securities finance times
The primary source of global securities finance news and analysis
Issue 310 30 August 2022

UCITS funds turn to securities lending

Baton Systems adds OCC to its collateral management network

Baton Systems has added connectivity to OCC, the Chicago-based clearing house, to its collateral management network.

With this development, clearing firms will be able to automate collateral management across 11 central counterparties (CCPs) globally via the Baton Core-Collateral ecosystem, representing more than 93 per cent of margin placed by US-registered futures clearing members (FCMs) according to the California-headquartered fintech.

Commenting on the link to OCC, Tucker Dona, Baton Systems' head of business development and client success, says: "The need to reduce costs associated with funding and liquidity is becoming increasingly important. For the FCM community, this translates into ensuring money is not being left on the table.

"Our FCM clients are already using the Baton platform to move tens of billions of dollars of collateral every week. With an additional CCP they now have the opportunity to automate and optimise an even greater proportion of the collateral under management."

Baton's Core-Collateral solution aims to enable clearing members to automate and optimise collateral management processes by providing intraday visibility of current margin obligations and collateral holdings at the CCPs that have greatest strategic importance for their firm.

Inside this issue

MarketAxess daily matched repo trade volume jumps

MarketAxess has reported growth in its repo business in the first half of 2022, with average daily volume (ADV) for repo matched trades increasing by 17 per cent.

Matched repo trades on the MarketAxess platform reached 169,456 in H1 2022, with matched trade ADV climbing to US$262.1 billion.

The firm had a Matched Lifecycle Event trade count of 11,952 in H1 2022, representing a 160 per cent increase over the same period in 2021.

This comes as an increasing number of top-tier buy- and sell-side clients and counterparties begin to use this functionality.

Reflecting on the second quarter of 2022, MarketAxess matched trade ADV increased 13 per cent YoY to US$145 billion. Additionally, the company recorded a 20 per cent YoY rise in matched trades to 145,000.

Following its US expansion, MarketAxess indicates that matched US Treasury volume has increased by 550 per cent over the last two years.

Responding to this growth, MarketAxess appointed Steve Ito in a business development role to help clients navigate the demand of matching repo transactions as close to execution as possible.

Colleen Stapleton, product manager for match and repo products at MarketAxess, says: “The growth in the repo business clearly demonstrates the need and desire for repo post-trade automation, and MarketAxess Post-Trade Repo is at the forefront of moving this market.”

DTCC’s Project Ion live in parallel production environment

The Depository Trust & Clearing Corporation recently announced that its DLT-based Project Ion initiative is now live in a parallel production environment.

The distributed-ledger technology (DLT) driven settlement service is now processing an average of more than 100,000 bilateral equity trades daily and more than 160,000 transactions on peak days in parallel production, with the existing settlement systems of the Depository Trust Company, DTCC’s US depository service, providing the authoritative record of legal ownership.

DTCC indicates that the rationale for Project

Ion is to provide a resilient, secure, and scalable settlement alternative to its users based on DLT. This will also align with the SEC's plans to move the US market to an accelerated T+1 settlement cycle, with Project Ion built to support netted T+0 settlement as well as T+1 and longer cycles.

The project was built in collaboration with DLT specialist R3 using R3 Corda blockchain technology.

With the production environment live, DTCC is working with its users on a phased expansion of the settlement platform. This may include extending the range of DTC activities that it supports, as well as central clearing activities provided through National Securities Clearing Corporation (NSCC), the DTCC clearing subsidiary, on this DLT platform.

Murray Potzmanter, DTCC managing director and president of DTCC clearing agency services and head of global business operations, says: "This is a milestone achievement for the equity markets and reflects the deep level of collaboration and partnership between DTCC and our clients. Project Ion is an important step forward in advancing digitalisation in financial markets and opens the door to exciting new opportunities to drive greater efficiencies, risk management and cost savings for the industry.

"Digitised assets and emerging technology such as DLT are shaping and evolving the financial services landscape and we remain committed to advancing innovative solutions that capitalise on opportunities, deliver new value and drive the industry forward."

DTCC general manager of Equity Clearing and DTC Settlement Service Michele Hillery adds: "Project Ion provides a parallel book and infrastructure for limited bilateral transactions with DTC's existing systems remaining the authoritative source of transactions. With firms across the industry at different levels of maturity around DLT adoption, DTC is building this platform to provide optionality and flexibility to clients."

"Those who are ready to leverage the Project Ion platform can begin development efforts today while others can continue to use our classic solutions," says Hillery.

R3's chief executive David E. Rutter comments: "This is a watershed moment for enterprise blockchain technology in capital

markets. Project Ion will transform the financial services industry globally for years to come, providing a framework for how this cutting-edge technology can be applied to strengthen and modernise a market to the benefit of all participants."

Global securities lending revenues rise 6%

Global securities lending revenues rose 6 per cent YoY during H1 2022 to US$4.8 billion, driven by elevated levels of volatility, according to recent data from EquiLend. The US-based securities finance trading, post-trade and market data specialist reported record volumes over Q2 2022 on its NGT trading platform, with trades executed on NGT rising 14 per cent YoY to 7.5 million. This corresponded to US$7.9 trillion in loan value, an 8 per cent increase on Q2 2021, while balances on EquiLend's ECS Loan Market were up 19 per cent YoY.

EquiLend's head of trading solutions Mike Norwood indicates that these year-on-year increases reflect double-digit percentage point volume growth for Q2 in the Asia-Pacific (APAC), EMEA, the US and Canada.

For equities securities lending activity, EMEA continued to be the standout region, with volumes rising 32 per cent YoY for Q2. For APAC, equities lending volumes were up 24 per cent relative to Q2 2021, driven particularly by stronger activity in Japan where onshore activity hit record trading levels of 23,500 executions on the NGT platform.

Looking more closely at higher-value activity, loan trades at fees above 50bps made up one-fifth of overall activity based on trade count for Q2. Lending activity in corporate debt rose on NGT over the period in line with the broader bond market sell-off and corporate debt underperformance relative to sovereign debt.

For the ECS Loan Market, Norwood indicates that balance sheet utilisation continued to

drive growth on the market, powered by strong general collateral flows (GC) on the back of firms' risk-weighted asset (RWA) compression requirements.

Demand for ETFs remained buoyant, as it did on NGT, despite slower issuance in the corporate debt market which impacted demand for fixed-income ETFs such as LQD and HYD.

Opinion divided on benefits of clearing in UST securities and repo markets

A survey by the International Swaps and Derivatives Association (ISDA) shows that industry opinion is divided regarding whether central clearing would improve the efficiency and resilience of cash Treasury securities and repo markets.

This study responds to dialogue between policymakers and the market about the virtues of further clearing of UST, and whether this would improve the resilience of the market during stress events.

A G30 Working Group on Treasury Market Liquidity has recommended central clearing for all UST repos, along with all UST transactions executed on electronic interdealer trading platforms. The G30 has also asked financial supervisors and market participants to review whether (and, if so, how) dealer-to-client UST trades should be cleared.

Most respondents to the survey were generally supportive of clearing, the report finds, but there is limited support for broad clearing mandates, with some warning that this could prompt firms to reduce their trading activity or potentially withdraw from the market altogether, thereby lowering market liquidity.

In contrast, some respondents said that the percentage of cleared transactions was unlikely to rise substantially unless this was mandated by the regulatory authorities.

For those opposed to mandated central clearing, the majority of respondents highlighted the value of incentives including relief under the supplemental leverage ratio and better access to direct clearing for firms that meet relevant central counterparty (CCP) membership requirements.

Many respondent firms identified the ability to pass client collateral to the CCP as a fundamental aspect of a functional client clearing model. Some respondents also noted that greater use of central clearing by principal trading firms could help to deliver a more efficient US treasury repo clearing market.

Respondents were divided regarding whether use of existing sponsored clearing facilities at the Fixed Income Clearing Corporation (FICC), the Depository Trust & Clearing Corporation's fixed income clearing subsidiary, offers significant benefits.

Many dealer respondents to the survey indicated that, if these structural hurdles and issues could be overcome, greater use of central clearing would be beneficial to the overall market, particularly for UST repo trades. Some also identified parallel benefits that might be applicable to linked futures and derivatives markets.

On the downside, respondents flagged up additional costs that might result from moving transactions into central clearing, including higher transaction-related costs (fees, margin requirements, admin costs) and a higher requirement for technology investment.

In the context of UST repo markets, some respondents indicated that there is no significant requirement for further reform to clearing under the interdealer model or principal trading firm (PTF) model, believing that existing interdealer clearing functions via FICC are sufficient. One respondent noted that PTF firms can and do join FICC and, consequently, there is no strong case for reform.

