

All-to-all lending: a panel discussion.

Beneficial owners conference, 12th Sept 2017, London



12 September 2017



Panellists:

- **Ricky Maloney**, *Solvere FMC*
- **Ben Meaden**, *Aviva Investors*
- **Rob Verrillo**, *Elixium*

Moderator:

- **Steve Griffiths**, *Absolute Derivatives*



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All-to-all financing and repo.



Pros:

- Enhanced liquidity/profitability
- Best price execution
- Counterparty diversification
- Transparency
- Regulated, non-discretionary execution
- MifidII compliant
- Flexible/agnostic connectivity
future proofs your business

Challenges:

- Non-traditional counterparties/Credit
- Legal resource
- Technological implementation
- Intransigence/resistance to change

Challenges



1. Non-traditional counterparties / Credit

- Traditionally most buy-side firms have only transacted with Bank counterparties – well known institutions from a counterparty risk perspective. Consequently there is a shortage of credit risk data coming from traditional sources like rating agencies on non-bank counterparties. Elixirium has been working closely with Credit Benchmark to resolve this issue thereby enabling participants to reap the benefits of dealing with each other directly. By aggregating internal risk data from a number of global, regulated banks, Credit Benchmark can measure the creditworthiness of a far greater range of counterparties than a traditional rating agency covers - including many of our clients and their underlying funds.
- Agency lenders and custodians can also provide levels of “comfort” to participants wishing to access all-to-all secured financing markets using their services. This can be done via indemnification, assuring stringent operational procedures, multi-faceted execution, margin maintenance and counterparty vetting.
- For those counterparties who decide to go down the sponsored access route to gain liquidity, credit becomes a much easier process as they will face the CCP when trading. Counterparties need to do their own cost/benefit analysis - sponsored CCP access can make sense for some institutions but won't be suitable for everyone.

Challenges



2. Legal resource

- Legally our bespoke all-to-all GMRA is instantly scalable, once agreed you can trade with anyone else who has signed the agreement (subject to normal KYC), this facilitates and expedites counterparty diversification.
- Our GMRA is legally robust and has been verified by outside, independent legal counsel.
- Several major institutions have signed off on our GMRA and are using it to upgrade existing agreements with their client base. As this document covers multiples of connectivity, once signed the counterparty ultimately saves on legal resource.

3. Technological implementation

- Cloud based technology which is easily implemented and instantly scalable, secure and robust.
- GUI based, the transaction methodology is being constantly upgraded and will provide connectivity to all settlement mediums bi-lateral or tri-party, and CCP's.
- Many institutions have embedded models and are reluctant to change the way they operate. Elixium endeavours to make our offering “additive” to existing liquidity and “low-touch” in terms of using existing infrastructure and resources. From an IT perspective no direct lines or software uploads are required, you simply access Elixium via the internet and we are fully compliant with industry standard governance, security, controls and audits.

Challenges



4. Intransigence/resistance to change

"Those that say it can't be done should stand aside of those doing it" - Chinese Proverb

- Regulatory changes aimed at improving the resilience of financial markets and their participants have (as an unintended consequence) had a direct impact on the pricing and liquidity provided by traditional intermediaries (banks).
- Balance sheet costs have risen substantially as significantly more capital is now required to support outstanding transactions. These changes have had a disproportionate effect on low margin, high volume businesses, such as repo, which are balance sheet intensive.
- As a result, balance sheets have been scaled back dramatically and consequently banks have reduced their trading operations and risk appetite.
- A clear consequence of the reduction and pricing of balance sheets has been a pronounced pass-through of this additional cost from banks to their customers, and a knock on effect on the pricing and liquidity of the underlying assets.
- More specifically, spreads offered to clients for balance sheet intensive repo transactions have increased to reflect the additional costs incurred by banks by virtue of regulation – increasing the overall cost of trading. This has also affected dealers' ability to market make because the cost of holding and funding inventory has risen.

Challenges



4. Intransigence/resistance to change – continued..

- The demand for initial and variation margin cash and collateral provision/transformation is set to increase dramatically with the adoption of new rules surrounding mandatory margining of uncleared OTC derivatives. Consequently, this has led to question marks around the markets' current capacity to satisfy the demand for high quality liquid assets (HQLA) and cash during exceptional market conditions.
- Buy-side firms are feeling increasingly disenfranchised by the additional cost burden directly imposed on them by traditional intermediaries. Dysfunctional and illiquid secured financing markets globally are increasingly becoming the norm (not just a month/quarter end phenomenon). Daily averaging reporting of the leverage ratio (rather than just at quarter end) is due to be enacted from the start of 2018 in Europe. This and NSFR (Net Stable Funding Ratio) rules under Basel III increase the regulatory burden on traditional intermediaries. The associated costs are being passed onto their existing clients in the form of wider bid/offer spreads.
- MiFIDII will be introduced with a view to de-restricting market access on a non-discriminatory basis. There is a requirement for Multilateral Trading Facilities to implement non-discriminatory rules regarding access to its facility. MiFIDII introduces additional pre- and post-trade transparency requirements for a number of financial instruments, the aim of which is to create a level playing field for the regulation of all organised trading.
- The FRTB (Fundamental Review of the Trading Book), due to be implemented in local regulation by 2019, is a supervisory framework for the next generation of market risk regulatory capital rules for international banks.
- The cost of transacting repo has risen and will continue to rise as regulation is implemented.

