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Eurex Repo

Frank Gast on how monetary normalisation is driving up cleared repo volumes

Repo panel

Leading practitioners discuss recent trading dynamics in global repo markets

Thriving in a changing world

Marton Szigeti of Clearstream on preparing for the go-live of ECMS, the launch of OSCAR, and helping clients to optimise collateral

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CalPERS completes first trade on GLMX electronic trading platform

Global technology solution firm GLMX Technologies has welcomed CalPERS as the first US public pension fund to use its technology.

The California Public Employees' Retirement System (CalPERS) has printed its first trade with a large global bank on the GLMX money market electronic trading platform.

GLMX says the pension fund has "a long history of embracing innovative technology" and the benefits which GLMX technology provides, including greater access to liquidity and reduced transaction costs.

Glenn Havlicek, CEO and co-founder of GLMX, says: "It is significant when a market leader like CalPERS chooses GLMX for their securities finance needs.

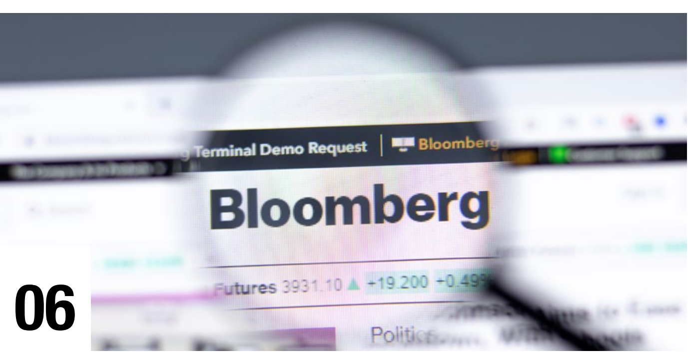
"This continues the trend of the largest global financial institutions adopting GLMX technology to access deeper liquidity pools and to digitalise their daily trading workflow."

COO of GLMX Sal Giglio adds: "With several other leading pension funds, money market funds and corporate treasurers in our pipeline, we see the addition of CalPERS as an important first step in the next phase of growth in electronic trading across the securities financing market."

03

CalPERS completes first trade on GLMX

Global technology solution firm GLMX Technologies has welcomed CalPERS as the first US public pension fund to use its technology



06

S3 Partners adds Black Map to Bloomberg portal

Financial data marketplace and workflow platform S3 Partners has announced the addition of Black Map to the Bloomberg App Portal

18

Eurex Repo

Bob Currie speaks to Eurex Repo's Frank Gast, Carsten Hiller and Jonathan Lombardo about the rediscovery of GC Pooling as a liquidity management solution and the organisation's strategic focus for 2023 and beyond

24

Repo panel: a return to normalised market-based financing?

Repo market experts discuss recent trading dynamics in global repo markets, the impact of monetary tightening, automation across the repo lifecycle and new opportunities available through P2P repo

36

Thriving in a changing world

Marton Szigeti, head of collateral, lending and liquidity solutions at Clearstream, speaks to Carmella Haswell about preparing for the go-live of ECMS, the launch of OSCAR, and helping clients to optimise collateral in the current macroeconomic environment

40

Which levers should you pull in 2023?

Continued pressure on margins during 2023 will bring additional scrutiny to the cost of executing business, predicts FIS' David Lewis

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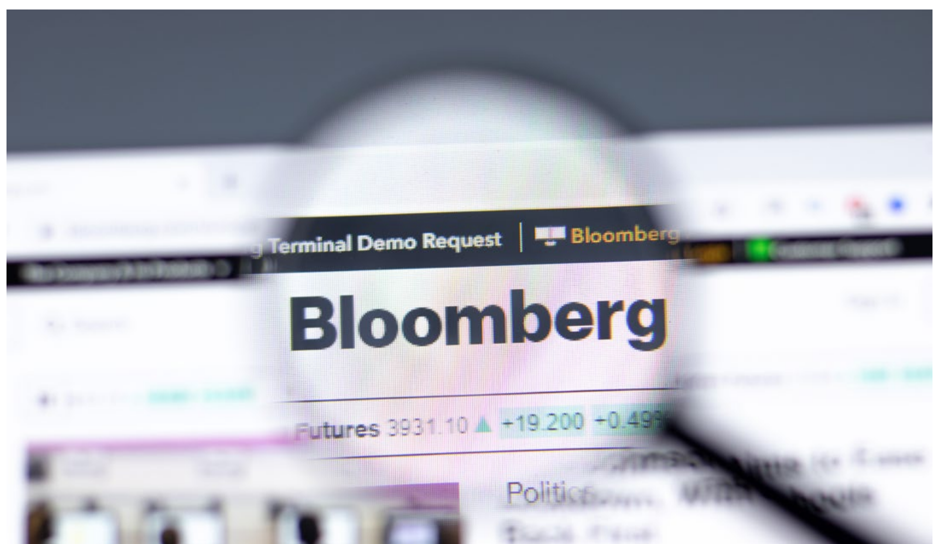


S3 Partners adds Black Map to Bloomberg portal

Financial data marketplace and workflow platform S3 Partners has welcomed the addition of Black Map to the Bloomberg App Portal.

The new application aims to increase the level of visibility into long and short market sentiment and positioning, alongside the potential for drawdowns.

According to S3 Partners, Black Map allows users to solve concerns when evaluating individual positions or an entire portfolio.

These concerns regard concentration and herd risk, the market sentiment on a trade idea, position or portfolio, and the positioning of passive and active investment strategies in the marketplace.

On a daily basis, users can filter by industry, sector and cohort to see which stocks in their portfolio are crowded and how the rest of the market is positioned, says S3 Partners.

Bob Sloan, managing partner and CEO of S3 Partners, comments: "Black Map is a true breakthrough in how institutional investors can identify and cure crowded trades with the potential for significant drawdowns, which will improve their Sharpe and Sortino ratios, help them identify the market's dry powder, and analyse market momentum and opportunities.

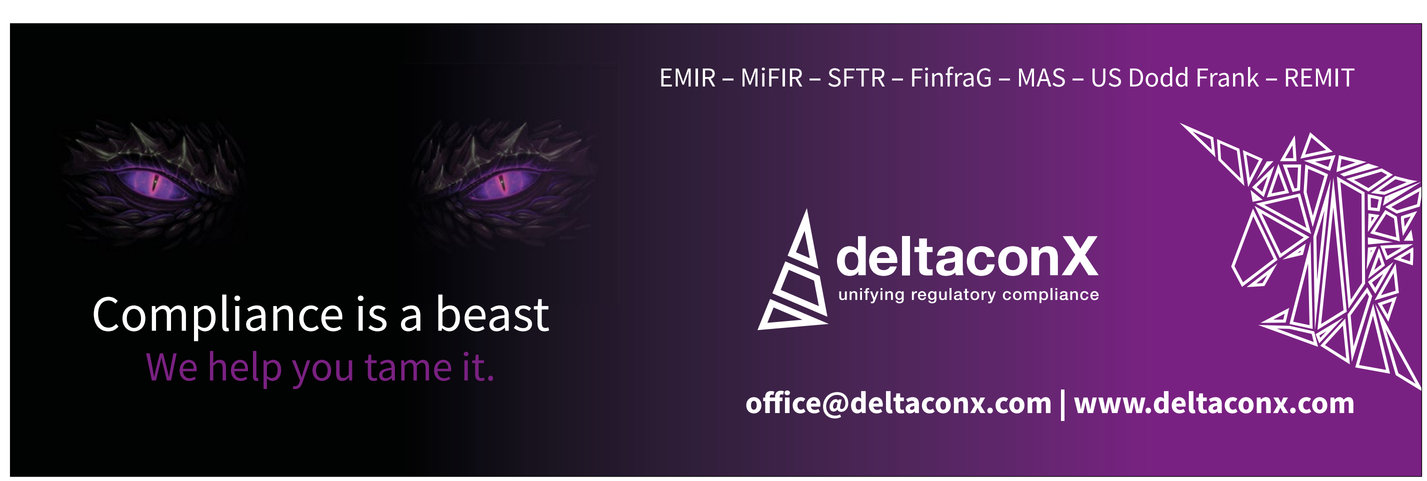
"Facing lower market volumes, fewer names to trade, and growing assets under management, individual trades can make or break strategies for active managers. Black Map gives them the clearest available view into how a user is positioned versus the market."

BNP Paribas takes part in Series C funding round for AccessFintech

BNP Paribas is to participate in a Series C fund round for AccessFintech, the fintech company headed by Roy Saadon.

The investment is being made by BNP Paribas's Securities Services unit, the bank's post-trade arm.

The Paris-based banking group indicates that this investment will enable it to provide its corporate and institutional banking clients with the latest technology, data and workflow tools in an effort to shorten settlement cycles.



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Clients will also be able to enhance operational efficiency through AccessFintech's Synergy data collaboration network, BNP Paribas says.

Synergy helps market participants reduce collateral needs and compress transaction costs through data collaboration, accelerated workflows and AccessFintech's cloud-based approach to data governance and normalisation.

Synergy also assists global banks, broker-dealers, custodians, asset managers and hedge funds with regulatory compliance through mutually managed network solutions.

The Series C funding round was led by WestCap. In addition to its Series B fundraising led by Dawn Capital, AccessFintech has now secured investment from the world's largest financial institutions including J.P. Morgan, Goldman Sachs, Citi, Bank of America and BNY Mellon.

Alongside these investors, BNP Paribas's participation will be used to accelerate AccessFintech's growth as it expands its collaborative data management network to additional markets.

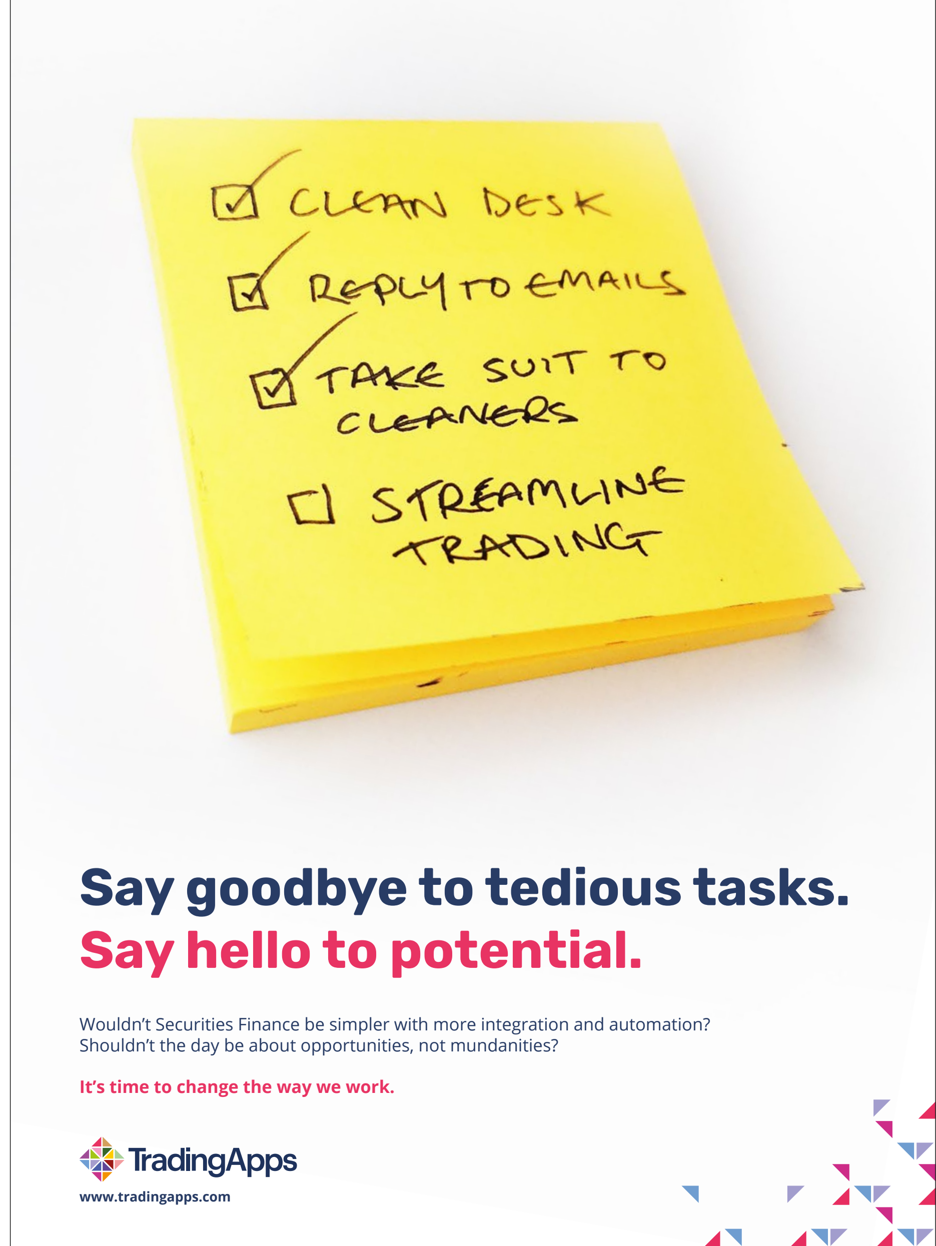
Bruno Campenon, global head of banks, brokers and corporates of Securities Services, at BNP Paribas, says: "This investment is part of our strategy to partner with innovative technology companies to expand and digitalise our offering and give our clients access to the latest technologies.

