EQUILEND BONDLEND DATALEND

ECB opens cash collateral to national central banks

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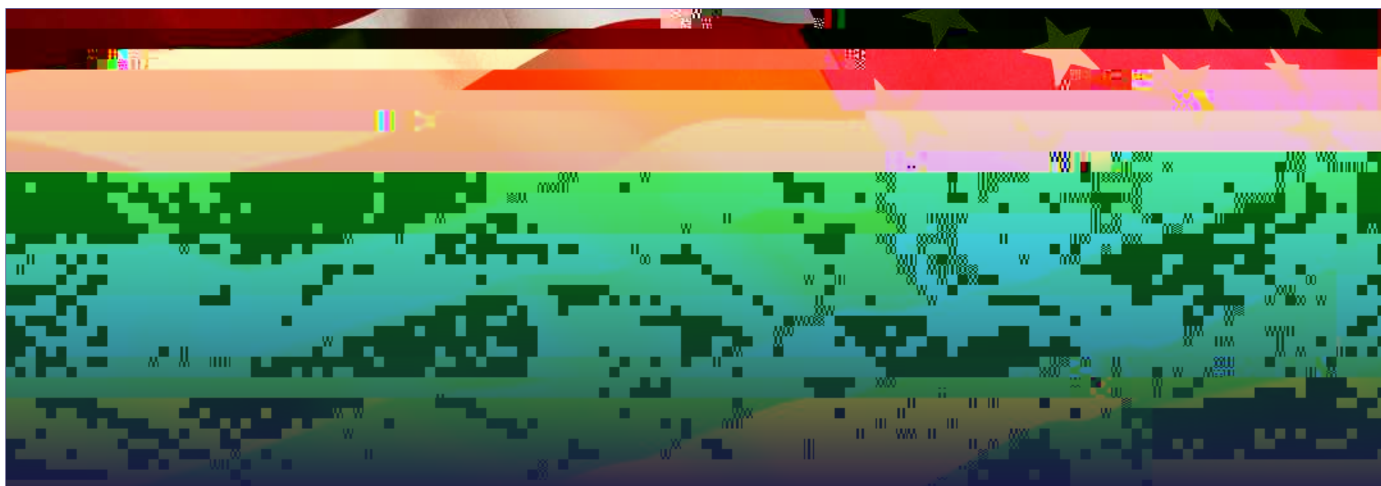
Purchases of securities under the APP with a yield to maturity below the interest rate on the ECB's deposit facility will also be permitted.

In a statement, the ECB said: "[This] extension of the APP has been calibrated to preserve the very substantial degree of monetary accommodation necessary to



gradual increases to the federal fund rate,

RBI's recently-formed MPC explained the principle objective behind its decision was to achieving consumer price index inflation at 5 percent by Q4 2016 to 2017, while also striving for a medium-term target of 4 percent.

The committee was created in September with six financial experts chosen specifically to set the bank's repo rates and move away from the previous model of having the central bank's governor decide.

In explaining its decision, the committee cited domestic liquidity, which shifted dramatically in Q4 as a result of the withdrawal of specific bank notes from early November, as a key reason behind the decision to maintain rates.

Currency in circulation plunged by INR 7.4 trillion (USD 109.4 billion) up to 2 December. Consequently, net of replacements, deposits surged into the banking system, leading to a massive increase in its excess reserves.

The central bank has since scaled up its liquidity operations through variable rate reverse repo auctions of a wide range of tenors from overnight to 91 days, absorbing liquidity (net) of INR 5.2 trillion (USD 76.88 billion).

On the international stage, the impact of the US presidential election and the subsequent increased probability of a Federal Reserve rate hike, along with the disruption in the US bonds market, played a part. The impact of a strong US dollar on other global currencies was also recognised.

The next MPC meeting is scheduled for 7 February 2017.

US SEC fines online broker $80,000 for pre-IPO swaps negligence

The US Securities and Exchange Commission (SEC) has fined an online broker for failing to register security-based swaps that were sold to shareholders in pre-initial public offering (IPO) companies.

San Francisco-based Equidate failed to submit a registration statement for the swaps provisions were triggered by a merger, acquisition, or IPO at the underlying company.

The broker ceased to offer the swaps in December 2015 following the SEC's investigation and accepted a $80,000 penalty without admitting or denying the findings.

Jina Choi, director of the SEC's San Francisco regional office, said: "Market participants are free to capitalise on the growth of private technology companies in the Silicon Valley or elsewhere, but laws must be followed to ensure security-based swaps are registered and sold through platforms where investors have full disclosure and protections."

