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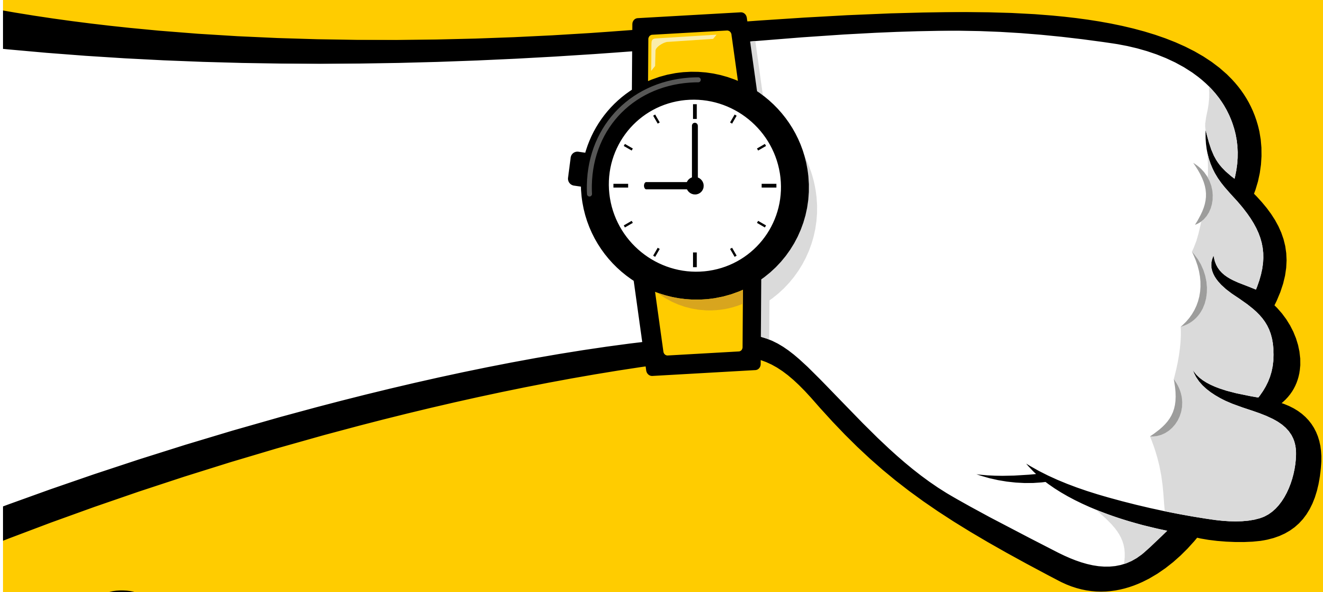

ESMA postpones buy-in regime to 2025

After a much anticipated announcement by the European Securities and Markets Authority, industry participants reflect on a three-year delay to the implementation of the CSDR mandatory buy-in regime

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EMIR Refit to cause delays and risk of fines, says report

The upcoming European Market Infrastructure Regulation (EMIR) Refit could cause significant delays and run the risk of fines as regulations increase sell-side and investment firms' reporting requirements, says an Acuiti study.

The report, which is sponsored by Broadridge and titled "EMIR Refit: Navigating the mandatory changes", details how regulatory reporting teams face significant challenges in complying with the new regulation.

According to Acuiti, companies have found themselves operating with a lack of clarity on how the new framework will impact their reporting processes. This increases the risk of errors, which adds to the burden for teams when they have to explain breaks to regulators.

Acuiti found that 69 per cent of firms were expecting serious challenges when building up their matching, reconciliation and exception management capabilities.

All 40 sell-side firms surveyed for the study envisioned some level of challenge in correcting errors and resubmissions.

The study also highlights that firms are facing significant resource constraints in amassing the expertise and infrastructure to meet the challenges posed by EMIR Refit.

These constraints have added to the difficulties of controlling the amount of budget devoted to regulatory reporting, which can eat into other investment plans, says the report.

The findings highlight the importance of developing robust systems for trade and transaction reporting, and for the correction of errors.

Commenting on the study's findings, Acuiti's head of research Ross Lancaster says: "Regulatory reporting regimes have long been a slog to implement for firms, creating lots of potential cost with little to gain in competitive edge. EMIR Refit looks set to be no different, with compliance preparations still hindered by a lack of clarity on how the regulation will fit with other jurisdictions' frameworks.

"Nevertheless, there is no alternative to upgrading or replacing systems for compliance. Firms will be well served by increasing their analytical capabilities to continuously assess what causes inevitable reporting errors and how to adjust processes accordingly. This can improve internal functionality while also minimising the risk of fines."

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Hugh Daly, general manager at Broadridge, adds: “Given the complexity and scope of reporting requirement changes that will impact industry participants over the next two years, firms face significant operational challenges in updating their systems to comply.

“This opens the door to innovation, with the opportunity to improve how reporting systems function from a more strategic, multi-jurisdictional or multi-regional perspective.”

PASLA hunts for first CEO

The Pan Asia Securities Lending Association (PASLA) has begun the search for its first chief executive officer.

The organisation is looking to find the right candidate to lead its growing association. In addition, this individual will establish and implement the engagement strategy with key stakeholders and amplify the voices of PASLA’s members.

Based in Hong Kong, the future CEO of PASLA will be responsible for developing and communicating best market practice and driving positive financials for the organisation.

For applications, referrals or any questions related to the recruitment, contact PASLA at info@paslaonline.com.

All applicants’ will be treated confidentially.

Securities lending revenues up 9%

The global securities finance industry generated US$923 million in revenue for lenders in May 2022, up 9 per cent from May 2021, according to DataLend.

Compared to April 2022, this represents an 11 per cent increase from the US$828 million which was generated from lenders last month.

Global broker-to-broker activity, where broker-dealers lend and borrow securities from each other, totalled an additional US$243 million in

revenue in May 2022, a 6 per cent decrease year-on-year (YoY).

The increase in lender-to-broker revenue over 2021 was driven primarily by Europe, Middle East and Africa equities, where on-loan values increased 13 per cent and average fees increased 7 per cent, resulting in a 28 per cent jump in revenue generated.

In the Asia Pacific region, equities saw a 3 per cent increase in revenue. The Americas was the only region that saw a decrease, with revenue dropping 3 per cent YoY.

The top five earners in May 2022 were AXA SA (CS FP), Lucid Group (LCID), Mercedes-Benz Group AG (DAI GR), BNP Paribas (BNP FP) and Sanofi (SAN FP). The five securities in total generated over US$68 million in revenue during the month.

Tradeweb reports 13.8% rise

The repo average daily volume (ADV) traded on global operator of electronic marketplaces Tradeweb, has increased 13.8 per cent to US$420.3 billion for May 2022 year-over-year (YoY).

Growth in client adoption of Tradeweb's electronic trading solutions was expected to have driven record global repo activity for the firm, even as elevated usage of the US Federal Reserve's reverse repo facility continued to weigh on the overall repo market.

US government bond ADV was up 29.4 per cent YoY to US$136.0 billion, while European government bond ADV rose 16.4 per cent YoY to US$36.0 billion.

Tradeweb says increased trading in US government bonds was supported by strong client activity in institutional and wholesale markets, along with the addition of the Nasdaq fixed income business.

The average daily trading volume for swaps and swaptions jumped 42.3 per cent YoY to US$214.9 billion for May, with ADV total rates derivatives increasing 59.0 per cent YoY to US$377.3 billion.

