securitiesfinancetimes
The primary source of global securities finance news and analysis
Issue 307 19 July 2022

The regulatory push

Market participants discuss the potential for ESG regulatory governance for the securities lending product, following preliminary moves by the Financial Conduct Authority to improve trust and integrity

EquiLend announce DLT solution to combat reconciliation inefficiencies

EquiLend has announced a technology programme that will include the use of distributed ledger technology to address reconciliation challenges in the securities finance industry.

The programme, branded 1Source, aims to use emerging technologies to develop a common record, or “single source of truth”, to support trade processing across the transaction lifecycle.

Emerging out of the Digital Transaction Working Group, which is convened by EquiLend, the 1Source programme will initially tackle the challenge of eliminating reconciliation breaks and associated settlement fails in securities finance, which the Working Group has identified as the priority issue for the sector owing to their high cost and disruptive effect.

EquiLend indicates that, in building this solution, it will deliver a centralised DLT-based platform that will act as a “single source of truth” for securities finance lifecycle events and a universal source of data for the industry. This, it says, will support operating procedures that will provide predictable and consistent results for market participants.

The service is currently in its design phase, with Working Group members providing feedback into the design and testing of the platform.

Gary Klahr, EquiLend’s director of client relationship management, says "Reconciliation and resulting trade failures are clearly among the most immediate challenges affecting the industry, but the scope of this initiative is not limited to solving this one problem.

“We are taking a future-proof approach to this issue, which ultimately means solutions that are developed to solve problems today should serve as a technological platform to eradicate future issues and help generate opportunities."

EquiLend’s chief information officer Ken DeGiglio, indicated that the securities finance industry has been treating the symptoms of its costs and inefficiencies for many years rather than addressing its root cause.

He indicates that the 1Source initiative creates an opportunity to adopt new technology that will enable the industry to “completely reimagine how platforms work and share information, how counterparties interact and how true, single source data can be experienced”.

Brian Lamb, CEO of EquiLend, says that this programme provides a “once in a generation opportunity to rethink the use of resources in securities finance”.

“EquiLend 1Source will result in extraordinary savings industry-wide through technological efficiencies and the opportunity to redeploy human capital into more productive and profitable workstreams,” says Lamb.

Inside this issue

ESMA consults on cash penalty procedures under CSDR

The European Securities and Markets Authority has launched a consultation to assess industry reaction to potential changes to cash penalty procedures under the Central Securities Depositories Regulation (CSDR).

These proposed changes would allow central securities depositories (CSDs) to collect and distribute all forms of penalties for failed settlement under the CSDR settlement discipline regime, including penalties for centrally cleared transactions.

Under the current regime, which was enacted in February 2022, cash penalties applied to settlement fails for centrally cleared transactions are collected and distributed by central counterparties (CCPs).

Respondents have been asked to submit their input to the consultation process before 9 September 2022. ESMA expects to publish a final report analysing the consultation findings, along with revised regulatory technical standards (RTS), before the end of the year.

Clearstream launches data solutions to predict settlement efficiency

Clearstream has launched data-based solutions, Settlement Dashboard and artificial intelligence (AI)-powered Settlement Prediction Tool, to offer insights into settlements.

According to the Luxembourg-based international central securities depository (ICSD), market participants are searching to improve their settlement efficiency and liquidity with the Settlement Discipline Regime (SDR).

With the SDR regulation expected to come into force in February 2023, failed settlement transactions may result in financial penalties, operational overheads and could lead to reputational damage.

The Settlement Dashboard offers clients insights on their settlement activity — including efficiency and failure analysis — allowing for monitoring of settlement activity, assessing the potential impact on a daily basis and benchmarking against the market.

The Settlement Prediction Tool predicts the probability that a specific instruction will settle on time, up to two business days in advance.

Users can leverage the AI-powered tool to minimise late settlement penalties and maximise the value of their assets by allocating them accordingly.

Priya Sharma, head of data and connectivity at Clearstream, comments: “We at Clearstream and Deutsche Börse are convinced of the power of data. Our predictive and prescriptive solutions provide insight and foresight that help our clients make better decisions that improve their performance and business growth.

“Most failed settlements happen due to lack of detailed knowledge of one’s own settlement activities. By leveraging high-quality predictive data, we provide our clients with that knowledge to be best equipped for regulatory requirements, operational excellence and settlement efficiency.”

BoE Money Markets Committee voices concern over repo fail rates

In its May meeting, the Bank of England’s Money Markets Committee raised concerns over fail rates in UK repo markets.

The discussion built on presentations to the Committee by Christopher Mundy, product manager for securities finance and collateral management at Euroclear, and Mike Jones, LCH head of securities clearing operations for RepoClear and EquityClear, which highlighted an increase in settlement fail rates in the gilt repo market against a backdrop of rising trade volumes.

The Money Markets Committee (MMC) indicated that repo fail rates are “still too high” and that this reflects poorly on the efficiency of the London market.

Some improvement had been made through a temporary extension of the delivery-versus-payment (DvP) window until 15:25 and through proactively chasing counterparties. However, the Committee indicated that it is important to investigate which types of counterparties were principally responsible for this increase in settlement fails and to set other diagnostics in place that will inform improvement in settlement practice.

In the minutes of this meeting, the Committee highlighted a number of high-level reasons for this rise in rate of settlement fails — including low liquidity levels, timing discrepancies in

delivering cash and securities, and the fact that the settlement may sit within a chain of transactions, such that the failure of one trade in this chain may trigger failure of other downstream transactions.

The Committee also reviewed whether the impact of COVID-19 has contributed to a rise in settlement fails linked to staff turnover, working from home and a consequent rise in inexperienced staff working in the trade settlement environment.

In response, the Committee indicated that "it is eager to get to the bottom of why fails have increased" and to explore the impact of remedial measures, including use of auto-partialling and the effect of settlement fines, such as those introduced from February 2022 under the Settlement Discipline Regime of the Central Securities Depositories Regulation in the EU.

More broadly, the Money Markets Committee also reflected on a recent instance of borrowing shares to vote, an instance which was discussed in some detail in the May meeting of the Bank of England Securities Lending Committee (SLC).

In line with the comments made by the Securities Lending Committee (SLC), the MMC agreed that this constituted a breach of the UK Money Market Code. The MMC debated whether signatories should be made to "reattest" to the Code in a measure to remind signatories of their responsibilities under this component of the Code.

S3 Partners joins forces with LiquidityBook

S3 Partners (S3) has partnered with LiquidityBook to expand S3's services and distribution network to more buy- and sell-side firms, including prime brokers and lending agents.

As part of the mandate, S3's Blacklight order management system (OMS) will now be available through LiquidityBook, enabling users

Securities Finance and Collateral Management Solutions for Every Firm

- Optimize lending, funding and collateral decisions
- Reduce counterparty and operational risks
- Enable efficient and high-growth operations
- Flexible to firms of all sizes in any location
- Meet regulatory and market requirements

Ready for Next

Communications
Technology
Data and Analytics

broadridge.com

to action rates across their prime brokers.