The survey, published today, was conducted by Brattle Group on behalf of ISDA and was based on responses from 25 ISDA member and non-member organisations, including primary dealers, principal trading firms, buy-side firms and CCPs.

Commenting on the survey results, ISDA chief executive Scott O'Malia says: "Our survey shows there's currently very little consensus on the impact of increased clearing in the US Treasury market, suggesting further research on the costs and benefits is necessary.

"We support the aims of US policy makers to strengthen the resilience of this critical market and we hope our survey serves as a useful data point as they weigh up their opinions," says O'Malia.

The report is titled The Brattle Report: Summary of Responses to the 2022 UST Survey Regarding Ongoing Efforts to Incentivize and/or Potentially Require Additional Clearing of US Treasury Securities and Repo, 10 August 2022.

Proposed Form PF changes require retooling of reporting systems

The Securities and Exchange Commission (SEC) has voted to make proposed amendments to its reporting procedures applicable to SEC-registered investment advisers to private investment funds.

Through these changes to Form PF, the confidential form that private fund advisers must use to report their activities, the SEC aims to improve the data available to the Financial Stability Oversight Council (FOSC) to monitor threats to systemic risk and its own ability to oversee the activities of private funds and their advisers.

These proposed amendments will increase the data points that large hedge fund advisers must report, including additional information relating to investment exposures, borrowing and counterparty exposure, market and currency exposure, central counterparty clearing, investment performance by strategy, and a range of other metrics.

This proposal, advanced jointly by the SEC and the Commodity Futures Trading Commission (CFTC), is designed to provide better insights to financial supervisors into the operations and strategies of qualifying hedge funds and their advisers, while boosting data quality and consistency.

These changes will require additional basic information about investment advisers and the private investment funds they advise. Again, the goal is to put the FSOC in a better position to monitor private fund strategies and operations that may contribute to systemic risk, while minimising reporting errors and improving data quality and comparability.

Thirdly, these proposed amendments to the reporting regime will require investment advisers to share additional information relating to hedge fund strategies, including investment strategies, level of counterparty exposure, and trading and clearing procedures employed by the fund.

The SEC has opened public consultation on the proposal, which will extend for 60 days after the proposals are published on the SEC website, SEC.gov, or 30 days after they are published in the Federal Register, whichever is longer.

Commenting on the proposed changes, SEC chair Gary Gensler says: "In the decade since the SEC and CFTC jointly adopted Form PF, regulators have gained vital insight with respect to private funds. Since then, the private industry has grown in gross asset value by nearly 150 per cent and has evolved in terms of its business practices, complexity, and investment strategies."

"I [support] the proposal because, if adopted, this would improve the quality of the information we receive from all Form PF filers, with a particular focus on large hedge fund advisers. That will help protect investors and maintain fair, orderly and efficient markets," says Gensler.

Jennifer Wood, global head of asset management regulation at private fund trade body The Alternative Investment Management Association (AIMA), comments: "The proposed changes of this magnitude will require substantial retooling of reporting systems operated by investment advisers and other fund service providers involved in Form PF reporting, including those operated by many AIMA members.

"With this extensive set of changes following on the heels of the other significant set of changes to Form PF proposed earlier this year, there is a not inconsiderable risk that market participants are facing multiple updates to their reporting systems next year if the final rules related to these proposals do not come out together."

"Given the proposal discussed is jointly owned by the SEC and the CFTC, we will need to assess how these new obligations will affect joint registrants," says Wood.

Joanna Ksenzova
Associate director of securities finance
RBC Investor & Treasury Services

UCITS funds turn their attention to securities lending

UCITS funds have historically shunned securities lending due to regulatory restrictions, but this is changing. Joanna Ksenzova, associate director of securities finance at RBC Investor & Treasury Services in Luxembourg, shares her insights on three industry developments which are transforming how UCITS funds approach securities lending

UCITS lendable assets are growing. At a time when pressure on margins and revenues is increasing, asset managers — including those regulated under the Undertakings for Collective Investments in Transferable Securities (UCITS) regime — are looking for new ways to supplement their traditional return streams, and offset custody and administration fees. Securities lending is one of the options available to managers.

DataLend reports that income from securities lending has been healthy, noting that the global securities finance industry generated US$4.8 billion in revenue for lenders in the first half of 2022, a 6 per cent increase from the US$4.5 billion accumulated during the same period in 2021. The data provider also indicates that revenue obtained from fixed income securities jumped by 22 per cent year-on-year, fuelled by rising fees and growing on-loan values in corporate debt, while proceeds from equities were up 2 per cent.

Meanwhile, data from S&P Global Market Intelligence shows that €2.2 trillion of UCITS assets were enrolled in securities lending programmes as of 1 August 2022. UCITS lendable assets have more than doubled over the past five years from nearly €1 trillion and are growing faster than the industry average. Asset composition remained stable during this period, with equities representing approximately 70 per cent of on-loan assets, corporate bonds close to 20 per cent and government bonds around 10 per cent. In addition, UCITS managers engaging in securities lending are on average adding another three basis points (bps) to their overall performance. In the case of a UCITS that is focused on emerging markets or ETFs, securities lending could generate up to 15bps in extra revenues.

“Despite the naysayers, UCITS assets in lending programmes are continuing to grow as managers look to supplement their portfolios with this important revenue stream in what is a highly competitive environment,” Ksenzova says.

The UCITS lending process is manageable

Second, according to Ksenzova, one of the biggest barriers for UCITS lending programmes is the perception of a complicated lending process. “Regulators are requiring more and more disclosure in UCITS fund prospectuses and regulatory reporting, including details at the sub-fund level,” she says. “It is important for UCITS managers to carefully consider the lending requirements that apply to UCITS, including such things as collateral title transfer and segregation, aligned correlation and diversification, as well as the concentration rules to be performed on aggregated collateral from various efficient portfolio management (EPM) techniques.”

"Despite the naysayers, UCITS assets in lending programmes are continuing to grow as managers look to supplement their portfolios with this important revenue stream in what is a highly competitive environment"

In addition, managers must ensure that assets can be recalled at any time and establish collateral stress-testing, when required. "Cash collateral remains another issue, as UCITS funds face some unique reinvestment challenges. And UCITS funds need to be able to price the services of external providers and perform best execution controls." Ksenzova also notes that EU regulations such as the Central Securities Depositories Regulation (CSDR) and Securities Financing Transactions Regulation (SFTR) have created additional operational hurdles for asset managers — including UCITS funds — when lending their securities.

Although the existing UCITS framework around securities lending can be somewhat onerous, it is not insurmountable. "These issues are manageable for UCITS funds, but they need to be conscious of the additional work and costs involved, relative to the estimated returns," says Ksenzova. "I would encourage UCITS managers to work with an experienced agent lender, who can support them with the legal, due diligence, and all other go-live and post-trade requirements that are associated with securities lending." She says that UCITS managers are also outsourcing various risk and compliance functions to third-party management companies (ManCos) and "these companies have been working with UCITS funds for many years to successfully support securities lending".

> *"Moving forward, the lending industry needs to refine its data management around ESG so that both UCITS and non-UCITS managers can benchmark whether their securities lending practices are compliant with ESG requirements"*

When UCITS funds and their providers have the necessary provisions in place, "the resulting lending process is both efficient and automated — not much different from other funds in terms of day-to-day involvement of the funds", says Ksenzova. "While the compliance and reporting obligations to service UCITS funds are high, this tends to drive process optimisation and automation."

Marrying securities lending with ESG

Reflecting on a third key industry trend, Ksenzova notes that, over the past few years, there has been extensive debate among investors about whether securities lending is compatible with environmental, social and governance (ESG) investing. For example, some investors contend that short-selling does not align with their ESG principles, while others have looked to strengthen their proxy voting policy, amend their lending policies and require agents to confirm that collateral does not contravene ESG mandates. Ksenzova says this has been particularly challenging for UCITS funds, which are generally subject to more stringent transparency requirements for securities lending and ESG. "The situation is further complicated by UCITS funds' focus on cross-border distribution."

ESG investing — for UCITS and non-UCITS managers alike — suffers from a lack of regulatory clarity on transparency and reporting requirements, compounded by an abundance of industry standards tackling sustainability, many of which tend to be loosely defined and somewhat contradictory. While ESG is notoriously open to interpretation, agent lenders, ManCos and asset owner lenders have been working closely together to ensure that securities lending practices are compatible with the funds' ESG requirements.

"Agent lenders will closely monitor the lending of securities if there are potential risks around sanctions, tax, distressed assets or illiquidity. We are focused on best practices and maintaining a strong reputation in our industry," says Ksenzova. At the same time, agent lenders are working to ensure that the collateral posted by borrowers to lenders does not include assets that could potentially raise awkward questions around ESG, she notes.

