GLOBAL SECURITIES LENDING MARKET INTELLIGENCE NEWSLETTER

Welcome to Northern Trust's quarterly Global Securities Lending Market Intelligence newsletter. We are dedicated to providing you with timely and transparent communication about recent industry trends in the securities lending market.

This issue focuses on market commentary from our global trading and short duration fixed income experts, the latest updates on regulations impacting the securities lending market as well as information on the key industry conferences and events.

Northern Trust's securities lending team remains dedicated to monitoring market conditions while focusing on capitalizing on the demand for our clients' securities. We will continue to keep you informed of market developments and securities lending program changes in the coming year in our conversations with you and through this quarterly newsletter.

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TRENDS IN BORROWER DEMAND

UNITED STATES – EQUITY

The first quarter of the year continued the upward trend in U.S. equity markets, mainly driven by optimism over the potential positive economic impacts of the Trump administration's policy agenda. Major equity indices all posted gains for the quarter: S&P 500 +5.5%, Dow Jones +5% and NASDAQ +9.8%.

Near the end of the quarter, the failure of the Republican health-care bill, intended to replace the Affordable Care Act (ACA), led investors to question the administration's ability to implement other agenda items like tax overhaul, financial regulatory reform and infrastructure spending.

As was widely expected, The Federal Open Markets Committee (FOMC) increased interest rates by 25 bps at its March meeting, moving the target range for the Federal Funds rate from 50-75 bps to 75-100 bps. The central bank's median forecast indicates a total of three hikes for 2017.

The U.S. employment situation continued its positive momentum, with strong growth during the quarter. Inflation, while still subdued, is expected to rise as the economy continues to exhibit signs of growth. Both the Bank of Japan (BoJ) and the European Central Bank (ECB) maintained their easy money policies at their meetings in March, with the ECB announcing that all of its key interest rates remain unchanged, along with the scale of its quantitative easing program. These announcements also contributed to the positive sentiment in the equity markets.

The CBOE Volatility Index (VIX), a measure of future stock price volatility, posted its second lowest quarterly average ever and finished the quarter down 12%. Lower levels of volatility and the sustained rally in equity prices kept many hedge funds on the sidelines during the quarter and contributed to ongoing short covering. Short interest on the New

York Stock Exchange (NYSE) increased 1% for the quarter, with the upward trend occurring mainly in March after the failed repeal of the ACA.

For much of the first quarter, markets continued to rally on expectations that the Trump administration's proposed policies, if implemented, would be broadly positive for the economy. Higher equity prices and lower levels of volatility saw most hedge funds maintain a net long bias with few willing to take an opposing short view given the strength of the market. This has contributed to increased levels of short covering and ongoing softer levels of borrower demand in the equity space.

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Borrower demand remained largely focused on directional trading strategies with the highest degree of interest in those sectors most likely to be impacted by ongoing economic weakness in emerging and European economies. Sectors drawing the greatest amount of borrower interest included healthcare, pharmaceuticals, bio-pharma, telecom, transportation & shipping, software and consumer discretionary. Tesla Motors (TSLA), a longtime favorite of shorts, and Under Armour (UAA) were notable names during the quarter. Despite a continuation of contraction in spreads, Tesla remained one of our top revenue producing stocks mainly due to its high stock price. Under Armour has lost more than half its value in the last 12 months with the apparel landscape remaining highly competitive. Spreads on Under Armour saw a severe contraction during the quarter as a result of short coverings which provided more liquidity in the securities lending market. Snap Inc. (SNAP), the parent of Snap Chat, priced its IPO on March 1, with settlement demand driving intrinsic spreads near 3,000 basis points for approximately one day.

UNITED STATES – FIXED INCOME

Many of the drivers of strong demand observed in fourth quarter of 2016 continued into the first quarter of 2017. A number of US Treasuries traded special because of speculation regarding interest rates. Financial regulatory reform continues to incent borrowers to pledge high credit quality noncash collateral. The collateral pledged by borrowers includes US Agency debt and sovereign debt from Japan, Canada, and with debt rated AA- or higher European countries. Partially offsetting these drivers of higher demand and spreads for U.S. Treasuries were lower spreads on cash reinvestment yields. The boost provided by money market reform was lower and multiple hikes in U.S. interest rates contributed to lower cash reinvestment spreads.