With S3 Blacklight, users can request financing rate relief across their entire portfolio.

Commenting on the new mandate, James Baxter, head of global buy-side sales at LiquidityBook, says: "S3's powerful Blacklight financing OMS will enable LiquidityBook clients to easily renegotiate rates across their portfolios through real-time, actionable data on rates and squeezes.

"We are excited to grow this partnership and further boost the capabilities of both companies' solutions, better serving our clients and helping them secure the best rates possible."

Bob Sloan, managing partner and CEO of S3, comments: "Through this partnership, LiquidityBook users will now have the added bonus of being able to quickly request financing relief through Blacklight, thanks to real-time visibility into the best available rates. We look forward to further developing this partnership and flourishing together."

OSTTRA streamlines post-trade reconciliation

OSTTRA has streamlined trade reconciliation with direct connectivity between two of its post-trade services, MarkitWire and triResolve.

MarkitWire is an electronic trade confirmation and processing platform, while triResolve offers services for portfolio reconciliation, collateral management and reporting reconciliation.

The direct connectivity is currently live with nine existing customers, covering interest rate derivatives and equity derivatives. It will also include repo transactions following the go-live of OSTTRA Trade Processing for Repos in the third quarter.

The enhanced workflow will enable trades confirmed by MarkitWire to be efficiently delivered directly into triResolve, across a common network of more than 2,000 firms.

This will drive standardisation of data for reconciliation, bringing improved efficiency, cost reduction and greater transparency between counterparties, OSTRRA highlights.

Peter Altero, head of rates business development at OSTTRA, says: “The connectivity between MarkitWire and triResolve shows that OSTTRA is focused on accelerating innovation in post-trade. Our clients will only have to flick a switch on the MarkitWire side to see the significant benefits of enhanced data in triResolve.

"This is just the beginning — there is so much more efficiency to be gained up and down the post-trade stack by having access to enhanced, standardised transactional data.”

GLEIF creates qualification programme for vLEI Issuers

The Global Legal Entity Identifier Foundation (GLEIF) has announced the launch of a verifiable LEI Issuer Qualification Program, extending its efforts to provide regulated and standardised global identities for legal entities around the world, thereby enhancing computation trust in their transactions and interactions with other counterparties.

GLEIF is now inviting existing and prospective partners to start the verifiable Legal Entity Identifier (vLEI) Issuer Qualification process. It anticipates that this qualification will take approximately 90 days, enabling a Qualified LEI Issuer to serve as the primary point of contact and issuing agency for legal entities seeking a vLEI.

When they have completed vLEI Issuer Qualification, this will allow the qualified issuer to provide digital identity credentials to a wide range of business entities to support their domestic and cross-border transactions and engagements where computational trust is required.

The Foundation indicates that more than two million legal entities globally now identify themselves internationally using an LEI, a system of global business identification overseen by the G20, the Financial Stability

Board and a group of public authorities around the world.

The vLEI is a digital version of the LEI, which aims to meet the requirement for automated digital verification of the legal identities of businesses.

GLEIF indicates that the release in its vLEI Issuer Qualification Program is the third in a series of announcements regarding the development of the vLEI programme.

On 22 June, it announced that PharmaLedger, a consortium of 12 global pharmaceutical companies and 17 public and private entities, will use the vLEI to support legal entity identification in a new healthcare service blockchain platform.

A week later, it announced the first live use of a vLEI by a company in signing its 2021 annual report, enabling the firm to sign specific sections of the annual report through an electronic process.

FIA Tech launches Cash and Collateral reference data service

Technology provider FIA Tech has launched the FIA Tech Cash and Collateral reference data service, a globally collated data set.

The data is sourced from FIA Tech's central counterparty (CCP) partners and will be available on FIA Tech's Databank Network.

The data set offers a standardised, aggregated view of collateral instruments, accepted by CCPs.

The data set eliminates the manual process of extracting and passing exchange and CCP information for futures commission merchants and their clients.

The service also provides crucial data points such as haircuts, concentration limits and collateral management fees.

At launch, the data set will be accessible to several global clearing firms that manage more than US$120 billion of collateral held by customers for trading futures in the US.

Global securities finance industry generates US$4.8 billion in H1 2022

The global securities finance industry generated US$4.8 billion in revenue for lenders in the first half of 2022, according to DataLend, the market data service of EquiLend.

The figure represents a 6 per cent increase from the US$4.5 billion generated in H1 of 2021.

Revenue generated from fixed income securities increased by 22 per cent year-over-year to US$1.1 billion, driven by a rise in fees and on-loan values in corporate debt.

Revenue from equities increased by 2 per cent over the same timeframe to US$3.7 billion due to increases in balances across Asia and Europe, Middle East and Africa (EMEA).

In June alone, the global securities finance industry generated US$897 million in revenue for lenders, representing a 3 per cent decrease from US$923 million in May and a 4 per cent increase year-over-year.

The year-over-year increase was primarily driven by fixed income in North America and EMEA, which saw increases of 38 per cent and 12 per cent, respectively.

Global broker-to-broker activity, where broker-dealers lend and borrow securities from each other, totalled an additional US$264 million in revenue in June, a slight increase year-over-year.

The top five earners in the securities lending market in June 2022 were Gamestop, Lucid Group, Dutch Bros, Upstart Holdings and Beyond Meat.

ESMA announces data reporting agencies that it will directly supervise

The European Markets and Supervisory Authority (ESMA) has clarified the data reporting service providers that will be directly subject to its supervision.

This follows the adoption of the European Commission Delegated Act in March, which details the derogation criteria under which data reporting service providers (DRSPs) will be supervised directly by ESMA, rather than by their national competent authorities (NCAs).

ESMA, the EU securities market regulator, took on its new mandate on 1 January 2022 as direct supervisor of DRSPs and has assessed which data providers will come under its supervision on the basis of their cross-border activity and the volume of transactions reported.

According to this methodology, it has announced that nine DRSPs will fall under its regulatory supervision, notably AQ Metrics Ltd, Tradeweb EU B.V., CBOE Europe B.V., Unavista TRADEcho B.V., Bloomberg Data Reporting Services B.V., MarketAxess Post-Trade B.V., Krajowy Depozyt Papierów Wartosciowych S.A., Nasdaq Stockholm AB, and Euronext Paris SA.

These nine DRSPs account for more than 99 per cent of transactions reported by Authorised Reporting Mechanisms (ARMs) and more than 99 per cent of transactions published by the Authorised Publication Arrangements (APAs).

The remaining ARMs and APAs will remain subject to supervision by their respective NCAs.

FCA fines TJM for facilitating Solo Capital cum-ex trades

The Financial Conduct Authority has fined The TJM Partnership slightly more than £2 million for control failures linked to cum-ex trading.