"AccessFintech's solutions will provide concrete benefits to our clients – and the industry as a whole – through greater operational efficiency and optimised risk management. We are excited to participate in this initiative and help the financial industry evolve its operating model."

Roy Saadon, CEO of AccessFintech, comments: "We are delighted with the support BNP

Paribas is extending to the critical role we provide of trusted data governance infrastructure.

"The innovation we are delivering in the data collaboration arena is a great complement to BNP Paribas's push to drive the market forward. Their understanding of disruptive technology, coupled with our shared vision, will enable AccessFintech to grow and execute the next stage of our development."



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Securities finance trading up 10% YoY for 2022, reports EquiLend

EquiLend's Next Generation Trading (NGT) platform experienced an 'extremely active year' in 2022 as total trades increased 10 per cent YoY for 2022.

As market volatility drove securities finance market volumes, total trades for fixed income rose 17 per cent YoY for 2022.

According to head of EquiLend trading solutions Mike Norwood, 87 per cent of trading days in the US witnessed intraday equity market index price swings of at least 1 per cent.

Norwood says this indicates a lack of consensus in valuation and has led to demand for borrowing.

The platform saw increases across the Americas, APAC and EMEA regions, compared to 2021, that were largely on the back of increases in broker-to-broker trading and non-general collateral of 33 per cent and 38 per cent, respectively.

EquiLend reports a 1 per cent YoY rise for December for securities lending market trading on the NGT platform, with 2,421,068 trades executed during the month, generating US$2.26 trillion.

For December, volatility in the equity markets dropped to its lowest levels of the year as leverage remained subdued and investors "dialled back risk" going into year end.

According to Norwood, Q4 2022 saw relatively muted demand compared to the rest of the year, with overall trade counts down 4.6 per cent from Q3 2022.

Reflecting on trade count, Q4 2022 provided a higher trade count than any quarter prior to 2022 in securities finance data collected by EquiLend.

Norwood concludes: "Non-GC, increased activity is a focus for the industry at large as the resources to manage that portion of the

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trading book are heavily consumed. 2023 looks like more of the same as we continue to deal with geopolitical and macroeconomic uncertainty and await the actions of the central bankers."

ESMA recommends ISO-standard DTI codes for DLT pilot

The European Securities and Markets Authority (ESMA) has recommended ISO-standard digital token identifier (DTI) codes for use in its distributed ledger technology (DLT) pilot regulatory regime, which comes into force 23 March 2023.

The pilot builds on the existing MiFIR regulations to include tokenised financial instruments. This will improve both pre- and post-trade transparency, ESMA claims, along with bringing DLT-based securities under greater scrutiny for market abuse.

The DTI Foundation, a trading division of Etrading Software, provides ISO-standard identification codes to digital assets and DLTs. This allows for greater EU regulatory oversight, it claims, along with more efficient monitoring of stable coin and digital asset systemic risks.

Currently, more than 1000 ISO identification codes are available for commonly traded digital assets.

Sassan Danesh, CEO of Etrading Software, says: "We are proud to operate this critical market infrastructure on behalf of ISO. Our mission is to increase market stability, transparency and efficiency in the digital asset space and we will continue to work with public authorities and industry to provide this service to the benefit of all stakeholders."

Jim Northey, chair of ISO TC68 Financial Services, comments: "The ISO 24165 DTI standard has been designed to work well with existing ISO standards that are utilised for regulatory reporting. The DTI simplifies the addition of digital asset trading and reporting into existing systems."

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OCC cleared securities lending transactions up 24.9% for 2022

Securities lending transactions cleared on the Options Clearing Corporation (OCC) platform in 2022 jumped 24.9 per cent YoY to 2,319,800.

The average daily loan value for securities lending in 2022 increased 0.15 per cent YoY to 125,520,566,857, despite a 16.70 per cent YoY decline for the month of December.

According to OCC's 2022 results, a new annual cleared contract volume record was set with 10.38 billion contracts cleared on the platform. The firm also recorded an average daily volume of 41.3 million contracts.

Compared to 2021, OCC had a 4.5 per cent increase in total contracts cleared for 2022.

The total volume for options contracts increased 4.6 per cent YoY to 10.3 billion, says OCC, while the total volume for futures contracts declined 5.9 per cent to 55.1 million.

Tradeweb reports 20.7% rise YoY in repo ADV for December

Repo average daily volume traded on Tradeweb increased 20.7 per cent year-over-year to US$379.0 billion for December 2022.

Generating a total of US$381 billion for repo ADV for 2022, Tradeweb highlights a 12.49 per cent YoY rise for the year.

Continued client adoption of the firm's electronic trading solutions drove global repo activity for December, despite volatility in money markets and sustained elevated usage of the Federal Reserve's reverse repo facility.

Tradeweb, a global operator of electronic marketplaces for rates, credit, equities, and money markets, reports that the ADV for the month of December was US$1.02 trillion, an increase of 11.6 per cent YoY.

US government bond ADV was up 0.3 per

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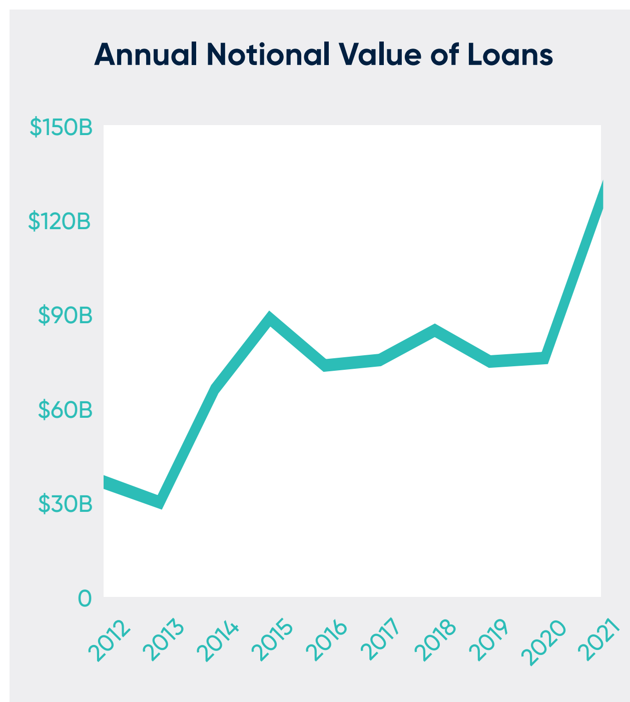

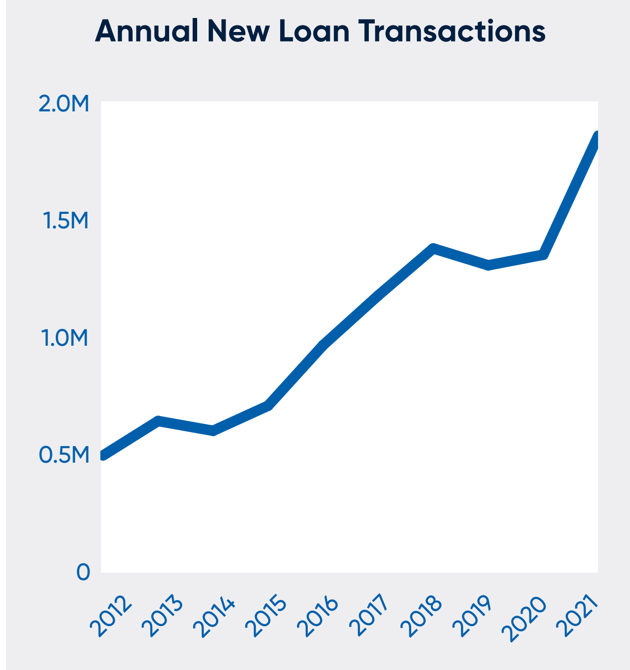

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cent YoY to US$114.1 billion, while European government bond ADV increased 25.5 per cent to US$27.5 billion.

According to the US-based firm, strong European government bond trading was driven by heightened rates market volatility.

For swaps and swaptions, ADV increased 13 per cent for December to US$186.8 billion, when compared to the previous year. Total rates derivatives ADV also increased, rising 19.1 per cent to US$316.7 billion.

In credit markets, fully electronic US credit ADV was up 29.7 per cent YoY to US$3.6 billion while European credit ADV was also up 17.7 per cent to US$1.3 billion.

Billy Hult, Tradeweb CEO, says: “Despite a complex backdrop of inflation, rates volatility, geopolitical risk and a strong US dollar, we saw an increase of nearly 10 per cent in our average daily volumes year-over-year in 2022.

“While rates volumes reflected these headwinds in the early part of the fourth quarter, we finished the year with a strong December across our global platform. The growth we experienced was broad-based across our markets, and reflected stronger client engagement in an array of tools and protocols including portfolio trading, request-for-quote (RFQ) and request-for-market (RFM).”

BNP Paribas and CACEIS establish issuer services JV

French banking giants BNP Paribas and CACEIS have formed an issuer services joint venture, which was first announced on 22 March last year and has now received approval from the regulatory and competition authorities.

These approvals provide the green light for the two companies to form Uptevia, a JV which was founded on 1 January 2023 and aims to be the leading issuer services provider in France and ultimately across Europe.

BNP Paribas and CACEIS indicate that the JV highlights their desire to create a specialised and scalable issuer services company to support corporate clients in France.

Uptevia will offer shareholder record keeping services across a broad spread of instruments, including equities, warrants and bonds, as well as coordinating general meetings, managing employee shareholder plans and centralising and managing financial operations on behalf of client companies. It will provide equivalent services for fixed income issuance such as bonds and negotiable debt securities.

Commenting on the formation of Uptevia, CACEIS’ CEO Jean-François Adadie says: “Our two Groups have successfully joined forces to create Uptevia, a venture that will benefit employees and clients alike. They will be able to leverage the breadth of advantages offered by a strong player that is braced to tackle the challenges of fast-changing business.”

Patrick Colle, head of BNP Paribas’ securities services business, says: “With Uptevia, we aim to create a leading specialist in issuer services. Our corporate clients and their shareholders will benefit from pooled investments and an enhanced service offering underpinned by cutting-edge tech solutions.”

Cboe Clear Europe granted permanent recognition as non-UK CCP

Cboe Clear Europe has received permanent recognition from the Bank of England to offer central counterparty clearing services in the UK.