Demand for energy related corporate bonds remained strong, but demand for financials was the top sector this quarter. Though higher interest rates are generally positive to this sector in the cash market (and thus lower demand in the securities lending market), well publicized issues with specific banks and financial services firms contributed to a nearly 10% increase in demand for financials. Consumers and Communications was also a sector in top demand. Across all sectors, borrowers continue to move from pledging cash collateral to pledging U.S. Treasury collateral.

CANADA – EQUITY

The Canadian equity market maintained an upward trend from the fourth quarter 2016, with the S&P TSX Composite Index closing out the first quarter of 2017 with a gain of 1.7%. This soft performance was due to a decline in the energy sector as an increase in U.S. production delayed implementation of Organization of the Petroleum Countries (OPEC) cuts which continue to weigh on oil prices. Much of the improved market outlook for Canada hinges on rising crude prices and on the outcome of the U.S. government's fiscal stimulus plan, as well as any implementation of border taxes and renegotiation of existing trade agreements.

Overall, Canadian equity balances and utilization were reduced slightly over the quarter, accounted for by a decrease in supply as both Canadian and U.S. markets moved through another proxy season. In demand names experienced higher than average fees as borrowers struggled to maintain their positions with the temporary constraint in supply.

The Canadian specials market benefited from continued demand in the financial sector, specifically mortgage lenders, as their heavy concentration in nonprime residential mortgages implies greater vulnerability versus most Canadian banks. Directional demand in the healthcare, pharmaceutical and specialty pharmaceutical sector, continued over year end and throughout the first quarter in 2017. An increase in Mergers and Acquisitions (M&A) activity coupled with a negative outlook within department store retailors fueled hedge fund demand.

A large portion of revenue generated from Canadian equities was driven by dividend yield enhancement trades, combined with the dividend reinvestment plan (DRIP) trade. Continued demand from borrowers to pledge various forms of non-cash collateral, such as equities and corporate debt, has dominated the securities lending market, providing opportunities for beneficial owners who accept these collateral types.

CANADA – FIXED INCOME

The Bank of Canada (BoC) held two policy rate announcements in the first quarter of 2017, maintaining the overnight rate at 0.5%. Market indicators point to the BoC maintaining the policy interest rate at this level for the remainder of 2017. This has placed further downward pressure on the Canadian dollar, as it closed down 1.5% for the quarter against the U.S. dollar. The yield on the Government of Canada (GoC) 10 year benchmark fell 6.5% as demand increased near the end of the quarter.

Evolving Basel and IIROC (Investment Industry Regulatory Organization of Canada) financial regulation continued to be a factor influencing borrower behavior. Liquidity rules from Basel and IIROC have created the need for banks to hold higher levels of HQLA (high-quality liquid assets). This in turn has strengthened demand for GoC issuances, especially structured on a term basis. With very little having changed in the bond market, the make-up of borrower's balances remained consistent with continued demand for Canadian sovereign debt issuances.

Despite a slow recovery beginning to take hold and the approval of Keystone XL pipeline's development, directional demand for corporate bond securities in the energy sector remained stable over the first quarter.

EUROPE/MIDDLE EAST – EQUITY

European equity markets continued their upward trend from the fourth quarter of 2016, with both the EURO STOXX 50 and the MSCI Europe indices closing up approximately 6%. European consumer confidence data, along with U.S. President Trump's economic stimulus plan helped support sustained market growth. As yet, the economic and political uncertainty associated with France's upcoming Presidential elections, along with start of the UK's Brexit negotiations with the EU, following triggering of Article 50 on the 29th of March, have not disrupted investor confidence.

Specials demand in the region benefitted from an increase in corporate activity during the first quarter of 2017

Specials demand in the region benefitted from an increase in corporate activity during the first quarter of 2017. Regulatory and capital constraints continue to weigh on the financial sector, especially across some of Europe's peripheral banks. This was the catalyst for several Italian banks to seek to raise capital, in an effort to strengthen their balance sheets. There was also strong directional demand within the oil and energy sectors. Despite OPEC's decision to cut production in January, global oil prices continue to stagnate around recent year lows. Hedge fund directional demand in the biometric technology sector continued over year end and throughout the first quarter of 2017.

