROWERS: GLOBAL — UNWEIGHTED

Rank		Score
1	UBS	696.50
2	Morgan Stanley	671.50
3	Citi	670.50
4	Bank of America Merrill Lynch	578.17
5	Goldman Sachs	459.42
6	JPMorgan	449.75

G1 BORROWERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	UBS	610.48
2	Morgan Stanley	570.09
3	Citi	565.20
4	Bank of America Merrill Lynch	487.63
5	Goldman Sachs	404.96
6	JPMorgan	395.70

G1 BORROWERS: AMERICAS — UNWEIGHTED

Rank		Score
1	Morgan Stanley	215.33
2	Citi	204.83
3	UBS	174.67
4	Goldman Sachs	168.67
5	JPMorgan	163.75
6	Bank of America Merrill Lynch	162.50

G1 BORROWERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	Morgan Stanley	187.98
2	Citi	176.43
3	Goldman Sachs	155.10
4	UBS	151.84
5	JPMorgan	147.09
6	Bank of America Merrill Lynch	144.63

G1 BORROWERS: EMEA — UNWEIGHTED

Rank		Score
1	Morgan Stanley	289.83
2	UBS	282.17
3	Citi	256.83
4	Bank of America Merrill Lynch	245.67
5	Barclays	177.25
6	JPMorgan	156.83

G1 BORROWERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	UBS	248.88
2	Morgan Stanley	244.72
3	Citi	215.50
4	Bank of America Merrill Lynch	202.12
5	Barclays	164.65
6	JPMorgan	134.27

G1 BORROWERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	UBS	239.67
2	Citi	208.83
3	Bank of America Merrill Lynch	170.00
4	Morgan Stanley	166.33
5	Goldman Sachs	160.42
6	Credit Suisse	147.17

G1 BORROWERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	UBS	209.77
2	Citi	173.27
3	Goldman Sachs	141.39
4	Bank of America Merrill Lynch	140.88
5	Morgan Stanley	137.38
6	Credit Suisse	131.96

G1 BORROWERS RATED BY G1 LENDERS: GLOBAL — UNWEIGHTED

Rank		Score
1	UBS	625.00
2	Citi	541.67
3	Morgan Stanley	500.67
4	Bank of America Merrill Lynch	461.00
5	Goldman Sachs	333.33
6	JPMorgan	330.67

G1 BORROWERS RATED BY G1 LENDERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	UBS	551.88
2	Citi	458.22
3	Morgan Stanley	422.03
4	Bank of America Merrill Lynch	391.57
5	Goldman Sachs	300.28
6	JPMorgan	294.57

G1 BORROWERS RATED BY G1 LENDERS: AMERICAS — UNWEIGHTED

Rank		Score
1	Morgan Stanley	179.33
2	Citi	160.33
3	UBS	156.67
4	Bank of America Merrill Lynch	129.33
5	Goldman Sachs	126.67
6	JPMorgan	118.67

G1 BORROWERS RATED BY G1 LENDERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	Morgan Stanley	156.69
2	Citi	139.17
3	UBS	136.84
4	Bank of America Merrill Lynch	117.21
5	Goldman Sachs	117.16
6	JPMorgan	108.36

G1 BORROWERS RATED BY G1 LENDERS: EMEA

UNWEIGHTED

Rank		Score
1	UBS	228.67
2	Citi	197.33
3	Morgan Stanley	194.00
4	Bank of America Merrill Lynch	174.67
5	Barclays	111.00
6	JPMorgan	106.33

G1 BORROWERS RATED BY G1 LENDERS: EMEA

WEIGHTED BY IMPORTANCE

Rank		Score
1	UBS	205.28
2	Citi	166.41
3	Morgan Stanley	160.45
4	Bank of America Merrill Lynch	144.13
5	Barclays	105.32
6	JPMorgan	91.89

G1 BORROWERS RATED BY G1 LENDERS: ASIA-PACIFIC

UNWEIGHTED

Rank		Score
1	UBS	239.67
2	Citi	184.00
3	Bank of America Merrill Lynch	157.00
4	Morgan Stanley	127.33
5	Credit Suisse	122.67
6	Goldman Sachs	122.00

G1 BORROWERS RATED BY G1 LENDERS: ASIA-PACIFIC

WEIGHTED BY IMPORTANCE

Rank		Score
1	UBS	209.77
2	Citi	152.63
3	Bank of America Merrill Lynch	130.23
4	Credit Suisse	110.66
5	Goldman Sachs	109.32
6	Morgan Stanley	104.88

G1 BORROWERS RATED BY G2 LENDERS: GLOBAL

UNWEIGHTED

Rank		Score
1	Morgan Stanley	170.83
2	Citi	128.83
3	Goldman Sachs	126.08
4	Barclays	120.83
5	JPMorgan	119.08
6	Bank of America Merrill Lynch	117.17

G1 BORROWERS RATED BY G2 LENDERS: GLOBAL

WEIGHTED BY IMPORTANCE

Rank		Score
1	Morgan Stanley	148.06
2	Citi	106.98
3	Goldman Sachs	104.68
4	Barclays	103.62
5	JPMorgan	101.13
6	Bank of America Merrill Lynch	96.06

G1 BORROWERS RATED BY G2 LENDERS: AMERICAS

UNWEIGHTED

Rank		Score
1	JPMorgan	45.08
2	Citi	44.50
3	Goldman Sachs	42.00
4	Barclays	36.83
5	Morgan Stanley	36.00
6	Bank of America Merrill Lynch	33.17

G1 BORROWERS RATED BY G2 LENDERS: AMERICAS

WEIGHTED BY IMPORTANCE

Rank		Score
1	JPMorgan	38.73
2	Goldman Sachs	37.94
3	Citi	37.25
4	Morgan Stanley	31.29
5	Barclays	30.41
6	Bank of America Merrill Lynch	27.42

G1 BORROWERS RATED BY G2 LENDERS: EMEA

UNWEIGHTED

Rank		Score
1	Morgan Stanley	95.83
2	Bank of America Merrill Lynch	71.00
3	Barclays	66.25
4	Citi	59.50
5	UBS	53.50
6	JPMorgan	50.50

G1 BORROWERS RATED BY G2 LENDERS: EMEA

WEIGHTED BY IMPORTANCE

Rank		Score
1	Morgan Stanley	84.27
2	Barclays	59.33
3	Bank of America Merrill Lynch	57.99
4	Citi	49.08
5	UBS	43.60
6	JPMorgan	42.38

G1 BORROWERS RATED BY G2 LENDERS: ASIA-PACIFIC

UNWEIGHTED

Rank		Score
1	Morgan Stanley	39.00
2	Goldman Sachs	38.42
3	Citi	24.83
4	Credit Suisse	24.50
5	JPMorgan	23.50
6	HSBC Bank Plc	18.50

G1 BORROWERS RATED BY G2 LENDERS: ASIA-PACIFIC

WEIGHTED BY IMPORTANCE

Rank		Score
1	Morgan Stanley	32.50
2	Goldman Sachs	32.07
3	Credit Suisse	21.30
4	Citi	20.64
5	JPMorgan	20.02
6	HSBC Bank Plc	15.77

CITI:

Citi finished third place overall in the 2019 survey, moving into the top three after coming fourth last year.

In the Americas, its home market, Citi was second in the weighted and unweighted category.

Asia Pacific produced the same result for the firm while Citi was third overall in EMEA, matching its 2018 regional result.

When ranked by group one lenders alone, Citi was placed second in EMEA and second in the Americas (weighted and unweighted).

Globally, group two lenders placed Citi second overall.

BANK OF AMERICA MERRILL LYNCH:

Bank of America Merrill Lynch was ranked fourth across the unweighted and weighted sections by lenders in 2019.

The US bank fared particularly strongly in Asia Pacific, where it was third overall in the unweighted section and fourth in the weighted section.

In the Americas, the largest lenders placed the firm fourth – a position matching the 2018 result.

GOLDMAN SACHS:

Goldman Sachs took fifth place overall on a global basis, weighted and unweighted.

The US bank fared particularly well in the Americas, where it came third and fourth in the weighted and unweighted tables, respectively.

Group two lenders ranked Goldman Sachs in third place globally, and second in the Americas on a weighted basis. Asia Pacific was where the bank achieved its highest position (second, weighted and unweighted) when scored by group two lenders.

G1 Borrowers continues on page 16 >

G1 BORROWERS

Most Innovative

Morgan Stanley

Where next for blockchain in banking?

Blockchain and cryptocurrency are making their presence felt across capital markets. **Frédéric Dalibard,** Head of Digital at Corporate & Investment Banking and Global Blockchain Coordinator, and **Thierry Redon,** Blockchain Project Manager at Natixis, consider recent developments and where the technology might go from here.

The likely impact of blockchain across the banking sector has been widely discussed since the middle of this decade. However, now that real use cases have emerged and the more challenging applications have been put on hold the hype has given way to a more measured assessment of the technology's potential.

There is a clear trend among the regulatory community to make local regulations more crypto or token-friendly in order to facilitate the emergence of the tokenised economy.

We are seeing a high level of interest from originators and borrowers looking to see how they can tap into this market. There is also considerable interest from investors who want to know how they will be able to access the tokenised market more easily and with less friction – for example, asset managers wondering how they could maintain positions in their funds in a more efficient way.

This is particularly relevant for asset classes that are relatively illiquid, such as real estate, for which the tokenisation of assets could provide investors with greater ease of access.

For distributed ledger technology to be fully utilised, the monetary counterparts of these trades also have to be tokenised. To date, central banks have been reluctant to issue digital currencies, but this is changing and these institutions are now talking about the need for cryptocurrencies that are linked to fiat currencies.

The deputy director of the People's Bank of China's plan payments department told a China Finance 40 Forum in August that it had been working on a cryptocurrency since 2018 and that the new digital currency would replace cash in circulation as well as supporting the internationalisation of the yuan.

We believe Facebook's Libra project has been a catalyst for this trend. Libra has made a concept that was previously hypothetical real and there is a sense from central banks and regulators that if they don't do something, they could lose their grasp on a large chunk of the money flows within their economies.

Loss of sovereignty is a huge concern for senior economists such as France's finance minister, who has raised concerns about a cryptocurrency with huge amounts of power but no governing rules or obligations and recently dismissed suggestions that Libra could become a sovereign currency.

In June, France revealed plans to establish a G7 taskforce on 'stable coin' projects led by European Central Bank board member Benoit Coeure (stable coins are cryptocurrencies that are pegged to a stable asset such as gold or the US dollar).

Bank of France Governor Francois Villeroy de Galhau said Libra would have to respect anti-money laundering regulations and seek banking licences if it were to offer banking services.

These moves by Facebook and the People's Bank of China point to the likelihood of an acceleration in the issuance and trading of assets in tokenised form. This will happen first in non-regulated markets because of regulations around central securities depositories and we can expect to see activity in areas such as private equity.

There are already a number of initiatives in the commercial paper market and the repo market, most notably HQLAX, a blockchain solution for collateral swaps in the securities lending market designed to facilitate more efficient collateral management of high quality liquid assets.

Under the HQLAX operating model there is no movement of securities between custodians. Instead, a digital collateral registry is used to record ownership of baskets of securities, whilst the underlying securities remain static in the custody location of the collateral giver.

This model is designed to enable platform participants to seamlessly execute capital efficient securities lending transactions for enhanced balance sheet optimisation.

We also see crypto assets being looked at as alternative asset classes. The SEC has pushed back strongly against crypto-related funds but various attempts have been made to bring funds to market.

In July, VanEck CEO Jan van Eck and the firm's director of digital assets strategy Gabor Gurbacs wrote a post in which they suggested stable coins would strengthen the cryptocurrency ecosystem. They stated that Bitcoin and digital assets are already a part of many investor portfolios - just not in traditional brokerage accounts – and may play a bigger role with appropriately regulated, insured and liquid access vehicles, such as ETFs.

Earlier this month, VanEck and SolidX announced that the VanEck SolidX Bitcoin Trust would issue shares in accordance with Rule 144A under the Securities Act of 1933, as amended. These shares will provide institutional investors access to a physically-backed bitcoin product that is tradeable through traditional and prime brokerage accounts and are described as the first institutional quality, cleared product providing exposure to bitcoin and enabling a standard ETF creation-and-redemption process.

We also have projects in the trade finance space that are coming to production, such as Komgo. Natixis is one of the 15 institutions behind the Komgo blockchain platform for commodity trade finance which now facilitates standby letters of credit and receivables discounting as well as letter of credit and KYC.

Trade finance is the ideal use case for blockchain given the limited regulation of document exchange and the involvement of multiple counterparties.

Going to production has been challenging for many blockchain initiatives, but Komgo has progressed to this point successfully. Having a prototype is one thing, but going to production in a banking environment is difficult – there are IT security issues, decisions over where to host the solution, how to price the service, etc.

There remains work to do with all the parties involved in trade finance transactions, but we are confident that things are moving in the right direction.

Given that regulators are moving at different speeds, we are fortunate that the regulator in France has been helpful. This has also been the case in countries such as Switzerland, where SIX has been building the SIX Digital Exchange (SDX), the world's first fully integrated infrastructure for the trading, settlement and custody of digital assets.

The plan in Switzerland is to port an entire portion of its market into a purely digital exchange, which is a game changer. We think this is where the market is going, although some regulators will have a lot of catching up to do.

Another interesting project in the blockchain space is Finastra's Fusion LenderComm syndicated lending market solution. Designed to streamline information exchange between agent banks and lenders, it enables financial institutions acting as agents to publish loan data to the ledger and extend self service capabilities to lenders.

Through their own portal, agents can define and then publish lender specific deal position data to Fusion LenderComm, so individual lenders can drill down into the data without needing to query positions by phone, fax or email, as is typical today.

By allowing the sharing of syndicated loan position data more efficiently between loan agents and participants, the project addresses a key pain point by automating the costly manual processes traditionally involved in such sharing of information.

Connecting the agents' recording systems to the blockchain provides a live view of what is going on with their loans.

This is just the beginning of how distributed ledger technology could be used. The process could easily be transferred to other markets where the lifecycle of assets and products can be complex in terms of initial margin requirements, computations and/or margin calls.

Our vision for the future is that transaction-based systems will become blockchain-based at the layer where all the transactions are recorded. Vendors are already looking at how they can synchronise the various counterparties of a trade using a blockchain backbone.

It is easy to envisage a future where the database where all these systems record their transactions is blockchain-based and the resulting automation in the lifecycle of these trades would produce considerable operational benefits.

Given that the cost of doing business is a major concern to the banking industry, this could underpin the future sustainability of banks. ■

> "Our vision for the future is that transaction-based systems will become blockchain-based at the layer where all the transactions are recorded."

G1 BORROWERS

JP MORGAN:

JP Morgan features in sixth place globally overall in this year's tier-one borrower survey.

The US bank comfortably beat its scores achieved in 2018 and came fifth overall in the Americas.

When rated by group two lenders alone, the bank achieved the top spot in the Americas region on a weighted and unweighted basis.

BARCLAYS:

Barclays improved its overall standing in EMEA in this year's survey, coming fifth globally (weighted and unweighted), up from sixth in 2018.

Over the past two years, the bank has shown consistent improvement in the region.

Votes from group two lenders alone placed Barclays fourth globally and third (unweighted) and second (weighted) in EMEA.

Barclays also came fourth (unweighted) in the Americas when rated by group two lenders.

CREDIT SUISSE:

Credit Suisse appears among the top six borrowers in Asia Pacific in this year's survey.

The Swiss bank's scores improved significantly across the region compared to last year, when it did not appear in the top six unweighted category.

Group two lenders alone placed Credit Suisse third (weighted) and fourth (unweighted) in Asia Pacific.

HSBC BANK PLC:

HSBC made its way into the top six this year in Asia Pacific when rated by group two lenders alone. It gained this spot in both the weighted and unweighted rankings.

BORROWERS

One to Watch

BCS

G2 BORROWERS

SCOTIABANK:

Scotiabank ranked top of the group two borrowers overall in the unweighted section with a score of 615.50.

The Canadian bank was very narrowly second to Natixis in the weighted global group two borrowers category.

Scotiabank was also top of the unweighted and weighted tables for the Americas, beating Wells Fargo by a narrow margin.

Scotia also won the group two borrowers rated by group one lenders both globally and in the Americas.

> Scotiabank ranked top of the group two borrowers overall in the unweighted section with a score of 615.50.

NATIXIS:

The French bank scored well in 2019, taking the top spot from Scotiabank in the highly-prized global group two borrowers section (weighted). Natixis was second in the global unweighted table to Scotiabank and performed well in EMEA.

Natixis beat ABN Amro narrowly to take the EMEA unweighted category and lost to the Dutch bank by an even smaller margin in the EMEA weighted section.

Natixis was second globally, third in the Americas, and top in EMEA according to group one lenders.

Natixis was also third globally when scored by group two lenders.

NOMURA:

The Japanese bank was rated third globally among group two borrowers, narrowly behind the second-placed borrower and way ahead of the fourth-placed firm.

Nomura dominated in Asia Pacific where it won the unweighted and weighted lists comfortably.

The firm was ranked third globally and first in Asia Pacific by group one lenders.

Nomura was also ranked top globally in the Americas and Asia Pacific by group two lenders, and second in EMEA by these smaller firms.

ABN AMRO:

The Dutch borrower came fourth overall in the unweighted and weighted group two borrowers sections. ABN Amro was first in the EMEA weighted table and narrowly second to Natixis in the EMEA unweighted list. ABN was also fifth in Asia Pacific.

The company is particularly strong in Europe and when working with smaller lenders. The bank was placed second by group two lenders globally and in Asia Pacific, and top rated by group two lenders in EMEA.

JEFFERIES:

The US bank came fifth in the global rankings overall. Jefferies performed solidly in Europe where it finished fourth in the unweighted rankings, which was consistent with last year, and third in the weighted list, which was one place higher than last year. The firm was fifth globally and third in EMEA when ranked by group one and two lenders.

> ABN AMRO is particularly strong in Europe and when working with smaller lenders. The bank was placed second by group two lenders globally and in Asia Pacific, and top rated by group two lenders in EMEA.

MACQUARIE:

The Australian bank was sixth overall globally in 2019, which was consistent with its performance from last year, while its scores increased slightly on 2018.