Challenges



The buy-side now realise that they need to take ownership of their own destiny: Even those clients who could rely on the ‘diamond client’ status afforded them in the past are experiencing increasing difficulties. The sell-side can benefit from NSFR and LCR benefits and true exposure to a diverse, multi-faceted and global counterparty list.

We are facing a “democratisation” in financial markets, a sort of anti-big-bang if you like – the opportunity to re-engineer and create a better eco-system for all, is now.

How does Elixirium help? By facilitating the flow of cash to collateral, and vice-versa, Elixirium seeks to ‘release’ liquidity from counterparties that previously may or may not have been engaged in secured financing activity.

Elixirium – liberating capacity

- Elixirium is a global all-to-all electronic marketplace, designed to provide a transparent and unbiased venue for trading collateral and seeking to address the growing issues around liquidity that have been affected by on-going market evolution.
- Elixirium is a regulated (MiFIDII -compliant) marketplace (a Multilateral Trading Facility, or MTF) for collateral and secured deposits, targeted at firms of various size and constituencies, including corporate treasurers, CCPs, asset managers, hedge funds, banks, government issuers, central banks, insurers, local authorities and agencies.
- As an MTF, Elixirium is characterised by the non-discretionary execution of transactions and is therefore subject to pre-determined rules which ensure transparency and equanimity for all.
- Elixirium has been designed to address the impact of regulation, balance sheet pressures and deteriorating levels of liquidity in the repo market by providing participants with collateralised liquidity on a fair, transparent, inexpensive and equitable basis.

Elixium on-boarding process

Agreement to engage: Counterparty introduces Elixium's on-boarding team to legal, credit, IT and Operations.

Elixium team manages the process and provides counterparty with weekly updates



New customer sign off - documentation phase 1:

Participation agreement/rulebook/user forms

Access to member's area of website/UAT Access- IT on boarding



New customer sign off - documentation phase 2:

All-to-All GMRA signed



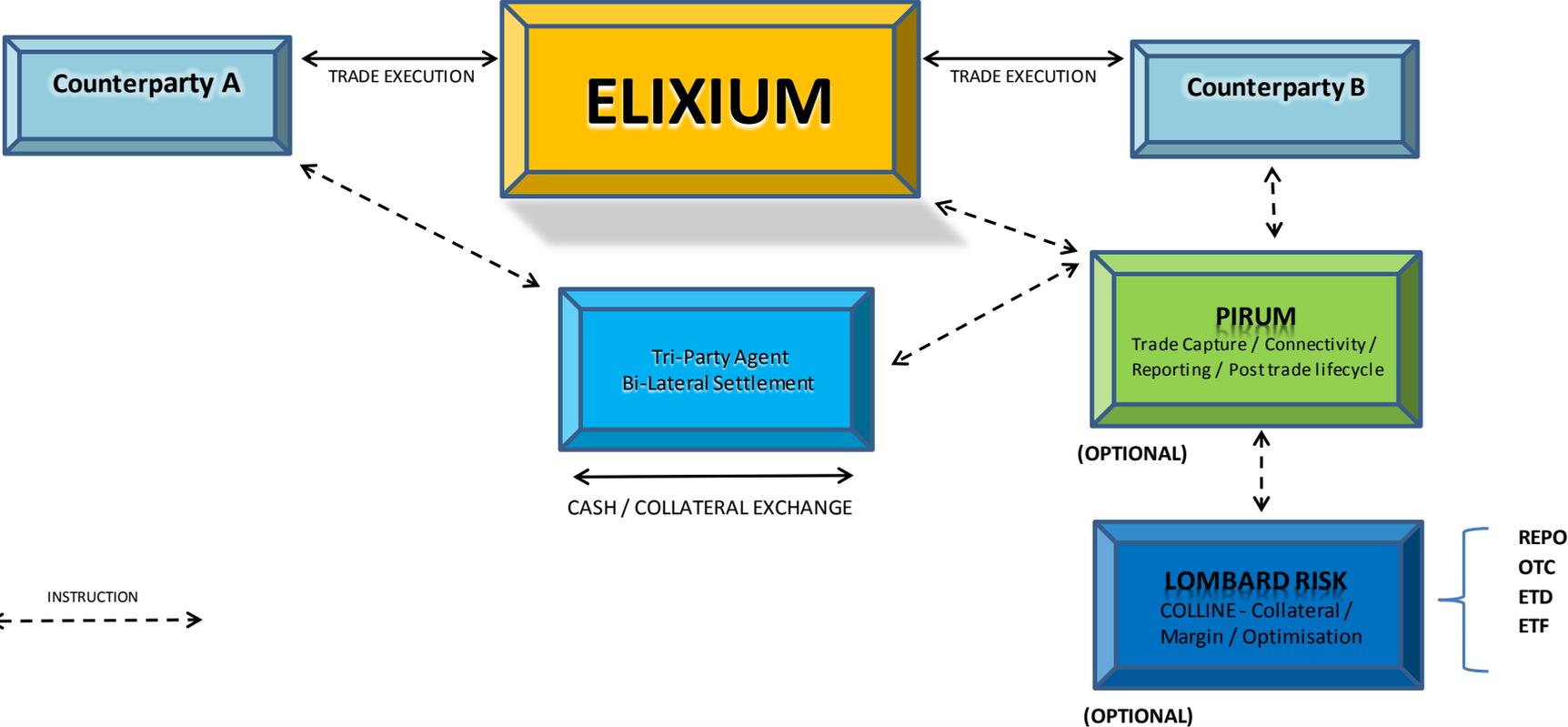
Counterparty matching/KYC, credit allocation