There was an increase in borrower demand to source supply prior to the height of European yield enhancement season occurring in the second quarter of 2017. Compared to 2016, both demand and pricing levels are generally lower across most major markets due to the negative pressures of both balance sheet constraints and increased funding costs. Higher yielding securities continue to attract the most demand.

Within the UK market, short demand remains robust with Hedge Fund demand primarily being concentrated in the consumer non-cyclical and cyclical sector, examples include housing, retail, and supermarkets. Demand continued to remain robust in the UK and opportunities created by optional stock dividends remained a strong source of demand.

EUROPE/MIDDLE EAST – FIXED INCOME

International fixed income markets traded with a moderate risk-off tone during the first quarter of 2017, as investors favored flight-to-quality exposures in light of the multitude of political headwinds in place. As such, yields of core European sovereign bonds rallied tighter in Europe, leading to strong demand in financing markets, while peripheral bonds were broadly unchanged.

The European Central Bank (ECB) continued to fall short of their inflationary target during the quarter, with core inflation dropping to 0.7% in March. This led to continued central bank rhetoric over the need to maintain quantitative easing, resulting in ongoing liquidity concerns in fixed income markets. As such, borrower appetite to source high quality liquid assets via securities lending markets remained, most noticeably in core European sovereign debt. The majority of 'specials' remained in the German curve given the scale of ECB purchases and perceived safe-haven demand given political uncertainties. In this respect, borrowers noted their hedge fund clients added to shorts in the French banking sector throughout the period, as the threat of a French presidential election victory by National Front candidate Marine Le Pen negatively impacted sentiment in French assets.

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Borrower demand for UK gilts steadily increased over the period with recent currency depreciations leading to the asset class remaining cheap for foreign investors. Article 50 of the Lisbon Treaty was duly triggered in March, allowing negotiations over the UK's exit from the European Union to commence. The market response was largely muted, with a modest fall in sterling and marginal widening of gilt yields. Article 50 allows for a two-year Brexit negotiation, though expectations are for the proceedings to take longer, thus potentially weighing on the competiveness of British firms, and demand for gilts. This has been reinforced with softer data; more recently showing business confidence is slowing. While volume increased in this asset class, spreads remained consistent given the abundance of liquidity and subsequent lack of gilts trading with 'special' value.

Emerging Market (EM) debt bounced back during the quarter as yield-searching investors brushed aside anti-trade policies from the Trump administration. This was most supportive to Latin American debt, while middle-eastern issuers benefitted from oil prices remaining above $50USD per barrel. This positive sentiment filtered through to securities lending markets, with a notable reduction in the volume of locates for bonds in jurisdictions that may be impacted by U.S. President Trump's policy agenda. More broadly, demand for EM issuance remains largely muted in securities lending, with pockets of interest as opposed to any strong sector or regional themes.

ASIA – EQUITY

The first quarter saw a continuation of positive investor sentiment on the basis that the new U.S. administration will implement pro-growth policies, helping to drive Asian markets higher for the period. Demand for securities lending remained weaker in the face of a rising equity market as investors sought to cover short positions and favored a long bias instead.

In Japan, investors remain convinced that the Yen will continue to weaken against the US dollar over the long term as the prospects of stronger U.S. growth and higher interest rates are anticipated. This generally drove investors to sustain a long bias for the quarter which translated to softened securities lending demand outside of select pockets of interest. Securities lending activity in the market was largely driven by directional demand for securities with weak fundamentals, as well as securities with convertible bond arbitrage opportunities. A number of M&A events coupled with yield enhancement demand over February and March record dates provided additional revenues for the quarter.

In Hong Kong, the Hang Seng Index was higher by almost 10% for the quarter, driving investors to continue increasing their long exposure, which again did not bode well for securities lending demand. However, borrower demand remained robust for select securities within the automobile and solar manufacturer industries following the Chinese government's announcement that it would reduce government subsidies for green energy vehicles and renewable energy initiatives in 2017.