"Moving forward, the lending industry needs to refine its data management around ESG so that both UCITS and non-UCITS managers can benchmark whether their securities lending practices are compliant with ESG requirements and the funds' individual mandates for ESG." Ksenzova concludes: "The securities lending market requires greater standardisation of ESG requirements and this is something we are working towards."

How can securities lending do well and do good?

Madeleine Senior, managing director, regional head of financing and securities services, Europe and Americas at Standard Chartered Bank, discusses the importance of embedding ESG into investment decision-making and the role of agency securities lending in ESG programmes

The past two years has seen a major escalation in the importance of environmental, social and governance (ESG) issues for institutional investors, and the financial services industry that supports them. ESG and sustainability principles are at the heart of Standard Chartered's strategy, solutions and culture — which includes our agency securities lending business. As part of this commitment, we were one of the first signatories to the Global Principles for Sustainable Securities Lending initiative in 2021. These principles aim to promote and embed good ESG practices and commitment to the United Nations' Sustainable Development Goals into securities lending activities.

However, while many providers of securities lending programmes will share these principles, they are difficult to implement in traditional programmes. In contrast, by taking an innovative approach to segregated programmes and their design, and data-driven proxy voting, we enable beneficial owners to reflect their ESG principles into their securities lending programme while maintaining a compelling return.

Embedding ESG into investment decision making

According to an Edelman study in November 2020, 87 per cent of institutional investors already actively invest in companies that have reduced their near-term return on capital (i.e., dividends and share buybacks) to reallocate capital to ESG initiatives. This is likely to prove a long-term trend, with investors' motivation for embedding ESG into their investment strategy based on an awareness of the importance of sustainable business practices in long-term business performance and risk management. The study highlights that 91 per cent of institutional investors expect their firms to rank ESG more highly post-COVID, and 88 per cent believe that the companies they invest in will do so. While investors' ESG priorities vary, 91 per cent believe that companies with strong ESG performance are more resilient in a crisis.

Agency lending in an integrated ESG programme

Agency securities lending can play a significant role in enabling institutional investors to achieve their ESG and investment return objectives, but there are a number of challenges, including:

Adapting programmes to investors' ESG priorities. Every beneficial owner has their own ESG priorities, but a tailored securities lending programme that meet each lender's asset, collateral, and counterparty criteria, and enables proxy voting in line with these criterion, is inconsistent with a standardised approach to securities lending employed by most providers.

Doing well while doing good. There have been some concerns among asset managers that securities lending programmes for exchange-traded funds (ETFs) that track ESG indices are not financially viable, given that restrictive collateral parameters and regular recalls to vote proxies erode the potential revenue from lending.

Ensuring good ESG from end-to-end. Asset owners are keen to ensure that securities are not being borrowed to secure votes that may not be aligned with their own ESG objectives. In addition, they want the assurance that their ESG principles are reflected in both collateral and cash reinvestment.

An integrated and bespoke approach

Standard Chartered, in partnership with eSecLending, has taken an innovative approach to overcoming these issues, by providing the tailored securities lending that beneficial owners require, while maintaining the commercial viability of the programme.

Firstly, we offer segregated (as opposed to pooled) programmes, so that investors can tailor their securities lending programme in line with their ESG objectives. This includes enabling investors to apply the same conditions to collateral as lent securities. This is an important element of the work that the International Securities Lending Association (ISLA) is currently engaged with, alongside Allen & Overy ('Framing securities lending for the sustainability'), to establish best practices for incorporating ESG principles into securities lending.

Secondly, we work with our partner eSecLending to take a data-driven approach to identifying and withdrawing securities from lending programmes very precisely, minimising lost lending income. This solution, ProxyValue, is a highly configurable, automated share recall service that uses rich data provided by ISS to predict record dates with a high degree of confidence. It combines this with economic data, enabling clients to make informed decisions on whether to recall securities or leave them on loan. The opportunity cost is reduced by limiting the frequency of recall and the time securities are removed from the lending programme. Furthermore, the ISS data set includes detailed ancillary data, such as on M&A or proxy contests, which is valuable for making informed decisions on stock recalls, but difficult for the lender to track independently.

Setting an industry precedent

With the impact of climate change and social inequality becoming ever more evident globally, it is our hope and belief that ESG principles will become increasingly central to investment decision-making, which in turn will drive corporate behaviours and priorities. Standard Chartered, together with eSecLending, have offered a blueprint for the wider industry to demonstrate how doing good and doing well can go hand-in-hand.

Simon Lee, managing director of business development for EMEA and APAC at eSecLending, notes: "Our role as an agent lender is to support our client requirements in the ESG space, which increasingly looks to address criteria pertaining to the collateral we hold on their behalf and the counterparties we lend to, in addition to the more familiar topic of proxy voting. Given every beneficial owner will view the subject through their own unique corporate lens, the challenge for the industry is to provide client-centric solutions that can be accommodated within the confines of agent lending programmes that by their nature have been designed to standardise as much as possible their service offering."

Traditionally, investment decision-making has combined liquidity, risk and yield. By showing that ESG and sustainability are directly aligned with, and impact on these principles, ESG is set to become the essential fourth pillar of the investments industry. ■

ESG's impact on global equity lending market dynamics

Firms that perform poorly on material ESG characteristics have lower levels of institutional ownership, increased levels of shorting, and higher levels of institutional investor engagement, according to research by State Street Associates. Travis Whitmore, head of securities finance research, and Christian Nadeau, quantitative researcher at State Street Associates, discuss the findings

It is well known that ESG has become an important factor in investment decision-making, but to what degree has it directly influenced the holdings of institutional investors and their engagement over proxy votes? What about the borrowing demand of short sellers? The paper referenced in this article looks to answer these questions with a unique empirical study of ESG's effect on the global equities lending market. By combining equities lending, ESG, and proxy vote data, we quantify the impact ESG has had on lending supply, short-selling demand, and institutional investor engagement. Our findings suggest that ESG considerations are deeply embedded in the securities lending market and are growing in importance. Importantly, the analysis identifies ways in which institutional investors can balance the revenue earned through securities lending with the pursuit of their ESG objectives. This article is a short excerpt of our full paper.

Sourcing ESG, securities lending and institutional ownership data

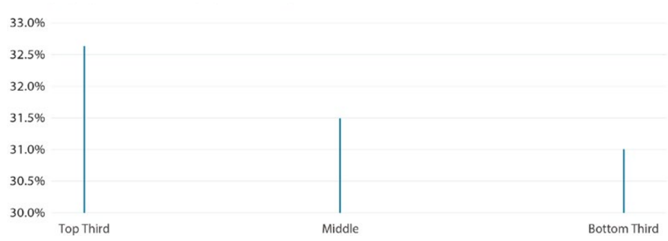
The underlying data used in our study is sourced from several data sets. Firm-level ESG scores are produced by MSCI and measure a company's resilience to long-term industry material ESG risks. Higher scores indicate better performance in mitigating ESG risks material to that industry. We use S&P Global Market Intelligence, formerly IHS Markit, to source daily global equities lending data, including fees, supply, demand, and utilisation. Institutional ownership is measured via the Thomson-Reuters Institutional Holdings (13F) database. The combined study covers roughly 3500 global equities from 2015 to 2021, including more than 33,000 proxy record dates.

ESG and securities lending supply

The first question we look to answer is, how does the ESG performance of a firm correlate with its level of securities lending supply? Taking a high-level approach, we rank the yearly average ESG scores of each company and group them into terciles — the bottom tercile being the poorest performing. It is clear in Figure 1 that companies performing poorly on material ESG attributes have fewer shares available for lending relative to their market cap – close to 1.5 per cent on average. In our full paper, we test the statistical significance of this relationship against other market factors that influence securities lending supply.

Figure 1

Lending Supply (% of Market Cap) by ESG Ranking



Source: State Street Global Markets, MSCI, IHS Markit, Thomson Reuters. 2015 - 2021

What explains this relationship? Digging deeper, we find two contributing factors. The biggest contributor, not surprisingly, is the level of institutional ownership. As ESG has become an important factor in the investment decision making process, institutions have increasingly shifted ownership away from stocks that perform poorly on ESG characteristics to stocks considered more sustainable. This trend has increased sixteen-fold since 2015, indicating that ESG is rapidly growing in importance in explaining institutional holdings.

Institutions also seem to restrict the lending of shares of poorly performing ESG companies, which may be the result of prioritised engagement and long-term stewardship (turnaround) efforts among 'unsustainable' firms. This is apparent when we observe the level of securities lending supply relative to institutional ownership, resulting in a difference of approximately 1.7 per cent of market cap.

ESG effects on short-selling demand

Given lower supply levels for poorly ranked ESG stocks, are these stocks more expensive to short? What about short sellers, do they demand more of these stocks? Does this mean lenders can earn more on them? Let's start with what we expect to find.