Macquarie was second in the Asia-Pacific unweighted table, and third in Asia Pacific in the weighted category.

Macquarie was ranked fourth globally and third in Asia Pacific by group one lenders.

Macquarie came third in Asia Pacific according to group two lenders.

WELLS FARGO:

The US firm performed well in its home market. Wells Fargo was second overall behind Scotiabank in the Americas unweighted and weighted categories. The firm was also second in the Americas when ranked by group one lenders and fifth in the unweighted table when rated by group two lenders.

FIDELITY PRIME SERVICES:

Fidelity Prime Services came fourth among the group two borrowers in the Americas, which compares to its second place last year. The firm was fourth when ranked by group one lenders in the Americas.

Fidelity Prime Services was third in the Americas weighted list when ranked by group two lenders and sixth in the Americas unweighted list.

STATE STREET PRINCIPAL:

State Street's borrowing division was fifth among the group two borrowers in the Americas, which was an improvement of one place on last year, reflecting State Street Principal's higher scores this year.

State Street Principal also broke into the top six of group two borrowers as ranked by group one lenders, coming sixth.

The firm was fifth in Asia Pacific when rated by group one lenders and second in the Americas when ranked by group two lenders.

G2 Borrowers continues on page 22 >

G2 BORROWERS: GLOBAL — UNWEIGHTED

Rank		Score
1	Scotiabank	615.50
2	Natixis	609.00
3	Nomura	601.67
4	ABN Amro	346.50
5	Jefferies	345.58
6	Macquarie	345.00

G2 BORROWERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	Natixis	532.08
2	Scotiabank	531.61
3	Nomura	502.37
4	ABN Amro	307.25
5	Jefferies	291.36
6	Macquarie	273.11

G2 BORROWERS: AMERICAS — UNWEIGHTED

Rank		Score
1	Scotiabank	211.17
2	Wells Fargo	201.33
3	Natixis	143.67
4	Fidelity Prime Services	135.17
5	State Street Principal	128.00
6	Nomura	120.00

G2 BORROWERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	Scotiabank	184.08
2	Wells Fargo	176.64
3	Natixis	131.61
4	Fidelity Prime Services	119.54
5	State Street Principal	115.88
6	Nomura	94.07

G2 BORROWERS: EMEA — UNWEIGHTED

Rank		Score
1	Natixis	269.33
2	ABN Amro	259.00
3	Nomura	203.83
4	Jefferies	202.25
5	Scotiabank	169.17
6	SEB	147.00

G2 BORROWERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	ABN Amro	234.81
2	Natixis	234.48
3	Jefferies	176.23
4	Nomura	170.39
5	Scotiabank	145.54
6	SEB	120.17

G2 BORROWERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Nomura	277.83
2	Macquarie	240.00
3	Scotiabank	235.17
4	Natixis	196.00
5	ABN Amro	77.83
6	State Street Principal	76.67

G2 BORROWERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Nomura	237.90
2	Scotiabank	201.99
3	Macquarie	196.25
4	Natixis	165.99
5	ABN Amro	67.32
6	State Street Principal	66.16

G2 BORROWERS RATED BY G1 LENDERS: GLOBAL — UNWEIGHTED

Rank		Score
1	Scotiabank	541.00
2	Natixis	520.00
3	Nomura	449.50
4	Macquarie	312.33
5	Jefferies	276.00
6	State Street Principal	239.00

G2 BORROWERS RATED BY G1 LENDERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	Scotiabank	466.08
2	Natixis	459.68
3	Nomura	375.73
4	Macquarie	246.05
5	Jefferies	230.30
6	State Street Principal	216.32

G2 BORROWERS RATED BY G1 LENDERS: AMERICAS — UNWEIGHTED

Rank		Score
1	Scotiabank	190.67
2	Wells Fargo	181.00
3	Natixis	119.67
4	Fidelity Prime Services	115.00
5	State Street Principal	100.67
6	National Bank Financial	97.33

G2 BORROWERS RATED BY G1 LENDERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	Scotiabank	164.32
2	Wells Fargo	159.47
3	Natixis	110.47
4	Fidelity Prime Services	97.26
5	State Street Principal	91.22
6	National Bank Financial	78.01

Constant change in Prime Brokerage shines the spotlight on proven, trusted partners

In the midst of ongoing change in the prime brokerage industry, participants face a wide range of issues, from fluctuating financial resource availability to rising cost pressures. **Paul McGuigan,** Scotiabank's European Head of Securities Lending, describes how the Canadian bank's Prime Services business has continued to grow and differentiate itself, despite the trends impacting the industry.

Over a decade on from the Global Financial Crisis, the ongoing impact of regulation on the industry can still be felt. Whilst some Prime Brokers have rebased their businesses to operate more efficiently in light of the limitations banks have imposed on financial resource consumption, others have reached a point where exiting from the market was the ultimate conclusion. The number of committed participants continues to evolve and as such, hedge funds give thought to what makes a suitable long-term partner.

Across the industry, we have observed softer funding markets, revenue shortfalls across prime brokers and lenders, and a focus on cost reduction and regulatory compliance, as well as growing interest in Environmental and Social Governance (ESG) matters. All of this, alongside tightening spreads in the financing markets, Brexit uncertainty and global trade wars, have created a muted European deal space and a difficult year for many prime brokerage participants, prompting some to scale back their services.

A Canadian view of dynamic global markets:

I have been fortunate to observe this activity from the vantage point of Scotiabank, Canada's international bank and a leading financial services provider in the Americas. Scotiabank has been offering prime brokerage services for more than 15 years, initially in Canada and later launching a global offering. In that time, the prime brokerage industry has undergone much change, yet Scotiabank's commitment to servicing clients has

> "Whilst some Prime Brokers have rebased their businesses to operate more efficiently in light of the limitations banks have imposed on financial resource consumption, others have reached a point where exiting from the market was the ultimate conclusion."

been unwavering. Scotiabank has continued to invest in people and technology, with the goal of improving the client experience. The result: a multi-product, cross asset platform with a global team of vast experience. Our European prime services team, for example, has an average of 15 years market experience. Most of our team members joined Scotiabank from larger prime brokers, bringing invaluable expertise that enables us to apply best practices, while offering a high-touch service and better execution for our clients. This was highlighted in the recent global custodian prime brokerage report where one client commented on Scotiabank: 'excellent improvements made in automation and tech in the stock loan space.'

Through our Global Banking and Markets division, we offer international prime services, with regional desks providing local expertise and coverage in Toronto, New York, London and Singapore. Over the last five years, we have greatly expanded our European and Asian offering and while our team's core aim has been to service our Americas clients globally, we also offer access to European and Asian clients and provide local expertise on a regional basis. Scotiabank's Prime Services international growth has been driven by leveraging our strength in the Americas where we are one of the leading wholesale banks.

The strength and diverse experience of the team has been advantageous when onboarding clients and integrating systems. As the regulatory landscape changes and client needs evolve, Scotiabank built a scalable offering from the outset, rather than solving for silos or having to re-engineer outdated systems and processes. For example, in Europe we recently launched our low-touch equity execution product, which significantly expands the breadth of clients we can service. Our disciplined institutional culture has enabled Scotiabank to grow in a sustainable and measured manner. We believe that our clients take comfort in the fact that they can depend on Scotiabank to service their needs long into the future.

The Bank's ongoing commitment has also enabled us to expand our offerings. For example, we have focused on improving our securities lending capabilities within Europe, enhancing our local client offering while introducing new supply avenues and new trading opportunities for the global desks and our clients.

Scotiabank's strong credit rating allows us to gain access to supply from beneficial owners who only wish to have exposure to highly-rated Canadian banks. This is a notable differentiator for our international business. Additionally, we have successfully opened pockets of un-utilised European beneficial owner supply for the Americas and Asia, with significant success in the Canadian and Latin American markets. This has led to a material improvement in the breadth, size and stability of our supply and we continue to improve globally relative to the largest prime brokers.

> “Through our Global Banking and Markets division, we offer international prime services, with regional desks providing local expertise and coverage in Toronto, New York, London and Singapore.”

In tandem, we have significantly improved our collateral management and operational efficiencies to ensure we provide a low touch, seamless and competitive execution for clients. We have upgraded our internal systems to manage inventory and risk and adopted external vendor solutions for client service optimization and efficiency. Scotiabank has partnered with several leading FinTech providers and is committed to improving our architecture and implementing new technologies to boost efficiency, enhance service delivery and ensure client scalability.

An eye on securities lending market trends:

We see several trends in the securities lending market that merit close attention:

Reduced agency lending revenue: It is well reported that revenues for many agency lending programs are down. Consequently, we are fielding more requests to add balances and trade flow. This can be difficult without significant improvement in levels, optimal risk weighting, beneficial collateral profiles or improved stability for our underlying clients. At the same time, we have seen increased rate pressure on securities trading special. As agency lending programs seek to extract more and more value from their underlying securities, they face the danger of having a negative longer-term

> “Scotiabank's strong credit rating allows us to gain access to supply from beneficial owners who only wish to have exposure to highly-rated Canadian banks.”

impact. Some clients have already moved away from trading securities with small or concentrated lending pools due to the increased risk of recalls or aggressive rate movements. Increasingly, clients need comfort when securing a loan that it will be stable in size and rate.

Bottom line costs drive efficiency programs: The recent revenue pressures have been industry-wide and led many firms to improve and streamline operational flows with the aim of reducing bottom line costs. As a result, we have seen an increase in the adoption of vendor solutions for straight through processing, a move away from bilateral collateralisation, firms exploring omnibus structures and a reduction in the facilitation of lower notional trade flows.

Collateral expansion evident: This continues to be a significant differentiator for beneficial owners and agency lending programs. We have witnessed further moves to non-cash collateral, and exploratory moves down the collateral curve. Those who moved have benefited from additional trade flow and revenue capture. As global lendable assets continue to grow, and competition increases with transparency, beneficial owners who differentiate themselves via their collateral will be well placed. In addition, with the ongoing roll out of the Standard Initial Margin Model; Phase V (September 2020) and Phase VI (September 2020), creating a further drain on resources, broad collateral acceptance and the ability to mobilise assets will be of greater importance. Consequently, the available tools and capabilities of a tri-party agent are paramount. The ability to be versatile, nimble and quick to implement will be essential and critical to the market's well-being.

Continued regulatory demands: Although the pending implementation of the Securities Financing Transaction Regulation (SFTR) and Central Securities Depositories Regulation (CSDR) results operational changes and technology investments, these regulations will greatly benefit the industry. Over time, they will ensure best practice, increased levels of standardization, improvements in market settlement and behaviour and, ultimately, improve the experience for all participants.

> "We have seen an increased number of ESG funds come to market, additional restrictions on securities lending, and related amendments to collateral profiles."

ESG gains momentum: ESG criteria are gaining influence within Prime Brokerage. We have seen an increased number of ESG funds come to market, additional restrictions on securities lending, and related amendments to collateral profiles. Scotiabank is supportive of this movement and recently boosted its sustainability commitment by closing our inaugural Green Bond issuance in Canada. In addition, Scotiabank London has implemented an ESG initiative, focused on delivering on clients' increasing focus in this space. We have an ESG-themed week planned in December 2019 which will incorporate a buy-side roundtable.

Consolidation drives clients to elite providers: Finally, as the securities lending market continues to evolve, automation improves, and transparency increases, there will likely be further amalgamation of businesses, operations and trading teams across the industry.

While these changes can be unsettling, significant upside remains. The flexibility and fluidity that securities lending offers will ensure that committed providers who have the support and capacity will continue to develop and broaden their businesses. Scotiabank continues to demonstrate commitment to the securities lending market, in recognition of the value it brings to our clients and shareholders. We continue to deepen our client relationships by applying our securities lending platform to deliver effective and innovative client solutions.

With this commitment, an exceptional team and a thoughtful and measured approach to growth, Scotiabank Prime Services is a solid, trusted partner in an ever-changing landscape. ■

> "The flexibility and fluidity that securities lending offers will ensure that committed providers who have the support and capacity will continue to develop and broaden their businesses."

G2 BORROWERS

G2 BORROWERS RATED BY G1 LENDERS: EMEA — UNWEIGHTED

Rank		Score
1	Natixis	222.33
2	ABN Amro	187.67
3	Jefferies	148.67
4	Nomura	133.67
5	Scotiabank	130.67
6	SEB	129.17

G2 BORROWERS RATED BY G1 LENDERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	Natixis	198.15
2	ABN Amro	173.18
3	Jefferies	128.06
4	Scotiabank	114.01
5	Nomura	112.07
6	SEB	107.70

G2 BORROWERS RATED BY G1 LENDERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Nomura	238.33
2	Scotiabank	219.67
3	Macquarie	219.33
4	Natixis	178.00
5	State Street Principal	76.67
6	ING	65.00

G2 BORROWERS RATED BY G1 LENDERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Nomura	204.05
2	Scotiabank	187.76
3	Macquarie	179.19
4	Natixis	151.06
5	State Street Principal	66.16
6	ING	55.90

G2 BORROWERS RATED BY G2 LENDERS: GLOBAL — UNWEIGHTED

Rank		Score
1	Nomura	152.17
2	ABN Amro	115.17
3	Natixis	89.00
4	Scotiabank	74.50
5	Jefferies	69.58
6	Credit Agricole CIB	68.17

G2 BORROWERS RATED BY G2 LENDERS: GLOBAL — WEIGHTED BY IMPORTANCE

Rank		Score
1	Nomura	126.64
2	ABN Amro	97.26
3	Natixis	72.40
4	Scotiabank	65.53
5	Jefferies	61.06
6	Credit Agricole CIB	55.49

G2 BORROWERS RATED BY G2 LENDERS: AMERICAS — UNWEIGHTED

Rank		Score
1	Nomura	42.50
2	State Street Principal	27.33
3	Natixis	24.00
4	Scotiabank	20.50
5	Wells Fargo	20.33
6	Fidelity Prime Services	20.17

G2 BORROWERS RATED BY G2 LENDERS: AMERICAS — WEIGHTED BY IMPORTANCE

Rank		Score
1	Nomura	34.46
2	State Street Principal	24.67
3	Fidelity Prime Services	22.28
4	Natixis	21.14
5	Scotiabank	19.76
6	Wells Fargo	17.17

G2 BORROWERS RATED BY G2 LENDERS: EMEA — UNWEIGHTED

Rank		Score
1	ABN Amro	71.33
2	Nomura	70.17
3	Jefferies	53.58
4	Credit Agricole CIB	50.00
5	Natixis	47.00
6	Scotiabank	38.50

G2 BORROWERS RATED BY G2 LENDERS: EMEA — WEIGHTED BY IMPORTANCE

Rank		Score
1	ABN Amro	61.64
2	Nomura	58.33
3	Jefferies	48.17
4	Credit Agricole CIB	40.41
5	Natixis	36.33
6	Scotiabank	31.53

G2 BORROWERS RATED BY G2 LENDERS: ASIA-PACIFIC — UNWEIGHTED

Rank		Score
1	Nomura	39.50
2	ABN Amro	38.83
3	Macquarie	20.67
4	Natixis	18.00
5	Scotiabank	15.50
6	SEB	9.00

G2 BORROWERS RATED BY G2 LENDERS: ASIA-PACIFIC — WEIGHTED BY IMPORTANCE

Rank		Score
1	Nomura	33.85
2	ABN Amro	32.79
3	Macquarie	17.06
4	Natixis	14.93
5	Scotiabank	14.23
6	SEB	7.50

> **Nomura dominated in Asia Pacific where it won the unweighted and weighted lists comfortably.**

SEB:

SEB was ranked sixth in EMEA among the group two borrowers, which is consistent with its performance last year. The Swedish banking group was also sixth among the group two borrowers when rated by group one lenders in EMEA and group two lenders in Asia.

NATIONAL BANK FINANCIAL:

The Canadian bank was ranked sixth among group two borrowers as rated by group one lenders in the Americas, having improved its performance from last year and moved into the top six for that category.

ING:

The Dutch firm finished sixth in the table of group two borrowers as ranked by group one lenders in Asia Pacific, having broken in to the top six this year.

CREDIT AGRICOLE CIB:

The French institution came sixth in the global table of group two borrowers as scored by group two lenders, which was two places lower than last year. Credit Agricole CIB was fourth in the EMEA category of group two borrowers ranked by group two lenders.

G2 BORROWERS

Most Innovative

Natixis

G2 BORROWERS

Most Improved

Nomura

FIXED INCOME LENDING

BNY MELLON:

As in 2018, BNY Mellon was top of the leader board in the global weighted and unweighted categories where it clocked up improved scores of 1,100.15 and 1,210, respectively.

It also continued to hold the top spot in the Americas, and jumped up from sixth to second place in Asia Pacific.

BNY Mellon's ranking improved in EMEA too, rising from fifth place in the unweighted and weighted categories in 2018 to claim third place in both categories in 2019.

STATE STREET:

State Street made the top three in the 2019 global rankings, and continued to perform well in the Americas. It placed second in the weighted and unweighted Americas table, as it did last year.

The bank's position improved in EMEA, rising from sixth place in 2018 to fourth place in 2019. Consistent with its performance last year, State Street was fifth in Asia Pacific.

UBS SWITZERLAND:

UBS Switzerland continued to dominate in EMEA, coming top in both the weighted and unweighted tables. Globally, it moved from third to second place in the weighted category, as well as placing second in the unweighted category.

It took third place in Asia Pacific, and broke into the top six in this year's Americas weighted and unweighted rankings.

CITI:

Citi placed fourth in the Asia Pacific fixed income lending tables weighted and unweighted tables – an improvement on 2018 when it did not break into the top six.

Citi continued to perform well in the Americas, ranking in fourth place on both a weighted and unweighted basis. The bank was among 2019's top fixed income lenders, coming in sixth place.

CLEARSTREAM:

This year, as in 2018, Clearstream was ranked in second place in EMEA. Its scores improved from 406.5 to 449.5 in the unweighted table, and from 382 to 411.98 in the weighted table.

Clearstream also climbed up the global rankings, moving from fifth place in the 2018 tables to fourth place (weighted and unweighted) in 2019.

JP MORGAN:

JP Morgan took first place in Asia Pacific on the back of improved scores, up from second place in 2018.

