



BANK OF ENGLAND

SECURITIES LENDING COMMITTEE

Thursday 18 May, 2017

Bank of England

MINUTES

Attendees

Name	Firm
Nina Moylett (Chair)	Prudential
Mick Chadwick	Aviva Investors
Matthew Chessum	Aberdeen Asset Management
Mark Higgins**	BoNY Mellon
Andy Krangel	Citi
Habib Motani	Clifford Chance
David Hiscock**	ICMA / ERCC
Paul Wilson	JP Morgan
Andrew Dyson	ISLA
Mark Short	Goldman Sachs
Wladimir Kraus	FCA (Observer)
Mark Stancombe	Insight Investment
Matt Collins	Morgan Stanley
Simon Dunderdale	Prudential
Alex Lawton	State Street

*Apologies received from Staffan Ahlner (BoNY), Godfried De Vidts (ERCC)

** Alternate

Bank of England Attendees

Sarah John
Aakash Mankodi (Secretary)
Jonny Keane
Jonathan Pyzer



Introductions and Terms of Reference

1. The Bank welcomed members to the first meeting of this new Committee. It was re-iterated that the Bank had an important role as part of its remit to help promote fair and effective financial market functioning, and it is able to use its convening power to enable market participants to work together for the good of the financial system. It was noted that the creation of the new over-arching Money Markets Committee (MMC) and this Sub-Committee for Securities Lending would help piece together some important cross-market themes across a number of key markets in order to contribute to the effective monitoring of developments and market functioning. The Bank thanked Nina Moylett for accepting the role of Chair for this new Committee.
2. A representative from the Bank's Legal team highlighted the competition law aspects of the Terms of Reference for the Committee. It was noted that Committee members needed to ensure they understand their responsibilities under all applicable competition laws, including UK and EU competition law. To the extent any member is unclear of these, it was noted that they should consult the legal and/or compliance teams at their respective institution for further guidance. If a member had concerns about the discussion from a competition law compliance perspective, they should make their concerns known and the discussion giving rise to such concerns was expected to cease.

Committee membership

3. The Chair asked the committee for views on the current proposed membership of the group. One member suggested that the committee could benefit from engaging with specific infrastructure and platform providers in the market. It was noted that the Bank intended to invite a group of such participants to present their views on market conditions at a special committee meeting in July. There was support for this approach, and to invite more specialist market participants on this basis going forward.
4. There was a discussion around the number of tri-party representatives on the current committee. It was acknowledged that the number of members on the committee had to be manageable, and be mindful of the overlap with the MMC membership. It was agreed that any specific discussions that required the input of a broader range of tri-party representatives could be coordinated with relevant MMC members.

Market Conditions

Securities Financing Transactions Reporting (SFTR)

5. The Committee discussed views on the upcoming Securities Financing Transactions Regulation (SFTR). One member noted that the European Securities and Markets Authority (ESMA) will be publishing their final technical standards for this regulation in June, and it was expected that Tier 1 firms would be



expected to adhere to the regulation end October 2018¹. This regulation was expected to have significant implications for the securities lending market.

6. A number of potential issues regarding the proposed trade reporting requirements were discussed, including:
 - there was some ambiguity in the current proposed directive of the definitions of securities financing transactions,
 - the scope of coverage of SFTR was thought to cover an estimated 40% of securities loans outstanding, and it was further noted that more than 80% of bonds borrowed in the Euro-area came from entities outside the region. As a result, there were concerns around the inconsistencies in market reporting, the development of a fragmented market and potential regulatory arbitrage opportunities as a result,
 - the transparency requirements which provided information on market positioning were expected to lead some lenders to reduce their market activity (for example, sovereign wealth funds),
 - agent lenders thought less sophisticated clients would be relatively less inclined to invest in the capital costs of compliance to the regulation (thought to be c.\$100-150k/annum), and this could lead them to reduce or limit their market activity, and
 - market liquidity could decline as a result of these requirements, leading to higher securities lending costs.

7. Members were also sceptical of the usefulness of extent of reporting requirements (thought to be covering almost 100 different fields) for each trade. Although it was acknowledged that SFTR would help bring more rigour around data and consistency of trade reporting, the detail in the requirements was perceived to be excessive. It was also noted that the overall cost of trade reporting is an issue ESMA are gathering views on and the market expected to get more clarity in due course.

Pledge Structures

8. It was noted that there was increasing demand by bank counterparties for pledge structures instead of title transfer in the European securities lending market over the last 12-18 months. It was noted that pledge structures were already common and operational in the US. ISLA were looking at market standard documentation around pledge structures. ISLA have appointment Clifford Chance to develop this documentation, which they expect to complete by end-2017 or early 2018.

9. There was general agreement that pledge structures could be beneficial for the European market. Trip-party members noted that the technologies around title transfer and pledge were similar, and therefore would be able to accommodate such a transition. It was noted that the committee could discuss different risk profiles under different types of pledge structures as part of the agenda at a future SLC meeting.

¹ See <http://www.isla.co.uk/wp-content/uploads/2017/03/ESMA-published-its-final-draft-RTS-and-ITS-under-the-SFTR.pdf> for more information.



Market Structure Developments

10. There were an increasing number of initiatives to promote greater use of financial technology in securities lending markets. Some initiatives were looking to increase market access e.g. to get high net worth individuals to lend on a platform for example. While others were looking to improve links between existing market participants such as through peer-to-peer (P2P) lending. It was noted that the latter had been increasingly talked about in the market with a view to disintermediating banks in other securities financing markets such as repo.
11. The use of central counterparty (CCP) clearing in securities lending markets continued to be a topic of interest. It was thought that the market could still go through the CCP route (to address issues relating to credit intermediation of trades) and there were more two way conversations in this space in recent periods.
12. The Committee discussed whether these new developments were seen as just a revenue generating opportunity or likely to create more capacity in the market. One member noted that it was likely a combination of the two factors that are driving demand for these initiatives. Other members noted that capacity was a greater issue in the fixed income lending space but in higher margin products, revenue was likely the bigger driver. Other drivers noted were stability at period end dates in markets for example.
13. There was some discussion around the likely impediments to the adoption of such initiatives. Lack of credit intermediation was thought to be a significant issue. The credit work and documentation aspects of buy-side entities trading with unrated or low rated entities were flagged. Assuming that a CCP had not stepped in to intermediate the trade, it was noted that this could create new risks from a market functioning perspective. Other issues noted were that the infrastructures needed to be simple, standardised and on a 'plug and play' basis for these to gain traction.
14. It was further noted that for P2P to work, these platforms needed to get the middle and lower tier participants – who make up the significant share of participants – to join these initiatives. Finally, it was also acknowledged that there were issues around visibility and market activity outside the regulatory perimeter so these developments are likely to be of on-going interest to regulators.

Next Meeting

15. The Bank proposed that in light of market infrastructure being a specific topic of interest, it intended to arrange a special SLC meeting in July to invite a group of specialist market participants to present their views about market infrastructure and broader market conditions with the committee. Members agreed with this proposal.