With lower levels of aggregate supply and demand being equal, we expect poorly ranked ESG stocks to be more expensive to short, thus providing an opportunity for lenders to earn higher revenue. Indeed, this is what we observe. Levels of utilisation for poorly performing ESG firms are significantly greater than strong performers. This, in turn, impacts borrowing fees, which are on average almost twice as high for the bottom third of poorly ranked ESG firms. As with supply, the difference in demand between positively and negatively ranked ESG firms increased substantially over the years since 2015.

This trend holds intra-industry as well. For example, in Figure 2, we isolate demand as a proportion of market cap within the energy industry. We find that companies in the bottom third of ESG scores are nearly twice as expensive, and have double the level of shorting demand, compared to their peers. This suggests that green shorting is an active endeavour rather than blanket selling of ESG-risky industries.

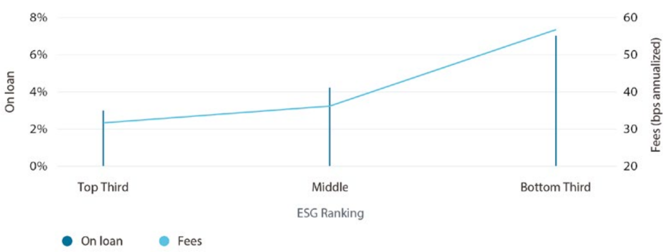
Supply and demand dynamics over proxy record dates

Proxy events serve as an important channel for institutions to exert their influence and long-term company vision, a process often required by law and scrutinised by third parties. To participate in a proxy vote, firms must hold the shares of a company on the proxy record date. To accomplish this, institutional investors wanting to engage in a proxy vote must recall or restrict their supply of shares before this date.

As we expected, we observe a significant decrease in available lending supply in the 30 days leading up to the record date. Immediately after the record date, supply snaps back, accounting for a 1 per cent increase in securities lending supply relative to a firm's market cap, on average.

Figure 2

Fees and Utilisation by ESG Ranking



Source: State Street Global Markets, MSCI, IHS Markit, Thomson Reuters. 2015 - 2021

When we examine this through the lens of ESG, there are some interesting observations. At the sector level (GICS level 1), we expect to observe increased engagement (proxied by changes in supply leading up to proxy record date) in sectors that are "at risk" of negative ESG-shocks. Indeed, we find that sectors such as energy, utilities, and materials have twice the level of engagement than those less at risk, depicted in Figure 3.

We also expect the average level of institutional engagement to be higher for firms performing poorly on their ESG attributes, as we expect investors to push for more positive ESG outcomes through their voting power. Our evidence contradicts this, as it does not show a significant difference in engagement at the stock level (i.e. engagement is similar across the bottom third and top third of ESG ranked stocks).

However, when we consider the opportunity cost of restricting and recalling the bottom ranked ESG securities, an intriguing story emerges. Poorly ranked ESG firms earn twice the level of revenue over proxy record dates, which suggests institutional investors are willing to forgo twice the amount of revenue in order to engage with those firms.

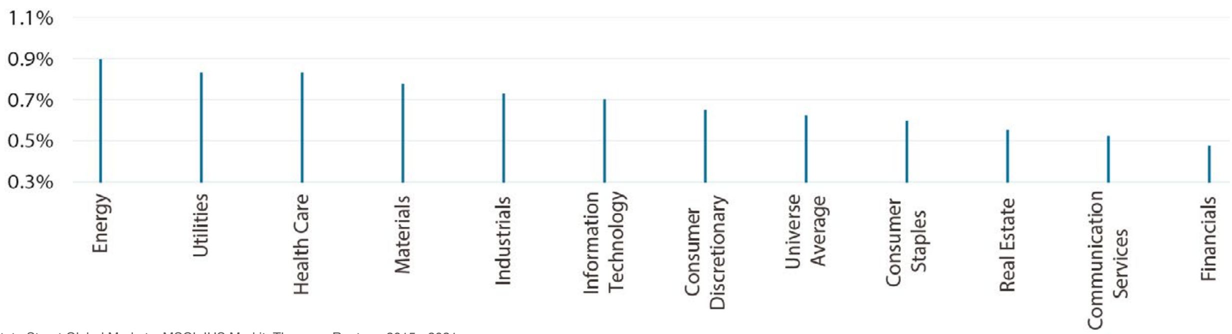
Conclusion

We find evidence that ESG considerations play an important role in institutional investment decisions, which in turn has significant implications on the securities lending market. There are lower levels of institutional ownership, increased levels of shorting, and more engagement for firms that perform poorly on material ESG characteristics. We observe these trends strengthening through time as ESG characteristics appear to become more ingrained in the decision making of institutional investors. We hope that this helps market participants think through their securities lending programmes and understand how ESG is impacting the market as a whole.

Our full paper can be found on the State Street website.
Or read the full paper here.

Figure 3

Institutional Engagement Over Proxy Record Dates by Sector



Source: State Street Global Markets, MSCI, IHS Markit, Thomson Reuters. 2015 - 2021

Advancing settlement efficiency in securities finance

Following on from our policy update on CSDR settlement discipline in SFT 309, EquiLend associate director for post-trade solutions Gabi Mantle reflects on how CSDR fails reporting and cash penalties has impacted settlement efficiency and market behaviour

From EquiLend's perspective, how well have market participants adapted to the introduction of the settlement fails reporting and cash penalties regimes that were enacted in February?

Market participants are focusing on getting trade booking details right at the outset of the transaction – that is a key advantage of using NGT. For off-platform transactions, we see more attention being paid to post-trade processes, leading to greater use of post-trade tools such as Settlement Monitor, our centralised, global fails management solution. We are also observing greater use of our SSI Repository to match trade economics and static data faster, thereby reducing the risk of fails.

Overall, we are seeing varied responses to the new regime, with some market participants adding resources to pre-matching and fails management teams while others are opting to cancel potentially failing trades before they can fail.

How far have these changes contributed to improvements in settlement efficiency for securities financing transactions?

A combination of factors has helped the overall market to reduce settlement fails, and therefore penalties. There has been greater emphasis on getting bookings right first time on NGT, on using Settlement Monitor to prevent fails by pre-empting trade mismatches higher up the timeline, on addressing static data setup issues through use of the SSI Repository, and keeping trade allocation bookings in line through Unified Comparison.

These renewed priorities have coupled with an increased take-up in automated collateral solutions such as EquiLend Exposure. Our clients are benefiting from greater visibility to the trades causing exposure disputes and faster connection to triparty agents, both of which reduce latency in covering new contracts so lenders can release instructions more quickly into the market.

Between February and July, clients using our Settlement Monitor solution experienced, on average, a 30 per cent decrease in the number of failing returns. Overall settlement rates are also up. We are definitely noting greater focus on settling new contracts and returns on time, and the numbers are showing improved settlement efficiencies.

What primary challenges have clients encountered in adapting to the settlement fines reporting and cash penalties regime introduced in February?

The primary challenges faced in settling trades on time are varied. They include mismatched or missing settlement instructions (SSIs) and delayed collateral agreement caused by a lack of visibility into the cause of collateral disputes. This may also include trade mismatches, a lack of visibility into expected penalties, inability to prioritise pending trades efficiently, fragmented returns processes leading to settlement delays or fails, and other significant challenges.

EquiLend's Trading and Post-Trade Solutions provide automation and enhanced efficiency through every step of a trade lifecycle. NGT facilitates point-of-trade matching, which is proven to reduce trade economic mismatches virtually to zero. Settlement Monitor facilitates pre-matching for both contracts and returns, providing visibility to SSIs, collateral coverage status, potential CSDR penalties and time left to market cut-offs, all in an easy-to-navigate user interface (UI) with workflow capabilities. Across the EquiLend Post-Trade Solutions group, our SSI Repository enables easy sharing of SSIs, EquiLend Exposure facilitates faster collateral agreement and Returns offers seamless, automated returns processing and reject visibility.

What forthcoming service releases does EquiLend have in its development pipeline to support further post-trade efficiency improvements for securities finance transactions?

We have seen a notable influx of queries about our Post-Trade Solutions from clients that want to increase settlement efficiency. We launched Settlement Monitor earlier this year to help our clients prevent fails and penalties and introduce better settlement workflows, we further enhanced EquiLend Exposure's triparty agent connectivity, and we introduced a solution to support fixed-income returns automation. These new offerings have played a crucial role in our clients' ability not just to comply with CSDR requirements but to become more efficient overall.

Our Post-Trade Suite is constantly evolving, and we are excited to be focused on further innovations coming in our automated Returns, Recalls and EquiLend Exposure solutions in 2022 and beyond.