The bank also entered the top six in EMEA this year, where it was ranked fifth in both the weighted and unweighted categories.

JP Morgan rose from sixth place in the global tables in 2018 to fifth place (weighted and unweighted) in 2019.

> JP Morgan took first place in Asia Pacific on the back of improved scores, up from second place in 2018.

GLOBAL FIXED INCOME — UNWEIGHTED

Rank		Score
1	BNY Mellon	1,210.00
2	UBS Switzerland	892.50
3	State Street	723.50
4	Clearstream	499.50
5	JPMorgan	468.50
6	Citi	429.50

GLOBAL FIXED INCOME — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	1,100.15
2	UBS Switzerland	791.93
3	State Street	674.90
4	Clearstream	457.88
5	JPMorgan	423.54
6	Citi	396.13

AMERICAS FIXED INCOME — UNWEIGHTED

Rank		Score
1	BNY Mellon	738.00
2	State Street	393.00
3	RBC Investor & Treasury Services	250.00
4	Citi	170.50
5	Northern Trust	146.00
6	UBS Switzerland	129.00

AMERICAS FIXED INCOME — WEIGHTED BY IMPORTANCE

Rank		Score
1	BNY Mellon	672.27
2	State Street	361.20
3	RBC Investor & Treasury Services	229.46
4	Citi	156.15
5	Northern Trust	133.49
6	UBS Switzerland	116.07

EMEA FIXED INCOME — UNWEIGHTED

Rank		Score
1	UBS Switzerland	590.50
2	Clearstream	449.50
3	BNY Mellon	295.00
4	State Street	245.50
5	JPMorgan	192.50
6	Credit Suisse Zurich	172.50

EMEA FIXED INCOME — WEIGHTED BY IMPORTANCE

Rank		Score
1	UBS Switzerland	523.20
2	Clearstream	411.98
3	BNY Mellon	266.68
4	State Street	233.14
5	JPMorgan	170.85
6	Credit Suisse Zurich	156.35

ASIA-PACIFIC FIXED INCOME — UNWEIGHTED

Rank		Score
1	JPMorgan	193.00
2	BNY Mellon	177.00
3	UBS Switzerland	173.00
4	Citi	96.00
5	State Street	85.00
6	BlackRock	78.00

ASIA-PACIFIC FIXED INCOME — WEIGHTED BY IMPORTANCE

Rank		Score
1	JPMorgan	175.97
2	BNY Mellon	161.20
3	UBS Switzerland	152.66
4	Citi	89.30
5	State Street	80.56
6	BlackRock	64.41

NORTHERN TRUST:

Northern Trust demonstrated a strong performance in the Americas again this year, where it was ranked fifth in the weighted and unweighted categories.

This is a jump on 2018, when it was placed sixth in the region.

CREDIT SUISSE ZURICH:

Credit Suisse Zurich succeeded in breaking into the EMEA fixed income lending tables this year after failing to do so in 2018. In the 2019 tables, it has been ranked sixth in both the weighted and unweighted categories.

RBC INVESTOR & TREASURY SERVICES:

RBC Investor & Treasury Services improved its position in the Americas, moving up to third place in both the weighted and unweighted categories. In 2018, it was ranked fifth (unweighted) and fourth (weighted) in this region.

Between 2018 and 2019, its scores increased from 199 to 250 and from 184.52 to 229.46 on an unweighted and weighted basis, respectively.

BLACKROCK:

The asset manager continued to be featured among the top six fixed income lenders in Asia Pacific this year. It achieved sixth place in the weighted and unweighted categories for this region.

TECHNOLOGY VENDORS

All respondents to the equity and fixed income lending surveys were also invited to rate their technology and data vendors.

PIRUM SYSTEMS:

Pirum Systems was the winner for the third year of the global post-trade technology vendor category.

The fintech firm saw its global score improve to 6.46 in 2019 out of a maximum of seven, up from 6.43 last year.

Its highest regional score was an impressive 6.66 in Asia Pacific.

Pirum also secured the best EMEA software solution award for its Pirum CollateralConnect product.

Pirum has continued its expansion into the North American market in 2019 and made several key hires in London to support clients ahead of upcoming SFTR reporting rules.

EQUILEND/BONDLEND:

EquiLend/BondLend was voted best securities finance trading platform globally with a score of 5.95, up slightly on last year's 5.93 tally.

The firm topped the table in the Americas and Asia Pacific.

EquiLend has achieved significant milestones in 2019, including opening an office in Japan, Asia's largest securities finance market.

Outside of Asia, EquiLend's new Dublin-based entity can now operate as a multilateral trading facility (MTF) after winning approval from Ireland's central bank in March.

EquiLend also recently partnered with US fintech Stonewain to offer banks, brokers and funds the ability to manage their securities finance business on a single platform.

The platform, EquiLend Spire, was voted Americas software solution of 2019.

WEMATCH.LIVE:

Wematch.live picked up the award for best EMEA securities finance trading platform for the first time, scoring 5.94. The platform – which helps traders match their interests – was second in the 2018 survey for this region.

Wematch.live clients can execute stock loan trades on Wematch.live and use Pirum to handle post-trade processes, after both firms agreed a deal in the first half of 2019.

POST-TRADE SERVICE - GLOBAL

Rank		Score
1	Pirum Systems	6.46
2	EquiLend PTS	6.11

POST-TRADE SERVICE - AMERICAS

Rank		Score
1	Pirum Systems	6.54
2	EquiLend PTS	6.27

POST-TRADE SERVICE - EMEA

Rank		Score
1	Pirum Systems	6.33
2	EquiLend PTS	6.06

POST-TRADE SERVICE - ASIA-PACIFIC

Rank		Score
1	Pirum Systems	6.66
2	EquiLend PTS	5.92

SBL TRADING PLATFOR - GLOBAL

Rank		Score
1	EquiLend/BondLend	5.95

SBL TRADING PLATFORM - AMERICAS

Rank		Score
1	EquiLend/BondLend	6.40

SBL TRADING PLATFORM - EMEA

Rank		Score
1	Wematch.live	5.94
2	EquiLend/BondLend	5.68

SBL TRADING PLATFORM - ASIA-PACIFIC

Rank		Score
1	EquiLend/BondLend	5.83

SOFTWARE SOLUTIONS - AMERICAS

Rank		Score
1	EquiLend Spire	6.08

SOFTWARE SOLUTIONS - EMEA

Rank		Score
1	Pirum CollateralConnect	6.53

A brave new world

As institutions look to overhaul and automate their sec finance operating models, **Pirum** is experiencing unprecedented demand for its services. With over 2 million trades and $2.1 trillion worth of collateral processed and reconciled daily, Pirum has a unique vantage point into the global market and look to highlight some trends we have seen over the last year.

GLOBAL TRENDS IN AUTOMATION

Below we explore per region the drivers for the trends we are observing in our post-trade services.

North America
Increase in reconciliation and process automation

Driver
- Process globalisation
- Growth in counterparts
- Process automation in domestic & intl space
- Increased repo activity
- Non-cash collateral shift
- System (vendor) transfiguration

EMEA
Increase in reconciliation and process automation

Driver
- Regs continue to wield significant influence - SFTR & CSDR
- Additional Brexit entities = complexity
- Process automation, such as returns and marks
- Increased repo activity

Asia
Increase in reconciliation and process automation

Driver
- New entrants
- Increasing market maturity
- Increased CSD reconciliation to manage local market complexity
- Process automation such as returns and marks

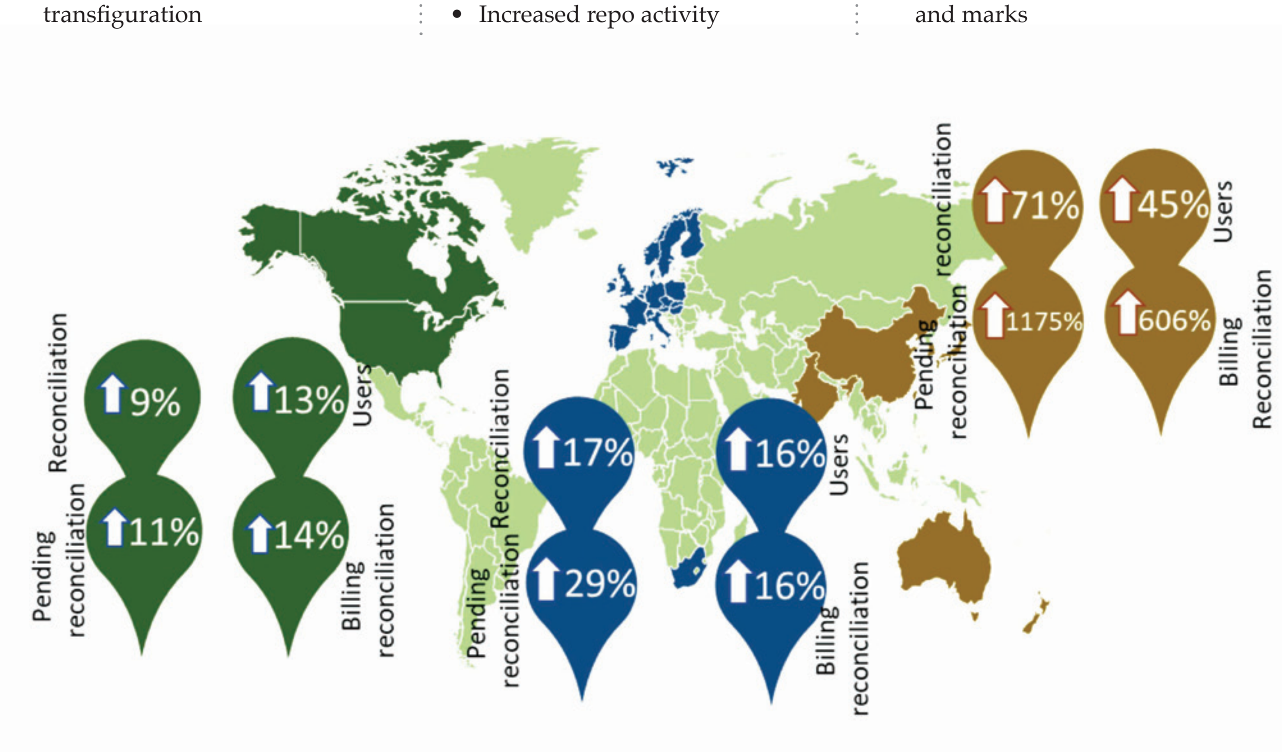


Fig 1. Regional trends across Pirum post-trade services (YoY)

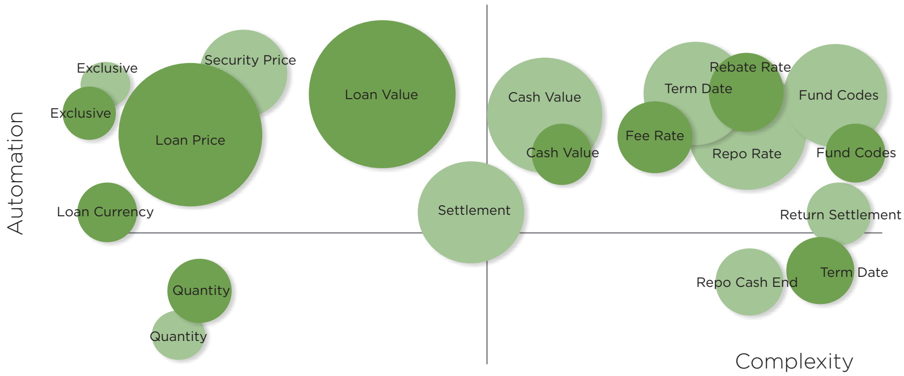


Fig 2. Operational barriers to efficiency by product class (SBL & Repo) mapped against the ability and complexity to automate.

- Repo
- SBL

ACHIEVING EFFICIENCY

"Many process inefficiencies can be automated. Some are more complex to deal with than others. A full breakdown of the causes of breaks and how these can be prevented is available on our website"

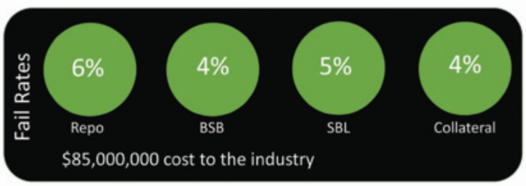
– Simon Davies.

$1.5 tn RQV Collateral

25% yoy

Collateral Tri-party RQV calculation, agreement and posting increased - driven by more use of tri-party for collateral settlement and the requirement for more STP automation.

Fails continue to cost the industry an estimated $85 million annually, and with the run up to CSDR this will increase.



YoY Increasing automation, to drive efficiencies and manage regulation implementation. Firms automating processes achieve 99% STP rates.

FUTURE TRENDS

Business

- Margin compression
- Business convergence (SBL, Repo, OTC)
- New markets –South America, Middle East and Asia
- New entrants – e.g. AM adopting securities lending
- Oversight and supervision (Regs & FOS)

Operating model

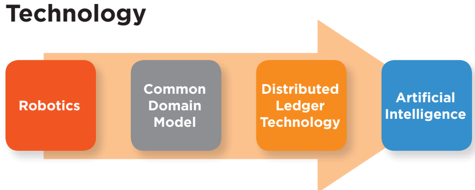
- Automation of processes – lifecycle events, corporate actions & clearing
- Additional controls due to regulation and costs
- Technology upgrades
- Enhanced workflow for exceptions handling

Regulation

SFT - FSB rollout | SFTR | CSDR | UMR

BRRD | NCA Best Practices | Clearing haircuts...

Technology



"It seems the industry is in the midst of a paradigm shift and we are seeing significant change across most organisations. Many firms are transitioning from the planning stage to the execution stage. In doing so, institutions are data gathering to ensure they make the right informed choices. Pirum, wherever possible, is looking to assist clients and the market in general, in effecting this change and transformation in global operating models. Pirum remains primed and ready for this mission, as we help firms adapt to the brave new world" – Scott Brown.

DATA VENDORS

The Data Vendors Awards are divided into three sections and ask respondents to rank the various data firms based on the number of firms they use.

DATALEND:

Among respondents that use three data providers, DataLend picked up the global top spot overall, winning the Americas.

Where two data firms are used, DataLend also emerged as the winner, coming first in the Americas and Asia Pacific.

Where a firm is using a single data provider, DataLend was ranked as the top supplier globally.

IHS MARKIT SECURITIES FINANCE:

IHS Markit Securities Finance won in EMEA when firms were asked to rate their three data providers.

It also achieved the top scores in Asia Pacific from respondents only using one data firm.

IHS Markit announced upgrades to its securities finance platform in Q1 2019. The firm has added a peer comparison tool designed to enable lenders to analyse their performance and borrowers to compare rates.

The platform also now features a global data feed on corporate bond lending and Japanese short interest statistics on over 2,000 securities.

FIS ASTEC ANALYTICS:

FIS Astec Analytics was second in the Americas when firms were asked to rate their three data providers, matching its position in last year's survey.

DATA VENDORS

SINGLE VENDOR RESPONDENTS: RANKING (7 IS BEST)

VENDOR	EMEA	AMERICAS	ASIA-PACIFIC	GLOBAL
DataLend	5.56	5.27	5.07	15.90
IHS Markit Securities Finance	5.23	5.07	5.50	15.80

DATA VENDORS

TWO VENDOR RESPONDENTS: RANKING (1 IS BEST)

VENDOR	EMEA	AMERICAS	ASIA-PACIFIC	GLOBAL
DataLend	1.52	1.26	1.32	4.10
FIS Astec Analytics	-	1.72	2.00	-
IHS Markit Securities Finance	1.48	1.67	1.58	4.73

DATA VENDORS

THREE VENDOR RESPONDENTS: RANKING (1 IS BEST)

VENDOR	EMEA	AMERICAS	ASIA-PACIFIC	GLOBAL
DataLend	1.78	1.62	1.50	4.90
FIS Astec Analytics	2.89	2.15	3.00	8.04
IHS Markit Securities Finance	1.33	2.23	1.50	5.06

UTIs– Navigating the Waterfall

"You don't drown by falling into water. You only drown if you stay there." – Zig Ziglar

By Mike Lambert, Product Director for Securities Lending within Broadridge SFCM

Introduction

It appears that many market participants are still in the process of defining their target operating models for SFTR. This is particularly the case for complex areas such as who will generate Unique Trade Identifiers (UTIs) and how they will be reconciled between counterparts.

UTIs are one of the most troublesome components of SFTR compliance, with significant potential for time consuming breaks and perhaps even regulatory fines at some point in the future.

To help clients and other market participants simplify the complexity around SFTR operating model definition, including key aspects such as UTI sourcing and matching, Broadridge has launched an SFTR consulting service. In addition, Broadridge offers Data Control, a UTI reconciliation and matching product and an end to end transaction reporting solution.

This article discusses the difficulties of assigning and reconciling Unique Trade Identifiers (UTIs) for securities finance transactions. It covers some of the key challenges, practical steps to consider and ways to avoid costly and operationally intensive breaks.

The EMIR Experience of UTI Generation in the Derivatives Business

EMIR introduced the use of UTIs. The UTI is a trade reference that is shared by both sides of a transaction. The idea is that both sides would present the same UTI when they report the transaction to the regulator.

In 2015, ESMA introduced compulsory reporting of derivatives trades under EMIR. After a long period of consultation, a "waterfall" system was agreed. This methodology aimed to ensure a UTI was generated and shared for every trade.

Three years later, a major trade repository reported that UTI matching rates for derivatives for many banks were still in single figures (<10%). Even for exchange traded derivatives, matching rates varied between 30-60%.

The result is that firms employ large numbers of operations staff for "UTI Exchange processes" and face the risk of punitive fines for poor quality reporting.