The Amsterdam-based clearing house, which is owned by Cboe Global Markets, reports that it is the first non-UK CCP to be granted permanent recognition by the Bank of England, having been a participant in the UK’s Temporary Recognition Regime for non-UK CCPs established at the end of the Brexit transition period in 2020.

Commenting on this development, Arnoud Siegmann, Cboe Clear Europe’s interim president and chief operating officer, says: We [announce] the removal of Brexit uncertainty for UK-based clearing members and UK trading venues that wish to continue to access Cboe Clear Europe and benefit from its services on a permanent basis.

“This recognition helps demonstrate our long-term commitment to our cash equities services in the UK and will be important in further extending our equity derivatives service among UK participants, in support of Cboe Europe Derivatives (CEDX). We greatly appreciate the efforts of both the Bank of England and our EU regulators for helping to provide this recognition, which is a great outcome for European capital markets as a whole as it reduces the likelihood of liquidity fragmentation."

Cboe Clear Europe N.V. was formed in the Netherlands in December 2013 through the combination of the European Multilateral Clearing Facility N.V. (EMCF) and European Central Counterparty Limited (ECCP Limited).

Cboe Worldwide Holdings Limited, an affiliate of the Cboe group, purchased 100 per cent of Cboe Clear Europe on 1 July 2020.

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Frank Gast
Managing director, Eurex Repo, and head of sales for Europe, FIC derivatives and repo sales, Eurex

Cleared repo feels boost of monetary normalisation tailwind

Bob Currie speaks to Eurex Repo's Frank Gast, Carsten Hiller and Jonathan Lombardo about the rediscovery of GC Pooling as a liquidity management solution, steps to attract buy-side customers to cleared repo and the organisation's strategic focus for 2023 and beyond

The European monetary policy environment has entered a phase of transition, moving from an extended period of low interest rates and abundant liquidity, fuelled by central bank liquidity support, to a post-pandemic landscape of accelerating inflation, rising interest rates and indication from central banks that they intend to accelerate the unwind of their asset purchase programmes.

European Central Bank (ECB) deputy president Luis de Guindos noted recently that the expansionary fiscal policy and accommodative monetary policy of recent years are now behind us and leading central banks have moved to a phase of "normalisation" — a strategy, in central banker jargon, that aims to shift monetary policy from an expansionary objective, designed to raise the path of inflation, to one designed to cement inflation at the central bank's target level.

For the ECB, like the Bank of England and the Federal Reserve, this transition has been characterised by one of the most aggressive tightening phases in its history. The ECB confirmed at its December 2022 meeting that it will provide further details in February of its plans to reduce its Asset Purchase Programme (APP) holdings. It had already indicated in its autumn statements that it wished to recalibrate the terms of its Targeted Longer-term Refinancing Operations (TLTRO), with banks repaying €296 billion in TLTRO loans in November and €447 billion a month later, with a further €52 billion in TLTRO holdings also maturing in December.

According to Carsten Hiller, head of fixed income sales for Continental Europe for derivatives, funding and financing at Eurex, signals from the ECB from the late spring 2022 that it intended to raise interest rates have provided a stimulus to financing activity through Eurex Repo into H2 2022 and into the early weeks of 2023.

"With indication of proposed interest rate hikes, this has prompted a steepening of the yield curve and triggered the first term trading opportunities in GC Pooling for a number of years," says Hiller. After almost a decade of negative interest rates, the ECB policy rate shifted back into positive territory in September, prompting a pick up in trading activity in GC Pooling, particularly for longer-dated trades.

During Q2 and Q3, Hiller notes that for overnight and short-dated transactions, trading activity continued to be dominated by buy-side firms using Eurex Repo as a cash management tool to invest their surplus liquidity. Moving into Q4, however, Hiller notes a stream of banking participants returning to the GC Pooling market — some of which had been absent for some time, given the ready access to funding through central bank liquidity support programmes. "As central bank normalisation measures have begun to take effect, this provided a stimulus for banks to step up their activity not only for specials trading but also for wider financing and liquidity management purposes", says Hiller.

"While in the late spring and early summer 2022, activity was predominantly at the longer end, as we move into 2023 the majority of trading and volumes in GC Pooling has been in short maturities, from overnight up to one week," adds Hiller. "This is a positive sign, with market participants starting to rediscover GC pooling as a liquidity management product."

With these developments, Eurex Repo has seen powerful growth in its cleared repo markets, with total aggregate cleared volume rising 55 per cent year-on-year across all markets. Average daily traded volume for GC and Special Repo has grown approximately 58 per cent YoY.

For GC Pooling, average daily traded volumes have risen 51 per cent YoY, with tighter liquidity conditions in the eurozone motivating banks to re-examine their funding sources and with previously inactive bank participants returning to the GC Pooling marketplace.

Hiller expects this trend to accelerate during 2023. "We anticipate that activity in Eurex's GC Pooling business will increase significantly, given

the reduction in excess liquidity, the potential for further interest rate hikes and the more attractive GC Pooling rates for the market," he says.

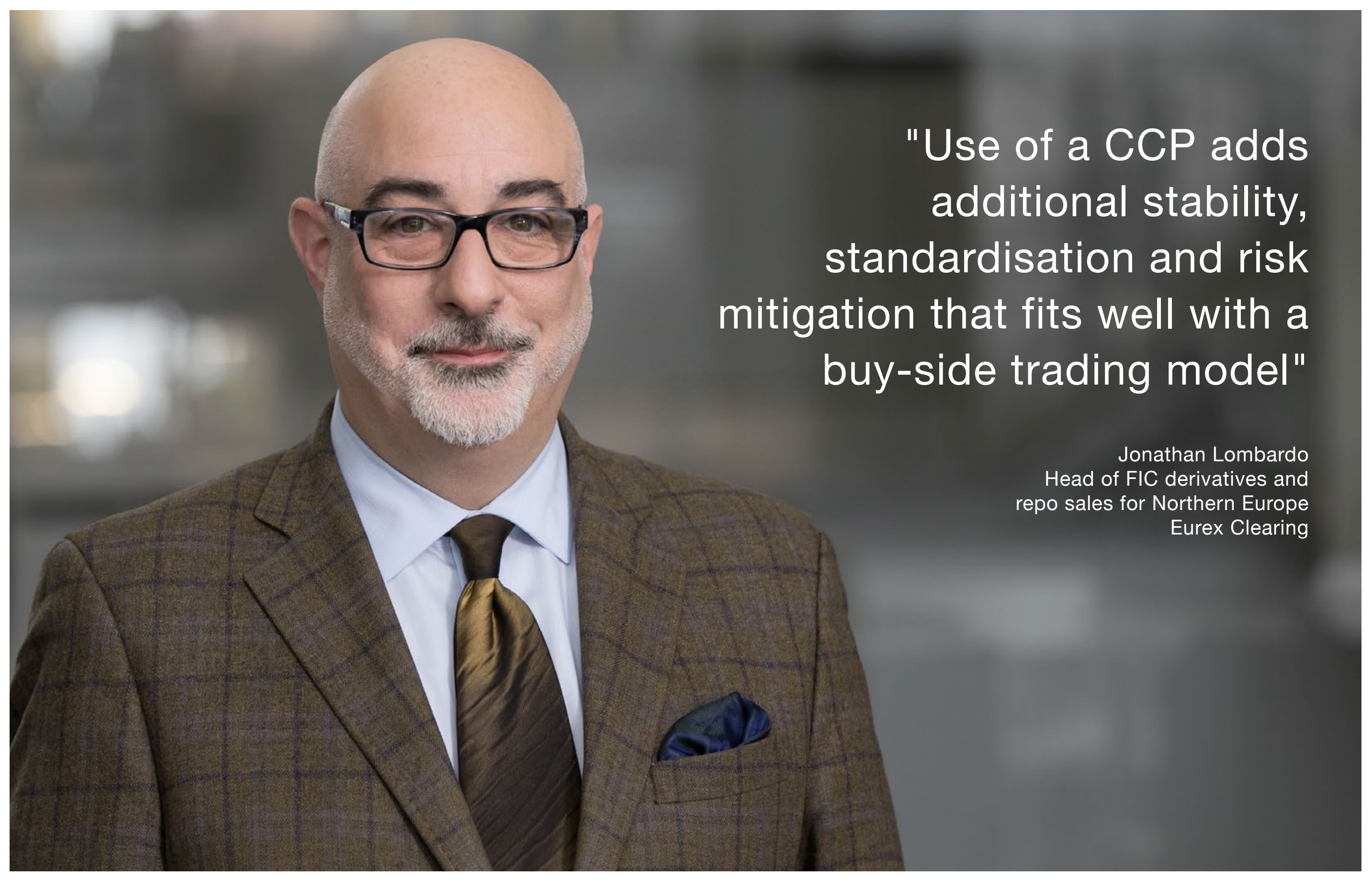
Buy-side access

Foremost in its development priorities, Eurex Repo is focused on attracting more buy-side customers into cleared repo, building GC Pooling volumes, and in improving market share in the B2B special and GC repo segments.

According to Jonathan Lombardo, Eurex Clearing's head of FIC derivatives and repo sales for Northern Europe, this ambition to bring more buy-side firms into centrally cleared repo is part of Eurex's broader strategy to promote buy-side clearing access for a wider range of instruments, including exchange-traded and OTC derivatives. "This sits at the heart of our focus for 2023 and into 2024," he says. "Use of a CCP adds additional stability, standardisation and risk mitigation that fits well with a buy-side trading model. Beneficial owners are looking for direct access that allows them to have greater control over their clearing activity, to manage their risk in a centrally cleared environment and to have alternative options outside of traditional sponsored products. Eurex's business continues to grow among asset managers, pensions and insurance funds that seek this additional choice and control."

Through ISA Direct and ISA Direct Indemnified, Eurex Clearing aims to combine the benefits of direct clearing access for buy-side firms with the advantages of traditional sponsored access via a clearing member. This establishes a principal-client relationship between the buy-side firm and the CCP, but with a clearing agent performing additional service functions to enhance the clearing solution.

"From a beneficial owner standpoint, the ISA Direct model is now well established and we have several large institutional investors on board, including sizeable Dutch and German pension funds," says Lombardo. "Our reach has also extended geographically to some large Nordic asset owners." In many cases, these clients have been trading actively



as cash investors to meet their liquidity management requirements. “But as interest rates rise and excess liquidity gradually declines, we expect more activity from this community — for example, also through long interest rate swap positions,” he says.

In turn, this activity has set the stage for the advance of Eurex Repo’s ISA Direct Indemnified, a solution targeted principally at hedge funds, which was technically launched in June 2022 and is now building activity from early adopter clients.

From the perspective of buy-side and banking customers, the ISA Direct Indemnified product has an important role in incubating new trading relationships, says Lombardo. As noted, this provides direct access for buy-side clients to cleared repo. For bank counterparties, this solution provides access to cash providers at significant capital saving by trading via a CCP. By enabling this repo trading activity to take place in a centrally cleared environment, this frees up critical balance sheet that the bank can commit to other business activities.

“In doing so, the objective is to extend cleared repo opportunities out to a new market segment,” says Frank Gast, managing director at Eurex Repo and head of Eurex fixed income, funding and financing sales for Europe. “This provides early mover advantage in a European marketplace where more and more clearing houses are likely to be seeking to extend direct clearing access for buy-side customers.”

The creation of the Eurex Clearing’s Partnership Program in 2018 has been important to the incubation of these direct access solutions targeted at the buy-side. The Partnership Program was created for the OTC interest rate derivatives segment in January 2018 and extended to the repo segment later that year, with the objective of improving service choice and efficiency for Special Repo and GC products and to encourage take up in the D2C repo segment. This provided revenue sharing opportunities to the 10 most active programme participants in the Special Repo and GC segments in Eurex Clearing, along with involvement in Eurex Clearing’s and Eurex Repo’s committee structure and governance. This provides a conduit through which repo trading

and clearing customers can make recommendations to the Eurex Clearing and Eurex Repo executive boards through their participation in the Repo Board Advisory Committee.