In ETF trading, US ADV increased 33.5 per cent for May YoY to US$7.6 billion and European ETF ADV was up 20.6 per cent YoY to US$2.7 billion.

The credit markets also saw an increase as fully

electronic US credit ADV rose 32.8 per cent YoY to US$4.1 billion. In contrast, European credit ADV was down 0.9 per cent YoY (up 9.1 per cent YoY in EUR terms) to US$1.7 billion.

In May, Tradeweb captured fully electronic share of US high grade and US high yield TRACE of 13.7 per cent and 5.8 per cent, respectively.

OCC sees securities lending rise

Securities lending activity cleared through the Options Clearing Corporation (OCC) has increased by 6 per cent YoY to an average daily loan value (ADV) of US$127.2 billion for May 2022.

The organisation reports that the number of total transactions for May has grown by 38.6 per cent to 203,316 compared with May 2021. The total volume for futures and options transactions was 866.4 million contracts, a 19.7 per cent increase YoY for May. The total ADV for futures and options rose by 6 per cent to 41.7 million trades.

In terms of ETF options cleared contract volume, the OCC reports a YoY increase of 64.1 per cent to 345.4 million contracts, with ADV rising 44.8 per cent to 15.6 million transactions.

Index options activity jumped by 49.4 per cent YoY for May to 60.5 million contracts, with ADV increasing 31.4 per cent to 2.5 million trades.

In contrast, equity options activity was down 2.6 per cent to 455.2 million contracts compared to May 2021, with ADV dropping by 11.6 per cent YoY to 23.3 million trades.

Cum-ex suspect Shah arrested in Dubai

The Dubai police have arrested Sanjay Shah, a UK national resident in the UAE, that the Danish tax authorities are pursuing in connection with a US$1.5 billion cum-ex case.

According to a statement from Denmark's Justitsministeriet, the Danish Ministry of

Justice, the arrest comes as a result of close collaboration with the Emirati authorities. Denmark and the United Arab Emirates (UAE) signed an extradition treaty in March. “Since this time, it has been hoped that the agreement could form the basis for suspected perpetrators of crimes related to Denmark being executed and prosecuted [in Denmark],” said a statement from the Danish government.

Reflecting on the recent arrest, Denmark’s Justice Minister Matthias Tesfaye says: “I am a very happy Minister of Justice. The arrest in Dubai underscores why it was so important that the government succeeded in concluding an extradition agreement with the United Arab Emirates recently.”

The Minister says that the Danish treasury has been “cheated for a staggering amount”, and that it should not be possible for suspected perpetrators to hide in the Middle East and avoid being held accountable in a Danish courtroom.

“Now I am awaiting the legal process in the United Arab Emirates, and crossing my fingers that it will end up that we can get Sanjay Shah on a plane to Denmark, so he can be prosecuted in this country," concludes Tesfaye.

Arizona State selects BNY Mellon

Arizona State Retirement System (ASRS) has selected BNY Mellon Asset Servicing to provide services for its ASRS trust fund.

As part of the mandate, BNY Mellon Asset Servicing will provide the trust fund with oversight on core custody services, alternative assets, overnight investment vehicles, securities lending services, performance analytics and investment compliance monitoring.

The fund serves employees of the state, counties, municipalities, universities, community colleges, school districts, and other political entities.

Created in 1953, with more than 620,000 members and 664 employer participants, ASRS is the primary Arizona state agency providing retirement benefits,

long-term disability benefits, and other benefits to employees of the state's qualified entities.

Commenting on the mandate, Rohan Singh, global head of asset owners, at BNY Mellon Asset Servicing, says: "This announcement is another critical milestone for the growth of our asset servicing business and a testament to the high level of service BNY Mellon looks to provide its clients."

In a statement, the ASRS comments: "BNY Mellon has a long-standing reputation as a trusted service provider, and we look forward to a strong and beneficial relationship with them."

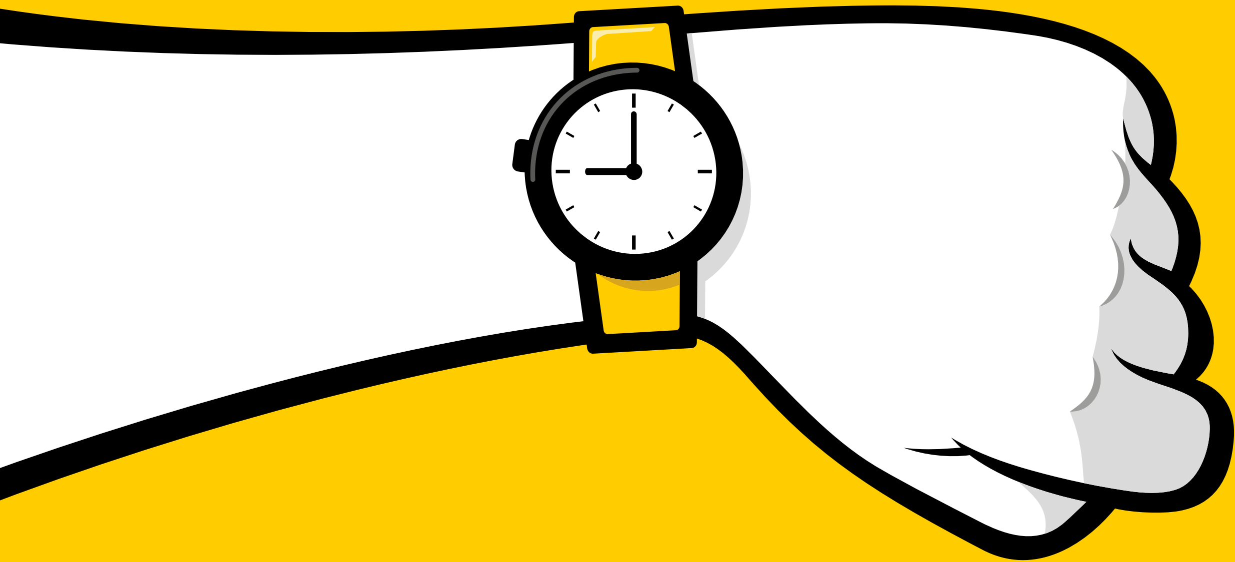
Tradex Management picks RBC I&TS

Investor-owned fund manager Tradex Management (Tradex) has selected RBC Investor & Treasury Services (RBC I&TS) to provide its full suite of back-office investor services, including custody, fund accounting, securities lending and transfer agency.

Based in Ottawa, Tradex has supported the investment needs of public service professionals and their families since 1960. The mandate follows the news that RBC I&TS has been named custodian to Evermore Capital.

Commenting on the Tradex mandate, Sylvain Gervais, managing director, Quebec and Eastern Canada, client coverage, RBC I&TS, says: "We are pleased to be associated with one of the oldest mutual fund companies in Canada – a not-for-profit oriented organisation dedicated to supporting public sector employees and their families.

Blair Cooper, CEO of Tradex, adds: "In RBC we have found a partner with a stellar reputation on a global scale that can provide us with a robust platform for our members. [RBC I&TS] possess a strong working knowledge of our processes and the right solutions to meet our needs – which allows us to focus on providing solid returns for our clients."