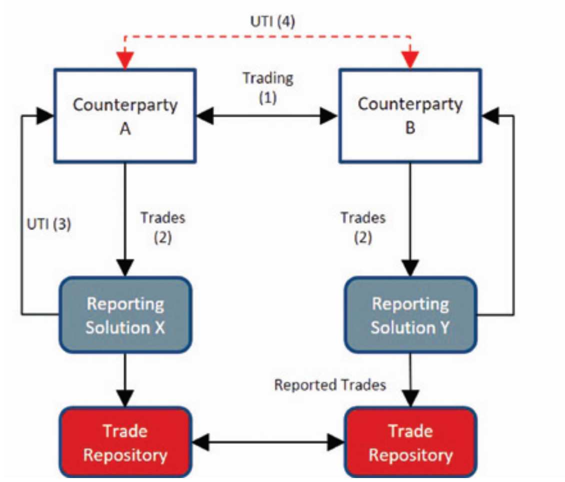
SFTR and UTI Generation

The SFTR (Securities Financing Transaction Regulation) comes into force in April 2020. Once again, a complex "Waterfall" has been discussed and agreed. As with EMIR, the "Waterfall" looks unlikely to guarantee that parties agree on UTIs and alternative solutions are being considered. Multiple solutions have been proposed and some firms have stated that they will create their own "bilateral" UTIs (which the waterfall allows). However, there is still the prospect of high costs and risks resulting from UTI related problems.

We will now discuss some potential scenarios where issues may arise.

Cross Vendor Trades

- In this scenario "Counterparty A" uses "Solution X" for SFTR reporting and "Counterparty B" uses "Solution Y" for SFTR reporting. At the moment, there is no mechanism for Counterparty A to advise Counterparty B of what the UTI is (and vice versa).
- There has been discussion among SFTR vendors about "interoperability" but achieving this may be difficult.



Potential Points of Failure
- Confusion over who should generate UTI
- UTI may already be generated by Counterparty B even though Counterparty A is the agreed reporting party
- Parties need an agreed mechanism to communicate UTIs and resolve differences
- Counterparties need to agree on who generates UTI
- How does the party receiving UTIs know which trades it should be applied to?

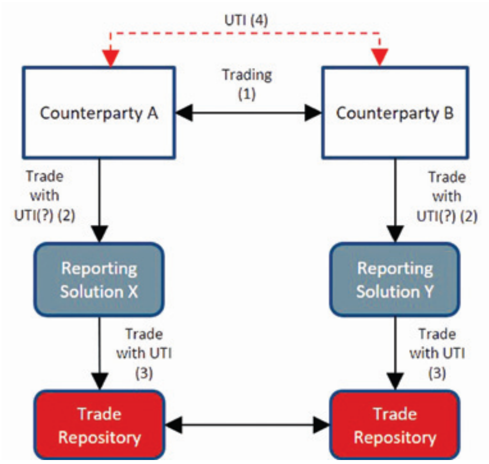
Relevant Products
- SBL (principle or disclosed agent lending)
- Repo (bilateral and not traded on a platform)

Example
One party
Broadridge, Pirum, Equilend as the external reporting vendor

Probability of Pairing trades and Common UTI = Low

Bilateral Repo Trading

- This is an area where there appears to be lower levels of coverage by vendor solutions than in the securities lending markets.
- Trades are generally agreed bilaterally and UTIs would therefore need to be manually transmitted and agreed.



Potential Points of Failure
- Both parties may generate UTI, neither party generates UTI
- UTI Exchange process
- One party may model each "interlife" as a new trade generating a new trade and the other party as lifecycle events that do not generate a UTI

Relevant Products
- Bi-lateral non-electronic Repo

Probability of Pairing trades and Common UTI = Low/Medium

Problem Scenarios

There are three main areas where the generation & agreement of UTIs is problematic.

- Cross Vendor Trades
- Bilateral Repo Trading
- Allocations for Non Disclosed Funds (ex-"ALD")

Scenario Outcome

In the above scenarios, counterparties face the prospect of having to transfer files containing UTIs directly between each other.

The industry may end up with a situation where hundreds of counterparties all need to send files back and forth to each other, all in different formats. All of these files then need to be parsed and loaded into the requisite systems.

Industry Solutions

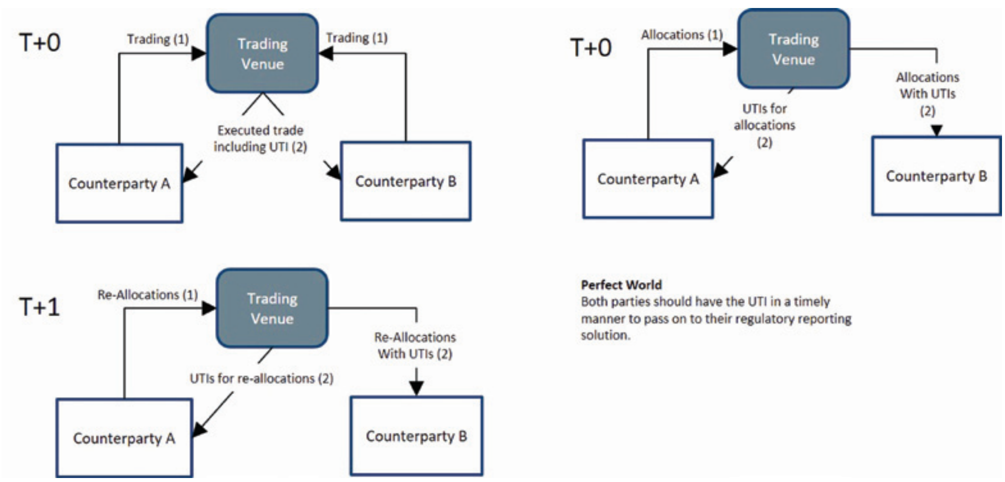
Some vendors have come up with the concept of "portals". However, there is a good deal of debate about how these portals will work, whether you need to be a customer of the vendor and who will pay for the service.

ISLA Initiatives

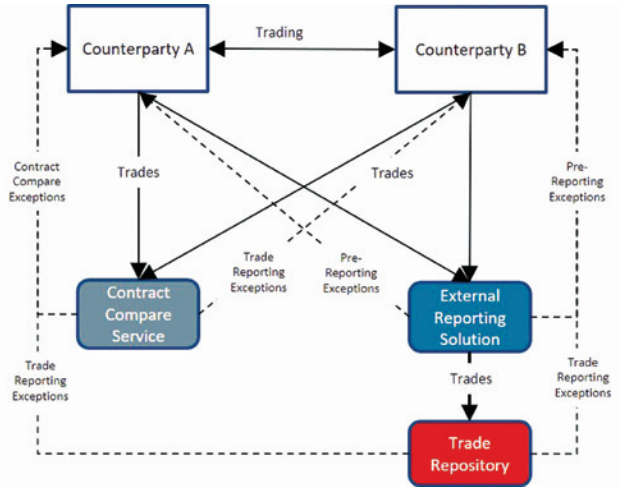
The ISLA SFTR vendor group is working on a file format that would at least standardise the format of the allocation file that would be swapped between counterparties. While this standardisation may alleviate the issue, it does not solve the problem. Firms that cannot generate and consume these files systemically will have to do so via another manual process.

Allocations for Non Disclosed Funds (ex-"ALD")

- Allocations must be transmitted to the borrowers as quickly as possible to enable them to report in the allowed timeframes. No mechanism exists to allow Lenders to report allocations (and the related UTIs) to the borrower unless the Lender and the Borrower share the same SFTR provider.



The Reconciliation Problem – Combined Picture



Potential Points of Failure

The market is heading towards a situation where many firms will be reconciling/matching the same set of trades with their counterparties three times, as shown in the diagram above. However, each will be based on slightly different sets of data and with different tolerances.

This means that each reconciliation/contract compare process would potentially produce different exceptions. Even worse, it could identify the same exception three times in different ways for different teams.

If regulatory reporting exceptions are dealt with by different teams from the contract compare exceptions, this may mean front office and other functions within a firm are queried multiple times (in different ways) about the same fundamental issue.

Some scenarios are more complex. For instance, where two parties are using different regulatory reporting solutions, using different trade repositories or are signed up to use multiple trade reporting solutions.

Key Considerations

Most importantly, if you have not yet defined your operating model for SFTR already, you need to start working on one now. This can be a complex exercise. Leveraging the knowledge of Broadridge's SFTR consulting service can provide the depth of securities finance expertise required to define a workable target state. This allows you to define an operating model that will greatly reduce the complexity around the more cumbersome areas of SFTR, such as the UTI process.

Secondly, engage with your counterparties on who will generate the UTI. ICMA suggests that it is best practice for the agreement to be captured in writing. This means that both counterparties can demonstrate to the regulator that appropriate arrangements have been made if required.

Firms also need to understand whether they or their counterparty is going to provide the UTI:

- Per relationship
- Per type of business (e.g. Securities Lending/Repo etc)
- Per platform (e.g. Equilend/MTS/Eurex/Bilateral etc)

Furthermore, it should be clearly understood how each UTI is going to be communicated:

- How will they send the UTI? Will the platform do it? Will the firm have to do it?
- How will they receive the UTI? Via a platform or bilaterally?
- Can the UTI be consumed systemically or will it be a manual process?
- Do I have to make system changes to cope?
- Do I have to hire and train staff to do the processing?

Finally, think carefully about how you will handle the reconciliation/s. For example:

- Do I execute 3 reconciliations? (1. Post trade 2. Pre Submission 3. Post Submission)?
- For each reconciliation, which team will handle it?
- If I have multiple reconciliations, how do I handle the break management so as not to overwhelm the SME's who could resolve the breaks? (e.g. A trader being asked about a Rate Difference by 2 or 3 different teams).
- Do I have to make system changes to cope with the new reconciliations?
- Do I have to hire and train staff to process reconciliations?

Conclusion

The considerations above demonstrate the complexity involved in the UTI process. Defining an operating model for this and other key areas of SFTR as quickly as possible will save a great deal of time, money and operational workload further down the line. Make sure you have a clear plan in place to navigate the UTI waterfall effectively - this could be difference between sinking and swimming once the regulation is live. ■

Mike Lambert is the Product Director for Securities Lending within Broadridge SFCM ("Securities Finance & Collateral Management"). Mike has over 20 years' experience in the design, build and implementation of Securities Finance systems such as "4sight" and other vendor systems. He has wide industry experience having previously worked for Santander (Abbey/Cater Allen), BNP, Barclays Capital, Merrill Lynch and Lehman Brothers.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LIFETIME ACHIEVEMENT AWARD

MUTHUKRISHNAN RAMASWAMI | President of Singapore Exchange

The Singapore Exchange said in late June that its long-time president Muthukrishnan Ramaswami, fondly and universally known as Ramu, had decided to retire from that position on October 1.

As president of the Singapore Exchange, Ramu was responsible for all operational aspects of SGX.

A member of SGX's executive management committee, he directly oversaw SGX's membership & international coverage including all of SGX's overseas offices, market data & connectivity and operations & technology functions. The units that Ramu managed supported SGX's award-winning derivatives and equities & fixed income businesses.

Immediately prior to assuming this set of responsibilities, he oversaw all the product groups covering securities, fixed income, derivatives and market data & access.

Ramu joined SGX as Senior Executive Vice President and Chief Operations Officer on 1 July 2007, and was appointed Co-President in July 2010 and President in May 2012.

Ramu joined SGX from Citigroup where he held senior positions across operations, technology and transaction banking in various locations including Mumbai, Singapore, Hong Kong, London and New York.

He was most recently chief information officer with the International Consumer Business of Citigroup's Global Consumer Bank, based in New York and over the years, held progressively senior executive positions in Citigroup's international and regional offices.

Ramu also served on the board of GovTech Singapore and is Chairman of its Audit and Risk Committee. He was also on the board of the Energy Market Company, a wholly-owned subsidiary of SGX.

Ramu holds a Master's Degree in Mathematics (Honours) from Birla Institute of Technology and Sciences, and a Post Graduate Diploma in Management Studies (Masters in Business Administration) from the Indian Institute of Management, Ahmedabad.

A charming, honest and popular man, the derivatives industry owes Ramu a debt of gratitude and should wish him much happiness in his retirement. ■

EXCHANGE OF THE YEAR AND DERIVATIVES EXCHANGE OF THE YEAR

SINGAPORE EXCHANGE

In a year that has been characterised by volatile trading markets, SGX has provided trading and clearing certainty across multiple asset classes on a single platform, meaning clients were able to manage their Asia risk exposure in a single venue.

SGX currently offers products that enable customers to hedge their exposure to an impressive 99% of Asia-Pacific GDP and the exchange also has the longest trading hours in the region, offering greater flexibility to traders in Asia and further afield.

Crucially, the Singapore Exchange has become a crucial centre for trading China with its world's leading foreign exchange USD/CNH derivatives and its liquid and vibrant China equities suite of FTSE China A50, MSCI China, and MSCI China NTR futures.

Over the past year, the USD/CNH futures contract crossed $1trillion notional value traded, with half of trading volume coming from London and US hours.

Singapore's FTSE China A50 was also a success with $1.2 trillion traded over the past 12 months, up 26% year-on-year. The open interest on the FTSE China A50 was an impressive $12 billion at the end of April 2019, which was up 52% year-on-year.

In the past 12 months until April 2019, SGX cleared over US$22 billion of trades (up an exponential 75 times year- on-year) and established over $3 billion of outstanding open interest in its MSCI China products.

SGX ever further cemented its place as the undisputed hub for derivatives with its efforts to develop the 'Virtual Steel Mill', a notion that is central to China's ongoing industrialisation and urbanisation.

SGX has sought to create market-wide value for wholesale participants as well as financial investors who portfolio-manage 'vertically' between physical and paper as well as 'horizontally' between closely-related markets in the steel value chain as well as bulk-shipped cargo and freight.

Singapore is the undisputed centre of iron ore derivatives outside China. SGX cleared over 1.3 billion metric tonnes of iron ore in 2018 and that business has performed well in 2019 also.

Interestingly, over a quarter of SGX's 1.3 billion metric tonnes iron ore derivatives market comes from buy side institutions and funds while almost 9,000 contracts daily or almost 20% of total volume is traded in the central limited order book, which is up from 12% in the previous year.

> In the past 12 months until April 2019, SGX cleared over US$22 billion of trades.

SGX also launched its world leading 65% iron ore contract in December 2018, addressing risk management needs from clients exposed to increasingly volatile quality spreads. Since its launch, the contract has seen about 1 million MT traded on average each month and reached a total of almost 7 million MT traded by the end of May 2019.

SGX has been working in other commodities also. SGX launched in May the SGX SICOM TSR20 Rubber Options, an industry first. SGX benchmark rubber derivative volume grew 23% in 2018 to more than 9 million tonnes traded and cleared, representing an international volume market share of 50%, up from 41% in the previous year.

SGX's liquid Nikkei 225 futures contract has performed well also, with an impressive $19 billion of open interest at the end of April 2019, up 13% year-on-year.

In June 2019, SGX became the first exchange in Asia to extend a portfolio compression service from OTC products to listed derivatives. SGX is offering portfolio compression of the listed Nikkei suite of contracts comprising the SGX Nikkei 225 Index Options, SGX Nikkei 225 Index Futures and SGX Mini Nikkei 225 Index Futures.

SGX MSCI Net Total Return ("NTR") futures suite spans 23 futures contracts based on regional and single country MSCI indices. As at end April 2019, the SGX MSCI NTR product suite had $28 billion in open interest, representing an eightfold growth year-on-year. Total notional volume cleared in the past 12 months topped $229 billion.

SGX is also Asia's biggest and most diverse exchange for FX derivatives. Growth has been exceptional, with FX futures volume on SGX reaching US$914 billion notional value in calendar 2018.

An acrimonious election cycle in India, overlaid on top of turmoil in global emerging markets, ensured that the SGX INR/USD futures crossed US$120 billion notional value traded (+11% year-on-year).

SGX also developed and launched the FlexC FX Futures (FlexC) in July 2018, which enables privately negotiated bilateral trades with tailored expiration dates to be cleared just like a standard FX futures contract. The product has received strong buy-in from the broader FX community. ■

CHIEF EXECUTIVE OFFICER OF THE YEAR

TEYU CHE CHERN | chief executive of Phillip Futures

Phillip Futures was established in 1983 and was one of the founding members of the Singapore Derivatives Exchange Trading and one of the first local firms to connect to the CME when that group established a telecommunications hub in Singapore in 2005.

Since 2006, Phillip Futures has been run by Teyu Che Chern who joined Phillip Securities as a management trainee in early 1998.

In his time as chief executive, the Phillip Futures business has grown and transformed beyond recognition. It is much more than just a Singapore-based broker now, trading in multiple markets and across asset classes with a particular strength in futures, foreign exchange and commodities.

Phillip Futures currently holds some 21 global exchange licenses including Hong Kong Exchanges and Clearing, the Intercontinental Exchange, the Japan Exchange, India's National Stock Exchange and the Singapore Exchange.

> In his time as chief executive, the Phillip Futures business has grown and transformed beyond recognition.

In November 2018, Phillip Futures became a primary member of the Futures Industry Association, the main listed derivatives trade association.

Teyu Che Chern said at the time: "Being selected as primary member of the FIA means we are formally acknowledged by the industry as a key player, it is an honour for us and we thank the FIA for this recognition. Along with other FIA members, exchanges, brokers, trading companies and service providers, we will continue to actively support the ecosystem of the cleared derivatives markets."

This honour coincided with FIA's invitation to Mr Teyu to be a panel speaker at its 14th Annual Asia Derivatives Conference (Asia 2018). The FIA Asia Derivatives Conference took place in November at The St. Regis Singapore. ■

EMERGING MARKET EXCHANGE OF THE YEAR AND COMMODITIES EXCHANGE OF THE YEAR

DALIAN COMMODITY EXCHANGE (DCE)

Founded in 1993, the Dalian Commodity Exchange (DCE) is approved by the State Council and regulated by China Securities Regulatory Commission (CSRC).

Over the years, through orderly operation and stable development, DCE has already become the world's largest agricultural futures market as well as the largest futures market for oils, plastics, coal, metallurgical coke and iron ore. It is also an important futures trading centre in China.

The major functions of DCE include providing venues for futures and options trading; developing and listing contracts; organizing and supervising trading, clearing, and settlement; surveilling market activities and enforcing rules; formulating and implementing risk management rules; organizing marketing and investor education events; and providing market data and information services.

Currently, a total of 17 futures and two options have been listed for trading on DCE, which include No.1 soybean, soybean meal, corn, No.2 soybean, soybean oil, linear low density polyethylene (LLDPE), RBD palm olein, polyvinyl chloride (PVC), metallurgical coke, coking coal, iron ore, egg, fiberboard, blockboard, polypropylene (PP), corn starch, ethylene glycol (EG) futures, soybean meal options and corn options, covering sectors of grain, oils and oil seeds, livestock, animal feed, forestry, chemical, energy, and metals.