This involvement from leading sell-side participants has been important in shaping the design of these direct access clearing solutions for buy-side customers, as well as supporting the pilot, testing and release of these solutions as clearing brokers.

Considered together, Gast indicates that this investment in new product solutions is translating into an expanding pipeline of new clients for the repo segment. "Although client expansion for GC Pooling was subdued for a time owing to the ready access to central bank liquidity, Eurex Repo now has a strong pipeline of clients waiting to onboard to the GC Pooling service and to ISA Direct," says Gast. "Significantly, approximately 50 per cent of these prospect clients are buy-side firms."

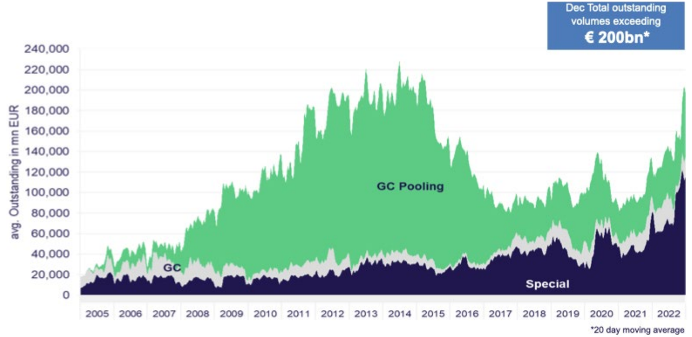
Moreover, while Eurex already has multiple members from the US or Asia connected for derivatives trading and clearing, it has previously only offered repo clearing to European-domiciled entities. This is changing with the launch of the ISA Direct Indemnified clearing model, with Eurex Repo now extending access through this channel for eligible Cayman Island-based entities.

Additionally, Eurex Repo intends to expand membership to US and Canadian-domiciled banks and broker-dealers in 2023, many of which are already active participants in European fixed income futures and options markets. "Direct access to Eurex for repo will enable these entities to manage their European government bond book more efficiently and to source governments deliverable in our suite of government bond futures," says Gast.

GC regeneration

A mark of the regeneration of the GC Pooling market during 2022 is that combined outstanding across Eurex's Specials Repo and GC financing segments currently stands at close to €200 billion, more than 80 per cent of its peak value of €240 billion attained in 2015 (see fig 1). Significantly, in 2015 more than four-fifths of this notional outstanding was represented by GC financing, with less than 20 per cent coming from specials. In 2023, the picture looks very different, with close to two-thirds of this notional outstanding generated from Specials Repo, with the balance coming from GC.

Fig 1: Eurex cleared repo markets continue to grow as Euro excess liquidity contracts and interest rates rise



In recent times, Specials Repo through the Eurex Repo platform has been a major revenue driver, confirms Gast, particularly to support a number of European debt management offices which have supplemented sovereign debt issuance via auctions with financing of government bond issues via Eurex Repo. This includes active financing activities against German government bonds, but also in French and Spanish government bonds for which there has been strong borrower demand.

Additionally, Eurex Repo retains a dominant position in the Supranationals, Sub-sovereigns and Agencies (SSA) segment. "This is a rapidly growing area on our trading platform and a vibrant part of the Next Generation Capital (NGC) markets," says Gast.

However, the aim is not to force central clearing onto all trading scenarios. "We have sometimes been told by market participants that central clearing is not the solution to all their problems," says Gast. "But that is not the objective in creating these clearing solutions."

Rather, he says, central clearing offers a valuable risk management tool, the benefits of multilateral netting and anonymity, and significant improvements in capital efficiency — benefits that clearing customers should be able to access when appropriate. "The benefits of credit risk mitigation, stability and capital efficiency should not be understated, particularly in stress conditions," adds Lombardo. "But we do not advance central clearing as a universal solution for every trading relationship and transaction."

Looking back to 2005 when GC Pooling was first introduced, Gast recalls how it received initial feedback from some organisations indicating they did not have a need for a centrally cleared solution for financing GC baskets. With the arrival of the 2008 financial crisis, however, many recognised its value when financing dried

up through other channels. "In this context, the GC Pooling market was one of the few funding channels to keep functioning, supported by the risk management benefits, standardisation and anonymity afforded by the CCP," says Gast. "For some banks, continued access to this GC Pooling liquidity source was essential to their survival."

ECMS

In early December, the ECB Governing Council took a decision to delay the launch of the Eurosystem Collateral Management System (ECMS), moving the release date back from November 2023 to 8 April 2024. This decision was taken to minimise the impact of a four-month delay in the release of the upgraded TARGET2, the Eurosystem's new real-time gross settlement system, which was moved to 20 October 2022.

Clearstream has been making detailed preparations with clients during 2022 to accommodate the release of ECMS, the Eurosystem's centralised platform for collateral management that will replace the 20 existing collateral management systems run by national central banks to support monetary policy credit operations.

To manage internal preparations with clients, Clearstream completed a large technical migration for GC Pooling at the end of October, migrating more than 140 joint clients of Eurex Repo, Eurex Clearing and Clearstream onto the new account structure and collateral agreements that will support ECMS when it goes live under the revised launch schedule. This new configuration will enable central bank money settlement of GC Pooling collateral baskets via dedicated cash accounts in TARGET2-Securities (T2S), offering real DvP settlement in T2S, rather than conditional DvP previously offered when GC Pooling baskets settled on the T2 platform. Among other benefits, this transition will also support partial settlement, providing a mechanism to boost settlement efficiency and reducing fail rates for collateral settlement via ECMS.

While this complex migration resulted in a slight tail off in GC Pooling volumes in October through to mid-November, Frank Gast explains that this migration and testing programme is now complete for more than 140 clients, confirming their readiness to settle collateral through ECMS when this goes live and their alignment with the new Single Collateral Management Rulebook for Europe (SCORE) that will define the regulatory framework for ECMS operations.

Sustainable finance

In parallel with the strategic priorities highlighted in this article, Deutsche Börse Group continues to work with HQLA^{X} — as major shareholder and Trusted Third Party (TTP) — to support efficient collateral transformation trading, through which collateral can be exchanged on a delivery-versus-delivery basis through tokenised transfer of ownership, without the need to move the underlying securities between the counterparties' custodian accounts.

More broadly, Eurex is confident that GC Pooling will play a vital role in banks' financing strategies with the pick up in term repo volumes and short-term financing activity observed in late 2022 and into 2023 and beyond. With the ECB tightening scrutiny of banks' financing sources — its concerns about banks' heavy reliance on TLTRO III funding were foremost in its Supervision Priorities for 2023-25 — it is likely to monitor bank TLTRO exit strategies closely to ensure that banks are able to diversify their funding structures and develop credible multi-year funding plans. "We believe that cleared repo offers unparalleled advantages for balance sheet management through multilateral netting, which can be maximised with client adoption of direct access repo clearing models," says Hiller.

More broadly, there is potential for strong growth in repo transactions which are related to sustainable finance. The green transition to a carbon-neutral world is likely to require large amounts of funding, as confirmed recently by the Climate Bonds Initiative which proposes that annual issuance of close to US$5 trillion in green bonds will be required by 2025 to support this green transition.

To complement this, central banks are expected to adapt their collateral frameworks to require ESG-compliant collateral in credit operations. The ECB is likely to limit the share of pledged assets issued by entities with a high carbon footprint and may impose special conditions on central bank operations, requiring that collateral used to access central bank liquidity must meet required sustainability criteria.

Additionally, under the EU Taxonomy, the introduction of the Green Asset Ratio will require, by 2024 at latest, that banks invest a specified percentage of their assets in green projects and sustainable assets.

"It is in exactly these areas that the repo market can play an active role with regard to sustainable finance and with providing liquidity for primary and secondary markets, as well as supporting diversified access to funding," concludes Gast.

Repo market panel: a return to normalised market-based financing?

Repo market practitioners share their views with SFT on recent trading dynamics in global repo markets, the impact of monetary tightening, automation across the repo lifecycle and new opportunities available through P2P repo

Panellists

Andy Hill
Senior director, deputy head of market practice and regulatory policy, **International Capital Markets Association**

Camille McKelvey
Head of business development STP, **MarketAxess Post-Trade**

Ned Taylor
Global head of repo, SBL & cash prime sales, **HSBC**

Frank Gast
Managing director, Eurex Repo and head of sales for Europe, FIC derivatives and repo sales team, **Eurex**

Frank Odendall
Head of securities financing product and business development, **Eurex Repo**

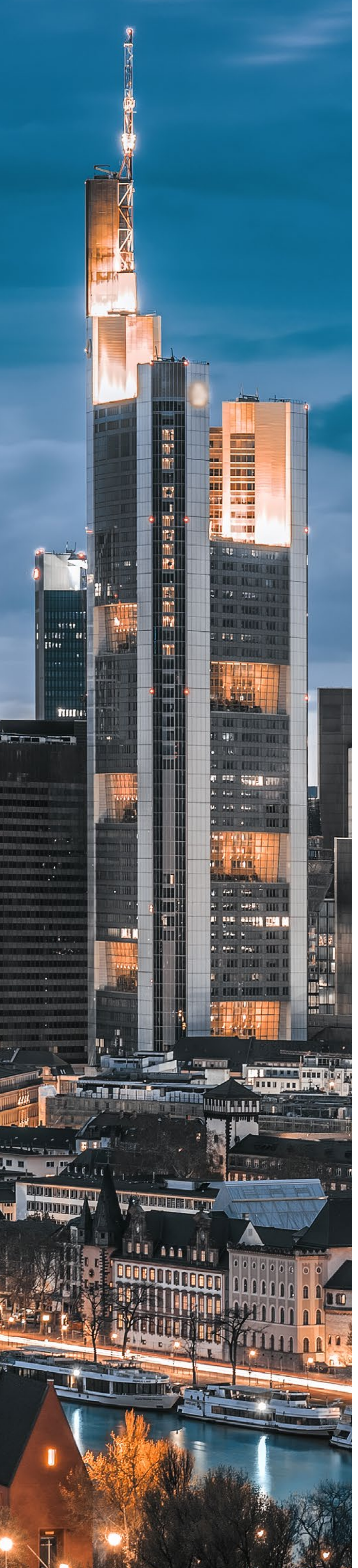
Madina Jastromb
Head of platform, financing solutions, **State Street Global Markets**

How do you assess the performance of global repo markets over the past 12 months?

Andy Hill: From a European perspective, the prominent theme coming out of the semi-annual European Repo and Collateral Council (ERCC) repo market surveys is one of market growth. In June 2022, we measured the outstanding size of the European repo market to be €9,680 billion, which is a year-on-year increase of 10.9 per cent. Perhaps the most notable trend, however, has been the uptake of e-trading. According to our survey, trading on automatic trading systems increased by 18.8 per cent year-on-year, with the number of transactions on venue surging by 38.5 per cent in the first half of 2022 — which seems to be mostly driven by an increase in dealer-to-client (D2C) trading. This is something we expect to continue.

Camille McKelvey: We have seen an increase in average daily volume (ADV) on the MarketAxess Repo platform and, as of November 2022, we see around US$137 billion daily in matched trades. The activity that we see is largely bilateral and this is growing as we see more and more clients looking for ways to automate their post-trade processing via our platform.

BUS STOP



Ned Taylor: Global repo markets were volatile during 2022, given the backdrop of the liability driven investment (LDI) market, tightening of financing conditions for the commercial real estate sector, and the strengthening of the sanctions regime as a result of the war in Ukraine. There were also significant central bank rate increases for the first time in over a decade to counter inflation. Repo markets, however, remained robust but challenging.