Alongside our automation solutions, we also offer clients a Post-Trade Premium Service, through which we provide dedicated EquiLend staff resources to understand the client's strategic goals, analysing data and workflows and working in tandem with our clients and their counterparties to improve processes, save time and reduce risk. A recent PTS Premium Service project helped one of our clients reduce returns rejects by 29 per cent and facilitated new returns relationships, resulting in a 65 per cent volume increase in automated returns.

Another recently announced innovation from EquiLend, our 1Source initiative, is designed to eliminate reconciliations altogether, which will have a significant impact on how firms manage their post-trade processes. 1Source is currently being designed in tandem with many market participants with a goal of developing a "single source of truth" for securities finance lifecycle events. Built on distributed ledger technology, 1Source will serve as a central repository for trade and lifecycle information, meaning the laborious and costly work of manually chasing down resolutions to misaligned trade data may soon become a thing of the past. ■

Conducting the great transition

Regulators need to grasp the nettle and provide transparency for firms, as specificity becomes vital in improving data quality, according to MarketAxess' head of post-trade Chris Smith. He speaks to Carmella Haswell on the firm's RRH migration, current trends and next steps

The end of Q1 2022 marked the official integration of Deutsche Borse' Regulatory Reporting Hub (RRH) to the MarketAxess Post-Trade platform. The firm's Dutch entity, MarketAxess Post-Trade B.V., purchased the RRH in November 2020, sparking an 18-month venture to migrate 500 new clients, widening the firm's continental footprint.

Adapting to the change, MarketAxess produced quarterly programme increments for the onboarding clients. The firm pinpointed the highest priority issues, built features in response, and introduced a rolling roadmap throughout the course of 2021. The features presented by MarketAxess included building translation tools and layers, as well as building new links to National Competent Authorities (NCAs).

The RRH is a pan-European reporting and compliance platform that enables buy- and sell-side clients to meet their regulatory obligations across multiple regulations, including the second Markets in Financial Instruments Directive (MiFID II) and the European Markets Infrastructure Regulation (EMIR).

Since the acquisition, migrating clients have onboarded to MarketAxess' Securities Financing Transactions Regulation services — provided in partnership with EquiLend — and, therefore, MarketAxess has built extra links to Regis TR. The service was unavailable on the RRH after efforts to provide services for the reporting regulation under the Hub were discontinued in 2019.

Reflecting on the migration, Chris Smith says: “It is a learning curve, it was a big undertaking, there were various streams — including legal, client communication, technology and product streams — that we ran in terms of a programme. It has felt at times like I was a conductor in a very large orchestra, and hopefully, we were making sweet music for our clients.”

Onboarding clients across its services — including the approved reporting mechanism (ARM), approved publication arrangement (APA) and its MIFIR services suite (RTS 23) — has had its fair share of challenges. “The end of 2020 was when true Brexit happened, so all of a sudden, if you were UK-based, you had an obligation to report to the FCA and you could not be a European firm passporting in and doing reporting,” Smith explains. “Therefore, we had some immediate work to do with some clients to get them onto our systems before the end of 2020, which we undertook and built tools to help those clients.”

An expanding footprint

Expanding upon its already established continental footprint, MarketAxess found itself with a completely different proposition with the level of clients onboarding onto its platform. “We had a couple of clients in Denmark prior to the RRH acquisition, but now we are providing services to some of the very biggest banks in that region. We did have a footprint there, but we ended up with new NCA connections — taking our total count of NCA connections to 24, which includes the UK, FINMA in Switzerland, and the GSIC (Gibraltar).”

“What is interesting to me, for transaction reporting, is that none of these NCAs use the same systems,” Smith interjects. “They all have different formats and technology solutions. It takes a lot of work to figure out how to connect to those NCAs and how they respond to your files when you send them transaction reports.”

MarketAxess’ acquisition of RRH led to the firm entering new markets including Austria, Luxembourg and Liechtenstein. The drive behind the purchase of the RRH was to achieve scale, and to move MarketAxess’ footprint more into continental Europe. Smith indicates the importance of scale, suggesting any business within the post-trade market requires scale to generate sufficient revenue and, therefore, continue to invest in the business.

Looking on the horizon for further opportunities to expand, Smith explains that the regulatory reporting landscape never stands still. He has witnessed the UK and Europe diverge in terms of their reporting, calls for removing the RTS 27 and 28 Best Execution Reports under MiFID II. In addition, there remains constant change in how transactions are reported and published, and a tightening of the derivatives reporting regime for EMIR Refit.

“Our reporting business in particular, is very EU and UK focused, but we are also starting to look at obligations for regulatory reporting in other jurisdictions around the world. The most important thing is that if you do not have the scale, and therefore the investment coming in, then you cannot make those investments in new technologies and new jurisdictions,” comments Smith.

Forming an alliance

As the UK and Europe weave their own way through the regulatory reporting landscape, further changes are anticipated for the industry. To help the industry navigate this process, a trade association has been formed to provide consistent input on regulatory challenges and alterations.

MarketAxess — alongside Bloomberg, Cboe Europe, Euronext, the London Stock Exchange and Tradeweb Markets — formed the APARMA association in May 2022. “We knew there was going to be a lot to discuss that was common to us all, and it would be better to be providing a consistent input into that debate through a trade association,” says Smith.

He adds: “The Association has been extremely useful in bringing together the view of the six largest APA and ARM providers around a range of topics and, specifically, regarding proposed changes in regulation. For instance, the recent consultation for changes to RTS1 and 2, which aims to smooth the implementation of the CTP in Europe, saw APARMA members produce joint discussion papers regarding field validation and the implementation timeframe for the proposed changes.”

In Smith’s view, the biggest challenge that regulators are facing currently across Europe and the UK is getting a higher standard of data quality out of their reporting. “I still find it amazing that so many fields are required on a transaction report, or even more on an EMIR report, or even more on a Refit report. When you think about that, and the millions of transactions that are processed a day, the chances of clients getting all of this stuff right is really quite tricky," Smith projects.

It is beholden to the regulators using this data to ensure that data quality is as high as possible. It is their responsibility to be transparent with regards to the particular values that they are expecting in certain fields. Therefore, Smith suggests that firms make sure that regulators are "grasping the nettle". Specificity around particular fields is "absolutely vital" if the industry wants to improve data quality.

In addition to these industry trends, MarketAxess' Smith identifies a political will in Europe to have a consolidated market data tape. "The inputs to that data tape have to be as accurate and clean as possible, otherwise there is little point in having it," he says.

In June, Bloomberg, MarketAxess and Tradeweb announced an initiative to explore the delivery of a consolidated tape for fixed-income instruments in the European Union, with the intention of applying to become the consolidated tape provider (CTP) through the public procurement procedure.

As a collective, the firms believe that the European financial markets would benefit from a well-functioning fixed-income consolidated tape — and they suggest that industry collaboration would be essential to delivering a solution that utilises existing infrastructure to provide end users with access to reliable, high-quality MiFID II data. The firms believe that the European Commission's draft proposed legislative revisions would open a window to developing a robust consolidated tape that will increase market transparency and help facilitate an integrated, single European capital market.

The consolidated tape service is likely to be provided — subject to the relevant regulatory approvals — via a joint venture company established and operated independently from the three respective businesses. If successful in winning the mandate, the company would be authorised and supervised by ESMA to provide transparency in fixed-income markets pursuant to MiFID II.

Strategic developments and next steps

MarketAxess are investing in technology to aid the reporting process for their clients. Highlighting the sheer volume of transactions that MarketAxess is sending — either publishing through trades, sending as transaction reports or securities finance transactions, or EMIR reports to trade repositories — Smith reiterates the difficulty in getting it right every time, on every transaction.

"We see firms that end up identifying an error, maybe some months after they have started making that error, and then having to do a big correction," says Smith. MarketAxess is looking to invest in a suite of technology that is underpinning a large portion of the real-time trade pricing transparency that the firm is bringing to bond markets at MarketAxess.

Machine learning tools, big data tools and artificial intelligence are being used to create pricing in very illiquid bonds that firms can rely upon, explains Smith, as opposed to a trade price that was struck four months ago and is not very useful or reliable.

Smith continues: "We are going to use some of those techniques and point it at our transaction reporting and our trade reporting. We aim to highlight where we believe clients are wrong with their reporting, predict which side of the reporting transaction was correct, and we will predict where they are likely to make errors going forward in certain asset classes.

"Being able to use these tools to manage that vast amount of data, review that vast amount of data, and pick up trends in where you are making errors, that is the next generation. It gives you, as a client, the same view of your reporting data that the regulators have in near real-time."

When the tool detects an error or anomaly, through the use of artificial intelligence, it will alert the client as a trigger for the necessary investigation. It allows the client to get on the front-foot and be more proactive in their reporting.