ESMA postpones buy-in regime to 2025

After a much anticipated announcement by the European Securities and Markets Authority, industry participants reflect on a three-year delay to the implementation of the CSDR mandatory buy-in regime. Carmella Haswell reports

The European Securities and Markets Authority (ESMA) has postponed the application of the Central Securities Depository Regulation (CSDR) mandatory buy-in regime for a further three years. Market participants have conveyed concerns over “serious difficulties” to implement the mandatory buy-in regime on the scheduled date — which has been postponed on several occasions since 13 September 2020.

These difficulties referred to “the absence of clarity regarding some open questions necessary for the implementation of the buy-in requirements”. This is in addition to “the uncertainty as to whether the European Commission’s legislative proposals on amending regulation of the European Parliament and of the Council would include amendments to the mandatory buy-in rules and the extent of any potential amendments.”

Speaking to SFT on the recent news, Karan Kapoor, head of regulatory change and technology at Delta Capita, says: “The securities finance and lending industry was going to feel a significant impact of the buy-in regime, should it have gone ahead as planned — given there are numerous instances where lenders and borrowers would find themselves foul of the CSDR timelines, due to no fault of theirs, resulting in a chain reaction of ‘onward’ buy ins.”

In July 2021, the Joint Trade Associations — a group of 16 industry bodies — wrote to the European Commission (EC) and ESMA advising against the introduction of the proposed mandatory buy-in component of the CSDR settlement discipline rules and encouraged amendments to the mandatory buy-in component. The letter followed on from earlier recommendations by the Joint Associations on the CSDR settlement discipline regime in letters addressed to both the EC and ESMA on 22 January 2020 and 11 March 2021.

The much anticipated delay of the buy-in rules — which refer to a mandatory obligation for trading parties to execute buy-ins against counterparties who fail to settle their trades within a required period — has been welcomed by a number of market participants.

Paul Baybutt, director for middle office product, securities services, at HSBC, comments: “The industry has welcomed the decision by ESMA as it is seen to provide sufficient time for the legislators to determine how best to improve settlement efficiency without having a detrimental impact on the market. It also provides time to measure how effective other aspects of the Settlement Discipline Regime are — including penalties — at improving settlement efficiency without mandatory buy-ins."

Also in favour of the announcement, Delta Capita's Kapoor suggests that the move will allow participants additional time to test out their newly implemented processes in a live environment, ensure that all controls are acting according to expectations, and put in place remediations where necessary.

He adds: "The firms that have been disadvantaged in this process are organisations that were standing up 'buy-in agent' services – but for the rest of the industry this has been a positive outcome."

Mandatory buy-ins had previously been scheduled for implementation when the settlement discipline regime went live on 1 February 2022, but instead European policymakers took the decision to postpone the mandatory buy-in element for further consideration. The legislation enacted in February requires impacted European CSDs to automatically apply financial penalties to market participants that fail to complete transactions on the contractual settlement date and subsequently report those failed trades.

Redirecting attention

After a long period of ambiguity, the delay has continued to steal energy and focus in forums and market conversations. According to AccessFintech's head of financial products Pardeep Cassells, the industry is now able to free up resources to redirect attention to the current penalty regime, implement it fully and work to drive down fails.

Similarly, Daniel Carpenter, CEO of Cognizant company Meritsoft, says the postponement will allow for planned resources to be allocated to ensuring automation of penalties handling, processing the increasing partial settlements needs, and performing daily and monthly reconciliations.

Carpenter continues: "In conjunction, firms can work towards digitising and centralising their settlement fails data, which can be utilised for predictive analytics purposes, leveraging artificial intelligence and machine learning. All of the above will give market participants a strong footing from which to tackle the buy-in rules, should they ultimately be introduced."

Despite the additional three years for the securities finance industry to ready themselves for the possible change, Camille McKelvey, head of post trade STP business at MarketAxess, advises market participants must use this extra time wisely.

A step in the right direction would be to work towards improving settlement rates across securities, says McKelvey. "Next-day or T+1 settlement of fixed income trades "might seem a pipe dream", but there are few insurmountable operational or technology reasons why such a move cannot happen – this is already happening in the US, and I predict it will likely follow in Europe."

Although post-trade automation adoption is improving, McKelvey believes there is still a long way to go before 100 per cent post-trade straight-through-processing (STP) is achieved. Furthermore, she suggests that if this is achieved and this has a positive impact on settlement rates, this could mean that mandatory buy-ins will not be on the regulators' radar.

"When operational efficiencies and financial stability are at stake, the industry's resolve and propensity to change should not be underestimated – there are now three years to make a positive change, we must not waste them," says McKelvey.

A final report by ESMA has seen amendments to the regulatory technical standards (RTS) on settlement discipline, based on the expected changes to the CSDR buy-in regime presented in the commission's legislative proposal for the CSDR Review and amendments to the Distributed Ledger Technology Pilot Regulation.

This draft RTS has been sent to the EC for endorsement in the form of a Commission Delegated Regulation. Following the endorsement by the EC, the Commission Delegated Regulation will then be subject to the non-objection of the European Parliament and of the Council.

Analysing the impact the delay will have on the industry, AccessFintech's Cassells explains: "It was widely anticipated that stock lending volumes would increase significantly under a mandatory buy-in regime, where borrows to cover would have grown to minimise execution of mandatory buy-ins.

"However, given the huge value of penalties that we are seeing across the market — with AccessFintech having seen €77 million in the first two months since the regulation went live — I expect we will see activity pick up for lending agents as organisations look for ways to minimise penalties against longer-standing fails." ■

Global banks trial interbank platform for intraday repo and FX swaps

Finteum's co-founder Brian Nolan speaks to Bob Currie about the development of the London fintech's DLT-based platform and countdown to its proposed launch in mid-2023

Fourteen large banking groups have completed a trial to execute intraday repo and intraday FX swaps through an interbank platform built by Finteum and a number of these banks have indicated that they plan to go live on the service when this is released in 2023.

The trial involved treasury and technology teams from global banks including BNY Mellon's corporate treasury function, Barclays, Citi and NatWest Group and involved simulated trading sessions to test the capabilities of the platform.

Finteum was established in London in 2018 by co-founders, Brian Nolan and Zbi Czapran. Nolan had previously worked in liquid asset portfolio management roles at the Bank of Ireland in Dublin and at director level in liquidity governance positions at UBS in Zurich and New York. Finteum's chief technology officer Czapran specialises in software development, data science and financial technology and has held project lead and senior developer roles in a range of financial and non-financial enterprises in the UK and Poland.

The firm established a relationship at an early stage with distributed ledger technology (DLT) specialist R3 and is building on the R3 Corda blockchain.

Finteum indicates that it is one of the first interbank venues to support intraday FX swaps and intraday repos alongside each other in the same platform, enabling treasury teams to use these two markets interchangeably to manage their financing requirements.

As an interbank platform, participating firms can trade with other participants on the Finteum platform as either a price maker or a price taker, explains Nolan. The platform aims to use existing settlement infrastructure, with the trial assuming DvP settlement using Euroclear Bank's triparty infrastructure. BNY Mellon's triparty infrastructure can also be used to settle US dollar intraday repo transactions executed on the Finteum platform. Finteum is also trialling settlement with digital settlement rails such as the Fnality Payment System and the company is open to extending these DvP options according to demand from participating firms.