Market participants are, therefore, focused on risk appetite — assessing risk and managing that risk — as well as market liquidity. They are also focusing on operational considerations and market architecture.

Madina Jastromb: The unprecedented series of rate hikes by the Federal Reserve, starting in March of last year, has had a profound effect on the repo markets. Investors poured cash into the short end of the curve, largely into facilities such as the Fed's Reverse Repurchase (RRP) facility, driven by the hawkish outlook of central banks. We saw significant growth in client volumes in 2022. Towards the end of the year, and into early 2023, we started seeing clients put on some longer term trades in anticipation of a slower pace of rate hikes and improved certainty in the rate outlook. We expect that higher interest rates and the shrinking of the central bank's balance sheet will continue to drive activity in the repo space with healthy client financing and cash investment demand.

Frank Gast: In Europe, German government bonds (bunds) are a benchmark for borrowing costs across the Eurozone, and trading in German government bonds dominated repo market volumes in 2022. Owing to tight conditions in European government bond markets, which were structurally favourable for Eurex, and client positioning in response to ECB monetary policy, trading was exacerbated by volatility following the ECB's decision to cease net asset purchases under the Asset Purchase Program (APP), which served as a safety net for price stability. The collateral shortage in high-grade assets, especially bunds, drove up volumes in specialised transactions and put pressure on repo levels.

Particularly from the second half of August, interest rate volatility and concerns about collateral shortages led to significant activity in Eurex' CCP-cleared repo markets.

In October 2022, the German Finance Agency announced that it would buy 18 bonds for its own account, purchasing €3 billion in amount in each case. This was intended to counter the excess demand on the repo markets for Federal securities and ease the pressure at the end of the year. Back in March 2022, the German Finance Agency had also tapped a bond to relieve a shortage when the impact of the war in Ukraine began to affect the repo market. Overall, the average daily volume traded in the bund Special Repo more than doubled compared with 2021.

With the ECB's change in rhetoric in the spring of 2022 hinting at a change in monetary policy, and the first rate hikes in the summer, the yield curve steepened and provided the first short-term trading opportunities in GC Pooling in many years. Following the initial rate hike in July, an increasing number of participants re-discovered GC Pooling as a liquidity management product, not only in forward but also in short-term trades.

A comprehensive revision of the ECB's Targeted

Longer-Term Refinancing Operations (TLTROs) in October 2022 resulted in repayments of around €300 billion in November and around €450 billion in December 2022, which reduced excess liquidity. We expect activity in Eurex's GC pooling business to increase significantly due to reduced excess liquidity, further interest rate increases and more attractive GC pooling rates for the market. As a result, we have already seen strong growth in our clearing repo markets, with an increase in maturity-adjusted volume (TAV) of approximately 55 per cent compared to 2021 across all markets. Average daily trading volumes for GC and Special Repo increased approximately 58 per cent year-over-year. The interest rate tightening cycle, which began in July 2022 and continued aggressively, resulted in greater trading opportunities.

In GC Pooling, average daily trading volumes increased by 51 per cent year-on-year. Tightening liquidity conditions in the Eurozone are causing banks to re-evaluate their sources of liquidity, and formerly inactive participants are returning to the GC Pooling market. The features of the Eurex Repo GC Pooling markets provide banks with unmatched efficiency in managing scarce financial resources compared to non-CCP cleared bilateral and triparty repo markets. Multilateral netting and preferential risk weights for qualified central counterparties (QCCPs) provide capital management benefits across all key areas.

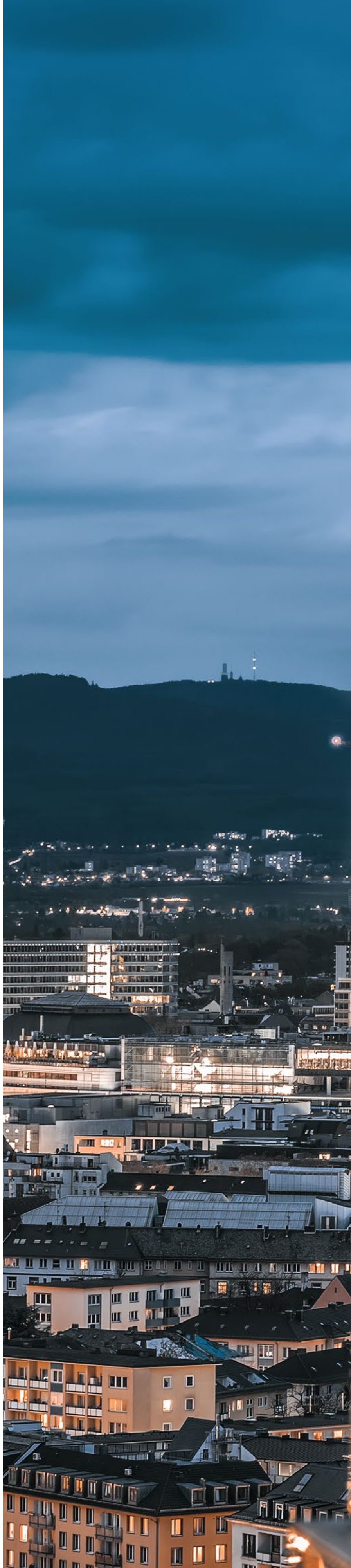
GC pooling markets continue to be impacted by high levels of excess liquidity in the Eurozone, although a turnaround is imminent given the ECB's recent actions on bank borrowing under the TLTRO programme, one of the main drivers of excess liquidity.

We are now in a period of "normalisation" according to leading central bankers, transitioning from low inflation, low interest rates and abundant liquidity to a phase of rising inflation, monetary tightening and indication that G7 central banks will accelerate the unwind of their asset purchase programmes. How is this impacting repo markets?

Frank Odendall: Our strategic focus in 2023 rests on three pillars. We want to attract more buy-side customers for our centrally cleared repo markets, increase our market share in the dealer-to-dealer (D2D) Special and GC Repo segment, and support the recovery of the GC Pooling business. We are optimistic and expect not only further growth in the dealer-to-client (D2C) segment from real money clients, but we will also expand our offering to hedge funds, among others. In the D2D Special and GC Repo segment, we expect increasing volumes, for example through new balance sheet netting opportunities between the GC Pooling Triparty Settling Repo product and specials.

We are also already seeing signs of a rebound in GC Pooling volumes, given the ECB's actions to encourage redemptions under the TLTROs and the increasing funding needs of European banks. This presents a unique opportunity to position Eurex Repo as the preferred marketplace for euro funding liquidity.

ISA Direct Indemnified has expanded our ability to serve a broader range of market participants, including hedge funds. End users and their counterparties, the dealer banks, can now benefit to a greater extent from the capital and



risk management advantages of having direct access to CCP-cleared repos.

McKelvey: As seen in the latest European repo market survey, the market continues to grow and now sits at nearly €10 trillion in outstanding positions. For many decades, the repo market has played a critical role in financial markets; a well-functioning repo market is necessary to have a well-functioning bond market. As we have seen from the recent issues in the gilt repo market, it is key to have scalable, automated processes in place to cope with a sharp increase in activity. Increasing numbers of clients are using our platform to help them to scale their repo business and cope with these kinds of market disruptions.

Jastromb: Return to "normal" interest rate levels promoted higher volumes in traditional repo markets. However, in the US the Fed RRP facility continues to absorb massive amounts of liquidity. We expect all of 2023, and some of 2024, to realise the full effect of quantitative tightening.

We have continued to expand our repo offering to clients with additional permissible collateral types, tenors, and mechanisms (e.g. sponsored and peer-to-peer constructs) and anticipate supporting more asset classes and clients in the future by creating tools that will facilitate access to a broader repo market in a cost effective manner.

Hill: "Normalisation", and even a little bit of volatility, is healthy for the repo market. In Europe we have had several years of steady negative rates, excess liquidity and, more recently, challenges with collateral scarcity – at least for the higher end of higher quality liquid assets (HQLA). A low rate, low volatility environment also makes it difficult for repo market makers to make money as spreads get squeezed and return on balance sheet becomes anaemic, meaning less risk capital is available for supporting client financing needs, not least over reporting dates. While in theory traders should be indifferent, a positive repo curve is often a repo trader's best friend.

Taylor: I think it is still playing out in terms of quantitative tightening (QT) and the return to a more "normalised" market-based financing. The market got used to central banks and their associated functions being major market participants on both sides of the balance sheet — through both selling and buying bonds. There could be a few bumps in the road as excess liquidity is gradually withdrawn and both investors and borrowers reassess their business models.

How far have repo markets advanced in terms of promoting end-to-end STP from trade negotiation and execution downstream across the repo transaction lifecycle? And in improving settlement efficiency?

Jastromb: There have been advances in the adoption of new technologies in repo markets, accelerated by a combination of macroeconomic conditions, business needs, Covid-era demands and an evolving regulatory environment. While we have seen progress towards true STP, there is plenty of room for improvement. We recently introduced the peer-to-peer repo trading platform, Venturi, which empowers clients to negotiate directly with each other in real time without intermediaries. This provides both flexible front-office and streamlined post-trade tools with near real-time status updates, therefore introducing meaningful efficiencies to the repo trading process from initiation to settlement

within a single provider's network.

With regards to identifying points of operational risk and cost, human error and gaps in operational processes, we have worked closely with our clients, traders and operations teams to develop solutions with greater automation and data transparency. The objective is to improve efficiency, provide timely access to information at each point in the trade lifecycle, and to reduce costs for our clients and ourselves.

Venturi supports automated inventory upload, validation and STP to settlement once a transaction is agreed between buy-side clients, matched and guaranteed by State Street. For term trades, clients can monitor margin status in the platform and satisfy a deficit, recall excess, or initiate collateral substitution.

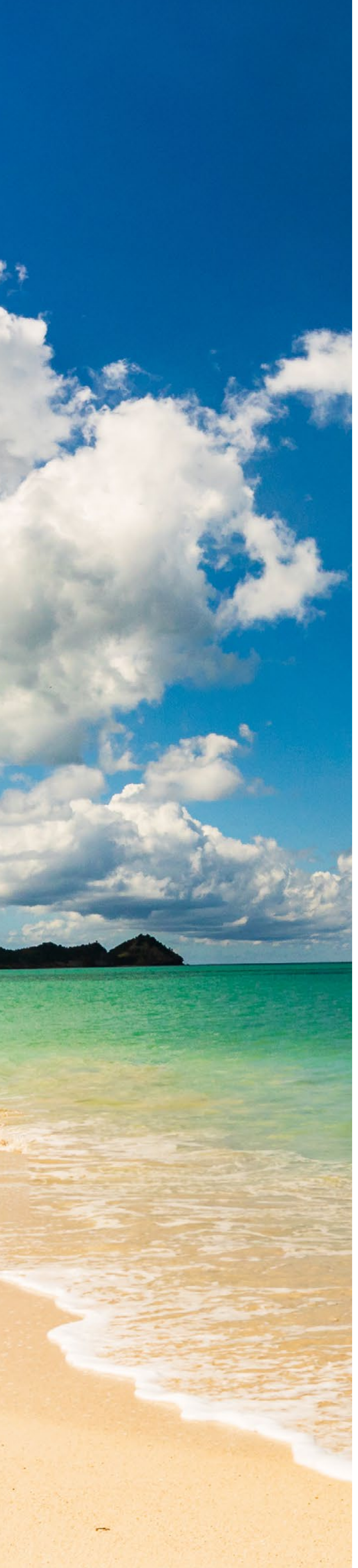
Taylor: There has been a lot of progress and development in the past few years, with new trading platforms and service providers, as well as better end-to-end integration, all playing a part. Much of this is still coming to fruition as market adoption increases and processes bed in and are refined. That said, there is still a lot the industry is doing, especially in terms of settlement and ongoing Central Securities Depositories Regulation (CSDR) considerations.