In addition, DCE has started introducing overseas traders into the iron ore futures market and formally launched commodity swaps business. The Dalian iron ore contract traded 350 million lots in the year to the end of July, which was more than the 305 million lots traded on the soybean meal contract.

DCE has 164 member firms, 314 designated delivery warehouses and 15 designated depositary banks. ■

> Currently, a total of 17 futures and two options have been listed for trading on DCE.

BEST NEW CONTRACT

DALIAN COMMODITY EXCHANGE'S IRON ORE FUTURE

Dalian Commodity Exchange (DCE) officially introduced overseas traders to trade iron ore futures on May 4 2018, marking the first time that non-Chinese traders had been introduced to trade an onshore Chinese launched futures product.

Since the overseas traders were introduced, the vast Chinese derivatives market has said the market has functioned well. International participation in the iron ore markets has started steadily and grown, individual lots and open interest in the contracts have continued to increase and the overall market is highly liquid.

Indeed so popular is the contract that it has emerged this year to become Dalian's most liquid product, with almost 70 million lots traded in July compared to nearly 50 million lots of Soybean meal futures, Dalian's next most popular contract, according to Dalian data.

The Dalian iron ore contract traded 350 million lots in the year to the end of July, which was more than the 305 million lots traded on the soybean meal contract.

Crucially the iron ore futures prices on the Dalian Commodity Exchange also effectively reflect the changes in supply and demand as well as the fundamentals.

As the world's largest iron ore derivatives market, the iron ore futures on DCE have successfully attracted the attention and participation of overseas industrial clients and investment institutions.

> So popular is the contract that it has emerged this year to become Dalian's most liquid product

The Dalian Commodity Exchange iron ore launch came a few weeks after the Shanghai International Energy Exchange (INE) launched a crude oil futures contract that was open to international investors. The Dalian experience was different because it was an established commodities contract on the exchange.

The carefully managed introduction of international traders to the iron ore suite should act as a template for the internationalisation of other onshore Chinese futures markets. ■

INTERNATIONAL EXCHANGE OF THE YEAR

CME GROUP

CME had a strong year in the 12 months to the middle of 2018 and has managed to maintain this momentum this year.

The CME Group's Asia Pacific average daily volume of trading rose an impressive 29% in 2018, outstripping any other region for the Chicago-based exchange group. This was led by growth in volumes of Equity products (up 109%) and Options (up 68%).

CME Group volumes during Asian trading hours also experienced strong growth. This is testament to the fact that international customers are cognizant of the benefits of trading on a robust, liquid and regulated marketplace like CME Group's, with a broad array of futures and options products available virtually around the clock.

In 2018, CME Group's products traded during the Asian trading hours (8am – 8pm Singapore/HK time) was 16% of the global ADV, of which 25 products were trading at least 20,000 contracts.

Several key developments took place between May 2018 and May 2019 which have cemented CME Group's position as the exchange of choice in Asia Pacific, and further consolidated our foothold in Asia Pacific, as we continue to tap on the growth of the region.

In the past 12 months, CME Group has launched 4 new key Energy products targeted at the Asian client base.

CME Group has continued to establish a strong network of partners in Asia Pacific to better address the needs of clients. The group works closely with various Independent Software Vendors (ISVs) and Market Data licensees to extend its reach to customers and new client segments.

The CME also grew its network of Futures Commissions Merchants (FCMs) across Asia Pacific through the Asia Market Data Incentive Program. ■

> In the past 12 months, CME Group has launched 4 new key Energy products targeted at the Asian client base

CLEARING HOUSE OF THE YEAR

LCH

LCH has spent recent years patiently growing its Asia business with a particular focus on clearing local interest rate swaps traded by the world's largest investment banks.

The LSE Group-owned clearing house's Asia ambitions passed a significant milestone in June this year when it hired its first sales representative to its new Singapore office.

LCH told FOW it is setting up a Singapore office and that former Merrill Lynch sales representative Jason Warner had been hired as a sales representative.

The opening of the Singapore-based office is part of LCH's strategy to growing its Asia Pacific business, with Sydney remaining its Asia hub.

This will be the firm's third office in the Asia Pacific region, having already established an office in Tokyo.

The news of the Singapore office emerged one day after LCH onboarded Bank of China's UK branch as a clearing member – making it the clearing house's first Chinese clearing member.

LCH said in June the Bank of China's UK branch had gone live on its SwapClear service.

"I believe we will continue to deepen our co-operation in more areas to promote the internationalisation of the Renminbi and Chinese institutions," Wenjian Fang, chief executive officer of Bank of China UK, said in a statement.

Bank of China has been offering protected payment services to LCH's clearing members since 2015, when it became the first Chinese bank to do so.

In April, Cameron Goh, global head of product, rates told FOW the clearing house is looking into new currencies for overnight index swap products including the New Zealand Dollar.

LCH expanded in March its non-deliverable interest rate swaps offering to include five additional currencies including the Taiwan Dollar and Thai Baht. ■

Bank of China has been offering protected payment services to LCH's clearing members since 2015, when it became the first Chinese bank to do so.

CHINESE EXCHANGE OF THE YEAR

SHANGHAI FUTURES EXCHANGE

As one of the three major commodity exchanges in China, Shanghai Futures Exchange (SHFE) has been working to serve the real economy and to assist the global clients in risk management with derivatives.

SHFE strives to serve the local, connect the world and prevent systemic risks. It offers products and services for domestic and international clients to better manage their risks, and for real economy enterprises to achieve stable operation. With years of efforts, SHFE has gradually grown into an important exchange with global influence.

The comprehensive product line of SHFE includes copper, aluminum, zinc, lead, tin, nickel, gold, silver, steel rebar, steel wire rod, hot rolled coil, crude oil, fuel oil, bitumen, natural rubber, and paper pulp futures, together with copper options and natural rubber options, covering major basic industrial products of non-ferrous metals, ferrous metals, precious metals, energy and chemical, as well as agriculture products.

As a membership exchange, SHFE has 198 members across China, covering 27 provinces, autonomous regions and municipalities.

SHFE has witnessed steady and sound growth of its market share, ranking No.1 in global exchange-traded commodity derivatives market for three consecutive years.

Ever since 2018, SHFE has progressed in product and business innovation, having launched crude oil futures, its first internationalized product, copper options, the first industrial futures options in China, paper pulp futures, natural rubber futures options, and initiated SHFE standard warrant trading platform, fully catering to the customized demands in the physical market.

Accordingly, SHFE has established a product platform system of commodity futures, commodity futures options and index derivatives, and standard warrant trading platform. ■

INDEX PROVIDER OF THE YEAR

S&P GLOBAL PLATTS

S&P Global Platts is the leading independent provider of information, benchmark prices and analytics for the energy and commodities markets.

For over 100 years, it has brought clarity and transparency to the energy and commodities markets, enabling companies, governments and individuals to act with conviction.

S&P Global Platts, a division of S&P Global, is headquartered in London and employs over 1,200 people in more than 19 offices worldwide located in global business and energy centres on five continents.

From an original focus on petroleum, S&P Global Platts now covers oil, natural gas, LNG, electric power, coal, shipping, petrochemicals, metals, and agriculture. The markets are constantly changing but S&P Global Platts' real-time news, market reports, analytics, price assessments and fundamental data always provide a valuable reference point.

S&P Global Platts has also invested in its forecasts, data sets and tools, and now provides the most robust analytics offering available to ensure customers can maximize value in their chosen markets.

Traders, analysts, risk managers, purchasing agents and other professionals at more than 12,000 public and private sector organisations in over 190 countries benefit from S&P Global Platts services.

> Bank of China has been offering protected payment services to LCH's clearing members since 2015.

These organisations range from exploration companies, miners and refiners to end-users such as utilities, airlines, steel companies and auto manufacturers. They also include government agencies, financial institutions and professional service firms in law, engineering, consulting and asset management.

The firm also engages with customers, market participants, industry organisations and regulators every day through forums, training sessions and one-on-one meetings. S&P Global Platts actively consults to develop methodologies that meet the markets' needs, and ensure the IOSCO principles are central to its approach. ■

FIXED INCOME TRADING SYSTEM OF THE YEAR

AXE TRADING

Axe Trading, which has offices in the UK, Germany, Australia and Singapore, has emerged in recent years as the pre-eminent fixed income trading platform as used by the sell-side agency brokers and the buy-side.

The technology firm offers a single, clear, customisable perspective into the fragmented fixed income markets by aggregating runs, axes, venue and broker liquidity, together with transaction data and client notifications into a single view – with the capability to forge that information into insight. AxeTrader believes it's not about how many screens you have, it's about how efficiently you can spot and capture the trading opportunity.

Data from these venues is integrated with the client's other systems, including Bloomberg, the web, analytic systems and more. The result is increased efficiency and client satisfaction.

AxeTrader also puts traders in complete control of their relationships across the global fixed income markets. Bespoke or automated pricing ensures competitiveness and best execution while client tiering and automation reduces operational risk and minimises disruption.

Europe's Mifid II regulation has placed onerous new requirements on fixed income trading firms.

AxeTrading's technology captures granular snapshots of market depth and competing pricing with a full audit trail at the moment of execution, to meet Best Execution requirements under Mifid II – and automated trade capture to meet reporting obligations.

AxeTrader's analytical tools allow fixed income participants to leverage the benefits from the migration to electronic trading. More complete execution audit trails, auto-generated regulatory reports, and the ability to analyse and understand clients' past trading data, give them a better business insight and improved profitability.

The technology also offers seamless integration with middle- and back-office systems which reduces operational risk, boosts efficiency, and improves regulatory/ reporting compliance. ■

DERIVATIVES TRADING SYSTEM OF THE YEAR

TRADING TECHNOLOGIES

While Trading Technologies has been a market leader in derivatives trading software for a quarter of a century, the US firm has sought to press home its advantage in Asia over the past year.

Trading Technologies announced in May 2019 that TT would connect the Korea Exchange (KRX) via a partnership agreement with leading regional FCM, Samsung Futures, and followed this by saying in June it had connected to a major Chinese derivatives markets via a partnership with Hong Kong-broker, CN First International Futures Limited.

Mark Pottle, Regional Executive Sales Director for Trading Technologies in Asia, said at the time: "China continues to expand its international offering and lower the barriers of entry. This and anticipation of what's next is stimulating more and more interest in trading Chinese derivatives markets."

In the past two years, Trading Technologies has significantly invested in TT's Asia/ Pacific infrastructure, positioning TT within the Tokyo data centre to provide the lowest-latency access to the Osaka Securities Exchange, Tokyo Commodity Exchange and Tokyo Financial Exchange.

The US tech firm has also offered collocated access to the Hong Kong Exchange in Hong Kong.

With this expansion, TT Premium Services, which include TT Reserved and TT Prime, are now accessible to Tokyo-based trading firms. TT Reserved proves derivatives traders with a dedicated infrastructure within the main Tokyo data centre to run advanced algorithmic trading strategies. TT Prime uses the TT Reserved infrastructure to allow traders to use TT's custom-built Autospreader.

Trading Technologies' TT Reserved and TT Prime are just two of the solutions available to TT's Asia clients. ■

MULTI-ASSET TRADING SYSTEM OF THE YEAR

CHARLES RIVER

Charles River serves over 350 Buy Side Institutional, Wealth Management and Hedge Fund clients in 44 countries.

The Charles River Investment Management Solution (Charles River IMS) provides a multi-asset Order and Execution Management System (OEMS) delivered via Software as a Service (SaaS) integrated with data, FIX connectivity and trade analytic capabilities all within a single platform.

Traders can manage trade execution strategies, streamline complex work flows, find liquidity, execute trades across all asset classes and currencies, and ensure compliance from one blotter. They save time and reduce errors by not having to switch between systems or re-key information. Firms eliminate the multiple interfaces, fragmented workflows and order staging problems inherent with separate order and execution management platforms.

Charles River supports all asset classes and a full range of financial products, from asset class-specific to solution oriented, and complex multi-asset products, including derivatives. Supported asset classes include: Equity; Fixed Income; Listed and OTC Derivatives; Futures and Options; FX; Mutual Funds; ETFs; and Discretionary and Non-Discretionary wealth products.

> Traders can manage trade execution strategies, streamline complex work flows, find liquidity, execute trades across all asset classes and currencies, and ensure compliance from one blotter.

Combining OMS and EMS (OEMS) capabilities streamlines workflows and improves communication across the front office. Portfolio managers can monitor order status in real time. Traders work more productively with 'one click' execution and auto routing from a single trading blotter.

Multi-asset order and execution management capabilities improve trade execution and provide access over 1200 global liquidity providers including brokers, broker algorithms, ECN's and other trading venues. Portfolio managers, risk officers and traders share a single, comprehensive view of orders across the trade lifecycle.

The Charles River FIX Network gives traders direct access to 1200+ brokers, broker algorithms and global execution venues. ■

BEST NEW PRODUCT – RISK MANAGEMENT

THE TECHNANCIAL COMPANY

Technancial's flagship product JANUS Risk Manager has undergone some major changes at the start of 2019, some of which are not "visible", but have made another leap forward in terms of value to the customer. JANUS has made Measuring Risk even more effective, while continuing to improve performance and scalability, in response to client demands.

Customers were looking for added ability to capture all trading activity for any account, with the assurance that new business that hadn't previously been observed or hadn't had specific rules configuration implemented, would not go unnoticed.

JANUS now captures the unexpected event, for an unexpected product, if an event/product combination occurs, enabling the risk or trader manager to see this (it will be visible as a low level, yet distinctive alert on the dashboard) and then act on including the product in a rule set, set parameters that make sense for it, and keep, as before, detailed records of those changes. Additionally, all events together with their various checks are stored in JANUS Behavioural Analytics, making a unique and rich data set available for analysis.

As part of the growing need to dynamically adjust limits, according to behavioural or market conditions, this is really the first step in what will be a fully automated limit monitoring lifecycle, that will enable from small to large organisations to control and modify trading activity across thousands of accounts, thousands of products with millions of orders/trades and billions of market updates. JANUS calculates and stores data and also makes it available to third party systems via an extremely rich and open API. ■

> As part of the growing need to dynamically adjust limits, according to behavioural or market conditions, this is really the first step in what will be a fully automated limit monitoring lifecycle.

BEST NEW PRODUCT – TRADING AND EXECUTION

NUMERIX

Numerix has completely reinvented its software stack by embracing new fintech and evolving to meet today's requirements for flexibility and customization. As financial institutions seek more flexible solutions that are designed to address specific business challenges, Numerix technology has been developed to holistically view risk, regulatory impact, and decision support across trading systems.

Numerix Oneview, the next generation enterprise pricing and risk platform, is capable of handling both complex products, high volume instruments and a variety of execution styles. The goal of the firm's product strategy is to supply next generation risk and P&L systems to the trading business. The Oneview platform allows for a flexible consumption of solution components – for addressing trading needs, regulatory and risk management so that business units can build adaptive, high-performance environments economically.

The agility of Oneview has enabled Numerix to quickly capitalise on a cloud-first mantra by building and deploying multiple technology solutions through a new managed services platform, which offers a range of diverse applications to support valuation, risk, and infrastructure requirements. Adoption of a reactive micro-services framework for faster, event-driven calculations is also central to the strategy going forward.

When it started down the path towards achieving the vision for Numerix Oneview, the firm had a very clear understanding of how the underlying architecture could be built to apply to a wide range of use cases within front office trading and risk management. It's been this vision, plus the richness of Oneview's feature set and usability within the software, that sets Numerix apart from the competition. ■

BANK OF THE YEAR

SOCIETE GENERALE

Societe Generale's activities in Asia date back to the 19th century and the French banking giant today has offices in 12 locations across Asia Pacific: Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan, Thailand and Vietnam.

With its regional headquarters in Hong Kong – a core hub of the worldwide Societe Generale Group – the firm employed over 10,000 employees in the region in the middle of 2019. The firm's expertise here ranges from corporate and investment banking to asset management, securities services, global transaction banking and specialised financial services.

Societe Generale has been in Singapore since 1979 and Singapore is the base of the bank's South East Asia hub. The main business out of Singapore is Corporate & Investment Banking where the firm offers a wide range of services to corporate, institutional and public clients.

The bank prides itself on supporting clients in accessing financing, diversifying their sources of funding, and as a financial institution to contribute to an effective functioning of financial markets.

SG's bankers act as intermediaries between the companies and states that need financing, and the investors looking for investment opportunities. This supports the entrepreneurial ecosystems that nurture growth sectors such as infrastructure and energy. The group also provides investment solutions for asset managers, hedge funds, pension funds, insurance companies and others that manage savings.

In addition, Societe Generale offers Global Transaction Banking where it supports financial institutions and companies with their business activities such as Cash Management and International Trade Finance.

From the Singapore office, the firm manages its representative offices located in the South East Asia region (Indonesia, Malaysia and Vietnam). ■

> The bank prides itself on supporting clients in accessing financing, diversifying their sources of funding.

NON-BANK BROKER OF THE YEAR

G. H. FINANCIALS

Since clearing its first trade in February 2014, G. H. Financials (Hong Kong) Limited ("GHFHK") has gone from strength to strength, firmly establishing a presence within the local community as the Hong Kong 'brokers' broker', providing low latency, highly efficient order routing and clearing services on domestic and international markets.

In the judging period GHFHK amassed some impressive statistics. Cleared volume increased 66%, gross revenues were up 68% while the client list grew 31%.

As its brand awareness has grown, G. H. Financials (Hong Kong) not only simply expanded but also deliberately diversified its client base, servicing entities from Singapore, Malaysia, Taiwan, Australia, USA, as well as Hong Kong.

The strategy of GHFHK has not followed the usual pattern of increasing market share by attracting revenue from other clearers via lowering commissions. Instead, the firm has sought to differentiate its product by supplying effective international solutions to the local FCM community in Asia, providing new opportunities for local clients to reach overseas venues, increasing liquidity for all market participants on international exchanges.

Conversely, GHFHK is committed to providing premier clearing services on domestic exchanges to international clients and we are delighted to be working with some of the major proprietary trading firms.

