LMA Syndicated
Loans Conference
7 September 2016
20 Years of the LMA

The operations engine room: promoting efficient practices

On 7 September 2016, **Doug Laurie (Barclays), Jacqueline Allen (Mandel, Katz & Brosnan), Rob Brodie (Citi), Steve Connolly (J.P. Morgan), Danny Nahum (Babson Capital)** and **John Olesky (Markit)** took to the stage at the LMA Syndicated Loans Conference to discuss work being undertaken by the LMA's Loan Operations Committee and its partners to promote efficient practices in the market.

Challenges facing loan operations teams

Inefficient operational practices, compliance procedures (including KYC, AML and CTF checks) and documentation issues are amongst the biggest challenges affecting loan operations teams across EMEA. This is exacerbated by regulatory measures such as FATCA and BRRD.

Key causes of settlement delays

Data for 2015 shows that, on average, it took 4 days for trade counterparties to upload trades to Markit's settlement platform, ClearPar, 6 days for a trade to be allocated across funds and 8 days from a trade being uploaded to sign the trade confirmation; it took an average of 7 days for Agents to authorise settlement with several additional days required to achieve actual settlement. It is essential for the market to understand why these delays are taking place and to effect change in (behavioural) practice. A survey of delegates at the conference showed that 51% of respondents believed KYC was the main cause of settlement delays, with 18% voting for buyer and seller delays, 14% for jurisdictional and market complexity, 10% for agent specific delays and 6% for the structure of loan documentation.

The importance of settlement times and proposed changes

From a commercial perspective, it is important to drive settlement times down, which the LMA has taken positive steps to achieve. With settlement times being published on the LMA website on a quarterly basis, institutions have started to benchmark their own settlement times for par and distressed trades. Since Q4 2014, the median business days to settlement has fallen by over 10 days, to 30 in Q2 2016. However, with the LSTA having launched its revised delayed compensation regime, which looks to reduce settlement times in the US to T+ 7, settlement times in Europe, which are currently over double that of the US, are likely to become increasingly under pressure. Counterparty risk, the inability to vote until a buyer becomes lender of record, lack of control and the need for investors to monetise positions in a timely manner, are amongst some of the key reasons why settlement times are crucial.

One key area being focused on is effecting behavioural change, with a view to lowering the time taken to complete the administrative processes of effecting a trade. For example, looking to ensure that the trade is entered onto a settlement platform (where relevant) as soon as possible, making sure the trade confirmation is promptly circulated for signature, and having agents take a proactive approach to starting KYC checks as early as possible in the lifecycle of the trade.

The Loan Operations Committee activities

Behavioural change is considered a vital solution in driving down settlement times, and speakers believe it is possible to "save" up to 10 days by effecting such change. To facilitate this process, the LMA Loan Operations Committee is working on various initiatives to bring settlement times closer to the LSTA standards. For instance, producing a set of best practice guidelines which seek to ensure trades are documented by T+1, trade allocations are made by T+2 and transfer certificates are signed by T+7.

Other factors emphasised were evaluating processes on a timely basis, the sell-side notifying facility agents of the trade and relevant counterparties in order for the agent to start the KYC process earlier, and having strong relationships with the front office, allowing operations teams (particularly agency teams) to feed into the structure of loan transactions and drafting of the loan documentation.

The LSTA position

As a direct result of delayed settlement issues, with 47% of par trades settling between T+ 8 and T+20, and only 24% of par trades settling within T+7, the LSTA's delayed compensation practice for par/near par secondary trades was revised from a no-fault to a requirements-based model. These changes went live on 1 September 2016 and full details of these changes can be found on the LSTA's website.

In discussing whether similar changes should be implemented across other markets, it was noted that, at this stage, delayed settlement compensation is unlikely to be the most effective tool to tackle delays to settlement in Europe due to jurisdictional, regional and documentation differences. Seeking to effect behavioural changes and seeking greater clarity from regulators as to the application of KYC/AML and CTF requirements, should remain the core focus of the LMA in the short to mid-term.

Vision for the future

Behavioural change in loan operations processes and a change in mindset is needed in driving down settlement times and improve loan servicing efficiency across the market. Work is being done with the LMA Loan Operations Committee to encourage all loan participants to adopt core standards covering loan servicing, trade settlement. Adopting these standards across the market in the next 12 months is key to success. There are also significant opportunities from a technology perspective to drive efficiencies across the lifecycle of a trade.