This is the third fine that the UK regulator has applied in connection with cum-ex and the largest penalty that it has imposed so far. These relate to trading activities that TJM conducted on behalf of Solo Group between January 2014 and November 2015, cases that have been extensively reported in Securities Finance Times.

The FCA rules that trades executed by TJM on behalf of clients of Solo Group were characterised by "a circular pattern of purported trades", characteristics which the regulator suggests "were highly suggestive of financial crime".

This trading, it concludes, appears to have been conducted to enable withholding tax reclaims to be made in Denmark and Belgium. These trades were for an aggregate value of £59 billion in Danish equities and £20 billion in Belgium equities. The FCA indicates that TJM received a total commission of £1.4 million for executing these trades, which represented a "significant proportion" of the firm's revenue for the period.

TJM, which is now in administration, also failed to maintain adequate systems and controls to mitigate risk that it was being used to assist fraudulent trading and moneylaundering.

The FCA also referred to two other cases related to Solo Group where TJM failed to identify or escalate concerns about financial crime or moneylaundering. In another instance, it found that TJM had accepted money from a third party without conducting necessary due diligence.

In March, Denmark established an extradition treaty with the United Arab Emirates to lay the foundations for the extradition of Sanjay Shah, founder of Solo Capital, who was resident in Dubai. Shah and another British national are accused by the Danish government of having defrauded the Danish exchequer out of more than DKK 9 billion (approx £1.5 billion) through illegal cum-ex trading and associated activities.

The FCA indicated that TJM had agreed to resolve all the issues of fact and liability that emerged from this case and, as a result, the fine was reduced by 30 per cent. Without this reduction under the FCA's Settlement Discount scheme, the regulator indicated that the fine would have been £2,399,000.

In its Final Notice on the settlement, the regulator states that Solo Group purported to provide clearing and settlement services as custodian to its clients within a closed network. These clients were principally offshore companies, including entities incorporated in the British Virgin Islands and the Cayman Islands, along with US 401(k) pension plans.

According to the FCA, the Solo Group clients were often entities controlled by a small number of individuals, some of whom had previously worked for Solo Group, and which did not appear to have access to sufficient funds to settle the trades.

TJM was found to have executed OTC equity cum-ex trades for a value of approximately £58.33 billion in Danish equities and £19.71 billion in Belgian equities on behalf of Solo Capital clients during the period under investigation.

This reportedly featured a circular pattern of high-value OTC equity trades, back-to-back stock loan transactions and forward trades involving EU equities on or around the last day of the cum-dividend period. These trades were then subsequently unwound through trades conducted after record date.

The FCA says that OTC trades conducted by TJM were executed on platforms that did not have access to liquidity from public exchanges. These shares were reportedly filled "within a matter of minutes", despite representing up to 24 per cent of the shares outstanding in the Danish-listed companies and up to 10 per cent of the equivalent Belgian stocks.

These OTC trades equated to an average of 47 times the total number of shares traded in the Danish stocks on the Danish stock exchange and 22 times the total number of the shares traded in the Belgian stocks on European exchanges on the last day that the shares were cum-dividend.

The purpose of this trading, the FCA concluded, was so that Solo Group could arrange for dividend credit advice slips (DCAS) to be created which purported to show that Solo clients were owners of the shares on the record date. In some cases, these DCAS were then used to reclaim withholding tax from the Danish and Belgium tax authorities under the relevant Double Taxation Treaties.

TJM staff were reportedly eager to maintain their relationship with Solo Group, which was referred to as the "chicken that laid the golden egg", according to the FCA's Final Notice. Before taking on this Solo Group business, TJM was losing approximately £20,000 to £30,000 each month, according to this statement.

The regulatory push

Market participants discuss the potential for ESG regulatory governance for the securities lending product, following preliminary moves by the Financial Conduct Authority to improve trust and integrity in services sold as sustainable. Carmella Haswell reports

Three years ago, in a widely-referenced statement, Japan's Government Pension Investment Fund (GPIF) announced that it would cease its securities lending activities, stating that this practice is inconsistent with its responsibilities as a long-term investor. This action by GPIF, which manages retirement savings on behalf of the Japanese government, represented a significant landmark in prompting the securities finance industry to examine how environmental, social and governance (ESG) standards should be applied to securities lending activities.

"It was the first time that ESG and securities lending were put in the same sentence and it caused people to take a look at what can be done to integrate sustainability factors into the product," says Farrah Mahmood, director of regulation and sustainability at ISLA. "It was the shock the industry needed to see. If this is the perception of what securities lending is, then the sector needs to educate others in the hopes that it does not happen again."

An increasing fixation on ESG principles has led to the creation of ESG dashboards, which allow firms to better understand and monitor their ESG ratings. Darren Crowther, general manager of securities finance and collateral management at Broadridge, notes data quality, data timeliness and regional aspects of data are three focal points for fintechs in delivering ESG ratings.

Owing to a lack of data quality and consistency in evaluation, fintechs are finding challenges in drilling down into vertical ESG scores, for example green credentials or diversity and inclusion — where certain funds will have a specific interest in these criteria for voting, governance and other decisions. However, with higher data quality, it would be easier for fintechs to build solutions which provide consistent results across all regions and organisations.

Crowther continues: "There are two ends to workflow, getting the data quality and timeliness up to a level which allows for consistency, which in turn can be used for assisting with automation or validation of acceptability when talking about collateral. As a step in the correct direction, there are a variety of vendors who are starting to provide ESG vertical ratings.

"There is an ongoing initiative in Europe to regulate how you scope and score organisations. This should help the journey to standardisation. Without this, each organisation will take a view on ESG scoring which is specific to them."

In terms of regionality, Crowther noted at the Canadian Securities Lending Association's annual conference that making ESG scoring fit in this area in the early stages will be difficult, because in some jurisdictions there is not an infrastructure and assessment framework in place with the scale that has been established in the US and Canada. "There is a journey for us to offer technology when the data is ready, but also when the market in that region really needs it," says Crowther. "In Canada and Central Europe at this time, there is a big demand."

A regulatory perspective

The International Securities Lending Association (ISLA) released its Global Framework for ESG and Securities Lending (GFESL) in May 2021. The paper aims to provide a starting point to aid institutional investors in applying ESG principles to their securities lending programmes in alignment with their organisational policies on sustainability. GFESL covers proxy voting, collateral, cash collateral and transparency. The CASLA panel recognises the importance of integrating ESG criteria within collateral management, which some firms have instilled within their collateral eligibility criteria.

Ed Corral, managing director and global head of Collateral Strategy at J.P. Morgan, suggests collateral management can support ESG as long as the industry is able to provide transparency. He says: "Nasdaq recently announced two more ESG indices covering the Scandinavian market. Using the available indices, collateral management can support it and you can customise it. You need global communication around this issue on standards. If there was ever an issue that was truly global, it is ESG."