Despite operating in an industry with ever-increasing costs pressures, GHFHK does not pursue short term profits at the expense of long-term damage to the marketplace as a whole. The firm is mindful that it doesn't want to start a 'race to the bottom' in commission levels, instead seeking to ensure commercial proposals are fair and, importantly, sustainable for all parties concerned. This is achieved by understanding each client's particular needs and actively managing its cost base continually. ■

COMMODITIES BROKER OF THE YEAR

ADMIS SINGAPORE PTE. LIMITED

In today's competitive environment where every brokerage house seems similar, it is ever important that ADMIS Singapore Pte. Limited continues to stand out by being unique and innovative.

ADMIS Singapore's success comes from its people. Teamwork is the fuel that allows common people to attain uncommon goals. The company's focus on investing in people and innovation, as well as the way it handles the day-to-day workflow, runs counter to the way companies traditionally operate.

Unlike most companies, the group always shares knowledge and failures. The firm believes failures are building blocks of success and transparency about mistakes brings about learning. The culture allows people to explore solutions and commit mistakes. This is vital in helping the team become more dynamic and creative. Many companies are also good at following standard operating procedures but ADMIS Singapore places less emphasis on it. Instead, the firm communicates more and delves deeper into understanding the needs of each client, the changing industry and modify our workflow accordingly. A strong team with a different way of thinking is hard to replicate and this is how the firm stands out from the competition.

The firm expands its network of partners continuously, from vendors providing new trading systems, to ADMIS Singapore granting access to more exchanges for our clients to trade in. Shanghai International Energy Exchange (INE), Dalian Commodity Exchange (DCE) and Singapore Exchange (SGX) are among those it has opened up to customers.

The introduction of Tripartite Agreements (TPAs) has been wildly successful as it is a great substitute to overcome our limitations of being unable to provide margin financing. ADMIS Singapore increased partnerships with more banks, with 40% more than the previous year. ■

EMERGING MARKET BROKER OF THE YEAR

MINMETALS & JINGYI FUTURES

Minmetals & Jingyi Futures was founded in 1993 and is headquartered in Shenzhen. As the best-capitalized futures company in China, the company has 30 branches and two wholly-owned subsidiaries. For many years, the company has been rated as an A-Class & A-Level futures company by the CSRC.

As a comprehensive futures company, the business covers commodity & financial futures and options brokerage, international business, risk management, investment advisory and asset management.

The company has built several high-quality data centers in Shanghai, Dalian, Zhengzhou, Shenzhen and other places.

With high performance and low latency servers and network devices, the company can reduce the network latency to the microsecond level for all the futures exchanges.

Advanced technical measures such as double-line connection, hot-backup system and network load balancing system are in place to ensure fast, stable and safe trading channels for clients.

For overseas investors, the company offers international mainstream IT systems such as Fidessa, Bloomberg EMSX, FIS, CQG and ATP. With the advantage of having a professional bilingual team and multiple advanced trading platforms, the company offers one-stop solutions for account opening, trading & risk control, clearing, and customised IT systems to institutional and individual clients globally.

Minmetals & Jingyi Financial Services Co., Ltd was founded in Hong Kong and officially obtained the business licenses from the Hong Kong Securities and Futures Commission. The business scope includes futures brokerage, investment consulting, etc. It offers futures and options trading services in multiple international exchanges such as CME Group, ICE, LME, SGX, TOCOM and HKEX. Products offered include stock index, FX, interest rate, energy, metal, and agricultural products.

The core team members have over 10 years of experience supporting international investors and possess a great knowledge of the derivatives market's operational mechanisms as well as the legal and regulatory systems in different exchanges. ■

Asia's reporting evolution

Following the 2008 financial crisis, regulators from across the globe have been focussed on improving the transparency of their respective over-the-counter (OTC) derivatives markets by implementing reporting regimes.

However, due to the varying needs of global OTC derivatives markets, regulators have taken different approaches to rolling out these reporting requirements.

Ollie Williams, head of The Depository Trust & Clearing Corporation's (DTCC) Data Repository services for Asia said to FOW that Asia has been rolling out its reporting requirements in a "staggered approach", and that in regions such as Singapore this has meant that Trade Repositories, Service Providers and the Industry as a whole remain in implementation mode.

"In regions such as Australia and Singapore reporting has been rolled out in a staggered way, with regulators looking to ensure that they implement the rules in a sustainable way.

"This means that in regions such as Singapore, reporting requirements still haven't been rolled out to everyone and participants are at different stages of preparation for the upcoming reporting requirements," Williams said.

The Monetary Authority of Singapore's reporting regime for OTC derivatives will be expanded in October this year and capture a wider scope of firms.

"On the one hand you have globally active firms who certainly are not new to reporting and might be prepared for the next phase of requirement.

"In the middle we have large regional banks who would be fairly comfortable with reporting, but might be caught by the new compliance dates.

"And then you have firms who are yet to report for the first time," he said.

Williams explained that this is a challenge for the industry because the needs of the firms will vary greatly from each other.


Ollie Williams, head of The Depository Trust & Clearing Corporation's (DTCC) Data Repository services for Asia

For instance, participants who have been reporting for a number of years might be more focussed on processes after the reporting itself, such as reconciliation and enhanced assurance.

On the other hand, some firms might be new to reporting and will be grappling with more fundamental requirements relating to identifying what needs to be reported and how the data is extracted.

Williams highlighted that financial utilities such as the DTCC who have been operating in the industry for a number of years can help provide participants with access to information and best practice dependant on what stage they are in their reporting preparations.

"With improvements we have made over the years to make the reporting simple, it will allow participants the relief to focus on setting up the system and reconciliation," he said.

Evolving beyond reporting

Williams highlighted that while DTCC has been operating in Singapore it has witnessed growth in the ecosystem of solutions surrounding trade reporting requirements.

"The world keeps on changing. A large regional Asian bank for instance might not only be caught by local regulation, but also by European regulation when acting on behalf of a European client.

"This means some firms might not just be looking to replace old reporting capabilities, but also systems to take the pressure of the continual change in regulation," he said.

He highlighted that recent developments seen with Securities Financing Transactions Regulation(SFTR), such as a specific data standard being required for the submission to the trade repository present unique challenges to industry and could potentially become more common globally.

In response to increased interest from Industry in technical solutions to requirements like this one, DTCC has introduced a data transformation service that can convert data in any format to the relevant SFTR standard, with the firm looking to roll this out to more of its GTR services.

Next steps

Looking forward Williams said he sees APAC regulators as generally being fast followers with their regulation and showing signs of looking to harmonize with other global regulators, but in some cases looking to act in a coordinated, regional way at the same time or ahead of the global community

"We see early signs of this regional cooperation with standardised Unique Transaction Identifier requirements that APAC regulators are looking very closely at and are likely to roll out imminently.

"As regulators see the finalisation of their requirements roll out, the next step will be how these regimes harmonize globally," Williams added. ■

Contact

gtraccountmgtasia@dtcc.com

CHINESE FCM OF THE YEAR

GF FUTURES

GF Futures (Hong Kong) Co., Limited. (Abbreviate to GFFHK) is one of the first Chinese Futures Commission Merchants (FCMs) approved by CSRC to set up in Hong Kong.

GF Securities and GF Futures, as 100% shareholder of GFFHK, are landmark enterprises in the financial industry of mainland China. Supported by GF Group, GFFHK has rich experience on connecting China and overseas derivatives market.

GFFHK has always been adhering to the customer-oriented philosophy, especially with institutional clients. GFFHK's service levels are even comparable to the world's top investment banks.

Firstly, GFFHK provides direct membership services for clients. GFFM is the first Chinese owned company to trade as a ring dealing member of the London Metal Exchange, as well as one of the first Chinese members of the London Stock Exchange, providing international trading and clearing services across a wide range of international markets. GFFM is also a member of the Intercontinental Exchange, Singapore Exchange (SGX) and Hong Kong Exchanges and Clearing.

Secondly, GFFHK is the only Chinese FCMs that operates an over-the-counter business. Currently, it has established a unique competitive advantage in overseas derivatives market, especially in terms of iron ore, metal and energy products.

> GFFHK's performance has even reached the level of outstanding European and American FCMs

After years of positioning, GFFHK's performance has even reached the level of outstanding European and American FCMs. In 2019, GFFHK's metals trading volume on the London Metal Exchange and the SGX showed a sharp upward trend and occupied a large market share. At the same time, the firm's open positions in foreign exchange futures also ranked top of the market. In addition, in May of this year, GFFHK won the honour of SGX Best Performing Chinese Futures Brokerage House (Iron Ore).

GFFHK is a rising star in the international futures industry. It is committed to providing its clients with the most professional services and escorting their investment. ■

CLIENT CLEARING PROVIDER OF THE YEAR

CITI

In 2019, Citi's Clearing business in Asia has continued to lead the industry, growing market share and client momentum while providing clients with timely access to new products, spearheading key derivatives industry capital reforms and maintaining thoughtful risk management. The Citi APAC FCC business grew 22% in 2018, which in percentage terms was the largest gain amongst its peers, as measured by Coalition.

Citi FCC remains number one ranked by cleared swaps notional at all major rates clearing houses and segregated swaps client initial margin, and is a top three provider of futures and over-the-counter clearing, per Coalition revenue data.

This success has been driven by the innovation and leadership of Citigroup's people and continued investment in scalable technology.

In futures, Citi acquired talent from tier one firms in electronic execution, and simultaneously delivered several product differentiators including new algos, reporting and connectivity to Asia Pacific exchanges.

Citigroup's investment into offering JSCC to global hedge funds is now coming to fruition with a spike in clearing margin.

In November 2018 Citi made a strategic decision to combine its foreign exchange Prime Brokerage business with its client clearing business. As Uncleared Margin Rules phase 4 and 5 hit the clients in Asia, the cost of doing NDF on a bilateral basis is going to increase manifolds. Therefore NDFs/ Clearable Options will migrate to clearing due to sheer economics. Citi's reorganization gives its clients a seamless journey as they start on the path of clearing.

In this period Citi was also awarded its second clearing mandate in China by one of the largest banks. This is a strong testament to its industry leading offering. ■

Itarle sets sights on Asia, margin and surveillance

Dr. Paul Lynch has been at the forefront of electronic trading for over 20 years, having started his career as a Liffe trader, ran algorithmic trading at Citigroup and founded Itarle in 2005.

Yet the industry has changed beyond recognition over the past two decades, as post-2008 financial crisis regulation has piled the pressure on investment banks in particular.

Stricter capital requirements and prescriptive trading rules such as Europe's Mifid II have forced banks to reconsider the instruments they trade and how they trade them.

Mifid II, which took effect in early 2018, required all firms that trade European products to comply with its rules and, given virtually all banks and brokers above a certain size have an interest in Europe, Mifid II has in the past two years effectively become the global standard.

Dr Lynch, the chief executive officer of Itarle, said: "The wave of regulation has meant that banks and brokers are really focusing on the efficient allocation of capital to where their core strengths are.

"We are increasingly working with banks and brokers who want to partner with an expert in best execution algorithms that allows them to retain their own corporate identity through using a best execution algo service that has expertise in market microstructure," he continued.

One of the most draconian of the many Mifid II requirements is that firms must show regulators they are getting the best deals for trading customers, an idea known as best execution that relies on transaction cost analysis (TCA).

Dr. Lynch said: "When it comes to TCA, should banks be marking their own homework? Mifid II has mandated TCA but does not require a third party to handle the analysis. Different banks have taken different approaches – some have made a point of the fact they have a third-party handling their TCA. We will see this debate evolve throughout 2020 and beyond."

Itarle, as a supplier of customised trading algorithms, is well-placed to act as a third party, helping clients demonstrate their compliance with Mifid II's best execution requirements.

The firm, which is based in Switzerland and has had a presence in Asia since 2007, sees Asia as a major growth opportunity over the coming years as Mifid II becomes more pervasive but Dr. Lynch admits it is a complex region to navigate.

The Itarle chief said: "Asia does not have a single exchange model; it is highly fragmented and different to the US or Europe, which are becoming increasingly homogenised.

"In Asia, the challenge is understanding the market microstructures. Different instruments have their own characteristics, which only become apparent if you listen to the order book. There is a lot of work tuning the algos to individual markets and Itarle has invested a lot of capital in this."

Itarle of course is not in the business of building algos for every contract out there, rather it is looking for liquidity of at least 50 ticks a day which ensures enough data for the firm to "build a microstructure model with which to calibrate order placement techniques".

The firm goes further than rivals by building customised algos for each maturity of a contract, capturing more of the spread on each instrument and delivering superior execution performance.

Looking ahead, Dr. Lynch sees complex options strategies, such as straddles and strangles, as an opportunity for his firm.

He is also looking to use Itarle's algos to help banks and other firms to make the best use of the scarce collateral they have.

Dr. Lynch said: "As we are now some two years into Mifid II and the dust is starting to settle, we are looking at using algorithms to help banks reduce margin. Futures exchanges remain competitive and there is a strong and increasing appetite among both the buy-side and the sell-side to reduce margin."

The Itarle chief executive said the firm is also looking at building a real-time market surveillance solution, which would be an improvement on the current crop of surveillance systems.

"If there's a problem, we believe that people would rather know immediately. The first wave of surveillance was done out of necessity but, with advances in real-time machine learning logic, we certainly see these technologies playing a role in market surveillance."

Dr. Lynch added: "Market surveillance involves looking at metrics such as order to trade ratios or size displayed versus fills. We need to be listening to the trader in real-time to see if his or her behaviour is different to what was happening an hour ago or a week ago. This requires breaking the individual complexities of the different trades and user types." ■

Contact

Itarle Asia
Contact person: Edica Lin
Tel: +852-3782-0002 (O) / +852-6353-3199 (M)
Email: edica.lin@itarle.com

ETF/ PASSIVE FUND MANAGER OF THE YEAR

CSOP ASSET MANAGEMENT

As the most successful ETF issuer in Hong Kong, CSOP has been demonstrating its leadership in ETF industry by managing more than 24 ETFs and ETPs listed around the world.

2018 was a year full of uncertainties and the equity market saw a lot of turbulence. Yet having satisfied investor's demands for risk-hedging and return-protection, CSOP's HSI inverse product attracted almost $500million and the HK and USD money market ETF drew HKD 3.3bn respectively.

Since CSOP listed its first ETF – CSOP FTSE China A50 ETF, CSOP has started its journey to the top ETF issuer in Hong Kong. Among all severe competition from global asset managers and China managers, CSOP outpaced its peers by dominating the Hong Kong ETF market by contributing almost half of the liquidity to the market.

According to the latest data issued by HKEX, CSOP dominates the Hong Kong ETF market with six of the top ten traded ETFs, which equates to about a 30% market share of Hong ETF turnover.

CSOP Hong Kong Dollar Money Market ETF (3053) is arguably the most innovative and successfully ETF product among all the newly-listed ETFs in 2018, especially in the bear Hong Kong equity market this year. Starting from 2018, Hang Seng index has been dragged down by escalating trade disputes but the launch of CSOP HKD MM ETF equipped Hong Kong investors with an unprecedented investment tool for principle protection and cash management in an uncertain market.

CSOP is not only a China ETF provider but has already grown into a comprehensive ETF platform provider which can satisfy investor's diverse demands in different market circumstances. ■

€urope's role in the €nergy €volution

by **Gordon Bennett,** Managing Director Utility Markets at Intercontinental Exchange

Europe's energy strategy aims to achieve a trilogy of interdependent objectives: secure, competitive, and sustainable energy, to help address the impact of climate change. This is underpinned by the 'clean energy for all Europeans' package and Europe's commitment to the Paris Agreement.

Already, the continent's natural gas and emissions markets have been critical in its shift toward cleaner energy and meeting its policy objectives. Now, these markets are poised to expand their role globally, as the road to a low carbon future drives demand for cleaner energy, and the need to accurately price greenhouse gas emissions.

The European Union Emission Trading Scheme (EU ETS) was the first and continues to be the largest Emissions market globally. This cornerstone of the EU's climate policy provides transparent pricing in euros, helping to cut emissions in a cost efficient manner.

Europe's natural gas markets are an indispensable partner in the transition to renewable energy. As an affordable, cleaner alternative to other fossil fuels, natural gas can help meet rising demand from countries in Africa and Asia, where the cost and intermittent nature of renewables make them unsuitable for a primary energy source.

Europe and natural gas globalization

Natural gas markets traditionally reconciled supply and demand on a regional level in the U.S., Europe and Asia. This order is being disrupted by surging shale production in North America which has made the U.S. a key LNG exporter, while Asia's long-term legacy oil-indexed LNG contracts are unwinding. As a result, producers are no longer tied to destination-specific contracts or oil-indexation, and natural gas is evolving to become a truly global commodity - subject to free market supply and demand dynamics.

This evolution calls for globally recognized natural gas benchmarks in key demand and supply centers, to ensure that LNG finds its way to the most willing buyers.

The Title Transfer Facility (TTF) market has developed into Europe's leading natural gas benchmark, following its establishment in 2003 to enhance the liquidity of the Dutch gas market. Modelled on Europe's first actively traded natural gas market - the sterling-denominated National Balancing Point (NBP) - its rise was gradual. For several years after its establishment, the TTF was thinly traded and only gained traction after the European Commission's Third Energy Package was introduced and the Netherlands developed the TTF into the 'Gas Roundabout' of Europe. This development was accelerated by the oversupply of natural gas at the end of the last decade, which translated into low spot prices and made legacy oil-indexed purchase agreements untenable, as gas and oil prices decoupled.

Hub based gas-on-gas pricing became the norm in Northwest Europe, further boosting liquidity of the forward market, with a preference for euro-denominated contracts on the TTF. From 2009 to 2011, TTF's traded volumes rose by an average of over 62% per year. Since 2016 it has outstripped NBP allowing it to gain the moniker of the "Brent of natural gas". While NBP has retained its status as an important secondary source of forward liquidity, TTF's position as Europe's natural gas benchmark has been cemented.

The ocean transport of LNG creates a virtual pipeline between demand and supply centers of natural gas in the U.S., Africa, Europe and Asia. As a result, these regional markets are becoming increasingly interconnected - with a larger number of new LNG deals referencing the TTF market, including those in Asia. The globalization of natural gas has elevated Europe's importance as the world's LNG balancing market, with strong volume growth for TTF reflecting this internationalization.