Australian indices continued to advance for the quarter with the ASX 200 up by 3.5%. This was coupled with a positive reporting season across the banking and commodity sectors which drove short covering by investors and ultimately led to softer demand for securities lending. However, increased demand for consumer discretionary and healthcare securities helped to offset this theme, as earnings in these sectors disappointed and their outlook remains negative. Yield enhancement trades helped provide additional revenues for the quarter.

Emerging markets in Asia followed a similar trend to developed markets, as the main indices in both South Korea and Taiwan rallied higher by almost 6% for the quarter. This eroded short interest and, in turn, securities lending demand. However, regulatory changes in Taiwan during February boded positively for securities lending demand with the daily short sell quota increasing from 20% to 30% of the 30-day average trading volume. This is expected to promote increased borrowing activity. From a directional trading perspective, geopolitical tension between China and South Korea led to China-imposed travel bans to South Korea, leading to robust securities lending demand for retailers and hotel service providers.

SHORT DURATION FIXED INCOME

The Federal Open Market Committee (Committee) raised the target range for the federal funds rate from 50-75 bps to 75-100 bps at their March meeting. Though this increase was mostly priced in before the announcements, it was not until roughly two weeks prior that the markets started taking the possibility of a hike seriously. The hike was regarded as dovish after Federal Reserve Chair Janet Yellen emphasized a gradual normalization process and described the economic outlook as relatively unchanged from December.

The labor market extended gains coming off of last quarter and economic activity expanded at a moderate pace. Jobs surged in January and February to 227,000 and 235,000 respectively, but fell to 98,000 for March. This pullback, however, can be as much of an outlier as a harbinger of an economic stall. Thus, we hesitate to extrapolate from this data until we see more persistence. Inflation inched up slightly since December, with Core PCE (year-over-year) settling at 1.8% for February vs 1.7% in prior months. Yellen dismissed concerns of inflation overshooting, using examples of times when inflation has been both above and below 2% over the last five years but without persistence. In the

Quarterly Summary of Economic Projects, the Committee narrowed their range of the forecasted federal funds rate for the end of 2017 to 1.4% - 1.6%. The 2017 U.S. forecasted unemployment rate remained unchanged at 4.4% - 4.7%. Additionally, the Committee increased its gross domestic product forecast to 2.0% - 2.2% for 2017 from 1.8% - 1.9% and increased its inflation forecast to 1.8% -1.9% for 2017 from 1.7% to 1.8%. The 10-year Treasury yield tumbled to 2.52% from 2.57% the day of the March rate announcement. The Committee forecasts three rate hikes for this year. Markets are currently showing a 56% chance of a June rate increase.

Much uncertainty surrounds U.S. President Donald Trump's campaign pledges as he struggles to successfully implement policy changes. Given the criticism and resistance that blocked both his travel ban and healthcare proposal, market confidence in his ability to uproot the system and deliver on his promises is waning. The buoyancy in equity and fixed income markets after the election is starting to fade. The 10-year Treasury yield, that at one point reached a high of 2.63% in the months after Trump's win, is now around 2.39% (March 31). Similarly, the Dow Jones declined from its peak of 21,115 at the beginning of March to 20,663 at the end of the month. Market participants are closely monitoring hints of a fiscal stimulus package (infrastructure spending), tax cuts/reform, and pro-business policies that will support stronger growth and inflation, but there is greater scepticism that the Trump administration will be able to deliver on these campaign promises.

On March 29, the UK formally triggered Article 50 of the Lisbon Treaty which sets in motion efforts to redefine the country's relationship with the European Union (EU) and end decades of political cooperation. UK Prime Minister Theresa May has expressed interest in focusing on a comprehensive free-trade deal as well as UK payments to the EU, but EU President Donald Tusk plans to direct the first phase of negotiations only on preparations for an orderly withdrawal. Tusk has published draft guidelines for his EU negotiators, but leaders are not scheduled to sign off on them until an April 29 summit. May is confident a deal can be done in a timely manner without exceeding the two year deadline. The British Pound strengthened after the announcement and equities markets worldwide showed little reaction.