Further to this point, the Global Principles for Sustainable Securities Lending (Global PSSL) has become a prominent force in the journey to advance sustainable securities lending. The not-for-profit community interest company has aided global communication around the issue on standards through its workstreams. These workstreams aid the implementation of high-level principles and aim to provide a medium through which the securities lending industry can engage in dialogue that makes an impact.

Alongside 17 opening signatories — including Standard Chartered, Sharegain and eSecLending — the Global PSSL launched its revised principles at the end of last year. These aim to promote and embed ESG matters and Sustainable Development Goals (SDG) in securities lending activities. The principles involve the alignment and development of sustainable finance, increased transparency and accountability in securities finance, and sustainable finance collateral that is interconnected.

Given the importance of these factors in shaping the future direction of securities lending, it is possible that some form of regulatory governance could be applied to uphold ESG standards in lending activities. To date, there is no specific regulation that targets the securities lending product. However, the Financial Conduct Authority is looking in this direction, according to ISLA's Mahmood.

In January, ISLA responded to the UK regulators sustainability regulation consultation, where the FCA specifically asked about the treatment of short selling securities lending and derivatives.

Farrah explains: "It is important to understand the different types of products and the way that they work and how some products can be a sustainable product in their own right — for example, you can have a sustainability-linked derivative, or a short selling strategy for real world impact for example.

> *"The problem we have is that we are all good at following rules-based legislation, but ESG is values-based and everyone's values are different, so you would have to factor that into legislation"*

"However, you are never going to get that with securities lending. It is an ancillary service, but an important investment tool that can be used for liquidity and hedging purposes. However, it will never be a sustainable product in its own right, therefore, it has to be looked at differently from a regulatory perspective."

The FCA has outlined a rationale for the regulation of certain ESG data and rating providers, which would require HM Treasury to introduce legislation.

In line with IOSCO's recommendations, the FCA would support a future regulatory regime for ESG data and rating provision based on four key outcomes: transparency, good governance, management of conflicts of interest and robust systems and controls.

Sacha Sadan, director of environment, social and governance at the FCA, comments: "At the heart of our recent strategy on ESG is the need to build trust and integrity in financial instruments and products that are sold as sustainable. As our recent discussion with industry and other stakeholders shows, that requires close international cooperation on standards and actions right across the market – including closer oversight of issuers of ESG-labelled debt instruments, and bringing ESG data and rating providers into regulation to promote greater transparency and good governance."

Despite the universal benefits of implementing ESG throughout the securities lending space, there are pain points that could negatively impact the sector if regulated.

Broadridge's Crowther warns that challenges could appear if regulators get involved in setting rules individually. He says: "It will become very costly to support and it will become very complicated, especially when speaking on behalf of lenders, because you may have different regulations for different countries, with different clients looking for different things."

The educational aspects provided by market bodies in bringing awareness to this issue is a key factor in tackling these challenges. Additionally, having a strong policy in place at the Global Alliance of Securities Lending Associations (GASLA), and other market bodies, is an important factor in proving to regulators that securities finance is well managed.

Furthermore, Crowther believes this will allow time for the industry to fully understand what ESG means to their business and their clients. In turn, the industry can move toward some kind of standard scoring approach. "Bringing regulation in at the beginning could be costly for organisations and possibly stop some organisations from being able to trade," Crowther notes.

Following on from Crowthers comments, Mahmood adds: "It has got to be flexible enough. The problem we have is that we are all good at following rules-based legislation, but ESG is values-based and everyone's values are different, so you would have to factor that into any piece of legislation. It is forever evolving. For instance a couple of months ago you would not have expected to see defence stocks in an ESG portfolio, but now it could be considered green, in light of recent events."

THE FOUNDATION FOR SECURE MARKETS®

OCC Stock Loan Programs

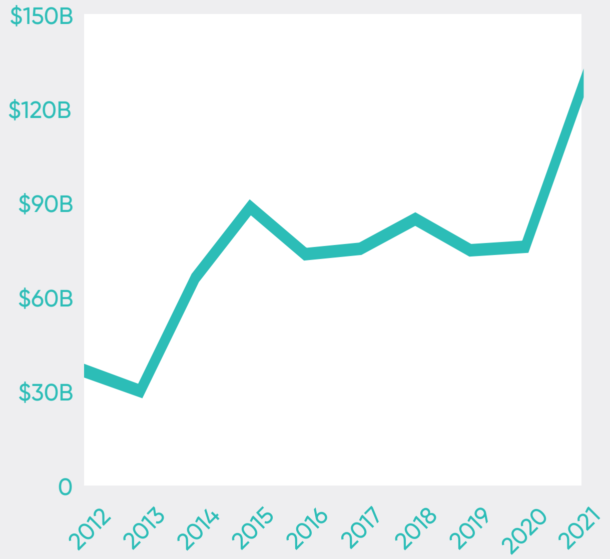
Key Benefits

- Counterparty disintermediation
- Expanded credit and trading allowances for cleared activity
- Risk weighted asset savings of approx. 95% compared to uncleared stock loans
- Margin offset
- Automation and streamlined operations

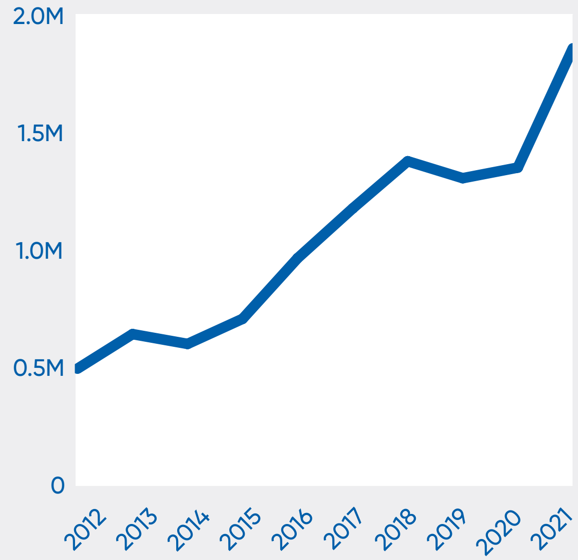
79
HEDGE LOAN PROGRAM MEMBERS

125B
AVERAGE DAILY LOAN VALUE AT YEAR END 2021

Annual Notional Value of Loans



Annual New Loan Transactions



For more information about OCC Stock Loan Programs, visit theocc.com

The making of CreateiQ

Linklaters' Hannah Patterson Smith and Deepak Sitlani speak to SFT about the development of the law firm's data-first contract automation platform and the benefits this can deliver to the securities finance community

CreateiQ is an end-to-end contract automation platform developed by Linklaters that enables users to draft, negotiate and execute contracts electronically. Data is stored on Linklaters' servers, providing surety to clients that have a preference for on-premises data storage, rather than holding their legal contract data in a cloud-based service. A feature of the solution is its approach to structured data, giving users access to their contractual, negotiation and audit data in machine-readable form.