Hill: Automation and STP has been around in the interbank market for a couple of decades, while the dealer-to-client market has remained very much reliant on voice and messaging. Only now are we beginning to see this segment of the market reap the benefits of automation. More use of STP in the trading process should also help to improve settlement efficiency. However, we can not ignore that the post-trade ecosystem, at least in Europe, is not the most efficient, with multiple national central securities depositories (CSDs) and central counterparties (CCPs) — which is well documented in the work of the Giovannini group.

But the industry, with the market authorities, continues to make large strides in addressing many of these inefficiencies. A good example is the recent publication of Best Practices by the ERCC to improve settlement optimisation, including the increased use of shaping, partialling, and ICSD auto-lending and borrowing programmes, which were also mirrored by ICMA's Secondary Market Practices Committee with respect to outright markets.

McKelvey: Although electronification is common in the inter-dealer space, the same level of adoption has not been seen in the D2C space. However, this is now starting to change. We are now seeing the buy side focusing on electronification of the whole workflow and we have been able to play a critical role in ensuring that there is a smooth transition. Having the ability to confirm all trade details as soon as practically possible after a trade has been executed is extremely important. However, owing to the contractual nature of the product in the repo market, it is also important to remember that the lifecycle, and changes across it, should be closely managed to ensure that the close leg settles on the intended settlement date. Our platform allows firms to track such changes throughout the repo lifecycle and to resolve issues when they occur, rather than when the trade closes — which could be many months or years after the start leg.

Will peer-to-peer repo play a more prominent role in 2023 and into 2024? How attractive is the P2P business



model in enabling buy-side firms to negotiate and trade repo directly with non-dealer counterparties?

Odendall: Peer-to-peer is not expected to become widely established as a standalone solution, given the counterparty risk, legal complexity, and associated costs. If credit mitigation is added, where one party benefits from compensation, some use cases could be envisioned – such as an asset manager managing unrated leveraged funds that could face a highly regulated money market or pension fund.

However, this is unlikely to significantly affect the banking channel, as in the past only banks could provide funds in a timely and efficient manner in a crisis scenario. Companies on the buy side will generally withdraw from the markets in a crisis to protect their liquidity positions.

Hill: Peer-to-peer solutions have long been heralded as a potential solution to buy-side access issues, much in the same way as "all-to-all" protocols in the underlying market. However, this is far more complex in the case of repo, given the necessary legal documentation and credit risk considerations, meaning the market lends itself naturally to a bank-centric "hub and spoke model". But initiatives such as 'sponsored repo' are potentially quite exciting and it will be interesting to see how quickly they gain traction. In the meantime, we expect the uptake of sponsored clearing to gather momentum.

Taylor: A number of alternatives to traditional bilateral buy-side dealer flows are likely to flourish and complement the traditional flows, although market participants would want to be fully apprised of any associated risks and implications. Some of the market challenges and volatility during 2022 brought this sharply into focus.

Jastromb: We see growing interest and demand for peer-to-peer relationships and expect trading volumes to grow materially in 2023 and beyond. State Street introduced a bilateral peer-to-peer programme a little over a year ago. At the end of 2022, we introduced Venturi, a breakthrough electronic peer-to-peer negotiation platform with fully-integrated triparty collateral management.

The peer-to-peer model is very attractive to the buy-side community for multiple reasons. This includes a standardised legal framework, which allows investors to transact with buy-side counterparties under a programme master repurchase agreement. It offers the opportunity for participants to negotiate directly with each other on the platform, reducing the constraints provided by banks' balance sheets and diversification of counterparties, providing more financing opportunities. This also offers potential for improved economics, through lower financing costs or higher yield, given the reduced cost of balance sheet provisioning.

From our perspective, this is a valuable addition to our sponsored repo model which is still very much in demand. A peer-to-peer construct provides our clients, and our firm, with more room to facilitate and grow financing opportunities that do not rely on the bank's balance sheet, thereby enhancing our offering to clients.

Where will you target technology investment during 2023 to deliver maximum efficiency across the repo trade lifecycle?

McKelvey: We spend a lot of time gathering

feedback from our clients as to how we could improve the platform for their benefit. From this dialogue, we have been working on a solution to the manual pair-off workflow that is so common across the dealer and client community. We will also monitor regulatory developments such as CSDR and T+1 in the US markets to ensure that our platform evolves with the changing regulatory landscape.

Jastromb: In 2023, our emphasis will be on expanding our peer-to-peer platform to serve a wider range of trade structures, as well as providing clients with new sophisticated decision-making tools prior to trade entry. We aim to introduce portfolio optimisation and margin analytics modules in Venturi later this year to help clients allocate their inventory more efficiently. Our longer term vision is to streamline the process from pre-trade to settlement with minimal need for manual intervention — the optimised collateral basket is created automatically based on a client's input and forwarded to the peer-to-peer marketplace. In addition, we will continue to refine our platform negotiation functionality, to expand the types of repo trades available on the platform, and to continue streamlining post-trade processes.

Gast: Following the migration of the GC Pooling product from TARGET 2 to T2S and from conditional to true DvP, as well as the replacement of the repo clearing system in 2022, Eurex will focus on improving its repo margin methodology. The aim is to enable our members to cross-margin between Eurex-cleared repo transactions, fixed-income and money market futures as well as OTC interest rate swaps (IRS).

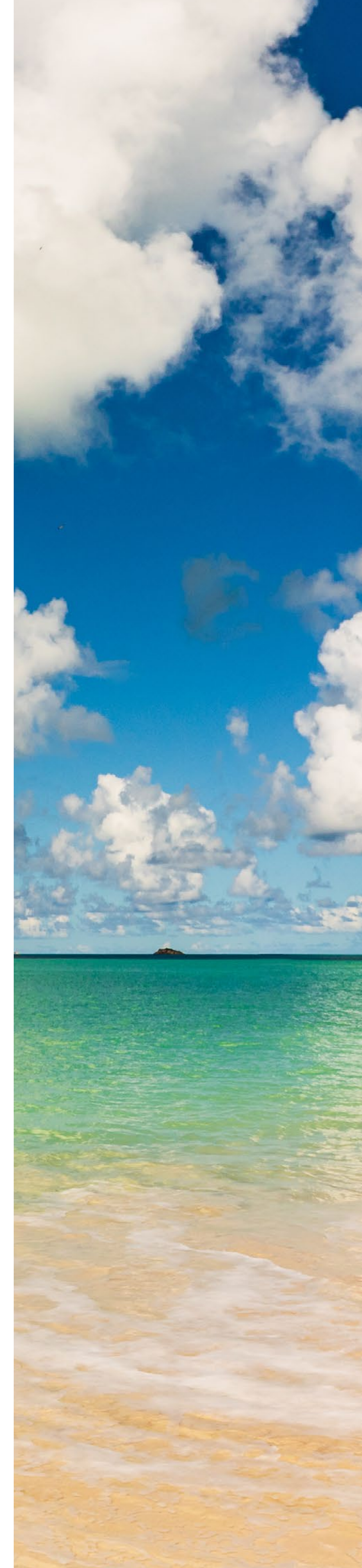
Taylor: It will be where we are able to consolidate our trading infrastructure to drive efficiencies and optimisation for client trades, using more automation and electronification of trading flows.

Where do you identify opportunities for expanding repo market trading into new locations?

Taylor: We continue to focus on new market access globally and building out our repo trading capabilities in both the MENA and ASEAN regions, where we see growing local demand as well as appetite for access to these markets from global participants.

Odendall: While we have already connected several members from the US and Asia to Eurex for derivatives trading and clearing, Eurex previously only offered repo clearing to companies based in Europe. With the launch of the ISA Direct Indemnified clearing model in July 2022, we have already opened access to our repo markets to Cayman-based companies. We intend to expand membership in 2023 to banks and broker-dealers based in the US and Canada, many of which are already active participants in the European fixed-income futures and options markets.

Jastromb: We see repo market growth opportunities present across multiple regions and we intend to expand our peer repo product offering to include use of a programme Global Master Repurchase Agreement (GMRA), in addition to our programme MRA, in 2023. We are cognisant of varying settlement preferences across regions and are assessing client preferences for bilateral and triparty models. Our aim is to offer products and solutions that accommodate regional preferences and address clients' priorities, costs and local regulatory requirements.



Which regulatory drivers will have the greatest impact for repo market practitioners during 2023?

Hill: There are so many, where do you start! It is often the cumulative or intersecting impacts of regulation that drive market behaviour and shape market structure. Perhaps one to watch is the increased risk weighting under the Capital Requirements Regulation (CRR3) for the uncollateralised portion of securities financing transactions (SFTs) with non-banks under the Standardised Approach. This will make the cost of trading repo with asset managers and other clients relatively more expensive, particularly for sovereign bond repo. Another potential doozy is the European Banking Authority's (EBA's) recent clarification that open reverse-SFTs cannot be recorded as inflows under the Liquidity Coverage Ratio (LCR). This could lead to a seismic switch in the EU from using open-SFTs to rolling short-term SFTs, which will only result in increasing operational costs and risks while doing nothing to the overall LCR calculation.

Gast: The ECB has published its supervisory priorities for the period 2023-2025, and its top priority is to address the risks arising from banks' high reliance on TLTRO III funding. The ECB is expected to closely examine TLTRO exit strategies to ensure banks diversify their funding structure and develop credible multi-year funding plans that address the challenges posed by changing funding conditions.

Our GC pooling funding market can play an important role in banks' funding plans, with stable term repo volumes and new Net Stable Funding Ratio (NSFR) conditions.

Although this is nothing new, the regulatory leverage ratio and the treatment of repo transactions on the balance sheets of global systemically important banks (G-SIBs) continue to pose the greatest challenge for market makers when it comes to offering repo liquidity to their clients. Bank balance sheets will continue to come under pressure as clients seek repo funding solutions when the pension fund exemption from the clearing mandate expires and phases 5 and 6 of the Uncleared Margin Rules (UMR) take effect.

In this context, clearing repo transactions through multilateral netting offers unparalleled balance sheet management benefits, which can be maximised through the introduction of direct access repo clearing models by customers.

The EBA's response to the question of the treatment of open repurchase agreements under the LCR regulation is a major blow to banks, which will now have to look for alternatives or re-document their trading conditions. The decision underscores the importance of fully reviewing and challenging regulation during the consultation period, rather than relying on an assumption that regulation is consistent with general market practice.

Another regulation that generated a lot of discussion in 2023 was the Large Exposure Regulation, which requires that for loans secured by collateral (e.g. repo transactions), the bank must report the secured portion as a loan to the issuer of the collateral. This obliges banks to continuously measure their exposure to certain collateral issuers and assess whether regulatory limits are exceeded, which is very resource intensive for banks.

The use of cleared repo products such as GC Pooling allows banks to conduct their collateralised funding operations without ever violating regulatory large exposure limits.

Jastromb: Regulators are increasingly interested in the repo market and its participants following the September 2019 funding crunch, as well as money market fund (MMF) liquidity challenges in March 2020. Recent proposals include the SEC's central clearing requirement for US Treasury cash and repo markets, proposed amendments to Regulation Alternative Trading Systems (Reg ATS), and the recently proposed rule by the Office of Financial Research to collect daily transaction-level data on non-centrally cleared bilateral repo trades.

Since the Securities Financing Transactions Regulation (SFTR) implementation phase, regulator focus has shifted to the accuracy of data reporting, which requires further resources and attention from repo market participants.

Compliance with these proposals, if they are adopted, and continuing compliance with existing regulation, bears certain costs (for example, in terms of spread and cost of capital). At the same time, such regulation may provide greater transparency and market liquidity. At this juncture, regulators and market participants continue to seek the right balance between resiliency, transparency and market costs.

ICMA has canvassed the industry on three potential areas of intersection between the repo market and sustainable finance objectives: repo with green and sustainable collateral; repo with green and sustainable cash proceeds; and repo between green and sustainable counterparties. What role will sustainability criteria play in the future of repo trading?