Monetary policy abroad held steady. Bank of England (BOE) left the rate unchanged at 0.25% in March and kept its Gilt Purchase Plan at 435Bn Pounds. There was an unexpected dissenting vote in which Kristen Forbes, a member of the Monetary Policy Committee, showed her support for an increase in interest rates. Forbes's hawkish tone seemed to echo the sentiment of other committee members with some noting it would take relatively little further upside news for them to consider a tightening policy. 10-yr Gilt yields pushed to 1.27% and the Pound appreciated to £1.23 versus the US Dollar after the decision.

The European Central Bank (ECB) also kept its current monetary policy in place with no changes to its interest rates or Bond Purchasing Program. Overall tone of the ECB briefing was neutral with its guidance changing to show downside risks were decreasing and inflation forecasts were up slightly to 1.8% for this year and 1.7% for 2018. Though Mario Draghi, President of the European Central Bank, seemed more optimistic on growth, he still highlighted growing geopolitical risks. European markets were relatively unchanged after the briefing with the Euro falling back below €1.06.

The U.S. Federal Reserve instructed its Open Market Trading Desk (the Desk) to execute $2 trillion in overnight Reverse Repurchase Agreements (RRP). The overnight RRP operations were open to all eligible counterparties and U.S. Treasuries were used as collateral with the goal of ensuring liquidity in the short term money market. Money market participants welcomed the additional collateral due to limited supply of investment opportunities during year-ends. On March 31, there was $346.9 billion in interest of overnight RRP at 75 basis points, notably lower than the amount the Desk made available. Shorter dated U.S. Treasury bills (one to three month bills) traded between 70-80 bps in March as investors attempted to bring down their overnight liquidity balances before year-end. Overnight repurchase agreements with broker/dealers traded between 75 and 80 bps. Comparatively, overnight time deposits traded between 80-85 bps. The additional repo collateral and overnight time deposits helped money market participants invest all of their cash for quarter-end.

CONFERENCE UPDATES

IMN BENEFICIAL OWNERS' INTERNATIONAL SECURITIES FINANCE & COLLATERAL MANAGEMENT

Northern Trust attended the 23rd annual Information Management Network (IMN) Beneficial Owners' International Securities Finance and Collateral Management conference in Fort Lauderdale, Florida at the beginning of February. Issues impacting the securities lending industry were a key theme and the structure of the three day event was heavily focused on the needs and concerns of beneficial owners. The content discussed during sessions covered the full range of topics including central counterparty platforms (CCP), market demand, collateral usage and indemnification.

Industry experts, including Mark Skowron, Head of US Trading, Northern Trust, discussed CCP structures on the opening panel, agreeing that CCPs will continue to be used in the future because of the benefits provided to all participants within the industry. Along with increased utilization rates, beneficial owners should see a pricing differential for cleared trades as borrowers are paying a premium to transact through a platform that requires less regulatory capital for counterparty exposure.

Several panels focused on market demand, used statistics that confirmed the usage of non-cash collateral continues to increase relative to cash collateral. Panellists touched on the state of the industry and new opportunities that should be considered by beneficial owners including term loans, new types of borrowers, expanded collateral and peer-to-peer lending. A key takeaway was that beneficial owners who are flexible with collateral will likely see more lending activity.

Beneficial owners who are flexible with collateral will likely see more lending activity

Another issue discussed was the importance of borrower default indemnification. It's important for beneficial owners to understand what the indemnification includes and who is providing the indemnity. Un-indemnified structures have the potential to add return, but an un-indemnified structure requires the beneficial owner to scrutinize their borrowers more carefully. Beneficial owners need to carefully consider the balance sheet, credit ratings and financial strength of the indemnification provider because indemnification is an extension of credit.

Risk weighted assets (RWA) was a key topic addressed on the regulatory panels. Borrowers discussed the importance of transparency to beneficial owners, potentially on a pre-trade basis, to more efficiently manage exposures. Borrowers also expressed that a client with lower RWA will be more attractive similarly to the way that collateral can be a factor in the trade.

The IMN conference ended with constructive dialogue about the past, present and future of the securities lending industry. This conference continues to be an important forum for market participants to gain insight into the securities lending market place.