This platform started out as ISDA Create, which was launched in 2019, particularly to help firms respond to the challenges that they faced in implementing regulatory initial margin (IM) requirements. With the phased implementation of IM under the BCBS IOSCO uncleared margin rules (UMR) from 2016, a growing number of sell-side, and now buy-side, firms have been required to exchange IM under UMR.

ISDA Create's library of available digitised documentation has since expanded to include the International Swaps and Derivatives Association (ISDA) Master Agreements (with embedded clause libraries), general amendment agreements to ISDA documentation, an interest rate reform documentation package to facilitate the transition to risk-free rates, and, most recently, variation margin credit support documentation (and related clause libraries). Now, ISDA Create sits as a module of the wider CreateiQ solution, allowing users to draft ISDA contracts, other standard capital markets documents like the GMSLA and own account documents like prime brokerage agreements, all on a single platform.

As an example, the Bank of New York Mellon took the decision to publish key custodial documentation on the platform in 2021, a step intended to bring greater efficiency to the negotiation process for custody agreements as firms prepare for UMR Phase 6, which is scheduled for September 2022 and will bring into scope buy-side firms with average aggregate notional amount (AANA) of US$8 billion or above.

With this development, market participants have been able to access BNY Mellon's triparty and third-party account control agreements (ACAs) via the platform, enabling firms to negotiate and agree those documents online and to hold this legal data electronically on a Linklaters-hosted data server.

Commenting on these initiatives, Linklaters' head of derivatives and structured products Deepak Sitlani says that it was important for the firm to provide a one-stop platform for more than just ISDA documents – and CreateiQ is now growing to meet this demand. This momentum has been extended through an agreement signed with the International Securities Lending Association (ISLA) in May 2022, enabling users to access ISLA documentation via the CreateiQ platform, including the General Master Securities Lending Agreement (GMSLA) 2010 and the GMSLA Security Interest 2018 documentation (which governs pledge-based securities lending transactions).

Linklaters managing associate Hannah Patterson Smith explains that the CreateiQ platform does a lot more than store legal data electronically. It enables users to draft contracts using a powerful and flexible toolset supported on the platform — offering an efficient way of collaborating across key participants within an organisation (e.g. risk and compliance, legal, and business teams) and marking up items for further discussion and approval. Additionally, it provides a mechanism for negotiating and executing contracts with external counterparties.

For ISDA Master Agreements and credit support documentation, as well as for ISLA GMSLA contracts, these are increasingly structured around the relevant clause library and, as it develops, the Common Domain Model (CDM), thereby delivering additional structure to electronically agreed legal documentation.

The CDM establishes a single, standardised digital representation of trade events and actions across the lifecycle of financial products. Linklaters notes that the CDM conversion service is integrated directly into CreateiQ, which enables the opportunity for structured legal data captured during the negotiation process to flow straight through to trading, risk management and operations systems in a standardised format, boosting automation rates and minimising the need for manual touch points.

This standardisation around the CDM will also enable collateral services providers, and other third-party service vendors, to facilitate operational processing of contractual terms negotiated through CreateiQ. For example, Acadia, a provider of collateral and risk management solutions, aims to deliver automated workflow to users from document negotiation in CreateiQ across its Agreement Manager service for data hosting and analysis. By applying a CDM-based representation of trade events, this encourages STP trade flow into Acadia's collateral management solutions, enabling users to manage margin requirements in either a centrally cleared (via a central counterparty) or non-cleared (via bilateral exchange of margin following UMR procedures).

Hannah Patterson Smith is keen to emphasise, however, that in promoting standardisation this refers to standardisation of the contract formatting and drafting of common terms rather than an enforced standardisation of business outcomes. This arrangement provides flexibility to enable counterparties to build in their bespoke commercial requirements and to create the business contract of their choice.

By applying the ISDA- or ISLA-approved Clause Library alongside the CDM — providing standard-form versions of the most commonly negotiated elements in the legal agreement — this can introduce industry-validated clauses designed to minimise error or potential for inconsistent contract drafting. This will make the negotiating process more efficient by enabling legal and business representatives to concentrate on the most substantive issues, while providing a standardised set of clauses to guide widely used contract elements.

New ways of working

Financial services companies have been drafting legal contracts in physical form for many decades and only now is momentum truly building behind a digital contract negotiation and execution process. With this in mind, SFT inquired how difficult it was to convince potential users to sign up for an electronic documentation platform?

"In some cases, the dialogue was more exacting than we anticipated," says a candid Deepak Sitlani. "The key to success is to have a strong forward-thinking advocate or sponsor of the project internally, a person or team who really believes this is the right way to proceed," he says. Many firms did have someone who was eager to take ownership of the project and to promote it strongly within the organisation. In these cases, adoption and onboarding typically advanced very smoothly. But in cases when this was lacking, Sitlani notes that it could be much harder to persuade the organisation to change from their traditional ways of working.

From a Linklaters' perspective, Sitlani says that the key selling point was undoubtedly the efficiency, cost and risk management benefits that are available to Linklaters' clients through drafting, negotiating and executing legal documentation electronically. This centres on the speed of negotiation that is possible through the platform and the ease of collaborating across internal and external teams. By accelerating the negotiation process, this also allows firms to reduce the resource commitment that they require to support these activities.

In preparing legal agreements to be supported on CreateiQ, Linklaters has designed these agreements to maximise the contract data that can be captured on the platform. "To achieve this, it is essential to have lawyers that understand the crossover between legal context and technology," says Patterson Smith. "A strength, at Linklaters, is that we are able to bring this combination of skills to the drafting and digitisation process."

Significantly, through an MOU that ISDA and Linklaters have signed with S&P Global Market Intelligence, ISDA Create's documents and functionality will be shortly available within S&P Global's Counterparty Manager service, thereby giving firms the ability to access full details of their contractual relationships in digital form from a single location. Linklaters indicates that this creates an end-to-end solution for the lifecycle of a client relationship, from onboarding through to negotiating and executing trading agreements and then operationalising post-agreement processes.

As well as capturing newly negotiated legal contracts electronically on CreateiQ, the development team is also researching the use of natural language processing (NLP) technology to capture legal data from historical legal contracts and to hold this information electronically. As this technology continues to mature, Sitlani indicates that this would offer potential to capture electronic versions of contracts that were initially negotiated and signed in physical form. When combined with platform functionality that allows for updating, amending and restating contracts, this would give users a comprehensive digital view of their contracts, legacy and going forward.

Linklaters also continues to explore how a wider range of contract documentation can be held in digitised form on the platform. As a language-agnostic platform, this currently includes work to support the German Rahmenvertrag (DRV) and other jurisdiction-specific Master Agreements.

ISDA has recently released variation margin documentation onto ISDA Create, meaning that there are now more than 80 ISDA templates available on ISDA Create and CreateiQ, with dozens of other non-ISDA capital markets documents now available or soon to be added.