In doing so, the Finteum solution does not use tokenised securities or tokenised cash to settle FX swap or repo transactions — a point of contrast with J.P. Morgan's intraday repo solution launched in 2021, for example, where participants on the Onyx Digital Assets blockchain can finance securities through a tokenised transaction with settlement against JPM Coin, a tokenised currency referencing USD held in client accounts at J.P. Morgan bank .

A priority in building the Finteum platform has been to shorten the timeframe and to reduce the risks and errors that occur between the trading decision and transaction settlement, ensuring that this operates via STP workflow and enabling stakeholders to the trade to work from pre-trade onwards using a shared data record maintained on blockchain. "By reducing this timeframe, this provides an increasingly viable way for banks to reduce the balance sheet costs of managing intraday liquidity," says Nolan.

Participants in the trial indicate that the Finteum initiative is an important element in their liquidity optimisation strategy, enabling banks to borrow for hours at a time through the intraday liquidity market that this offers. This helps them to optimise management of their intraday liquidity buffers and to substantially reduce their regulatory capital costs, while also being able to lend excess liquidity using the intraday repo market or FX swap market.

During the trial, participating banks executed 96 simulated intraday repo and FX swap transactions based on 75 simulated orders in a central limit order book and 165 bilateral request for quotes (RFQs). Nolan indicates that Finteum has consulted with national prudential authorities from the early days of the project — and representatives from these financial regulators, along with liquidity experts from UK Finance, a representative body for the banking and finance industry, were involved in the trial simulations and subsequent discussions.

The project team will continue its testing programme with further simulations involving real money trades during H2 2022.

To encourage timely intraday settlement, the Finteum rulebook specifies that offending parties will be subject to a settlement penalty if the first leg of a repo transaction does not settle within 45 minutes. “The banks came up with this proposal to ensure that trade executes and settles quickly — and that is an important feature of our rulebook,” says Nolan.

Funding to date has been extended by angel investors, including Andrii Nesteruk who is now Finteum's head of strategy, with at least two investors understood by SFT to have committed a six-figure GBP investment. The company has launched another funding round prior to the platform's proposed release next year.

Other senior figures have provided valuable advice and consultancy, including former EBS CEO Jack Jeffrey and post-trade specialist and UBS and Morgan Stanley alumni Chris Murphy, who is now chief executive of digital capital markets fintech Ediphy.

Three large Europe-based banks have indicated their intention to go live with the Finteum platform in Q2 or Q3 2023 when this is released by the London-based company. Business development director Daniel Godsell explains that, having started the project build during 2018, Finteum has been demonstrating the solution to an expanding cohort of prospect clients, with consultation now ongoing with around 50 banking groups as the company works to build the trading community active on the platform at its launch.

Commenting on the advance of the project, Finteum co-founder Brian Nolan says: “Given the rising interest rate environment, intraday markets play an important role in banks' liquidity optimisation strategy. We are excited to continue working with the key participant banks and to include more banks in the group ahead.”

Securities Finance Times Industry Excellence Awards debuts in London

A night attended by leading figures in the securities lending and financing industry, the SFT Industry Excellence Awards announced big winners and raised charitable donations for Mind

Securities Finance Times debuted its first Industry Excellence Awards on 10 June 2022 at The Londoner Hotel.

Welcoming influential industry nxames from across the sector, host Neil Griffiths presented 21 prestigious awards to the deserving winners.

The Awards are dedicated to supporting and recognising talented and dedicated firms, individuals and departments across the industry.

Selected by an esteemed judging panel of industry experts, attendees congratulated Lifetime Achievement Award winner Brian Lamb, chief executive officer at EquiLend, for his outstanding contributions to the securities finance industry across his career.

EquiLend also secured another win after collecting an award for Post Trade Technology Provider of the Year.

The Women in Securities Finance group was awarded Diversity and Inclusion Initiative of the Year for demonstrating commitment to equality and inclusion on a sustainable basis. The inspirational group of women have promoted D&I in the securities finance industry over a long term, positively impacting the sector in terms of equality and inclusion.

Other winners on the night included State Street, a recipient of the Global Lender of the Year award, S&P Global (previously IHS Markit), winner of the Global Data Provider of the Year award, and Wematch, which took home the Trading System of the Year award.

As well as celebrating excellence within the securities finance industry and outstanding contributions from its leading figures, the event acknowledged the important work of Mind Bromley, Lewisham and Greenwich.

Mind is a mental health charity based in England and Wales, which offers information and advice to people with mental health problems and lobbies government and local authorities on their behalf.

A charity auction hosted by the Industry Excellence Awards — which presented 10 items including a weeks' stay in a four-bedroom Florida townhouse, a signed Tyson Fury boxing glove, and a signed Ray Parlour autobiography — raised thousands of pounds for the local charity. The exact figure raised for Mind is yet to be finalised.

Click here to view the full photo gallery for the awards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Low ranking ESG companies facing restricted lending

Institutional owners are restricting lending of companies perceived as unsustainable, according to State Street's Travis Whitmore. Carmella Haswell reports

Institutional owners are restricting lending of companies perceived as unsustainable, according to Travis Whitmore, senior quantitative researcher and head of securities finance research at State Street Associates.

A presentation titled 'The Effect of ESG on the Global Equities Lending Market' at the International Securities Lending Association's (ISLA's) Annual Securities Finance and Collateral Management Conference, evaluated a State Street study which looked at supply, demand and proxy voting.

Titled 'ESG and Securities Lending Market: An Analysis of Supply, Demand, and Proxy Votes', the study by State Street Associates covers 3,500 equities globally over the course of 2015 to 2021.

When discussing aggregate levels of lending supply in the market and how ESG might be impacting them, Whitmore reveals that there is a significant difference in the average lendable supply relative to a firm's market cap between highly ranked ESG firms and poorly ranked ESG firms.

The study reveals top performing ESG firms have around 32.5 per cent of lendable supply, compared to poor performers, which have approximately 31 per cent.

Drivers of this trend include lower institutional ownership — as investors increasingly integrate ESG into their investment decision processes, they are holding less securities of unsustainable, poorly ranked ESG firms.

Moreover, there is seemingly a growing trend of institutional owners restricting lending of companies perceived to be unsustainable. Not only are institutions owning less of the poorly ranked firms, but they are willing to lend less of that as well. This could also be a result of the type of funds that hold these unsustainable firms. This has become a growing trend which has almost octupled over a six year term.

In 2015, the difference between supply of highly ranked ESG firms and poorly ranked ESG firms was around 0.5 per cent on average, and in 2020 it was -4 per cent.

In terms of borrowers and what they are shorting and paying for those shorts, Whitmore says: "The term 'green shorting' has been used frequently, which is that short selling can be beneficial for ESG, expressing negative sentiment on unsustainable firms. The study confirms that there is more demand for these bottom ranks, poorly performing securities, and as a result of that, your fees are much higher. This trend not only persists intra-industry, but is even more apparent."

For example, within the energy industry, the study found a significant increase in shorting for unsustainable companies relative to sustainable ones, a trend which has grown over time. The short amount is almost double for these poorly ranked firms and the fees are twice as expensive.

"There is an interesting dynamic going on. We have lenders restricting supply, owning less of this. Meanwhile, they can earn twice the amount of revenue on some of these stocks," explains Whitmore.

In terms of institutional engagement on proxy votes, the study recorded 30,000 proxy votes between 2015 and 2021, globally based across different sectors.

Whitmore observes: "20 trade days before our record date, supply drops quite significantly. Almost around 0.6 per cent of a firm's market cap, and right after that record date it snaps back, with 1 per cent of a firm's market cap at least back onto the market. As a result, utilisation is driven up."