PAN ASIAN SECURITIES LENDING ASSOCIATION (PASLA)

Experts from Northern Trust's Global Securities Lending team attended the 14th annual PASLA conference held in Seoul in early March. Industry participants gathered to debate the current and future trends likely to shape the path of securities lending to come.

Dane Fannin, Head of Capital Markets, Asia-Pacific, participated in a panel along with other industry experts, focused on market updates and trends within the region. Although recently demand has been relatively muted against a rising equity market, it is expected that 2017 will be a better year than 2016 overall. Sentiments suggest that a shift from QE to fiscal spending under the Trump administration ought to drive markets differently, helping to breakdown asset price correlation and provide a better environment for traditional long short fundamental based strategies, which would bode well for securities lending demand.

Demand across Asia is expected to be concentrated in Hong Kong, Japan and South Korea where the deepest and widest pockets of liquidity reside. These attributes are particularly important in attracting quantitative hedge fund flows which increasingly account for a significant share of overall volume. In this regard, the most compelling opportunities relate to small and mid-cap inventory holders where supply continues to be scarce and borrowers are able to offer attractive premiums for access. From a new market perspective, demand for untapped jurisdictions including China, India and Indonesia remains robust although regulatory development has been slow to progress for securities lending.

The role technology is playing in driving increased efficiencies in the business emerged as a key theme across various panels. Notably, borrowers are enhancing their trading capabilities to accommodate the growth in quantitative type hedge fund strategies which typically trade with greater frequency, demanding reduced execution latency and thus a high degree of trading automation. This trend is transforming the way in which borrowers are consuming, pricing and executing securities lending transactions with lenders, and Equilend's Next Generation Trading (NGT) technology is seen as an important tool to leverage in pursuit of greater automation and optimisation.

The regulatory environment attracted a great deal of attention across various panels. Borrowers continue to prioritise seeking optimal operating solutions relative to their binding global regulatory constraint – be it liquidity or capital related. The latter drew attention to the use of CCPs as a potential future state for securities lending in Asia-Pacific. It was acknowledged that despite the emergence of exploratory work by exchanges in both Hong Kong and Japan, ultimately a single CCP operating model would be a challenge given the lack of regulatory harmony across the region. In addition to CCPs, the potential use of the collateral pledge structure was discussed as an attractive alternative in helping to reduce borrowers' capital burden.

REGULATORY ENVIROMENT

The updates below summarize the status of regulations affecting the securities lending industry and the anticipated impacts that may occur.

BASEL III:

Section	Status	Anticipated Impacts
Capital	US rules finalized July 2013 and effective January 2015	Increased capital requirements will make it more costly for agent lenders to provide indemnification.
Large Exposures	Final Basel III standard released April 15, 2014, securities lending exposures remains open	Similar in concept to Counterparty Concentration Limits; restricts a bank's combined credit exposure to a single counterparty to a portion of the bank's capital.

Leverage Ratio	US rules finalized September 2014. Disclosure requirements starting January 2015 and compliance by January 2018	Exposure for indemnified securities lending to be measured generally by current exposure, which should be negligible given securities lending positions are over-collateralized. Additional leverage ratio impact for any guarantees or exposures beyond replacement securities.
Net Stable Fund Ratio	Final standards published October 2014; US rules proposed May 2016; awaiting adoption of the framework by US regulators	Affects securities lending activity for borrower counterparties (and therefore potentially their demand) Intended to ensure that banks have sufficient stable funding based on their asset profile. Available stable funding (ASF) divided by required stable funding (RSF) must be at least 100%; available stable funding measure is based on liabilities and required stable funding on assets, both weighted by prescribed factors. Potential mismatch in ASF and RSF treatment on the different legs of the borrower transaction.
Liquidity Coverage Ratio	Final US rules published September 2014	Affects securities lending activity for borrower counterparties (and therefore potentially their demand). Requires banks to hold enough eligible High Quality Liquid Assets ("HQLA") to cover "Total Net Cash Outflows". May shape borrower demand for certain transactions, including greater use of non-cash collateral.
Haircut Floors	Published in November 2015; comment period ended January 5, 2016	Proposes minimum haircuts on non-centrally cleared securities lending transactions. Agency lending transactions would be exempt when cash collateral is invested in accordance with certain standards and non-cash collateral is not re-used.