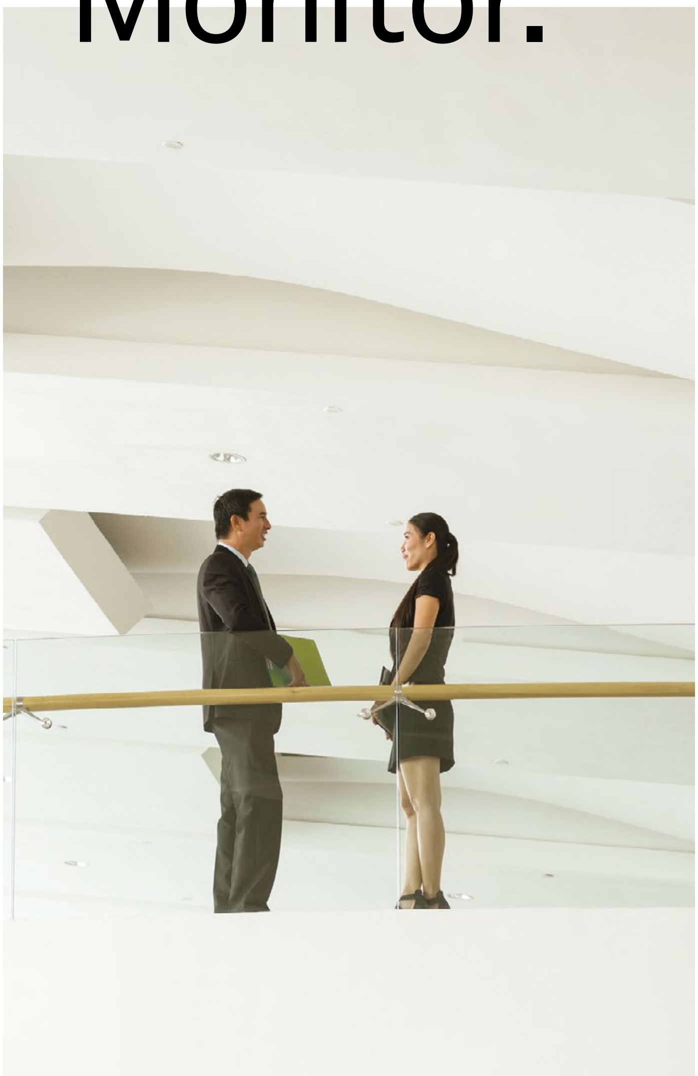
Moreover, in December, ISLA introduced a Master Confirmation Annex to accompany the GMSLA documentation. This provides a standard legal framework and set of terms that can be applied for non-standardised trade types such as evergreens and extendables. ISLA has indicated that the release of this MCA represents another step towards contract and clause standardisation as part of the industry's moves to digitisation.

An eye-catching feature of CreateiQ is that its potential application extends well beyond financial services to a wide array of industries and commercial sectors. "We are exploring ways to scale this solution and have had discussions across each of our global offices and practice areas to discuss wider opportunities," says Sitlani. Linklaters also identifies opportunities to scale this facility through its relationship with S&P Global, which has a large suite of users already onboarded across its corporate services solutions. "We are confident that this relationship will substantially expand access to the CreateiQ platform and the speed with which clients can be onboarded," he concludes.

Take up of the platform already appears to be encouraging. Linklaters reports that 250 institutions are now using the platform, with a further 150 in the "sandbox" testing environment. The breakdown is currently 30 per cent sell-side firms, 55 per cent buy-side firms and 15 per cent service providers such as law firms, technology providers or other professional services. However, Hannah Patterson Smith indicates that for every sell-side firm currently being onboarded, there are typically more than two buy-side firms coming on to the platform. As a mark of this growth, contract volumes on CreateiQ have risen 400 per cent for H1 2022 relative to H2 2021. ■

S&P Global
Market Intelligence

Analyze. Understand. Monitor.



Leverage our experience to optimize your program performance, enhance investment decisions, and confirm good governance through powerful tools and analytics.

- Largest securities lending dataset includes corporate actions, credit consensus, ETF collateral lists, liquidity and more
- Global securities lending flows, borrow costs and market share updated intraday
- Diverse signals to identify short squeezes, capture alpha, and refine risk management
- Robust performance measurement tools exceed enhanced industry standards
- Full-service governance, performance, risk, and operational assessments

ihsmarkit.com/SecuritiesFinance

The global leader in securities finance solutions

CONTACT US

MSF-Sales@ihsmarkit.com

The Americas	EMEA	Asia-Pacific	Japan
+1 800 447 2273	+44 1344 328 300	+604 291 3600	+81 3 6262 1887

The new era of data

Equating more data with more value is a notion that should be relegated to the past. S&P Global Market Intelligence's Melissa Gow describes how the insight that solutions-based capabilities can offer is ushering in the new era of data

Since the inception of the first securities lending trade, data has played a vital role in the efficient running of operational, trading and reporting functions. Over time, the proliferation of securities finance data has transformed a formerly straightforward process to one that market participants can find overwhelming for its heightening depth, breadth and complexity. In today's environment, data for the sake of data no longer makes sense.

At S&P Global Market Intelligence Securities Finance (SF), which IHS Markit Securities Finance has now become a part of, we believe that building intelligent and insightful tools and using data-led analysis is the best way to drive efficiencies in the market. We have transformed into a new era of solutions-based capabilities by using the largest and deepest securities finance dataset as our foundation and combining it with adjacent and complementary data streams.

One area of the current focus is the development of tools to provide actionable content and insight. In the early days of data transparency, it was enough to simply provide basic metrics about the market size, number of participants, rudimentary returns to lendable, and basic fee data. As the industry has grown and evolved, more sophisticated analytics have developed along with the number of data points collected.

Over the years, securities finance has migrated from its perception of being an operational function to becoming an integral part of the investment management process. More emphasis has been placed on differentiation of fees, collateral and counterparty types; on development of inputs into alpha and predictive models; on metrics around the stability of demand and supply, short interest, and more. Today, the market's expectation of service providers is to combine data and analytics into innovative solutions that address real-life gaps by providing actionable, relevant, timely and insightful content via the customer's choice of delivery mechanisms. SF has met those market expectations through a robust set of tools to provide critical industry solutions.

To address the need for beneficial owners to independently monitor adherence to agreed lending parameters, we launched a Compliance Check portal for beneficial owners. The portal gives beneficial owners a simple, yet robust, exception-based tool to identify potential breaches of lending parameters at the transaction, instrument, market and counterpart level. Parameters are customised according to the specific terms of the Securities Lending Agreement (SLA) and monitored against loans (and soon collateral). This first-of-its-kind solution efficiently manages lending programmes through the early identification and resolution of potential compliance issues.

Actionable insight

Our Securities Transaction Exception Analytics Report (STEAR) tool provides insights for market participants to monitor the execution quality of their loans. The tool examines loans against all daily transactions and compares fees on a given trade to the market low, high or average for the day. The exception-based report flags any potential threshold breaches to allow timely investigation and resolution. Parameters are flexible and customisable to account for bespoke needs and results can be delivered via a portal, API, excel toolkit and datafeed.