"MarketAxess has tried very hard over the last 20 years to bring greater transparency and efficiency to the bond market that we operate in," says Smith. "We are starting to look at ways in which we can utilise data to assist clients in achieving greater accuracy in meeting regulatory reporting standards, which are getting more and more complex."

Smith concludes that there is a vast set of information buried in the billions of transactions for which MarketAxess holds data, across all asset classes. From this, the firm believes it can also utilise this data to provide more transparency to the historically opaque repo market. ■

OCC Stock Loan Programs

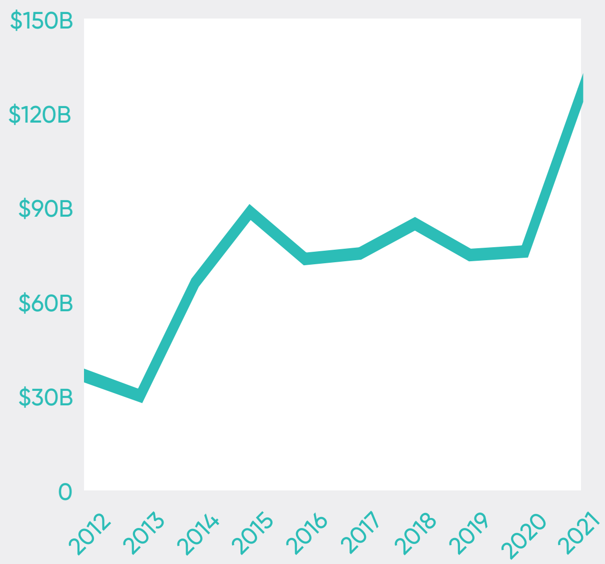
Key Benefits

- 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

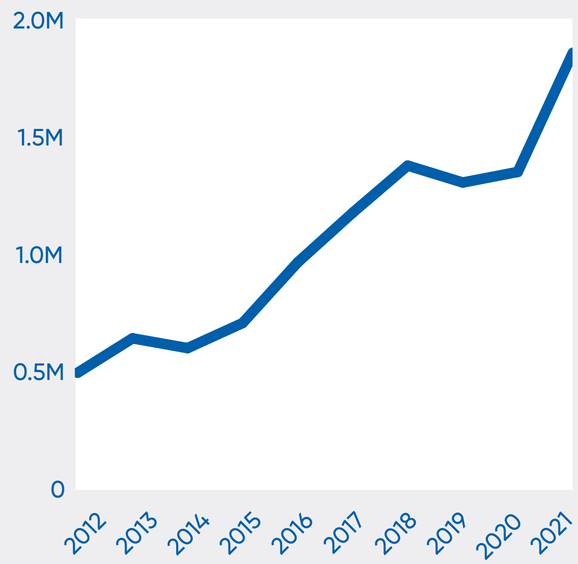
79
HEDGE LOAN PROGRAM MEMBERS

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 continuing challenge

Frank Becker, COO & Head of Sales at Comyno, outlines why SFTR continues to challenge the industry, and why the responsibility of reporting is now given to operations, treasury or middle office departments

Fulfilling the requirements of the Securities Finance Transaction Regulation (SFTR) ties up a lot of internal resources for the broad range of institutions that have to perform SFTR reporting.

Some firms have heavily invested in the development of internal SFTR solutions at great cost, both for implementation and maintenance. For those particular firms, there is little reprieve in sight, with more regulations and investments on the horizon.

Optimising or outsourcing in-house solutions help clients to take pressure off IT departments who, in most cases, have limited resources and are struggling with other infrastructure challenges and initiatives.

The responsibility of reporting is often put on those in operations, treasury or middle office departments. A professional and technical understanding plus IT support is necessary in most cases. The responsible departments are often struggling with manual workarounds, missing validation processes and user-friendly graphical user interfaces (GUIs).

Comyno's best practice

Pre-validation processes help banks to identify potential missing or incorrect data or non-compliance with the European Securities and Markets Authority (ESMA) validation criteria. Therefore, it helps to minimise the manual effort by an internal ex-ante validation of the report to be submitted, while avoiding ex-post-trade corrections. Paired and matched reports in the initial submission can reduce the SFTR-related operational costs by up to 80 per cent.

According to ESMA's data quality report, as of end 2021, matching rates of loan components sat just below 50 per cent, while collateral components were at around 20 per cent.

Given these statistics, GUIs showing and highlighting the breaks are a critical software component, saving operations and IT resources. Some SFTR solutions still require a lot of technical understanding when reading the extensible markup language-messages due to the lack of sophisticated technical solutions. A range of different complex reports are sent from the trade repository to the end-user and each needs to be analysed in a specific way.

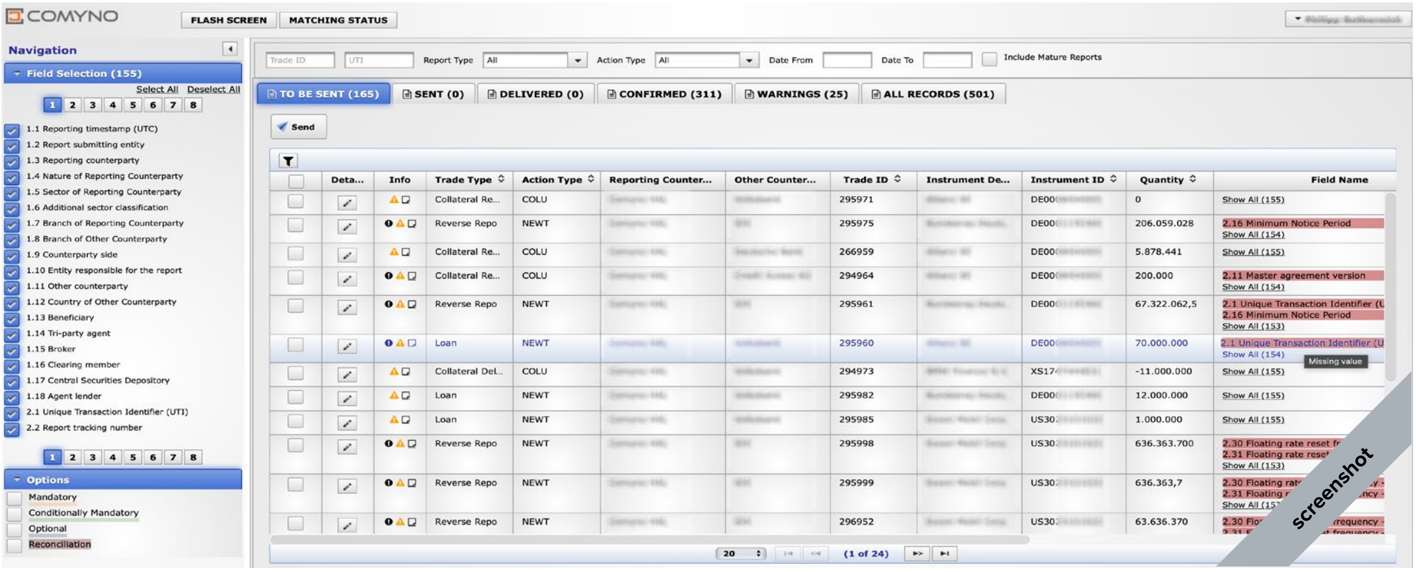
An automated interpretation and pre-processing of those feedbacks is a mandatory software requirement to increase operational efficiency and to meet the regulatory obligation. This becomes even more important considering an increasing focus of the national competent authorities (NCAs) on the matching of the reports.

Good software solutions help to identify gaps in the data set. While much attention has already been put to timely reporting, many more improvements in the area of reconciliation are needed. Those areas will continue to be a point of focus for ESMA and the NCA going forward, according to the aforementioned ESMA data quality report. Achieving improvements in areas where insufficient quality of data is identified is one of the key objectives of ESMA and the NCAs. The low matching rates show that a lot of actions and coordination with other counterparties continues to be done on the firm's side.

Beside missing technical know-how, another drawback is the lack of SFTR business expertise. Even the best tool is useless without knowing how to use it. A lack of expertise around SFTR and recruiting for this expertise is one of the industry's biggest challenges and remains a cause for concern. Firms are still seeking employees with the required skills to improve their internal processes and workflows.

One of the services many banks offer to their counterparties or customers is delegated reporting. To provide evidence that the reporting was done properly, it is best practice for banks to provide their counterparties or clients a report which lists all reports and their reporting status, as the delegating entity remains in charge of the reports provided, and will be the initial contact for their NCAs on reporting issues.