However, supply is not the only factor impacting utilisation — known as value on loan or lendable value — there is also an increase in demand over proxy record dates.

Demand increases slightly 10 days prior to the record date — the date shareholders must prove ownership to participate in proxy vote — as a result, fees increase also.

Whitmore says: "One could look at this chart and say that is empty voting, that is something that we do not want to see. But what we find is that is not the case. What is happening there is that it is being driven by ex-dividend dates, and a lot of proxy votes overlap with ex-dividend dates and, as such, we see an increasing demand over some of those proxy votes.

"When we look at proxy votes only and no dividend dates, there is only a marginal increase in demand. So there is not much evidence supporting this idea of empty-voting."

State Street sees shareholder engagement persist across different regions, including the Americas, Asia and Europe.

After analysing the institutional engagement over proxy record dates by sector, the study finds that sectors which are susceptible to negative ESG shocks have a higher level of recalls over proxy record dates.

Whitmore comments: "Energy, Utilities and Materials are some of the highest sectors where we see this level of engagement. These are sectors that we consider typically to be at risk of ESG shocks, particularly energy. They are almost twice the level of engagement as our average, particularly real estate and some of the services sectors, which might be less at risk of ESG shocks.

"Institutions are paying attention to where their investments are and where they should engage. We see this on a single stock level as well. When we do it by the single stock and we compare the top ESG performers versus the bottom ESG performers, we find that institutions are willing to forgo almost twice the amount of revenue to engage on poorly performing ESG firms in order to influence positive ESG outcomes."

State Street were recently announced the winner of the ESG Initiative of the Year award at the first Securities Finance Times Industry Excellence Awards 2022.

Emerging markets: unlocking dead capital and new liquidity

The industry maps out routes of opportunity in emerging markets while discussing the pain points of establishing lending and financing activities in the Middle East and Africa regions. Carmella Haswell reports

An increasing support for new markets across the Middle East, Africa and China is rising in the securities finance sector, along with an ambition to unlock new liquidity. Accessing additional potential and connecting domestic markets to international players has become key after the sector continues to operate in a challenging environment.

FrontClear, an organisation focused on maturing money market funds (MMF) and capital markets in developing markets, seeks to unlock access to the global and interbank markets by providing guidance and improving regulatory structure to allow those markets to open.

Consolo director Sarah Nicholson spoke at the International Securities Lending Association's (ISLA) 29th Annual Securities Finance and Collateral Management Conference as a representative of FrontClear.

Working in the Uganda market, Nicholson says the focus on these markets is on providing liquidity and stability by opening up MMFs. If MMFs are not working properly, the industry could experience additional risk in the market and an inability for markets to function properly.

Nicholson adds: "Focusing on capital markets, the project that FrontClear has been managing is enabling securities lending and repo to get capital moving around. Unlocking that otherwise dead capital, and allowing it back into the market through the repo transactions and the money markets more broadly, will help the local firms manage macro-shocks, provide the mid- and long-term funding that there is a real need for and help that market resilience."

In the Uganda market, a significant proportion of government bonds are held by pension funds and institutions on a hold-to-maturity strategy. That is locking out liquidity in the market, discouraging people from investing in the market, and impairing capital from moving around the market.

Expanding on the importance of new markets, eSecLending's managing director of product development Ed Oliver says if a participant becomes one of the first movers when engaging with new markets, that participant is likely to make the lion share of the revenue. Overtime, as liquidity increases in the market, the typical supply and demand dynamics apply and the revenue "drops off a little bit".

"We have clients who are invested in emerging markets and are keenly aware of that opportunity and push us as a lending agent to ensure that we are doing what we can to operate in those markets as safely as possible," Oliver interjects. "To do so you need the right infrastructure, the right rules and regulations, but once that is in place, it is very much about trying to get that supply to the market first."

Finding a route into the market

There are four components which are important to any market, according to Patrick Archenhold, head of securities lending trading at Morgan Stanley. These are ease of access, the stability of the inventory and funding, the liquidity of the inventory, and the cost of running the market.

He continues: "When we look across the globe, generally the first route into markets for firms is a synthetic model — primarily due to ease of entry. When you look to grow a market, having a limited universe of counterparts with which to transact starts to prohibit growth. If you look at what securities lending brings to the market, going back to the other three points, it can bring stability of inventory and funding from real money long-term investors.

"It can also bring the liquidity and breadth of inventory we need from people to really look at short ideas. On an ongoing basis, the cost does end up being materially lower because in a synthetic-only market, dealers are carrying inventory on their books, whether they are using it or not. On demand securities lending market gives you more flexibility."

Despite the synthetic model becoming a "first route" option into the market, it brings some complexity that not all beneficial owners would be able to address, or are in favour of addressing. eSecLending's Oliver agreed that the traditional route brings beneficial owners increased options.

This complexity represents a constraint on participating in synthetic transactions. Oliver advises participants that if they want to "throw liquidity at a market", the securities lending route is the favoured option. He explains: "We do not support the synthetic route, but we have clients who will be using the synthetic route and transacting with people such as Patrick. But for us it is waiting for the securities lending market to be in place."

Challenges posing markets

As the chair of the ISLA Developing Markets Working Group, Oliver says that Turkey is a market which ISLA members have been lending in for several years. One of the issues highlighted by Oliver was the concern from beneficial owners regarding the 'two hits and out' rule. Article 35 explains that if a participant were to fail twice in a three month period, they may have to prefund their purchases and sales. This can be managed by a lending agent through various routes.

"We are all familiar with the concept of buffers and in some cases taking presale notification. As soon as you get into those sorts of measures, it restricts the amount of supply you can bring into the market, some people will not come to the market at all, others will but because you are putting some mitigation around it, it limits the amount you can actually push forward as supply," comments Oliver.

Before considering a market, Consolo's Nicholson warns that a "phenomenal" level of due diligence must be completed. One of the complications are the minutiae details, which can catch firms out. For example, Nicholson recalls previous situations where accounting practices in a particular market were different to international standards and this led to complications.

Next steps

With a host of opportunities present in markets across the globe, industry experts are predicting future potential within markets in Asia and the Middle East and North Africa (MENA) region. With so many markets on the radar, it is difficult to pinpoint which region offers the most exciting for opportunities — whether that be those already mentioned, or lending opportunities that are now emerging in Central and Eastern Europe.

"We have been working on some of these markets and engaging with the infrastructure providers onshore for many years. You have to keep all of the balls in the air and keep the engagement going and I think that is the key," eSecLending's Oliver interjects. "Being able to have that ability to help present best practice internationally to onshore providers and hopefully, when securities lending filters up to the top of the agenda, change happens. That is what we are waiting for."

Focusing on China, Morgan Stanley's Archenhold says there remains no liquid offshore lending mechanism for A shares. Presenting as the second biggest stock market in the world, China is only partially represented in MSCI EM indices at the moment. "If this becomes more prominent and an offshore mechanism is established, there will be a good opportunity for growth in China."

"Other potential opportunities include the MENA region,"Archenhold explains. "Looking at its presence in the main EM indices, free-flow adjusted, you are looking at half a trillion worth of investable assets. Looking through four or five key markets, as with China, there is not an established securities lending mechanism. There are multi-billion or multi-trillion companies in these markets that are not currently covered by securities financing, and I think that is exciting."