SIFMA calls for assessment of the impact of regulation

The managing director of the Securities Industry and Financial Markets Association (SIFMA) has urged the US House of Representatives to assess the cumulative impact of regulation on short-term financing, identifying "potential, but not exhaustive, areas of concern".

In his testimony to the House financial services sub-committee on capital markets, Robert Toomey noted that the rules on client trades, designed to reduce risk, are

that may limit the ability to intermediate some repo classes."

LCR has led to additional stress on liquidity in the repo market, with requirements to have high-quality liquid assets (HQLA) on hand in case of a short-term liquidity stress event, which is increasing demand for HQLA, and therefor adding to liquidity pressures.

Toomey suggested that under the proposed NSFR regime, repos and reverse repos would be subject to "asymmetric treatment".

Under the current proposal, short-term funding from fnancial sector entities to subject entity will be subject to 0 percent available stable funding.

Short-term lending to fnancial sector entities on the other hand, will be assigned a required stable funding factor of 10 to 15 percent.

"The proposed rule would require a subject entity to hold stable funding against a repo book that is perfectly matched, efectively imposing yet another tax on these transactions," Toomey said.

"Elimination of the asymmetrical treatment of the two legs of the matched transactions would alleviate this additional pressure on this low risk activity."

Finally, Toomey argued that limited proprietary trading under the Volker Rule means more pressure on the cash markets.

He said: "SIFMA has long held the position that the Volcker Rule was a solution in search of a problem and that it did not address issues identifed in the fnancial crisis."

Firms are continuing to put policies and procedures in place that would recognise the distinction between permitted and prohibited activities, however the complexities in the approach to market making means this is a difcult task.

ICAP reports strong EU repo for the month of November

ICAP Electronic Market recorded a 15 percent year-over-year increase in European repo transactions in November.

EU repo hit €193 billion last month, up from
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The largest single task facing the European securities finance

Juanita Taylor
Chair
South African Securities Lending Association

points (bps)—was 19.3 percent higher than 2015's weighted average fee.

Liquid bonds see most activity

As ever in financial markets, one has to wonder whether this revenue bonanza has been driven by the industry taking on additional risk, especially liquidity risk, which looms over OTC traded corporate bonds.

However, indicators from the Markit Pricing Data's bond liquidity scores, which were recently made available through the Markit Securities Finance Portal, do not seem to indicate that the industry is taking on any material liquidity risk by lending corporate bonds as 95 percent of the current outstanding corporate bond loans are made out against bonds which score in the top two buckets.

These liquidity scores calculated using metrics such as bid-ask spread calculated from Markit EVB, reported cash market liquidity, and the depths of dealer quotes on both on the individual bond and parent entity. The most liquid bonds earn a score of one, on a scale of one to five.

Corporate Bond Securities Lending by Liquidity Scores

The market also appears to be actively steering clear of bonds which all in the two least liquid buckets have a utilisation rate of 0.8 percent against 5.7 percent for their peers in the two most liquid buckets.

Liquid bonds, which earn either of the two highest liquidity scores, are also much more likely to see borrowing activity as 44 percent of these bonds which sit in lending programmes have some outstanding loans.

Corporate Bond Securities Lending Fees by Liquidity Scores

The chance that an illiquid (defined by a liquidity score of between three to five) sees any demand borrow is half that as 22 percent of these bond now have loans against them.

Market not pricing in liquidity risk

While the corporate bond securities lending market is overwhelmingly made up of loans made against liquid bonds, we do see evidence that loans made against the less liquid end of the corporate bond market are failing to account for the extra liquidity risk being taken on. This trend is evidenced by the fact that the weighted average fees across the $4.8 billion of loans made against bonds which score in the two least liquid buckets stands at 25 bps. This puts the average fee across these illiquid bonds materially lower than the 44 bps earned by the loans made out to the most liquid bonds and 32 bps for those in second most liquid bucket.

One such instrument is Verizon Pennsylvania's 8.75 percent note due August 2031 which has $15.3 million of outstanding loans at fee of 7 bps despite earning the lowest possible liquidity score of five.

This relative underpricing of liquidity risk is the reason why we have made our unparalleled bond liquidity metrics available both in our front end as well as through the Markit Securities Finance Toolkit for Excel.

We hope that such underpricing, though relatively rare in the grand scheme of things, become less common in the future as we empower the industry to properly gauge and in turn price liquidity risk taken on by bond lending. **SLT**

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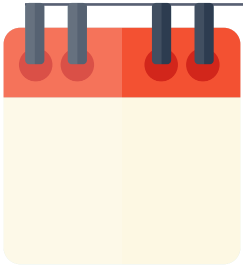

Cestaro added: “Institutional traders have been attacking the same