Ready to go!

Lombard Risk / Pirum

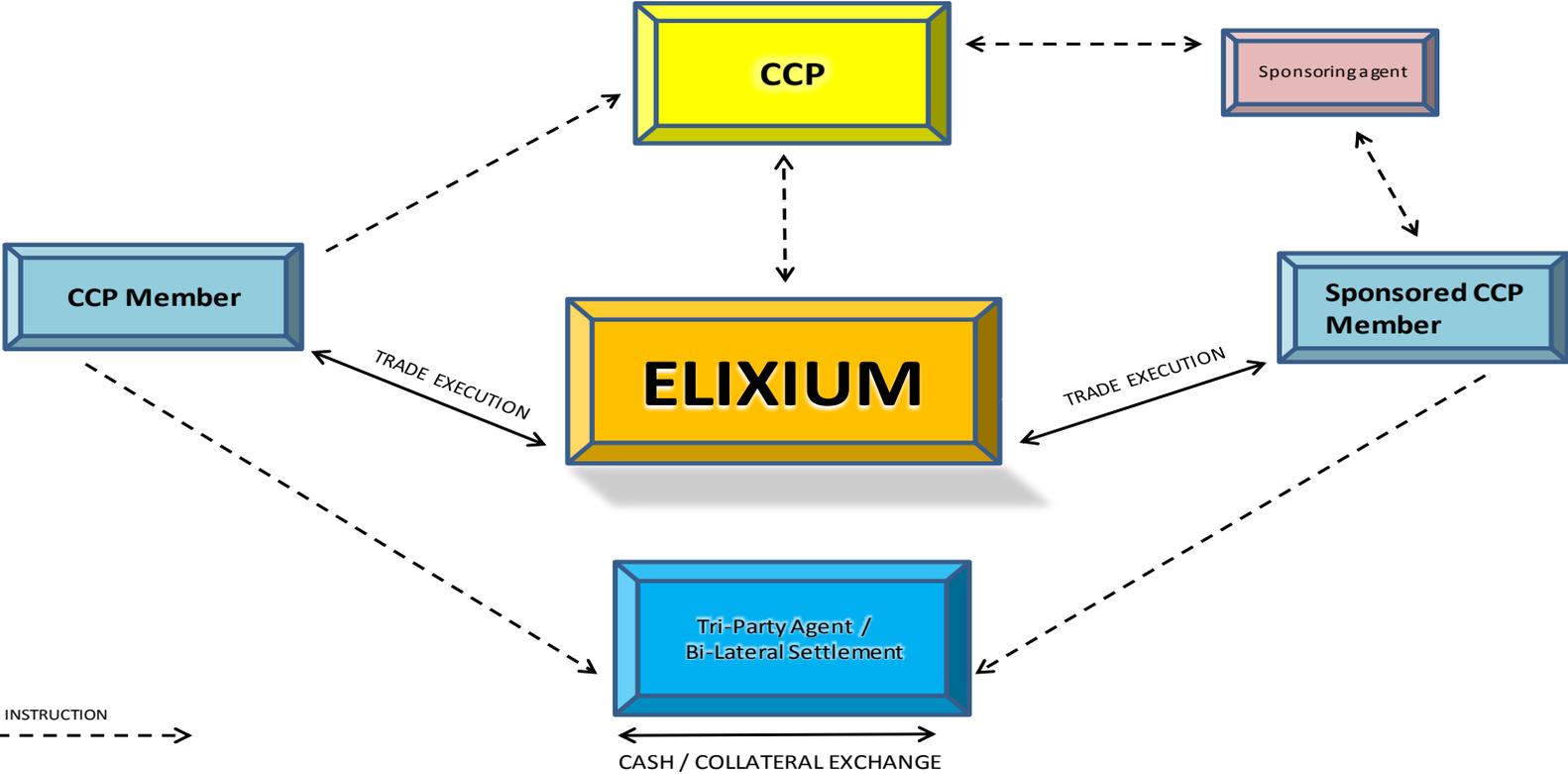
LOMBARD RISK / PIRUM



Sponsored Cleared Model



SPONSORED CLEARED MODEL



Agent / Custodian



AGENT / CUSTODIAN

KEY

INSTRUCTION / CONFIRMATION