Ongoing releases of the trade repositories and changes in the



ESMA reporting schema cause changes in the SFTR reporting. Firms are still facing challenges in dealing with internal SFTR processes, while external influences start to build up. Trade repositories and changes in the reporting schema by ESMA keep firms busy with releases which have to be adopted by each firm while they are still busy optimising their internal operational processes. This is all while they also fix bugs in the software and aim to improve instrument static data.

Make or buy

Some solution providers failed before starting, and some trade repositories quit a few months after go-live. SFTR is the “Big Bang” of reporting requirements in the securities finance space. The Big Bang has often morphed into a “data jungle” with costs and efforts getting out of control.

While many firms chose to build their own SFTR solution, others bought an external solution. Many software providers underestimated the continued effort of implementing releases and data quality challenges. Some in-house solutions have even bigger gaps and cannot assemble the best practices of different SFTR users.

It is not too late to review the decision and it is time to rethink it, if the current internal approach is carried out in a sustainable manner. To grapple with a bad SFTR solution for the next decade is costly – whether or not it is an internal or external solution.

Integrate a solution in the existing environment

An in-house development solution may lack flexibility and functionality, resulting in increasing maintenance costs and testing efforts over time. The SFTR reporting will certainly need further adaptations over the coming years. This means that additional costs arise when the adaptation of the SFTR reporting requirements take place.

Standard software usually offers a large number of predefined interfaces to the peripheral systems. Normally, these already contain the needed attributes and only need to be adjusted individually.

The provider will supply business and IT resources for implementation and testing of the new functionalities.

If the solution is in place for customers, further positive effects can be gained by the customer.

Comyno, with its business expertise and its SFTR solution, can provide a standard technical solution, implementing releases as part of the software license agreement — giving clients access to business experts.

Our solution allows clients to import all the reports they did before, so that they have all their reports in a single place, from day one. A rich GUI functionality with the required connectivity to a clients’ core banking system and the trade repository is also part of the offered solution.

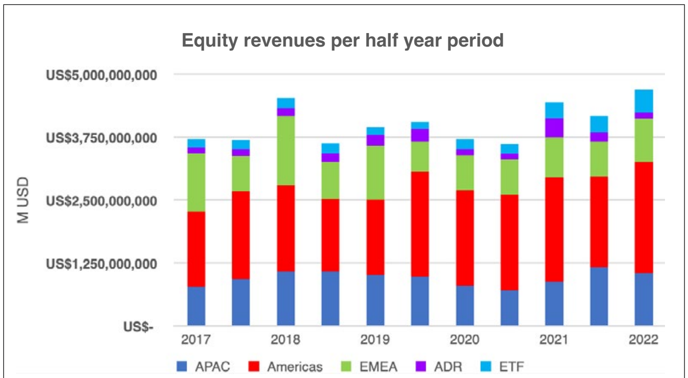
Could it be a record year for securities finance revenues?

If markets continue to trend higher and the recent volatility continues, these could be perfect conditions for securities finance revenues to deliver impressive returns during H2, observes Matthew Chessum, director, securities finance, S&P Global Market Intelligence

The first half of 2022 saw significant volatility return to financial markets. As fears of a Russian invasion of Ukraine crystalised and inflationary concerns started to outweigh those of economic growth, equity and bond markets around the world started to fall. In the US, the S&P 500 fell 20 per cent, which was the biggest six-month decline since the 1970s, and the Nasdaq fell 30 per cent. In Europe, the Eurostoxx 600 was down 20 per cent. Central banks around the world started to increase benchmark interest rates in efforts to fight off inflation and the VIX index traded over the psychological 20 barrier for the whole six-month period. Even Bitcoin was down circa 60 per cent!

A period of heightened uncertainty, volatility and a more general "risk off" appetite can have a negative impact in many areas of financial markets, but this was not the case for securities finance. Revenues for the first half of 2022 were just over US$6.1 billion, which was the best half year performance since 2008 — fourteen years ago. First half revenues increased 12 per cent and on loan balances grew 11 per cent over the first half of 2021. Exchange-traded products (ETPs) and US equity special balances hit four-year highs and corporate bonds experienced strong demand, which generated impressive returns. For those lenders holding the right mix of assets, 2022 could in fact be turning into a vintage year.

The three standout asset classes to note for the first half of the year were corporate bonds, US equity specials and exchange-traded products.



Source: S&P Global Market Intelligence

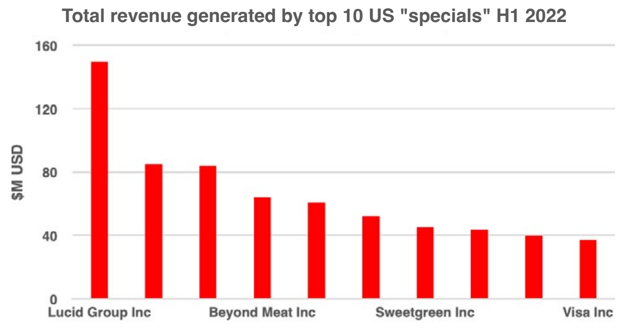
Corporate bonds

Corporate bond demand remained strong throughout the first six months of the year. Rising interest rates, coupled with investor fears over the growing possibility of recession, increased levels of investor concerns regarding non-investment grade credit. As concerns grew regarding higher default rates and the increased cost of debt servicing, prices started to fall and yields started to increase. This, in turn, led to greater directional demand from borrowers which translated into an increase in the demand to borrow. Revenues increased 97 per cent YoY to US$437 million, on loan balances increased 30 per cent YoY, average fees increased 51 per cent to 0.31 per cent, and utilisation increased 32 per cent YoY to 5.6 per cent. Data shows that demand was widespread for the asset class throughout the period and while there were some popular borrows, the top five revenue generating bonds only contributed a very small percentage to the overall revenues. This trend continued into July. Looking towards the second half of 2022, corporate bonds (especially those that are non-investment grade) are expected to continue to see strong demand and continue to produce the impressive revenues that they have generated in the first half of the year.

US equity specials

When looking at the Americas region, equity finance revenues were US$2.2 billion for the first half of 2022, which is an impressive 9 per cent increase YoY. Specials balances rebounded spectacularly, nearing US$18 billion on average, as the second quarter of the year set a four year high. It was the specials balances in the US that really boosted returns for this region. Many of the hard-to-borrow stocks in the US continued to generate remarkable revenues. The top ten revenue generators accounted for over 30 per cent of the entire revenues for the region for the six-month period.

Looking towards the second half of 2022, this trend is expected to continue. Hedge fund leverage is down, which usually equates to lower overall balances, and the share prices of those companies that are not considered to offer "essential services" are likely to remain under pressure as discretionary spending is curtailed by high inflation and a higher interest rate environment. Increased pressure on companies to restructure their debt and raise finance will also lead to more corporate activity, which is likely to drive the specials market going into the second half of the year.



Source: S&P Global Market Intelligence

Exchange-traded products

Exchange-traded product returns saw a marked increase during the first half of 2022. The asset class generated US$453 million during the first six months of 2022, which is an increase of 48 per cent YoY and a 37 per cent increase when compared with the second quarter of 2021. Average fees, on-loan balances and lendable assets all increased YoY. The success of ETPs was two-fold during the period. ETFs tracking corporate bond and equity indices benefited from the increased volatility seen throughout the period. ETFs were being borrowed for delta hedging as market valuations fell. The ETFs, used to gain exposure or hedge in markets where an efficient offshore securities lending capability is not yet established, also contributed to the increase seen in revenues. As markets start to settle, borrowing activity in ETFs has curtailed during July. Despite this, the asset class is still producing impressive returns as its versatility in terms of trading strategies and collateral management continues to grow.

The other markets

Other markets which contributed to the impressive first half revenues included Taiwan and South Korea. Average fees of 2.52 per cent in Taiwan (a 47 per cent increase YoY) and 2.13 per cent in South Korea (an increase of 29 per cent YoY) helped these two Asian markets generate US$285 million and US$183 million respectively. Specials activity picked up in Australia as mining stocks saw a large uptick in demand (BHP Group Ltd was the fourth highest generating stock in the region following the delisting of the UK line) and the general sell-off in the technology sectors was particularly beneficial to this region as directional trading activity targeted semiconductor and technology hardware producers. The Asia region generated US$1.039 billion in revenues during the first half of the year.

Looking towards the second half of 2022, there is a reasonable level of consensus amongst market observers that, despite the recent market recovery, there is more volatility to come. If markets continue to trend higher and the recent volatility continues, these could be perfect conditions for securities finance revenues to continue to produce impressive returns. Government bonds are expected to see stronger demand with the next phase of UMR coming in September, and as interest rate differentials start to emerge there are also likely to be more opportunities for global macro strategies to play out.