Jastromb: The repo market facilitates the movement of cash and securities in support of market liquidity. ICMA's effort has been critical in helping to establish a framework for a sustainable financing marketplace. Today, repo with green and sustainable collateral seems to be the most common structure as collateral can be identified and tagged. However, there are many views on 'sustainability', with measures developed internally or with data providers. Consideration for counterparty and reuse of proceeds creates complexities such as identifying and maintaining the appropriate metrics, oversight and governance.

Sustainability criteria is not one-size fits all, but it is important to define and iterate agreed standards to develop a consistent framework for measurement. As sustainable markets evolve and volumes increase, incorporating key performance indicators (KPIs) — such as ESG ratings and third-party review to encourage provision of sustainable collateral and cash in a repo transaction — will be increasingly important.

Odendall: Currently, the relative share of CCP-eligible "sustainable" collateral is still quite small, representing only about 3 per cent of the total eligible ISINs in the Eurex Repo market, including GC and Special Repo. Typical buyers, for example of green bonds, are buy-and-hold investors with no imminent need to mobilise these assets. In addition, demand for special green collateral is subdued owing to its low regulatory utility and limited use in, for example, special central bank operations.

Based on the ICMA's findings and conclusions on green collateral, the main role of triparty agents, CCPs, and trading platforms is to contribute to the development of an efficient and transparent market for sustainable finance by supporting the financing and liquidity of sustainable assets.

As for the outlook, I expect to see a sharp increase in repo transactions related to sustainable finance. The green transition to a carbon-neutral world will require huge amounts of finance. The Climate Bonds Initiative has just adjusted its future target for green bond issuance, indicating that we will need US$5 trillion worth of annual green bond issuance globally by 2025.

Second, the introduction of the Green Asset Ratio requires banks to invest a certain percentage of their assets in green projects and green assets.

And as a third driver of growth, central banks are adjusting their collateral frameworks. For example, the ECB will limit the share of pledged assets issued by companies with a high carbon footprint. As a next step, I expect central banks to offer special terms for central bank operations with green or ESG collateral.

These factors will increase banks' funding and refinancing needs and therefore provides opportunities for the repo market to play an active role.

Taylor: It is important for the development of the sustainability-linked repo market to have clarity and a consistent terminology for a rapidly evolving marketplace. The ICMA has played a key role in driving this forward.

Over several years, repo markets have been impacted by concerns over collateral shortages and reduced capacity for intermediation in the run-up to the year-end. What trends have you noted in terms of year-end positioning and the functioning of repo markets over the 2022-3 year end?

Hill: Year-end repo market pricing and liquidity are generally a focus of market attention, with the euro market proving itself particularly vulnerable to significant dislocations in recent years – and documented in the ERCC's annual analysis since 2016. The 2022 euro "turn" was being discussed as early as the summer, with underlying concerns related to excess liquidity in the banking system, scarcity in some collateral (notably German government bonds), seasonal curbs on repo market-making capacity (mainly due to regulatory reporting requirements) and, a new twist, the ECB moving interest rates higher, taking its deposit rate above zero per cent — which is also the cap for certain reserves held at the central bank.

By late September, the implied repo rate for German collateral over the three-day turn was somewhere between €STR-800bps and €STR-1,000bps, prompting many stakeholders to raise concerns publicly as well as with the ECB.

However, pricing over year-end improved significantly in the weeks leading up to the date. For example, German collateral averaged around €STR-350bps in the spot-next market on 28 December. There are several potential factors that helped to contain the extent of the year-end repo market price dislocation. These include the October announcement of the Deutsche Finanzagentur that

it would make an additional €54 billion of German government bonds available on repo across 18 ISINs, the increase in the ECB's borrowing facility against cash from €150 billion to €250 billion, and the large repayment of the TLTRO on 21 December which totalled €447.5bn.

In the case of the TLTRO, this did not in itself put much government bond collateral back into the market, but it has helped to reduce the amount of excess liquidity by close to £1 trillion since September. The fact that positioning for year-end began as early as August also needs to be recognised.

Taylor: On this point, we observed earlier "terming up", or closing out of positions by borrowers, and market illiquidity at certain points in 2022 compared to previous years. This was accompanied by more netted transactions, reflecting what has been a shortage of collateral supply in the market, leading to less use of leverage. The ability to provide access to bond collateral will therefore be a key differentiator, one that links to our Prime platform aspiration.

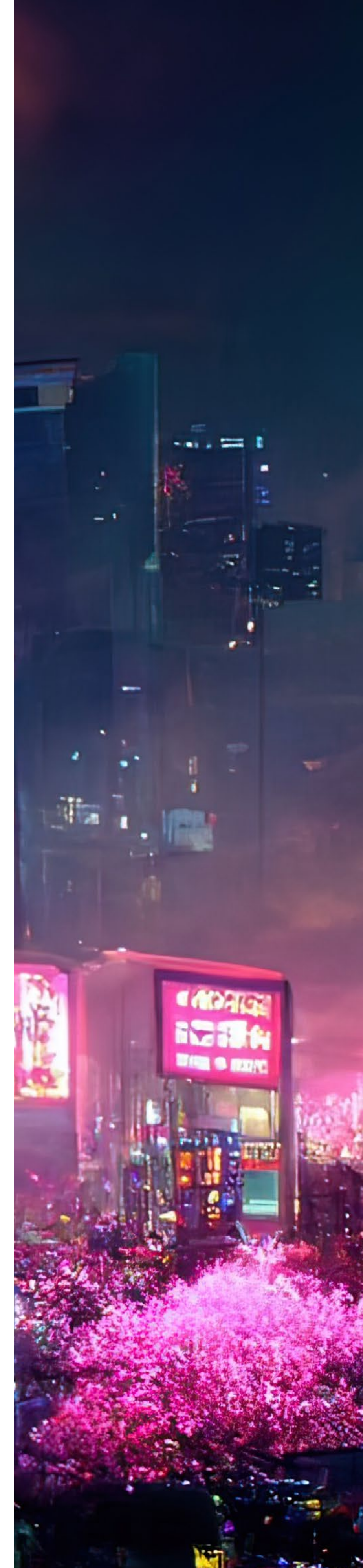
Jastromb: The past few year-ends have been relatively quiet, with ample cash available to provide financing. In previous years, we would see collateral providers line up for year-end months in advance, but there has been significantly less recent demand. That said, we do see clients interested to finance a broader range of assets more efficiently. Clients are looking to find secured investments that improve upon the Fed's RRP rate.

State Street's FICC Sponsored Member repo programme has been a reliable source of liquidity and financing for our clients and we expect this to remain the case. To date, we have shown a steady ability to maintain, and even increase, repo trading over spot dates when dealer balance sheets have shown declines.

Interest from current and prospective clients in our FICC Sponsored DvP, Sponsored GC through our triparty solution, and Peer-to-Peer repo solutions remains robust as cash investment opportunities move back into private markets from central bank facilities.

Gast: From September 2022 onward, there was significant excess demand for high-quality securities until the end of the year. Market participants reported that considerable stress was building up, with German government bonds in particularly high demand at year-end. However, as mentioned above, a number of interventions had a very positive effect, ultimately leading to a relatively favourable year-end performance. We identified three key interventions that helped to ease the initial collateral shortage. First, the German Finance Agency significantly increased its capacity to lend German government bonds. Second, the ECB increased its lending limits. And third, interest rate hikes and TLTRO repayments attracted a number of inactive market participants back to the market and supported the overall availability of collateral.

While we ended 2022 on a positive note, we still face the challenge of significant structural problems." For example, money market funds can only enter into reverse repos with a maximum maturity of seven days, which prevents them from hedging the year-end early. Year-end balance sheet-based bank levies are also forcing banks to reduce capacity.



Thriving in a changing world

Marton Szigeti, head of collateral, lending and liquidity solutions at Clearstream, speaks to Carmella Haswell about preparing for the go-live of ECMS, the launch of OSCAR, and helping clients to optimise collateral in the current macroeconomic environment

You have been heading Clearstream's collateral, lending and liquidity solutions team since last year. What has happened since then?

We recently restructured our collateral, lending and liquidity solutions business in line with our strategy of further strengthening our comprehensive securities services business. In 2022, we separated the fund services and the securities services businesses into two separate divisions to increase focus on the different market segments and clients. Our collateral, lending and liquidity solutions product universe continues to focus on collateral management, securities lending and client liquidity — with the client always centre-stage.

One of our focus topics for 2023 is expanding our reach on asset class and jurisdictions. Today, Clearstream is regarded rather as a fixed-income house. We are aiming to become a more holistic collateral manager and securities lending agent, also for equities and exchange traded funds (ETFs). On the lending side, asset class expansion will create a deeper liquidity pool for our borrower clients and opportunities for lenders to maximise their assets in Clearstream's central securities depositories (CSD) and international central securities depositories (ICSD).

The use of new technologies is increasing across the financial industry. How is your strategy changing in that regard?

Data and innovation are a strategic priority within our collateral management product suite.

We are now onboarding clients to our AI-based collateral agreement application Own Selection Criteria with Automated Reasoning (OSCAR) that supports the creation of digital collateral baskets. Nowadays, creating collateral baskets is still a very manual and labour-intensive process that can take three to five days. OSCAR reduces this to mere minutes, also enabling the clients to communicate with their counterparties and integrate the baskets directly with their in-house digital solutions.

Additionally, we continue to bring innovative solutions to the market with the help of our partner HQLA^{X}. We are the first tri-party agent connected to the distributed ledger technology-based collateral management platform, supporting the operating model as a trusted third party.

Where do you expect OSCAR to take the firm and its clients?

The way OSCAR works is unique as clients get to interact more effectively with each other and the platform via natural language processing.

To set up a basket, clients will define the chosen trade with the intended counterparty. Through the use of artificial intelligence and the natural language processing capability, both parties can set up a compliant basket, communicate and digitally sign completely via the platform. OSCAR improves workflow efficiency for clients and makes it easier for them to connect with us and each other (see further in SFT Issue 314, 25 October 2022, pp 16-9).

Going forward, we are planning to expand the scope to automate marriage broking and trade suggestion. We are looking to provide a level of artificial intelligence and data mining around this area, so that clients can selectively understand where the demand lies in the markets, what they have to lend and how it matches with others. We will also add new criteria such as ESG scores.

How is Clearstream preparing for the launch of the Eurosystem Collateral Management System (ECMS)?

Liquidity and mobility of collateral certainly is a key priority for Clearstream and the entire market, especially in the preparation for the launch of the Eurosystem Collateral Management System (ECMS) in April 2024.

In 2022, we already reached a milestone in terms of collateral mobility — the harmonisation of Clearstream's Frankfurt and Luxembourg collateral management hubs. We created a single collateral pool where clients can manage their collateral seamlessly across the CSD and the ICSD environments, through a single gateway.

Clearstream is now best positioned for these upcoming challenges. We will be the only Eurozone CSD providing comprehensive triparty collateral management services fully integrated into the ECMS environment and for all Eurozone national central banks. For 2023, the focus of the market will be on extensive development and testing prior to the ECMS go-live.

What impact do you expect ECMS to have on the securities finance industry?

ECMS will unify the management of collateral of national central banks within the Eurozone with the aim to standardise collateral management across the Eurozone, advancing liquidity and automation potential.

We expect the go-live of ECMS and the application of the collateral management harmonisation principles to allow our clients to manage their collateral pools more efficiently. Due to extensive harmonisation efforts, Eurozone banks will have the opportunity to monitor and manage up to 100 per cent of the European Central

Bank (ECB)-eligible collateral in a single place across Clearstream CSDs and ICSD.

Assessing the macroeconomic landscape, how is Clearstream helping clients to optimise the use of their collateral inventory and efficient movement and allocation of collateral?