Meanwhile, the status of North America's Henry Hub is under threat as it diverges from natural gas prices at key shale basins - supporting the rise of regional basis markets which are more representative. Low and globally disconnected natural gas prices have also thrown Henry's relevance into question: in a pre-global gas market, Henry-indexed contracts meant a price advantage for buyers. Now, tighter margins mean that new U.S. export facilities will find it problematic to tie themselves to the marker, as a global market with cheaper prices in Europe and Asia make the practice uneconomical.

> "Although the creation of a global carbon price may be challenging in the medium term, the EU is well placed to build its position as home to the world's largest carbon market."

TTF takes center stage

Capitalizing on the rise of TTF as Europe's natural gas benchmark means avoiding the dilution of liquidity towards other hubs. Yet rivals to a lead benchmark remain. Germany has plans to challenge the TTF through the merger of its NCG and Gaspool hubs, which would bring together two existing illiquid markets. However the merger has been criticised by market participants as being costly, complex, and is not expected to achieve any significant improvement in German natural gas market liquidity. In addition, market participants argued that TTF already enables them to hedge exposure to German gas markets. The German energy regulator BNetzA and industry have also recognized that any integration of both German market areas should include TTF to have any meaningful effect on market liquidity.

More broadly, support for a European natural gas benchmark will come from the continent's ongoing shift from oil-on-gas to gas-on-gas pricing - including initiatives to encourage the end of oil-indexation in Southern and Eastern Europe. Addressing physical capacity constraints in the EU (e.g. between France and Spain) would bolster the creation of a single European gas market by supporting increased price convergence across Europe. Further policy support for a single European gas benchmark would come from full implementation of existing EU gas directives, which should further liberalise the EU's gas and power markets.

What is TTF?

- The Title Transfer Facility (TTF) is a virtual trading hub, where participants can transfer the title on natural gas in the transmission system to other market players
- The Euro-denominated marker can absorb excess supply of LNG not sold in Asia - acting as the world's balancing market
- As a liquid natural gas hub with global relevance, TTF is well-positioned to play a key role in the energy transition.

The EU carbon market - global leadership

As the cornerstone of Europe's climate policy, the ETS has shown tremendous resilience since its launch in 2005. The recent ETS Phase IV revisions and Market Stability Reserve - which addresses surplus allowances and improves the system's shock resilience - help assure its future as a key component of the energy transition. Europe's success in establishing the world's largest international carbon market has inspired similarly designed schemes around the world, from California to China.

By continuing to promote the linkage of third country emission trading schemes to that of the EU, deep liquidity in the secondary ETS market could be further advanced. Switzerland is a recent addition, and will link its emissions trading scheme to the EU's in 2020. Linking emissions trading systems is a long-term goal for the EU, and helps cut the cost of fighting climate change.

The lack of a coherent primary energy policy has led to a diverse generation stack in Europe, with inconsistent outcomes for EU climate policy. With natural gas recognized as an ideal partner fuel in transitioning to a low carbon economy in Europe and Asia, more emphasis should be put on a European primary energy policy. Part of that consideration could include promoting the broader use of LNG in areas such as transportation fuel.

Although the creation of a global carbon price may be challenging in the medium term, the EU is well placed to build its position as home to the world's largest carbon market. Longer term, establishing a replacement for Certified Emission Reductions (CERs) developed by the introduction of the Clean Development Mechanism (CDM) - could support a truly international carbon market. Already, the Paris Agreement's Article 6 represents a potential replacement: a legal framework for a market-based mechanism at a regional and international level. Procedures for Article 6 and the rest of the Paris Agreement are still being negotiated, ahead of the 2019 Conference of Parties (COP) in Chile. The 2020 COP in Europe is likely to be a critical summit, marking full adoption of the Paris Accord and the deadline to strengthen national action plans.

More broadly, market-based mechanisms will be crucial to help quantify the cost of polluting. The European Union Emissions Trading Scheme is experienced in the design and operation of these markets, with anticipation around additional mechanisms via the Paris Agreement. And as business leaders and policy makers grapple with the consequences of climate change, the effective use of these tools - and the ability to meet developing nations' energy needs - will ultimately dictate the success of the energy transition.

The transition to a zero carbon economy will be a long and uncertain road - and one that moves in stages - as it dictates a new preference for primary energy sources. While the higher cost of renewables may be feasible for developed nations, energy-poor countries will prioritize reliable and cost-efficient sources. To meet this demand, natural gas is a key 'partner fuel', with markers such as TTF being ideally placed. ■

Small is beautiful for contract sizes

by **Louisa Chender**

Futures contracts are getting smaller, or so it may seem as just this year several exchanges expanded their offerings to "mini" and even "micro" versions of existing contracts.

The size of a contract traded on regulated exchanges is determined by the exchange itself and, along with other specifications, shape the way it is traded and the types of participants that may want to trade it.

Alongside several benefits of trading a pre-determined and standardised contract size, the lack of flexibility seen in over-the-counter (OTC) markets could for some participants act as a barrier to trade.

This is because as with other features like the tick size, the contract size has a huge impact the cost to trade. Typically the larger the contract, the higher the initial margin that will need to be posted against it. But the cost of trading is just one many key considerations that exchanges are faced with in their decisions about whether to go smaller, and how small to go.

Fresh participation

Hong Kong Exchanges and Clearing (HKEX) introduced in August six smaller versions of metals contracts listed on the LME, denominated in US dollars, under the umbrella "HKEX London Metal Minis".

The new contracts are a fifth of the standard LME aluminium, zinc, copper, tin and lead contracts (for example the lot size for LME aluminium is 25 tonnes while the HKEX London Metal mini is five tonnes). The mini nickel is a sixth of the standard LME contract.

According to a HKEx spokesperson, one of the reasons for going for a smaller contract was to appeal to both retail and institutional investors that want access to both cash-settled features, and a relatively small size.

"Smaller contract size allows more flexibility to the investors," the spokesperson said.

Due to the larger size of the legacy LME contracts, they typically appeal to hedgers (who are in a position to put up the necessary margins).

However, being a fifth of the current size, the initial margin for the new contracts also stoops down to 20%, which opens the door to fresh participation including perhaps producers and consumers.

"The contracts are small enough for financial participants to trade but large enough for physical participants to hedge their position exposure," the spokesperson explained.

HKEx however has a few other strands to this particular strategy. The new minis provide additional options for investors with exposure to base metals denominated in US dollars in the Asian time zone, and complements its RMB futures products, which are also smaller than the corresponding LME contracts.

Sammann: "We actually have a micro gold contracts already, we did see a small lift and volumes up to I think 23,000 or 25,000 contracts that are but unique."

At the same time the exchange is working to develop a scheme where both the HKEx and LME's order books are connected, called the Hong Kong-London Connect.

The USD London Metal Minis mark a key step towards that.

More participants, better price discovery

The HKEx spokesperson explained that products that typically benefit from smaller contracts would be those traded in large volumes and/or high prices, like commodities, as a smaller cash-settled contract would allow financial participants to provide liquidity by taking interim positions.

Contracts like LME copper futures, and the CME copper futures traded on COMEX - which at 25 tonnes/pounds respectively are twice the size of CME's e-mini copper futures - may conversely be restricting the types, and numbers of, participants that want to, and can, trade.

For example the risk of leaving one lot of LME copper/CME copper futures in the order book would cost a lot of initial margin, which might have been able to be allocated elsewhere.

"LME copper is a classic example of a contract that is too big to attract all participants, from retail to commodity trading advisors (CTA)," Paul Lynch, chief executive officer of Swiss algo trading firm Itarle, said.

However while legacy contracts may be larger, there is an increasing effort among exchanges to look at where going smaller would be a good fit.

"It is interesting that there is a trend towards reducing contract sizes, which we think is a good thing for price discovery," Lynch said.

Minis, and subsequently micros, will also increase volumes in an electronic order book.

"As you introduce micro contracts you introduce more participants, which leads to more traffic and more data feeds, which is good for the exchange.

"More participants will be willing to put a bid and ask at the same time, which isn't the case with a large contract size," Lynch added.

Essentially the greater the set of

participants the more likely it is that there will already be flow in the order book and participants willing to go in, adding to the stability of the price discovery process.

Marich: "One of our major client bases on the derivatives market is Russian retail investors, and they want to trade smaller instruments."

The sweet spot

Despite a number of benefits in general, smaller sizes are not necessarily a good fit for all types of contract. Exchanges are tasked not only with deciding the types of product which would benefit from a smaller version but also how small to go.

"The sweet spot is a high-value contract paired with high volatility in the market.

"As we see volatility pick up things like initial and variation margin start to become real, so wherever you have a contract of high value and there is high volatility, you could consider a mini," Lynch said.

Having launched already launched e-mini versions at a fifth of the size of its equity index futures range, including the S&P contract in the late 90s, Chicago-based exchange giant CME decided to go even smaller.

CME Group's micro e-mini futures, launched on May 6, fast became the exchange's most successful product launch with a total of over 2.6 million contracts traded in the first week.

In March this year, prior to launch, Tim McCourt, global head of equity at CME, told FOW that the new micro e-mini contracts would appeal to traders in the equity ecosystem that are already trading products like stocks, ETFs, and options. The smaller size would offer an approachable way for them to enter the futures market.

The micro e-mini contracts are a tenth of the size of the e-mini futures, to account for the fact that as index levels have grown in value over the past 20 years, the dollar amount required for initial margin has also increased.

"For some that forces a decision between maintaining exposures in futures or liquidating the position to pursue other parts of their equity trading strategies," McCourt told FOW in March.

Removing inhibitions

With an average of 550,000 contracts traded daily as of August 13, it begs the question whether the exchange would look to replicate the success in other products or asset classes.

However during an investor call presenting the financial results for the second quarter of the year, CME executives explained that the real need for micro sized contracts currently lies uniquely in equities.

"We actually have a micro gold contracts already, we did see a small lift and volumes up to I think 23,000 or 25,000 contracts that are but unique," Derek Sammann, senior managing director, global head of commodities & options products, said during the call.

"Drivers behind the need for customers to resize a contract for retail participants uniquely exist in equities," he added.

He explained that the focus will continue to be solving client need where there are any "inhibitors to access in our market".

CME chairman and chief executive officer Terry Duffy reiterated that there is no plan to start rolling out micro sized contracts without careful assessment and specific purpose.

"We're very careful about how we ascribe the valuations to all of our contracts and their sizes and what the needs are for risk management purposes.

"The equity markets make complete sense, because of the valuation. We don't see that in the other asset classes that would make that demand pending right now," he added.

Similarly the Moscow Exchange (Moex) has turned to smaller contracts as part of its efforts to appeal to the large retail investor base both domestically and as it sets sights on Asia.

"One of our major client bases on the derivatives market is Russian retail investors, and they want to trade smaller instruments. This is also seen as we expand to Asia," Igor Marich, managing director of money and derivatives markets at Moex, said.

Moex's strategy is enter into licensing agreements with global exchanges like the Intercontinental Exchange, CME, and the LME, and launch contracts that are "familiar" to retail investors but at the same time less expensive to trade on Russian markets.

The exchange introduced mini Brent crude oil contract in October 2017, sweet crude oil futures and options the following April, and non-ferrous metals including aluminium, nickel, zinc and copper last October.

"Retail clients find it more comfortable for them to trade the smaller contracts, so we will launch the same contract but of a smaller size," Marich explained.

Stay relevant

As well as appealing to a broader investor base by keeping costs low, exchanges are pressed to keep up with the evolving markets and step up to potential competition.

"Exchanges are innovating to stay relevant because if they don't get it right, there is a very sophisticated market-making environment in the US that might be able to create it," Lynch said.

Similarly in the UK there is a spread betting market which can trade at more granular price points.

"It is in the exchange's interest, as well as complying with Mifid II, to innovate rather than letting OTC market makers come in and take the opportunity," Lynch explained.

However, ensuring markets are open to a wide range of participants is not only beneficial for the exchange but at the same time reflects one of an exchange's fundamental purposes.

"If it is not on a regulated exchange, there is always ambiguity about where the price is, but with a regulated exchange it is there and there is more transparency," he added. ■

SMCR: bringing the "untouchables" under the regulator's radar

The aftermath of the 2008 crisis and conduct failings like Libor manipulation have led to a swathe of reforms across the derivatives industry, manifesting in the likes of reporting rules, clearing obligations, and global efforts to transition to risk-free rates.

by **Louisa Chender**

In the UK, a parliamentary commission for banking standards also recommended that firms should take responsibility for employees being "fit and proper". This led to UK financial watchdogs – the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) – introducing the Senior Managers and Certification Regime (SM&CR) to banks in 2016.

The regime replaces the Approved Persons Regime and aims to encourage a culture where individuals clearly understand what is asked of them, where responsibility lies, and are therefore personally accountable for their conduct and actions.

The regime is effectively sharpening up and putting a framework around what not just senior managers, but staff at all levels, should be doing already. However implementing the regulation is not just a compliance effort, but requires a business-wide overhaul to embed a culture of effective governance throughout. Yet with the regime set to kick in for solo-regulated firms (i.e. regulated by the FCA only) on December 9, experts have found a lack of preparation across the industry.

Don't hold back

A survey published by business intelligence firm Acuiti in June found 39% of relevant executives across its network of over 500 professionals in the derivatives industry to be unaware they are coming into scope, while 62% of firms were either conducting preliminary analysis or hadn't yet started preparations.

However 69% of respondents that are already in the implementation phase consider it a top or high priority.

"The majority of firms still have a significant amount of work left to do in preparation for SM&CR which is unusual given that the focus of the regulation is on the individual rather than the firm," said Saeed Patel, director of product strategy at risk management-focused fintech, KRM22.

> "Senior managers will be held accountable from day one, so it is important that all functions within the organisation are up to speed in time."
>
> **Saeed Patel, director of product strategy, KRM22**

Although the scope of firms has been extended from banks in March 2016 and insurers in December 2018, to prop firms, hedge funds, brokers etc in December 2019, the extent of preparations will depend on which of three categories firms fall in to.

Firms are designated as limited scope, core, or enhanced depending on the size of the firm. Although firms are responsible for determining which category they fall under, and the FCA provides a 'firm checker tool' to do so, the regulator will contact firms after making its own assessment.

"We expect to see a surge in activity in preparation for SM&CR when the FCA starts allocating firm types in Q3," Patel said.

"The process certainly is more onerous for the firms designated as enhanced, but at the same time there is a code of conduct that needs to be implemented across all three types of firms, so market participants shouldn't delay preparations, even if they have not yet received official confirmation of the designation they will be assigned.

"Senior managers will be held accountable from day one, so it is important that all functions within the organisation are up to speed in time," Patel added.

Changes for everyone

The regime is split into three parts: the senior managers regime which applies to people in key roles that need FCA approval; the certification regime which applies to employees that could cause harm to the firm or customers; and conduct rules which could apply to everyone.

"If you break down the SM&CR

Viall: "If you break down the SM&CR there are quite a lot of changes for everyone."

there are quite a lot of changes for everyone," Alex Viall, head of regulatory intelligence at artificial intelligence data analytics firm Behavox, said.

For example, firms will have to identify who the senior managers are and what they are responsible for. Senior managers under the Approved Persons Regime will most likely be senior managers under the SM&CR, but some executives like the head of HR or head of IT might not currently be in scope.

The new regime then requires a statement of responsibility, which is a map of what the job entails and outlines individual areas of responsibility.

"Some are saying 'yes that is my job' and the other end of the spectrum is that they say 'no I want to speak to a lawyer' – that is the swing," Viall said.

Although there are set templates which prescribe responsibilities for certain things the FCA said someone has to own, other material responsibilities may need to be added.

At the same time some senior managers might not have any responsibilities in their statements because the FCA's expectations of those individuals are clear from the definition of the role itself.

"When putting SoRs together, 'less is more' i.e. the more detail the more opaque it risks becoming and the more wiggle room there is - but FCA just wants one person to be unambiguously accountable," Vaughan Edwards, director of Medius Consulting Limited, said.

"Areas where people typically have to put more detail to ensure sufficient clarity on where things begin and end are responsibilities for things like client money, transaction reporting, account opening etc."

These tasks are typically carried out by various functions like ops and compliance but need to be owned by one individual under SM&CR. It is therefore advisable to clearly outline when managers have delegated that responsibility in a so-called delegation document.

The certification part requires firms to check and certify that employees in positions where they could cause harm to the firm or consumers, but do not need additional approval by the regulator, are "fit and proper" to perform their role at least once a year. The first certificates must be issued by December 9 2020.

Previously the FCA acted as a kind of "clearing house" for individuals that moved from one firm to another but now the onus is on firms themselves to conduct a thorough background check on who the new employee is and what they did at the previous firm.

Viall said the way that firms share that information could be interesting.

"This is going to result in interesting employment law issues.

"Firms will have an obligation to disclose conduct breaches so it may discourage people from moving, and people may be moved overseas in cases where the hiring firm doesn't view the breach as egregious as the FCA would," Viall said.

Similarly Patel points out that firms should be moving away from non-disclosure agreements (NDAs) particularly when it comes to conduct.

"NDAs are still prevalent throughout the industry. However, under the new SM&CR rules, firms which continue such practices will be in breach of the regulation," he said.

Edwards: "When putting SoRs together, 'less is more' i.e. the more detail the more opaque it risks becoming and the more wiggle room there is - but FCA just wants one person to be unambiguously accountable."

Untouchables are now in scope

Despite the fact that the name itself points to senior managers, the regime aims to make all individuals more accountable for their conduct and competence, and to encourage a culture of good governance across the firm.

"I don't think people realise it is as far reaching as it is. People who were untouchable by the FCA are now in scope," Viall said.

"So, from a training perspective firms will have to provide training for anyone that has to record information for example."

When it comes to senior managers, they will have to evidence that they acted 'reasonably' and took 'reasonable steps' to prevent a wrongdoing happening, or to stop it going any further.

"Unless an individual has a good audit trail to evidence how they acted they are going to be very vulnerable," Viall said.

"Regulators are trying to push investment in new technologies and systems and firms are becoming aware that they are at risk if they don't step up."