There is little doubt that 2022 will be a very strong year for the securities finance industry based on the first six months of the year. Demand is expected to remain rather specific in terms of sectors and asset classes, however, and not all asset owners are expected to benefit to the same degree. But as an industry, despite the doom and gloom in other areas of the financial press, securities finance should continue to shine.

Latest industry appointments at Deutsche Bank, Hazeltree and J.P. Morgan

Deutsche Bank has appointed Oliver Bissett-Johnson as vice president, agency lending fixed-income trader.

Based in London, Bissett-Johnson will report to head of agency securities lending and off-balance sheet liquidity Zorawar Singh.

He joins the Bank after a nine-year term with BNP Paribas' agency lending desk, where he was most recently an agency lending fixed-income trader.

Bissett-Johnson began his career with BNP Paribas in 2013 as a client onboarding and performance analyst, and departed from the firm in March 2022.

Announcing the news on LinkedIn, Bissett-Johnson said: "I would like to thank everyone that has connected and spoken with me over the past few months, helping me along the way. An especially big thank you to Zorawar Singh and Lee Ropelato for believing in me and the opportunity ahead, and James Wisener for your support throughout the recruitment process.

"This is an amazing opportunity and I am looking forward to getting started and working with all my new colleagues."

J.P. Morgan has appointed Ozair Mukhtar as agency securities finance business manager.

Based in London, Mukhtar will report to Lucy Snowball, Securities Finance and Collateral Services business manager.

Rory Zirpolo joins Hazeltree

Rory Zirpolo has been appointed vice president of business development at Hazeltree, a provider of cloud-based treasury and liquidity solutions to investment management firms.

Based in New York, Zirpolo will develop the firm's customer base that subscribe to the securities finance functionality and data analytics services that Hazeltree provides to the buy- and sell-side.

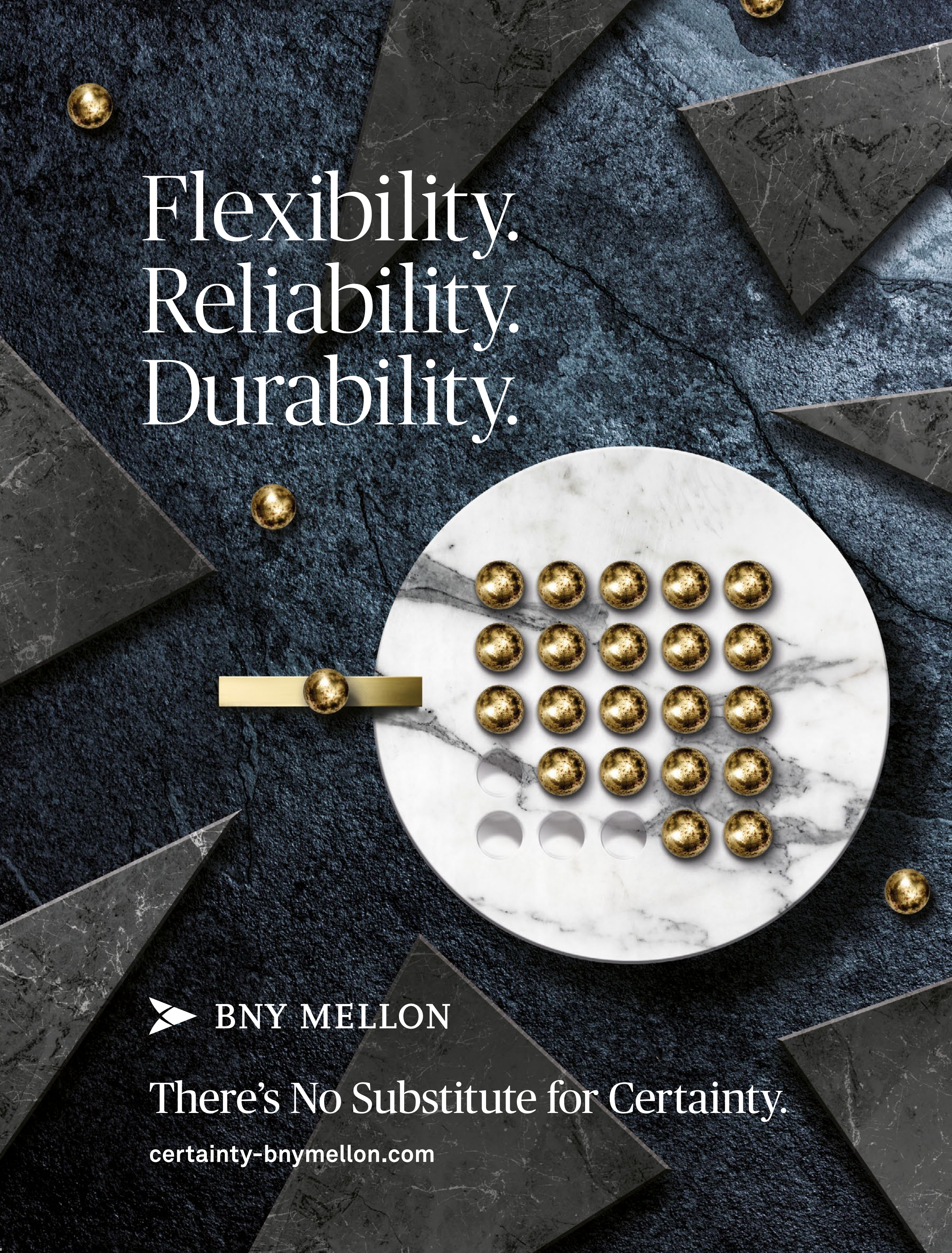
In this role, Zirpolo will report to chief revenue officer Sandison Weil and will work under the direction of Timothy Smith, managing director of business development.

He brings more than 30 years of experience within the securities finance industry. Zipolo joins Hazeltree from a product management specialist position at GLMX, where he helped guide the firm's expansion of GLMX's securities lending technology.

Prior to this, Zirpolo was employed at EquiLend in 2018 within the firm's business development team, where he focused on post-trade services in the Americas.

During his long career, Zirpolo has held a number of senior positions across WallachBeth Capital, Cantor Fitzgerald and Cowen and Company.

Commenting on his new role, Zirpolo says: "I am excited to be starting a new role with Hazeltree. Already a market leader in their field, I wish to be part of this and to assist in the continuing expansion of our client base in the securities finance and related data business arena."


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

He joins the firm from Broadridge, where he was previously business partner within the firm's Securities Finance and Collateral Management division.

Prior to this, Mukhtar held a four-year term with Smiths Group where he was most recently global financial planning and analysis assistant manager.

S&P Global Market Intelligence has appointed Eleanor Gawthorpe as a sales associate within the firm's Global Regulatory Reporting Solutions sales team.

Based in London, Gawthorpe will report to S&P Global's Charlie Bedford-Forde, head of Global Regulatory Reporting Solutions Sales for EMEA.

Previously, she held a fixed-income sales business manager position at Eurex, having joined the company in 2020 as a graduate intern.

Gawthorpe graduated from Lancaster University with a degree in politics and international relations.

Commenting on the hire, Bedford-Forde says: "With massive regulatory changes such as the CFTC rewrite and EMIR refit on the horizon, we are very happy Eleanor has joined the team in London.

"Eleanor will be working with our sales teams to support our global regulatory reporting solutions clients as we continue to grow."

Automation platform Xceptor has appointed John Ridout as head of sales for EMEA and APAC.

Based in London, Ridout will report to Xceptor's chief revenue officer Joshua Monroe, and will take responsibility for leading the sales team and developing Xceptor's growth strategy across the regions.

Ridout brings more than 25 years of experience in financial services to the role, and has become a seasoned operator with a track record of driving growth in new markets.

He joins Xceptor from Broadridge, where he previously spent three years as managing director of the middle-market division of Broadridge Financial Technologies.

During his time at Broadridge, Ridout ran the sales team covering Europe, the Middle East and Africa.

Prior to this, he was based in New York as SmartStream Technologies' senior vice president and head of sales for North America.

Earlier in his career, Ridout also held roles at FIS, SunGard, Nomura and SWIFT.

Speaking on the appointment, Monroe says: "We are delighted to welcome John to the business at this phase of our journey. Throughout his tenure at leading financial services companies he has demonstrated an exceptional track record of driving and exceeding growth in new markets, and building and scaling sales teams.

"As our head of sales for EMEA and APAC, John will lead the Xceptor sales team and develop our growth strategy across both regions. These represent fertile ground for Xceptor and we are excited at the prospect of empowering financial institutions with the ability to build their own automated and trusted dataflows."

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


GLOBAL SECURITIES FINANCING
More than just securities financing,
together we can create the right solution


How do we fix
a problem with
no boundaries
by pushing
our own?
HSBC
Opening up a world of opportunity
Issued by HSBC Bank plc, 8 Canada Square, London. E14 5HQ