> *"Today, the market's expectation of service providers is to combine data and analytics into innovative solutions that address real-life gaps by providing actionable, relevant, timely and insightful content via the customer's choice of delivery mechanisms"*

Continuing on the theme of providing actionable insight, our Borrow Cost Optimization (BCO) tool is a powerful and intuitive way for brokers to compare their borrow rate performance. Similar to performance reporting for lenders and beneficial owners, we have created peer groups to measure borrows against other brokers, providing insight into the market size, share and trading performance. Trades in all asset classes can be tracked across fee categories and dividend requirements, monitored at the country and index level, and analysed against a peer group to provide an efficient and accurate way to gauge and manage the borrow book.

We have also focused on building solutions to address areas of inefficiency in securities finance operational processes. Our Client

Onboarding Accelerator Tool (COAT) leverages existing S&P Global workflow capabilities to streamline the process of onboarding new funds. The current agent loan disclosure (ALD) onboarding process between borrowers and lenders is inefficient, time consuming, and prone to error, often leading to delays in commencing lending for new accounts. Onboarding new accounts requires mutual approval. Currently, the changing requirements between counterparts, manual communication, and the industry's lack of standardisation and transparency have delayed the timely capture of revenue opportunities.

> *"Our ETF collateral lists leverage the strength of several S&P Global datasets to bring transparency, efficiency and automation to the collateral management process"*

The efficient use of collateral has long been an area of focus for securities finance. Our ETF collateral lists leverage the strength of several S&P Global datasets to bring transparency, efficiency and automation to the collateral management process. Using our industry-agreed methodology, collateral receivers can customise parameters to meet their risk profiles. It allows clients to screen the global ETF universe for instruments that meet their eligibility standards, thereby vastly increasing the number of ETFs which can be identified and accepted as collateral. The process looks at several different criteria, including fund size and management structure, and then confirms that the collateral manager accepts the fund's underlying securities.

Governance continues to be an essential element of a well-run securities lending programme for lenders and beneficial owners. In the past few years, ESG considerations have grown to include all segments within the industry. SF has addressed the need for enhanced ESG capabilities through several innovative solutions. First, SF provides security-specific data points on 15 corporate actions events to assist with decision-making processes around voting, including record and effective dividend dates, annual and special meetings, splits, mergers, and acquisitions. The availability of this data in multiple delivery platforms allows for easy integration into workflows and models.

Loan evaluation

Later this year, we will be introducing a loan evaluation report to provide more clarity on loan positions around upcoming annual general meetings (AGMs). The report will use SF loan data and incorporate both data from our corporate actions team and S&P Global's existing ESG dataset. The report will evaluate open loans data (utilisation, percentage of shares outstanding, days to recall, current revenue) against customisable ESG criteria.

The report aims to provide clients with a full picture of their loan positions and to assist their decision making on when, and if, to recall a security from loan around key corporate action events. In collaboration with S&P Global's existing ESG dataset, we will overlay raw ESG scores covering over 20 categories, loan details, and group level SF metrics to provide all the data needed to make informed decisions. This report will provide a flexible and customised solution to manage the challenges faced when evaluating risk in a fund's portfolio.

To complement our securities finance solutions, in Q2, SF is launching Repo Data Analytics (RDA), which will offer price discovery, metrics, and market analysis for repos across global markets, tenor, and haircuts. We are partnering with Pirum's RepoConnect product to allow users to automate the trade and lifecycle matching process. This will increase operational efficiency, reduce risk and ensure regulatory compliance.

While we have naturally focused on building relevant and innovative functional solutions, SF has also made a significant investment in the delivery channels required to ensure these solutions are easily available and accessible to our customers. In addition to our traditional channels such as the web portal, excel toolkit, proprietary data feeds and API, we have expanded the number of third-party platforms that support SF data. Snowflake, Broadridge, Novus, SIG Tech, Spire and TS Imagine are several new platforms we have recently partnered with.

The evolution of data from simple metrics to meaningful solutions in the securities finance world has brought a vast array of exciting potential and possibilities. At SF, we harness the power of our market intelligence, broad and deep securities finance dataset, and complementary S&P Global adjacencies to usher in the new era of data. ■

Latest industry appointments at UBS, ION and BNY Mellon

BNY Mellon has appointed Stephen O'Donnell as head of client relationships for clearance and collateral management across Europe, Middle East and Africa (EMEA).

O'Donnell previously served for more than 15 years at Morgan Stanley, most recently as EMEA head of sales strategy. Before this, he was EMEA securities lending chief operating officer, where he was also vice president of bank resource management.

Other previous roles at Morgan Stanley include EMEA head of vanilla derivatives product control, senior manager of exotic derivatives product control, and equity product control.

Commenting on his new role via LinkedIn, O'Donnell says: "I am excited to be part of an incredibly strong and growing team and I look forward to working with connections old and new in the coming months."

UBS has appointed Jenna Heim as associate director and securities lending trader, based in New York.

The investment bank provides a range of securities lending services, including market-wide securities lending analytics and data points on single-stock locates, stock prices, and indicative availability and rates.

Heim previously spent five years at Wells Fargo, initially as a capitalist markets analyst and then promoted to a capital markets specialist focused on the securities lending middle office.

MUFG Investor Services (MUFG) has appointed Matthew Russo and Zana Hadzovic to its global securities team.

Russo and Hadzovic will both be based in New York.

Russo has been appointed as a securities lending analyst. In the summer of 2021, he took part in an internship at MUFG as a securities lending summer analyst.

Prior to that, Russo was a research intern at Ultimate Solutions Search, based in Connecticut.

BBVA hires Praxedes

BBVA, the global financial services group headquartered in Bilbao, has appointed Alvaro Praxedes as fixed income sales specialist.

Praxedes joins the group after 14 years at BNP Paribas, most recently serving as repo and securities finance sales trader since 2013.

He began at BNP Paribas in 2007 as an account officer, before entering his first trading role in 2011.

Based in Paris, Praxedes will report to Juan Garnica, managing director and European head of fixed income and forex flow sales.

In an online statement on LinkedIn, Praxedes says: "During this 14 years' experience in two different countries, I have had the opportunity to work with very talented people that helped and taught me both professionally and personally speaking.

"Besides learnings and experiences, my big takeaway will be all the friends and colleagues that I have met during this amazing 14-year trip."

Hadzovic also took part in a summer internship at MUFG as a custody group summer analyst in 2021.

Before MUFG, Hadzovic took an internship at New York-based media company Morning Brew and New Jersey company Sage International as an account executive.

Commenting on the new appointments via LinkedIn, Tim Smollen, global head of global securities lending solutions at MUFG, said: “Excited to welcome our new full-time associates to the global securities lending team. Also very pleased to welcome our two summer associates to the trust division — Colin McCarney and Logan Santiago.”