According to Neil McLeod, head of group treasury markets, Erste Group Bank AG, there is real potential in the Eastern Europe region, especially with the area's regulatory rules being "relatively friendly" and an absence of major constraints. Furthermore, from the perspective of someone from a retail bank, McLeod indicates a natural shift into the asset management industry. In reality, the industry can view the development of each one of these economies and track the movement in terms of greater investment, which, in turn, needs greater securities financing in reality.

Analysing the region further, McLeod reflects on the benefit of operating securities financing and lending outside of the cash market. With a mounting pressure on all banks in the region and an influx of constraints in terms of balance sheet, the situation in the MENA region is becoming "extreme" for a variety of reasons. He continues: "The more that you can optimise the collateral the better or the stronger the situation will become. I see that coming together at the moment in the sense that we are starting to see increased volumes." ■

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79
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125B
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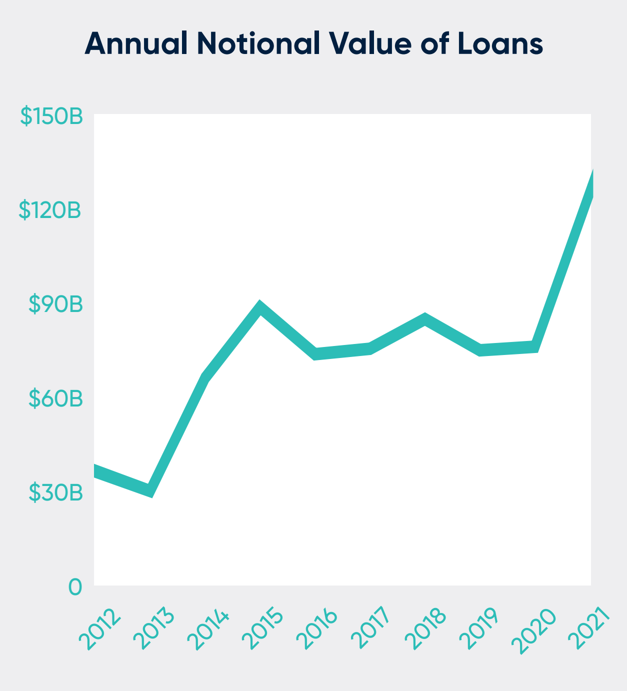

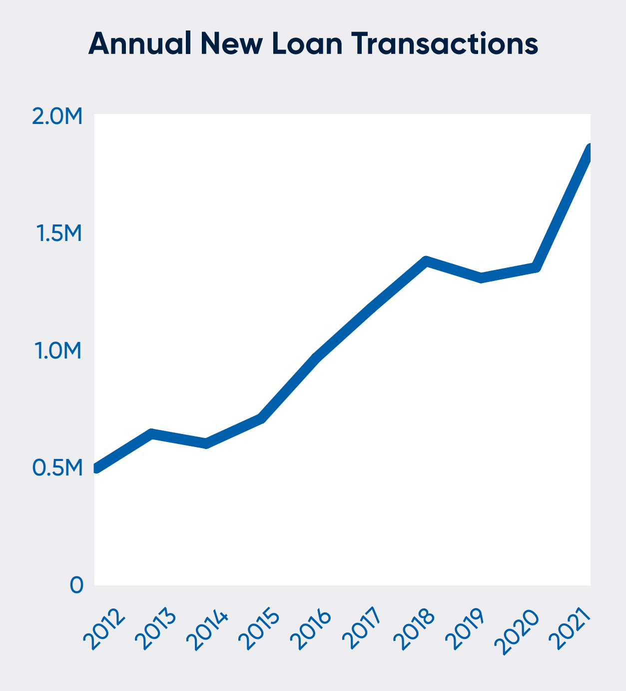

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Buy-side firms reassess how they access market liquidity

Buy-side firms are relying on agent lenders to explore different means of accessing market liquidity as the securities lending discipline evolves. Carmella Haswell reports

Buy-side firms are relying on agent lenders to explore different avenues for accessing market liquidity as the role of securities lending changes, according to a panel titled “Industry Leaders’ Perspectives and Predictions” at the International Securities Lending Association’s (ISLA’s) Annual Securities Finance and Collateral Management Conference.

ISLA’s chief executive officer Andrew Dyson, who hosted the conference, opened the panel discussion with an interpretation of the changing landscape of securities lending. He says: "There's a traditional view around lending, that it is all about lending a specific stock to a borrower to cover a short, or whatever that might be.

“That is still a factor in what we do. But the question is, as institutional investors have had to come to terms with the world of margin in the context of uncleared derivatives, we are picking up that increasingly lending programmes are being used to create and manage liquidity in vastly different ways. The world of lending specific stocks is still there, but this is a much-reduced portion of the pie."

Accepting the alternating securities lending landscape, four speakers discussed how their operations had changed in respect of client demands.

Ernst Dolce, head of liquidity solutions at AXA IM, says the firm's clients were focusing heavily on their securities lending performance, but over the past few years client attitudes have taken a different direction.

Dolce says: "However, for the last two years with the crisis [e.g. when the pandemic happened], we had to open the toolbox to meet their strategy — the clients are looking at what is happening when they have assets that could be used as collateral for uncleared or cleared derivatives, repo or they could be monetised. In this context, what is the best use of their assets? That is a simple question that you have to answer for a client."

Dolce explains the importance of speaking to clients — in particular, those who are doing cleared or uncleared derivatives, repo and also securities lending — and asking what is the cheapest to deliver in the market, what can you monetise, what type of spread can you play in the market with those transactions and, where you have a liquidity trap, how can you manage that?

According to Jon Atkins, head of alternative financing, agency securities finance at J.P. Morgan, the days of "rolling up to your banking partners and asking for an unlimited, cost effective credit facility in March 2020 was just not going to happen".

There has been an acceptance from all market participants, especially on the buy-side, that they require other ways to access market liquidity, Atkins continues, and in many firms are turning to agents to do that.

Atkins explains: "When you think about firms running bilateral repo operations themselves, and the significant cost that has been injected into that secured funding business — whether that is the result of regulatory initiatives such as SFTR, CSDR or continual cost of operational processing and fintech-enabled downstream processes. It is very expensive to run it yourself. This is why they are coming to people like us as agents to say 'we want to leverage your pipes and plumbing. Can you plug us into different liquidity providers, cleared venues, and into other like minded institutions who have slightly different liquidity access?'"

This preserve pertains not only to the larger and more sophisticated clients, but also to new participants in the market.

J.P. Morgan's Atkins indicates that this is a trend seen across various clients for a multitude of reasons. He adds: "When you think about the new participants in our market over the past couple of years, whether that is cash rich tech corporates or neo banks — all without any legacy infrastructure to be able to engage in repo markets and lending markets — they do not want the operational burden of having to set everything up for themselves so they go to the people who can."

Following on from these comments, Barclays' head of equity financing trading EMEA Florian Huber says the bank is having to pinpoint solutions for their hedge fund clients' liquidity challenges, with Uncleared Margin Rules (UMR) being a major pain point.

Huber continues: "On the other hand, to come back to the opening question about stock lending versus funding or financing, when we deal with our agent lender counterparties, it is nearly all about funding and financing. Obviously we need these particular ISINs for T+1 or T+0 and in these particular sizes; but this process is very well automated.