Equally from a conduct perspective Edwards advises firms to apply the rules to everyone because even employees down to chauffeurs, the print team etc are exposed to information that could be used inappropriately.

He adds: "There are a lot of moving parts in SM&CR. You need to make sure you invest in good systems and controls that make sure it all works properly."

Transformational change

The SM&CR is expected to transform views about compliance from 'box ticking' to instilling a culture of good conduct throughout the firm.

"Almost everyone said it is positive and beneficial. Whilst it is painful to go through it does make sense and is beneficial to the way a firm is governed," Viall said.

Patel adds: "Industry-wide compliance with SM&CR will lead to a transformational change in terms of how firms embed good culture within the organisation."

He points out that the regime goes beyond conduct risk to culture. The risk and reward structure firms have will likely fall under the regulatory scope – i.e. not only looking at how firms are dealing with poor behaviour and conduct, but also good behaviour.

"Firms need to prioritise conduct of staff over P&L generation," he said.

Another area being raised is whistle-blowers.

"Unless there is an obligation or an incentive to act as one, whistleblowing is often seen by individuals as potentially detrimental from a career stand point. But SM&CR places individual accountability for not reporting suspicious activity," Patel explains.

"Whistleblowing needs to be carefully managed, but there should be some level of reward for those who come forward.

"There is still more work to do in terms of finding the right framework for firms to incentivise their staff to report suspicious activity."

Expect a visit

Earlier in August the FCA published a review, based on interviews with 45 individuals, on how the SM&CR has been embedded into the banking sector since it was introduced three years ago.

It found that typically firms are taking actions to move away from rules-based compliance towards embedding a culture of accountability of conduct, notwithstanding some challenges around the initial stages of implementation, recruitment challenges and inconsistencies in recording conduct breaches, and how to measure culture.

Going forward the regulator said it will increase its supervisory focus on conduct rules for the firms already in scope, and experts expect those coming into to scope in December will be subject to visits after.

"High risk firms should expect to have a visit from the FCA.

"One of the requirements that the FCA has is not just how they manage poor conduct but to share good experiences of good conduct rewards associated with that. It would be good to see some cases where that is demonstrated," Patel said.

However many senior managers in the banking sector expressed concern around the meaning of 'reasonable steps' to prevent poor conduct or misconduct in the context of their business.

The FCA commented that although it's not possible to provide examples that would cover every situation, the important thing is to show they have controls and processes in place as well as to create an environment where risk of misconduct is minimised.

Edwards points out that when it comes to enforcement actions, it is key that they fall on truly culpable individuals that could not demonstrate such 'reasonable steps'.

"It will be critical for the regulator to ensure that when the first significant enforcement action under SM&CR happens, the individuals involved are very clearly culpable and that it was not a good, well-intentioned executive who typically took reasonable steps but just got very unlucky," he said.

Despite a culture of fear among some firms in the early days of the regime, the review found that to have "largely dissipated" now, as firms work to develop an open environment and can see the regulators working collaboratively with them through the transformational change. ■

> "One of the requirements that the FCA has is not just how they manage poor conduct but to share good experiences of good conduct rewards associated with that."

Saeed Patel, director of product strategy, KRM22

Open Access continues to divide the market

by **Louisa Chender**

The open access regime under Mifid II is set to become a reality for participants involved in exchange-traded derivatives from next July. The concept, which is already prevalent across equities markets, is to give market participants a choice of where to clear trades, regardless of where they were executed. However, derivatives are by their very nature more complex than equities and several exchanges and clearing houses across Europe decided to take advantage of the option to opt-out of the rules for 30 months.

In the meantime the Indian financial markets regulator introduced a landmark interoperability initiative for equity, equity derivatives and currency derivatives across India's clearing houses in June. The expectation is that consolidation of client positions and collateral, and settlement with a single clearing house, will result in cost savings, competition, and better execution of trades across India.

Open access and interoperability are very different. However, they share common goals such as reducing systemic risk while incentivising clearing by means of cost and other efficiencies. As Europe's open model kicks in next year experts consider how the cleared environment could evolve and whether interoperability could be part of it.

Efficiencies across several dimensions

Open access under Mifid II is defined as "non-discriminatory access to trading venues and clearing houses" and essentially outlines the process for accepting access requests. The idea is to shake up the silo model whereby contracts are traded and cleared within the same exchange group, spurring competition, and ultimately lowering costs for participants.

Interoperability differs in the sense that it involves clearing houses interconnecting, allowing market participants to net and cross-margin their trades on different venues.

Alex McDonald, chief executive officer of the European Venues and Intermediaries Association (Evia), considers whether open access could be the start of the journey towards greater efficiencies.

"Progress from open access would be 'portability,' perhaps a waymark towards 'interoperability'," he said.

While open access gives participants a choice of where to clear certain exchange-traded contracts, portability would allow them to move positions from one mutualised pool to another.

"This has been discussed in relation to the default in Scandinavia last year, for example if a client were to consider one clearing house to be expensive, under-funded, or without sufficiently robust governance, that market participant could shop around competing providers," McDonald explained.

At present, firms need to close out their trades and reopen them elsewhere. This could lead to "concomitant market impacts" as well as additional costs, which could be avoided when allowing the positions to remain netted during the transfer.

"Portability and interoperability would deliver efficiencies across several dimensions of risk governance and market liquidity," McDonald said.

Overcoming the issues

Mifid II expands the scope of open access from equities to exchange-traded derivatives, which do have some degree of standardisation. However, derivatives contracts are not necessarily fungible in the sense of interoperability.

An expert, that did not wish to be named, highlighted a concern that two or more contracts could be deemed economically equivalent without taking into account the fact that the contracts differ when it comes to legal and pre-technical elements.

This raises questions around how venues and clearing houses would be able to carry out their requirements in terms of things like efficiently managing positions, as well as legal requirements in an event like an insolvency, if interoperability were to take shape.

Another expert questioned whether CCP interoperability in derivatives markets would essentially require the CCPs to become clearing members of eachother.

In this respect the CCPs would have to collect margin from the other interoperable CCPs as part of the risk management and default waterfall measures, leading to concerns about increased systemic risk given the increased likelihood that stress at one CCP will be passed on to another.

However over in Asia, the Securities and Exchange Board of India recommended that CCPs get round this by implementing a 'peer-to-peer' model. Rather than becoming each other's

> "If a client were to consider one clearing house to be expensive, under-funded, or without sufficiently robust governance, that market participant could shop around competing providers."

members, the CCPs will agree margin and risk management through special arrangements on a bilateral basis.

The regulator also said interoperability could reduce trading disruptions given that if there is an issue on one venue, trades could still be routed to other CCPs.

Other benefits for participants are expected to include netting, reducing aggregate exposures, reduced operational hassles and costs given that participants may choose to only liaise with one preferred CCP, and more competition.

The vision of interoperability

Following the 2008 financial crisis, regulatory and supervisory initiatives have been geared towards the "too-big-to-fail" problem at central banks.

Meanwhile central banks themselves recognised the systemic importance of CCPs and the importance of their interoperability in times of crisis.

Evia chairman David Clark highlighted that if interoperability was their main objective, Mifid II could be creating a barrier.

"Swap markets survived the financial crisis well because of the efficiency of clearing but CCPs operate in local as well as global markets, and the danger of clearing fragmentation to systemic stability can only be addressed through interoperability between CCPs.

"This has proved difficult to achieve because of the implications for exchanges and also the unintended consequences of some regulatory changes such as Mifid II," Clark said.

"Mifid II runs counter to the vision of interoperability of central banks," he added.

For example, a major bank in Singapore, Hong Kong or Australia doing a cross-currency swap would be looking at the "too-big-to-fail" problem on a global level.

"Mifid II is purely European text aimed at European firms and didn't consider the needs of central banks.

"In response central banks said if you do this you are going to cause us problems e.g. fragmentation," Clark added.

As liquidity fragmentation in itself poses a risk to the efficiency of the markets and incites concerns about financial stability and systemic risk, it somewhat turns the objective of reducing systemic risk on its head.

"'Too big to fail' is proving to be a long-term issue that may even be regarded as 'too big to solve'," Clark said.

Open access for now

For now, European financial market infrastructures are tasked with getting operationally prepared to assess and, if appropriate, accept access requests from July 2020.

One expert pointed out that there is actually nothing to stop a clearing house approaching an exchange to clear their trades now, but Mifid II standardises the process.

In determining whether or not to accept a request, trading venues and clearing houses will look at things like whether there is a systemic risk problem, or a rulebook misalign.

Brexit complicates the matter given that as it stands MIfid II will only apply in the EU and there will be separate regime in the UK. This ignites questions about whether there is a level playing field to make the access assessments.

A "pro customer" environment

Nevertheless according to Andy Ross, chief executive officer of CurveGlobal - part of the London Stock Exchange Group, which strongly advocates open access - one the key benefits that Europe is set to see is around competition.

The regime is expected to enhance customer choice and therefore enable investors to select the best price.

"We are fiercely pro customer. It's disappointing for the end users of the market that there is a push back from incumbent exchanges on this concept of open access and competition," Ross said.

He explained that another important aspect of open access is around the licencing of benchmarks. For example, FTSE Russell indexes are licenced to a variety of exchanges around the world.

"Fundamentally the question is whether competition is in the customers' best interest? The strategic goal should be to enable the best possible access to liquidity," he added.

Innovation is key to this, and as a result of open access participants would be able to take advantage of innovative ways of trading, as well as lower costs.

On the clearing side, Evia chief exec McDonald said the 2009 G20 mandate implied that benefits from centrally clearing derivatives should be incentivised by making it cheaper to clear.

"So where a contract is admitted into CCP clearing, so open access provisions should enact that incentive by allowing novation on equal terms from any trading venue," he said.

The open access regime however reignites the debate about the fundamental purpose of central clearing and whether CCPs should therefore be profit-making entities.

"If clearing is designed to be a public utility for systemic risk purposes then it becomes complex to layer in a series of fully commercial 'for-profit' models around the function - and if not there clearly should not be a clearing mandate," McDonald said.

Conversely, if a key objective of clearing is to reduce systemic risk, an open model could create an ecosystem that is easier to manage.

Open access could essentially become a driver for more standardised terms and processes in cases where the same economic parameters are accepted across multiple clearing houses.

McDonald explained that this would make risk mitigation and supervision so much easier to support.

"You would probably get more participation, greater degrees of standardisation, less margin requirements, and more fluidity for the high-quality collateral being deployed," he said.

"Generally a greater number of benefits than we have seen over the last 20 years.

"The question remains however whether this would lower the margins for the incumbent operators who have enjoyed a very significant rerating in the decade since Pittsburgh." ■

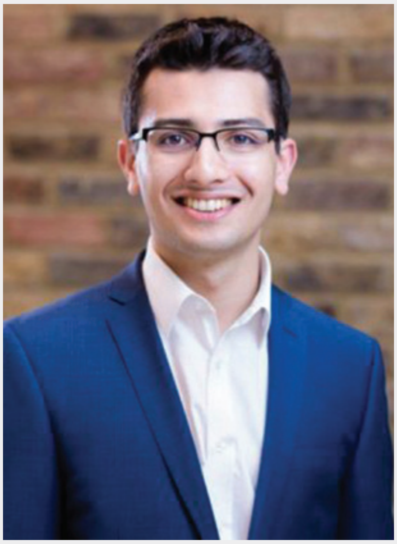
Is it the right time to switch to Sonia?

By **Joshua Roberts,** Associate Director at JCRA

With a little over two years to go until Libor loses its regulatory support, GBP debt and derivative markets are increasingly focussing on the transition to Sonia. The key task for borrowers begins with identifying any exposures to Libor in their existing contracts. After this, they will be able to assess whether their current "fallback" provisions (i.e. the clauses dictating what happens if Libor is either unavailable or deemed unfit for purpose) are sufficient, or if they require amendment.

As the transition date draws closer, those considering new financing agreements should also be asking whether they should be borrowing on Libor in the first place. To date, the lack of development in the Sonia lending market has made this a moot point for those borrowing from banks or private debt funds. Libor loans have been the only ones on offer. But with a variety of banks now developing their Sonia product range, borrowers will increasingly be presented with a genuine choice.

The first issue to consider is whether the borrower's systems and cash arrangements are sufficient to cope with the structural differences between Libor and Sonia. Unlike Libor, Sonia is an overnight rather than a term rate. It also fixes in arrears rather than in advance. So, whereas a single Libor fixing at the start of an interest period determines the interest cost for the whole period, calculating the interest cost on a Sonia loan requires every daily Sonia fixing from the relevant interest period. The immediate consequence is that Sonia borrowers will have significantly less notice of their interest cost before the payment is due.



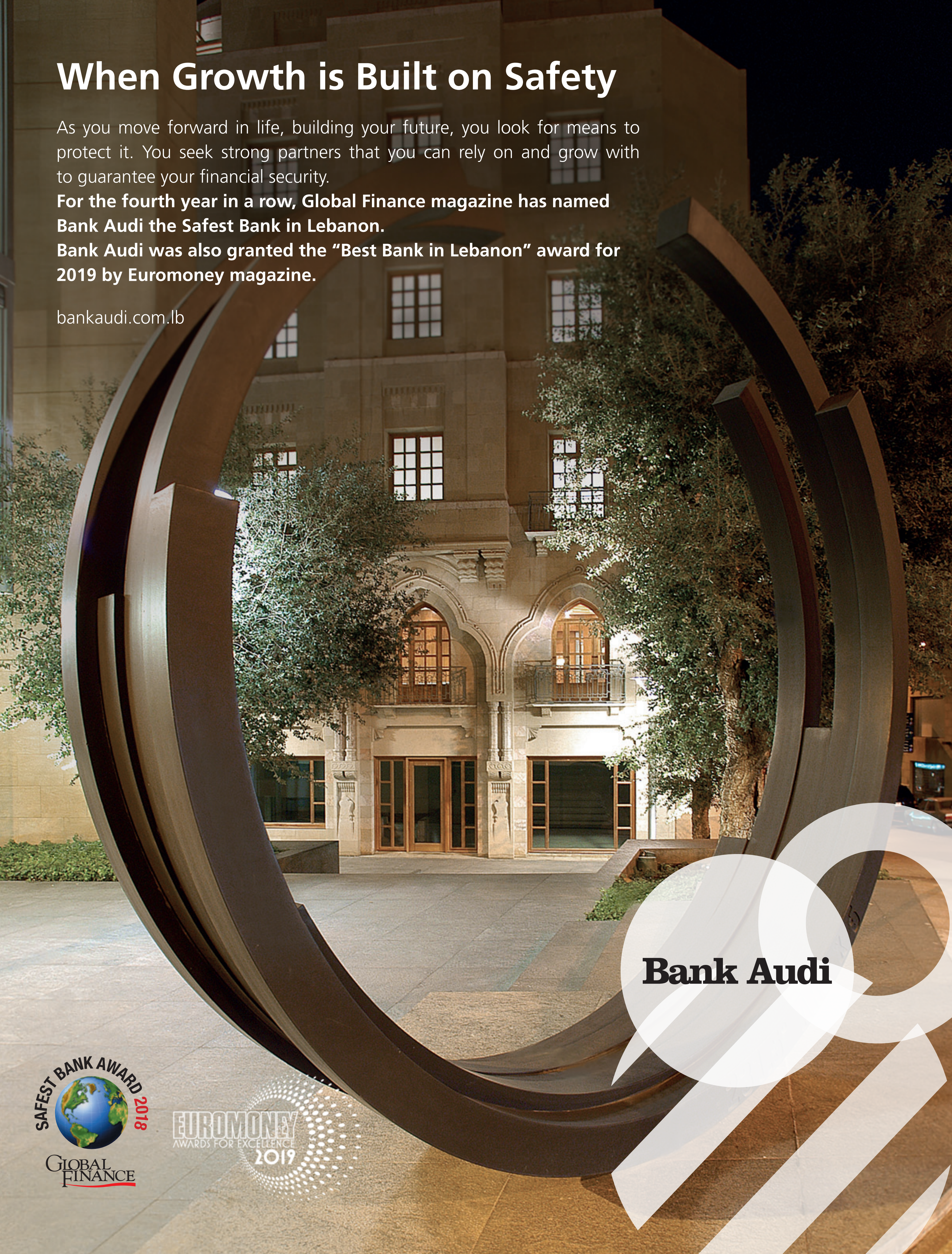
This loss of notice causes understandable concern amongst treasurers. However, it is likely to be less of a problem than it appears for two reasons. Firstly, the current convention for loans and publicly traded bonds that reference Sonia is for interest payments to be made a few days after their period end date rather than immediately. To date, the typical length of this "lag" has been five business days, although one could imagine lenders extending these terms for smaller borrowers with different cash management needs.

Moreover, the "compound Sonia" rate for a given period is essentially an average of where Sonia fixed over that period. As a result, while each daily fixing is required for the calculation, there is a limit to how much of an impact the later fixings can have on the overall rate. Sonia closely tracks the Bank of England Base Rate, so the greatest changes would be expected in response to a mid-period change in monetary policy. By two-thirds of the way through an interest period, a hike by 0.25% (the typical increment by which the Bank raises rates) would change the final compound rate by only 7.5 basis points. So while Sonia borrowers will not have complete certainty of their interest cost until the period end date, they will have a reasonable estimate in the few days beforehand.

The other concern for those looking to borrow on Sonia is the relative lack of development in its derivative markets. The last few months have seen significant progress here: in the first half of 2019, for instance, 45% of all sterling swaps traded referenced Sonia rather than Libor. As a result, those wishing to borrow on Sonia and subsequently fix their interest rate should have few difficulties doing so. On the other hand, the market for Sonia options (which includes caps, floors and swaptions) is still in its infancy and obtaining tradable quotes for these can be difficult or impossible. This means that those looking to hedge their Sonia exposures without fixing them need to look to more creative solutions, like using a Libor derivative as an imperfect "proxy hedge".

Faced with these obstacles, many may conclude that it is better to wait for the market to develop further before switching over to Sonia. Nevertheless, it is still worth considering how to approach them. It appears increasingly certain that those currently signing new Libor-referencing contracts will need to shift them over to Sonia at some point in the next two years. Considering the challenges in advance will make the transition much easier. ■

> "As the transition date draws closer, those considering new financing agreements should also be asking whether they should be borrowing on Libor in the first place."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