DODD-FRANK ACT:

Section	Status	Anticipated Impacts
Counterparty Concentration Limits – 165(e)	Second proposal published in March 2016; awaiting final rules	Limits a bank's combined credit exposure to a single counterparty to no more than 25% of the bank's capital Credit exposure calculations include indemnified securities lending transactions; agent lenders may face constraints on providing indemnification and accepting sovereign debt as collateral
Securities Lending Transparency – 984	Awaiting proposed rules (overdue since mid-2012); no clear timeframe for rules to be issued	Requires SEC to increase transparency in securities lending Expectation is that SEC will develop regulations that align with proposals from the Financial Stability Board's Work stream on Securities Lending and Repo

FINANCIAL STABILITY BOARD:

Section	Status	Anticipated Impacts
Work stream on Securities Lending and Repos under the FSB Shadow Banking Task Force	Guidelines for minimum margins and haircuts published October 2014 Awaiting adoption of FSB framework by local regulators Northern Trust and other agent lenders participated in a voluntary Fed/OFR pilot study on data collection	Examines securities lending and repurchase agreements Published policy recommendations on transparency, disclosure, minimum standards on cash reinvestment and collateral valuation, and requirements on collateral rehypothecation Experts Group proposed standardized data reporting elements for securities lending and repo transactions Published standards for evaluating margin sufficiency on transactions that are not centrally cleared, which may result in higher requirements. Recommended haircut floors for certain transactions; excluding agency securities lending transactions assuming cash is invested consistently with earlier FSB standards and non-cash collateral is not re-used
Total Loss Absorbing Capacity (TLAC)	US rules finalized in December 2016	GSIBs to be subject to even higher capital requirements; defines instruments eligible to satisfy TLAC requirements.

FINANCIAL TRANSACTION TAX:

Section	Status	Anticipated Impacts
Proposed EU Directive	Implementation now aimed at 2016 / 2017 but significant technical challenges remain	Sets out the framework for a harmonized FTT across 11 participating EU member states. Client purchases, sales and exchanges of financial instruments, the conclusion of derivative contracts, repos, and securities lending transactions are all in scope of the draft document, which is far from final

RESOLUTION STAYS:

Section	Status	Anticipated Impacts
ISDA Resolution Stay Protocol for Securities Finance Transactions	German implementing regulations effective January 2016, UK implementing regulations effective June 2016 and additional global regulations to be issued ISDA developed protocols specific to each relevant jurisdiction	The ISDA Stay Protocol was implemented for derivatives in 2014 and is being expanded to apply to securities lending and repo transactions. It is intended to address the issue that resolution regimes of one jurisdiction may not be enforceable in other jurisdictions in a cross-border resolution. Adherence to ISDA Stay Protocol is required for G-SIBs and may be voluntary for other market participants, but failure to adhere may affect a lender's ability to lend to certain counterparties that are required to transact only with adhering counterparties May effect termination and default rights of counterparties transacting with G-SIBs and other adhering counterparties for qualified transactions, including securities lending and repo

SECURITIES FINANCING TRANSACTIONS (STFR):

Section	Status	Anticipated Impacts
Transparency of SFTR	Political agreement reached on level 1 text ESMA and the European commission now working on defining what will be required to be reported Implementation timeline not yet defined	Reporting of all Securities Financing Transactions required to give regulators a transparent view of the market ESMA implementation of FSB recommendations Agents likely to report on behalf of beneficial owners but this will be driven by final technical standards

UCITS V:

Section	Status	Anticipated Impacts
UCITS V	Level 2 text expected late 2015 with deadline for transposition into National law in March 2016 ESMA consultation on asset segregation may impact final outcome. ESMA response is now overdue	Harmonization of rules covering core safekeeping and depository oversight for UCITS funds across the EU Enhanced reporting required for depositories to monitor Securities Lending activity for UCITS funds Segregation of assets for UCITS clients potentially impacting collateral processes, similar to AIFMD

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