"However, our stock loan team spend time on finding solutions for the funding team with the agent lenders, and there we have seen a lot of good conversations and trades happening. Some of it has come out of the pandemic, but it all started before that."

Gesa Johannsen, EMEA head of clearance and collateral management at BNY Mellon, interjects that after opening 3000 accounts during Phase 5 of UMR — the first large wave where BNY Mellon also had buy-side clients — 50 per cent of buy-side clients selected triparty rather than the traditional third-party model.

She says: "Just like the sell-side, they realised they need to optimise, they need to have an aggregate view of their inventory of assets and they need to optimise across the different bilateral trading obligations. And we see the same also with wave six."

ISLA's Dyson brings forth a suggestion during the crisis that some institutional investors felt let down by their providers of liquidity, from a counterparty and markets perspective. As firms reassess how they generate liquidity for various reasons, the role of securities lending is changing.

Johannsen adds: "I think it is not that they are feeling let down, they are just realistic that there might be balance sheet constraints with their counterparts and that they want to broaden up their network. This is why they need to have unconflicted agents helping them on the collateral transformation side."

Collaboration and Competition

FIS' David Lewis asks how much firms are willing to give away in order to get ahead as they reassess business strategies and build for the future

June saw the return of the International Securities Lending Association (ISLA) Conference, marking what many hope to be the return to in-person meetings and more normal ways of doing business. A return to the good old days even. In contrast, the conversations were all about the future, whether these related to digital assets, distributed ledger technologies or other initiatives destined to revolutionise our marketplace.

As a panel moderator at the conference, I was gifted a great subject and a fantastic panel of contributors. Like many such occasions, there was a plan and a set of questions to advance through — but once the panel started, it was clear there was too much to discuss and the planned end would never be reached. One of the threads that ran through the conversation was worthy of a long discussion in its own right – can collaboration and competition coexist?

Going back a step, the panel was charged with examining whether it was necessary for organisations to collaborate to converge on market standards quickly and effectively. The benefits of market standards are many, of course, but the introduction of a new standard can often result in just adding it to the list, rather than replacing all others — as would have been the original intention. The key to success of a new standard is to achieve buy-in from those that need to use it and this requires a degree of openness that has, perhaps, not always existed.

The preparation work for the Securities Financing Transactions Regulation (SFTR) became, intentionally or otherwise, a model (or even, dare I say it, a new standard) for cross-industry collaboration, prompting competing firms to work together, first to understand what is required by the regulation and then to deliver it.

Openness and sharing do not seem to be natural components of a commercially effective strategy, but that view is changing as new ways of working are spreading across the industry. The challenge of meeting regulatory demands, especially against a testing timeframe, has helped to focus minds and to ease many into the idea that collaboration is not necessarily a bad thing. Consequently, the example was set and the doors had been opened. So where could this collaboration take the industry and where should the most effort be applied?

Much work is being done, not least at FIS, on solutioning for the most economic match. This brings many more data aspects into the calculation than at any time previously, and the positive effects at the point of trade are obvious. However, many more benefits are to be gained from the post-trade impact of such advances. Effective matching at the point of trade using common taxonomies and regulatory compliant data fields eradicates the need for reconciliations and confirmations as we used to know them. Distributed ledgers ensure there is one (replicated) source of truth for transactions, not many.

Changing paradigms

Achieving the potential benefits to the market of improved post-trade management requires better data at the point of trade, but also improved system interoperability. The lack of interoperability between systems employed across the securities finance industry, both within and between market participants, used to be seen as an opportunity. Build an interface to XYZ system? Of course, that can be done. At a cost. With the advent of initiatives like the Common Domain Model (CDM), the days of such projects are numbered and the seamless exchange of data between systems, even from competing providers, is on the horizon.

New generations of people entering the market struggle to understand such challenges — not the technical difficulty, but why they exist at all. Generationally, those coming into our industry expect interoperability as standard, which is largely due to a different approach to learning and teaching. The connection between this new approach and the educational shift from end-of-year individual exams to more coursework and team-based working and assessments cannot be coincidental.

Many of those on the panel were clear advocates of openness and sharing of ideas, all designed to move the community forward. Such phraseology may be foreign to some, but it represents new thinking from new entrants who are taking this approach to the way they work together. But don't be fooled, these are also highly competitive people from very successful organisations — and that, in itself, is enough to warrant attention.

Working with the panellists, and on projects like CDM, helps to identify how organisations can be both open and competitive. Much of this has to do with mindset and having a more community-oriented focus. The advent of ESG, of course, is another outcome of such changes in attitude. Inefficiencies in processes and markets used to appear as opportunities. Now they are simply viewed as inefficiencies that benefit no one and harm all those in that market. It is this separation that is the key and motivation behind collaborative sharing amongst competitive organisations.

Few organisations will prosper by sharing their hard-earned intellectual property, but all market participants can benefit from solving a shared problem that costs everyone. The advance of open source technologies, promoted by large commercially successful organisations, are showing the way forward. Many industry paradigms are changing and, instead of finding ways to defend the old ways of doing things, those looking forward longer term understand that attempting to hold back the tide will be a mistake.

Looking back to SFTR, no organisation around those working group tables shared trading positions or strategies. However, they were completely open to sharing, for example, the challenges of trade reconciliations and the breaks that exist across datasets. It was not the intellectual property that was shared, but the interest in solving common issues. Taking that attitude and applying it to broader market inefficiencies is the way forward, integrating new technologies such as digital assets and tokenisation but without trying to superimpose them on old models of business.

All that remains is to ask how much you are willing to give away in order to get ahead?

Latest industry appointments at Standard Chartered, Qontigo and Deutsche Bank

Mitsubishi UFJ and Banking Corporation (MUTB) has appointed Gustave Christakos as US head of client operations and relationship management.

Based in New York, Christakos joins the Global Securities Lending Solutions (GSLS) Group of MUTB, where he will report to Tom Ryan, head of asset and liability trading for GSLS in the Americas.

Bringing more than 20 years of experience in the finance sector to the role, Christakos joins the firm from Deutsche Bank where he was vice president of securities lending and client service for 17 years.

Previously, he held roles at AIG as associate vice president of securities lending in 2004, and associate at Prudential Financial between 1998 and 2004.

Speaking on the announcement, Ryan says: “We are very excited to have Gus lead our US operations and relationship management team at MUTB. Gus is well-suited to lead our dynamic client service and relationship model.

“With a number of major wins already under our belt this year, the time was right to bring in someone who has both a long track record of implementing world-class, customised client service models, and who has experience in working with those clients to foster programme enhancements within each client’s risk tolerance.”

Earlier this year MUTB completed the transition of the Bank of Montreal (BMO) securities lending programme onto its platform and were appointed as a third party securities lending agent for the State Universities Retirement System of Illinois.

Market sources indicate that MUTB have won a number of additional client mandates around the globe, thereby increasing the need to build up the firm’s client facing team in the US.

Standard Chartered has appointed Simon Kellaway as global head of sales, financing and securities services (FSS).

Kellaway assumes the role in addition to his existing responsibilities as the regional head of Greater China and Northeast Asia for FSS.

He will continue to be based in Hong Kong and will report to Margaret Harwood-Jones, global head of FSS and Sharad Desai, global head of financial institution client coverage and global head of financial markets sales and structuring.

Kellaway, who joined Standard Chartered in 2019, has 30 years’ experience in the international banking industry.