Matthew Chessum has announced his departure from abrdn after more than 10 years with the firm.

He steps down as investment director of securities lending, collateral management and money markets, a role which he has presided over for the last four years.

Chessum first joined abrdn in 2011 as securities lending manager on the dealing desk, with equity and fixed income order execution responsibilities.

In addition to his departure from the firm, Chessum will also leave his position on the board of the International Securities Lending Association (ISLA), and his role on the Bank of England securities lending committee.

Chessum has subsequently confirmed his appointment as director of securities finance at S&P Global Market Intelligence, beginning in this new role on 4 July.

ION, a global trading provider, has appointed Carlo Purassanta as executive vice president for strategy and corporate development.

Purassanta is a member of the strategy advisory board for the graduate school of management of Politecnico di Milano, as well as a member of the advisory board for Only The Brave and a member of the investment board of the French Touch Fund.

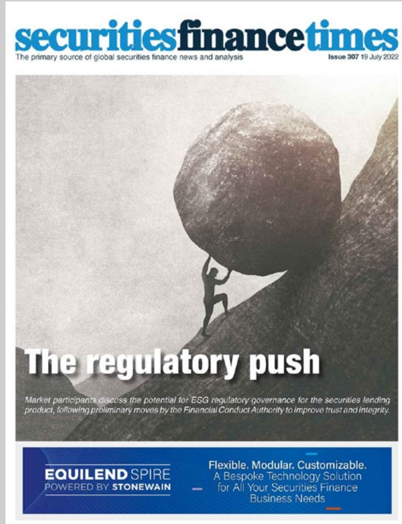
Previously, Purassanta was president of Microsoft Italia and Microsoft France from 2013 to 2017.

Before this, Purassanta worked for IBM as business development executive for Southwest Europe, and director for France and Europe, Middle East and Africa, respectively.

Speaking on the announcement, Carlo Purassanta says: “I am thrilled to join ION. The company holds a unique, strategic position in a constantly expanding global sector.

“ION’s growth over the past 20 years is outstanding and I look forward to contributing to support it further.”

Andrea Pignataro, ION’s founder and CEO, adds: “Carlo’s extensive experience in leading top global teams at the forefront of technological innovation is strategic for ION as we continue to expand and innovate in a growing number of segments.”



Publisher: Justin Lawson
justinlawson@securitiesfinancetimes.com
+44 (0) 208 075 0929

Group editor: Bob Currie
bobcurrie@securitiesfinancetimes.com
+44 (0) 208 075 0928

Senior reporter: Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0) 208 075 0925

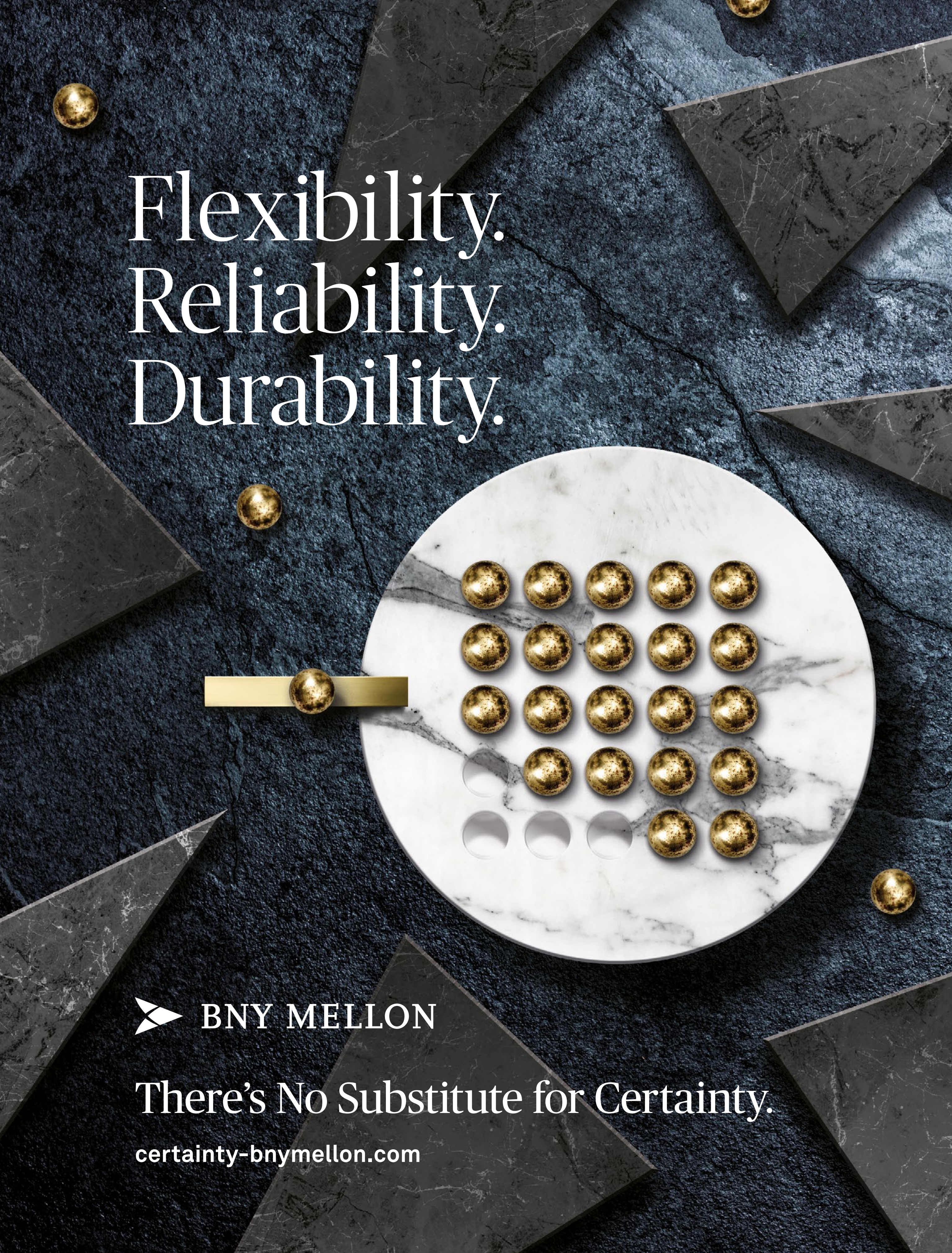
Reporter: Carmella Haswell
carmellahaswell@securitiesfinancetimes.com
+44 (0) 208 075 0927

Accounts: Chelsea Bowles
accounts@securitiesfinancetimes.com
+44 (0) 208 075 0930

Designer: James Hickman
jameshickman@blackknightmedialtd.com

Marketing director: Steven Lafferty
design@securitiesfinancetimes.com

Published by Black Knight Media Ltd


Flexibility.
Reliability.
Durability.
BNY MELLON
There's No Substitute for Certainty.
certainty-bnymellon.com