He has successfully led several strategic initiatives for the FSS business, including the acquisition of Royal Bank of Canada Investor Services in Hong Kong.

Acadia has appointed Stuart Smith and William Thomey as co-heads of business development.

In these newly created roles, Smith will oversee business development for Acadia’s risk and data products, while Thomey will assume equivalent responsibility in the areas of workflow and agreement management.

Both hires will report directly to Acadia’s chief product officer Fred Dassori.

Based in London, Smith joins Acadia following seven years at FIS, most recently serving as senior vice president of product management. In this role, Smith led the product organisation in the cross-asset trading and risk business.

Based in New York, Thomey enters his new position at Acadia with nearly two decades of experience at J.P. Morgan Chase & Co.

During his term with J.P. Morgan Thomey worked in operations, transformation and risk roles, most recently serving as its executive director of corporate and investment bank post-trade transformation.

Speaking on the announcement, Dassori comments: “Will and Stuart bring deep and diverse experience to Acadia. Their leadership will allow us to continue developing and delivering products that solve our clients’ problems and make our clients’ businesses more efficient.”

Smith adds: “I am excited to join Acadia’s team to help them continue to develop their technology solutions in the risk and collateral management fields.

“I will build upon its suite of risk and data products so that we continue to serve as trusted partners for all firms as they manage the operational challenges of today’s regulatory environment.”

Acadia has recently extended its integrated risk management capabilities to include

pre-trade analytics, capital calculation and position valuations in addition to its core margin messaging, collateral management, and uncleared margin solutions.

Qontigo has appointed Jesús Togno as global head of index client services.

Based in London, Togno will be responsible for leading a global team to ensure Qontigo's clients are receiving the full benefit of the company's index solutions.

As part of Deutsche Börse Group, Qontigo provides investment management services and financial intelligence through indices and analytics.

Commenting on his new role via LinkedIn, Togno says: "I am also very grateful to all of those who helped me on this move and supported me to take this new role."

Togno previously served as regional director for Latin America at FTSE Russell, a London Stock Exchange business providing benchmarks, analytics and data solutions. In this role, he was responsible for the Latin America business across equity, fixed income, ESG ratings and multi-asset class solutions.

Before this, he held various positions at MSCI, including vice president and head of index business for Mexico and Central America, senior associate and head of Americas index client service.

Togno began his career as a strategic planning analyst at CEMEX, where he was responsible for updating and reporting global competitors' performance, including financial results, installed production capacity, expansions and M&A deals, to identify possible acquisition opportunities.

Deutsche Bank has appointed Kevin Park to lead its agency securities lending team in the Asia Pacific region.

Based in Singapore, Park will report to the bank's head of EMEA and APAC equity trading for its agency securities lending division, Claudio Lorenzini.

Park has more than 15 years of industry experience, specialising in equity securities lending, financing and delta one trading. He joins from HSBC, where he was previously a director in equity SBL based in Hong Kong.

Commenting on Kevin Park's appointment, Lorenzini says: "Kevin has considerable experience across a wide range of equity transaction frameworks, as well as an established reach with institutional investors in key strategic markets such as South Korea. His appointment is an important catalyst for the next stage of growth in our business across Asia Pacific."

Kevin Park adds: "I am delighted to join the agency securities lending business at Deutsche Bank, an institution with a 150 year presence in the Asia-Pacific region. APAC is the second largest region in terms of securities lending equity industry revenue and it has strong growth fundamentals, as evidenced over the past 18 months in particular.

"I look forward to extending the historical success of Deutsche Bank's agency securities lending in the Asia-Pacific region and enhancing the range of solutions we will deliver to beneficial owners and counterparties."

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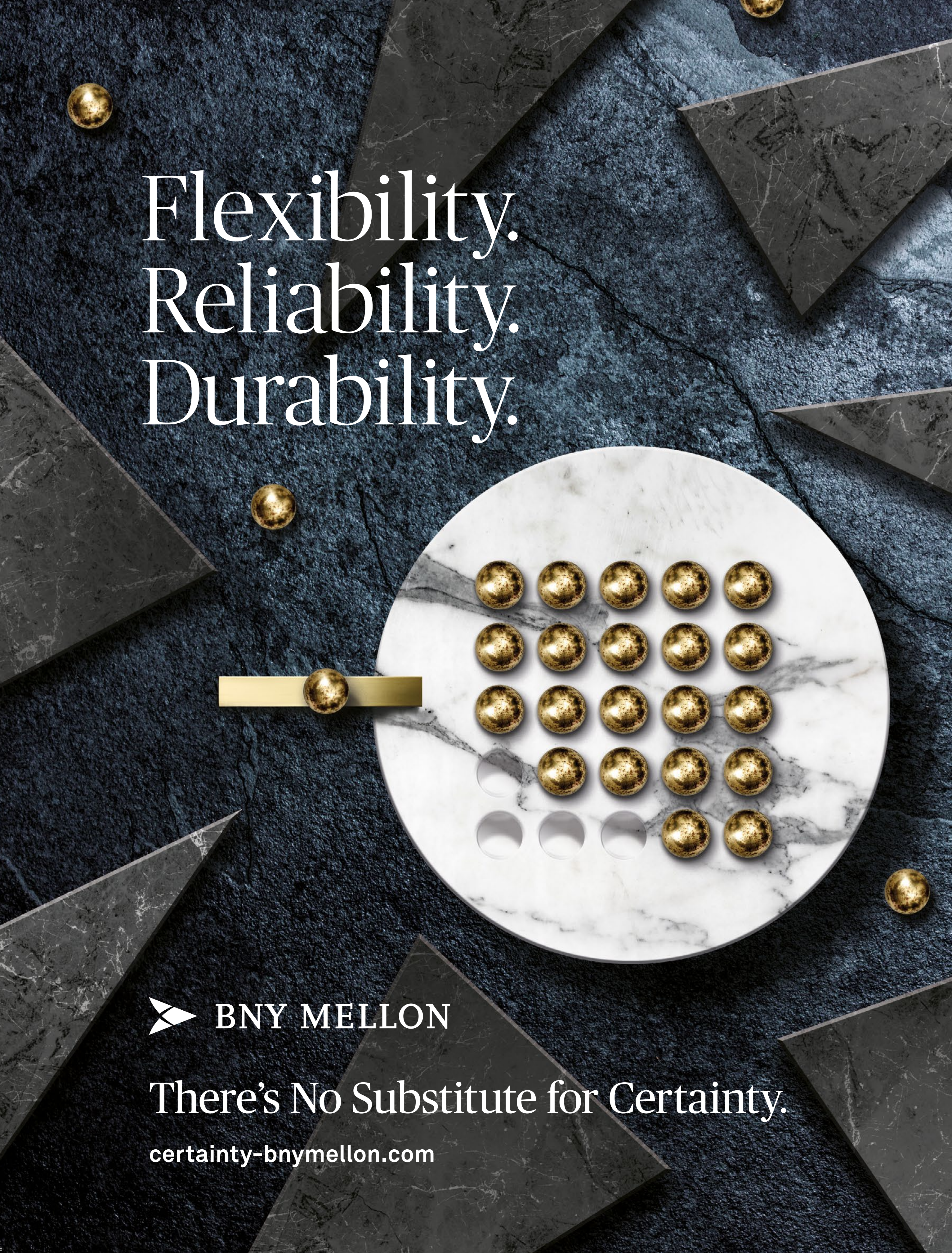
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