It is a combination of creating a harmonised collateral pool, as mentioned, and harmonised underlying processes. Going forward, we are looking to help our clients by providing automated solutions and smart data tools so that they can look at their collateral portfolios and better understand their collateral composition and utilisation on a real-time basis.

This is predominantly because of the environment that we live in. Whether in a high inflation and rising interest rate environment or with scarcity of collateral environment, it is paramount to be able to optimise collateral. If you are managing a huge amount of collateral baskets, you may not realise that you are under leveraging the equities that you could have to collateralise certain exposure.

If a firm's collateral schedules are digitised, and the firm wants to update a criterion across all of its collateral schedules to exclude certain items, or to make certain changes, that now takes close to no time because everything is in the same place. That will provide quite a material benefit to the ongoing operations, streamline processes and increase efficiency. It also helps with risk management.

Do you anticipate that concerns around collateral scarcity will persist in 2023?

It is unclear, but what we see coming out of regulators suggests that the collateral scarcity we face now may be somewhat alleviated during 2023. If central banks move from quantitative easing (QE) to quantitative tightening (QT), this should see an injection of high-quality collateral.

What we may face instead of collateral scarcity is collateral fragmentation. It is not yet clear how easy it will be to access this new collateral or if the holders will be willing to lend it. Clearstream is well positioned in that regard with our triparty collateral management platform connecting many lenders and borrowers.

You will be hosting the annual GFF Summit 2023 with the theme "Thriving in a changing world". What can attendees expect?

We are really excited about the Global Funding & Financing (GFF) Summit this year, specifically for two reasons. Number one: it is back to our usual time slot in February, and we really value that the industry regards us as the kick-off to the year in the securities financing space. We have worked extremely hard over the last four or five months since the last summit to get a packed agenda in place.

> *"We will be the only Eurozone CSD providing comprehensive triparty collateral management services fully integrated into the ECMS environment and for all Eurozone national central banks"*

Number two: a major change this year is that we will be combining the central bank and sovereign wealth management forum, which normally happens the day before the summit. On day one, we will have central bankers and sovereign entities in the room with commercial banks and market infrastructure players. We wanted to provide a platform for industry players and policymakers to discuss the challenges that we will face and how to best navigate them.

The current macroenvironment is unprecedented. As an industry, we have not navigated an environment like this under this regulatory framework. There is a lot of uncertainty on the best way forward. It is not going to be a simple matter of rising interest rates and making collateral slightly scarcer, that will not work. There are other underlying issues, the basic supply chains of the world need to be re-engineered to face the changing global environment. This is why the GFF Summit 2023 will focus on the macro environment, with the theme "Thriving in a changing world".

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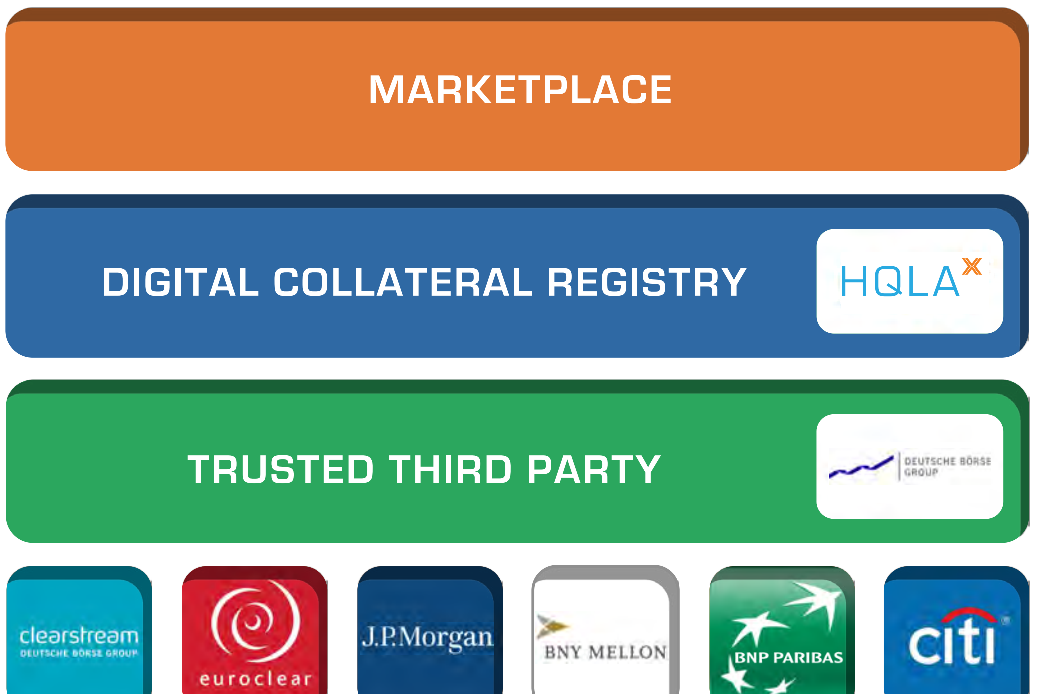

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Securities finance and collateral: Which levers should you pull in 2023?

Continued pressure on margins during 2023 will bring additional scrutiny to the cost of executing business, predicts FIS' David Lewis. For the industry, the question will be when, and how hard, to pull the levers that are in reach to improve efficiency and to reduce cost

There is only so much that you can control in any aspect of your business. As such, correctly identifying which levers can be pulled effectively is key to making the most of the opportunities your market can offer.

It could be argued that the securities finance and collateral market is largely beholden, and therefore reactive, to the forces that affect it, including global economics, politics and regulations. Simply put, interest rate movements, market volatility, and boom and bust cycles all affect the market and can drive demand up or down. To anyone who has spent time on the lender or supply side of the street, it is patently clear that you cannot generate demand to borrow securities. You can only take advantage of that demand by being the most economically attractive lender, which is not always about fee or rebate levels.

Looking back at 2022, at first glance, the headlines were not bad at all. For one thing, global revenues were around 7 per cent higher than those achieved in 2021. However, regional differences, most notably in average fee levels, meant that Asian and European markets declined overall by roughly 2 and 6 per cent respectively. The North American market, aided by its relative size, carried the global market forward, with average fee levels in both the equity and fixed income markets around 10 per cent higher than in 2021.

While headline revenue numbers and year-on-year values may have looked good, with global revenue breaching the $12 billion mark in 2022, perhaps more importantly last year saw a double figure percentage rise in transaction volumes, continuing a trend this column has identified in previous years. The implication is that margins will continue to be under pressure, bringing additional scrutiny to the cost of executing business.

Looking forward, 2023 will be all about efficiency. But what does that mean, and which levers should organisations be looking to pull?

Headcount and automation

Headcount is an obvious one, albeit uncomfortable or unpopular. The first quarter of each year is often the time that all types of organisations

look at their human resources and analyse where reductions or relocations might make sense. Several major organisations have already announced plans to cut certain percentages of their staff, and the trend towards moving certain roles from expensive to lower-cost locations is set to continue, or even accelerate.

This particular lever can rarely be pulled in isolation, however. Human resources can only be removed if the tasks they perform are also removed, reassigned — assuming that other resources have the bandwidth — or automated.

Indeed, the automation of tasks, and specifically those that cannot be eliminated completely, is going to be a continuing trend through 2023. As a market largely at the mercy of the forces around it, the securities finance and collateral industry needs to focus further on pre- and post-trade costs of all types and flavours. Pre-trade has enjoyed significant focus over recent years, with advances in market data analytics, including our own FIS Securities Finance Market Data services, which feed intraday insights into automated trading and marking activities.

However, there is more to be done here as the cost of automation can sometimes move in the wrong direction, particularly if a lack of competition hampers progress. Forthcoming developments from FIS will be focusing hard on the concept of the most economic match, which brings together all the aspects of a trade match that impact the return on the activity, including collateral costs, RWA impact and counterparty profiles.

Counterparty profiles and activity history are just one aspect of what constitutes the most economic match. Factors such as settlement rates, contract and billing breaks, and standing settlement instruction (SSI) issues, can all affect the overall cost of a transaction. The world of post-trade is one in which many market participants are expected to focus their efforts and investment in 2023, making this a very important lever that can be pulled.

Digitisation of assets

Technological advancements are not limited to automating pre- and post-trade activity, of course. The very assets that are managed by beneficial owners and their custodians, lent to borrowers, and used as collateral, are also changing.

In particular, the digitisation of assets is rapidly emerging as an area in which efficiency gains can be felt quickly. While adopting distributed ledger technologies remains a conceptual challenge for some, the utilisation of tokenised assets may be an easier development to understand and adopt.

Tokenised securities offer multiple advantages over their simpler electronic record versions, much in the same way that digital records provided a huge leap forward over the paper or physical securities that preceded them. In particular, the ease of instant transfer of asset ownership, backed by the audit trail recording their movements, increases the traceability of assets across transaction and collateral chains, while also improving settlement certainty.

Harnessing tokenised securities

Using tokenised securities not only reduces post-trade costs, it also creates an opportunity to detach the delivery of collateral and borrowing of securities from traditional settlement cycles. The adoption of tokenised securities will enable the intraday delivery and recall of assets, creating the possibility of intraday repo and securities lending transactions. Shortening the length of a securities lending transaction may negatively impact the revenue that an asset can generate.

Lower revenue for lenders and beneficial owners translates into lower costs for the borrowers of the assets, of course. But that does not necessarily mean that the demand to borrow those securities will rise proportionately. In other words, it is more important than ever to focus on the overall cost of undertaking that transaction.

On another note, custodial costs for tokenised assets are predicted to be lower than their electronic record brethren. This may benefit the providers of custodial services that invest in servicing such securities. Indeed, several large custodians are publicly backing the development of tokenised securities across their businesses, and not just securities finance and collateral.

Benefits of this approach include improvements in storage security, corporate actions processing, and asset tracking, thereby leading to a reduction in risks, including fraud. While some resistance remains among investors and regulators, tokenised securities are an inevitable development in the securities finance markets as the industry looks for levers it can pull to increase efficiency and reduce costs.

As 2023 develops, the question is not whether to act, but when, and how hard, to pull the levers that are in reach.

Latest industry moves at FinOptSys, Wematch and Tonic

Capital markets consultancy Tonic has hired Ron Kaim as consultant and business analyst.

Based in London, Kaim brings almost 20 years of experience in securities finance to the role.

He joins the firm from S&P Global, where he was previously senior business analyst for the Securities Financing Transactions Regulation (SFTR) in the securities finance team.

In this role, Kaim managed the connectivity between S&P Global — formerly IHS Markit — and trade repositories following the development of a reporting solution for SFTR.

Prior to this, Kaim held a number of business analyst positions in securities financing at Standard Chartered Bank, State Street, Lloyds Banking Group and ABN AMRO Bank N.V.

Commenting on the appointment, CEO and co-founder of Tonic Chris Watts says: “We are excited to bring Ron into Tonic. He is a genuine industry practitioner with deep transformation and domain expertise, whose experience aligns well with Tonic’s service model.

“Ron’s specialism across repo and securities lending products further enhances Tonic's securities finance expertise pool. This comes at a time when we are seeing high demand for Tonic's securities finance services, such as regulatory compliance transformation, vendor assessments and implementations, target operating model definition and more.”

FinOptSys, a securities finance platform powering peer-to-peer trading, has onboarded David Petrie as advisor and business development partner.

Petrie, managing partner at 4M Group LLC, has become a sales channel partner in the US for FinOptSys.

In this role, Petrie will use his experience in collateral lending, liquidity management and investment portfolio ecosystems to accelerate FinOptSys’ solutions into banks, beneficial owners and buy-side clients.

During his career, Petrie managed and owned

Baudo leaves ING

Multinational banking and financial services corporation ING has confirmed the departure of president and CEO Michael Baudo.

After more than 23 years at the organisation, Baudo has left to pursue opportunities outside of the firm.

Based in New York, Baudo held a number of senior positions during his time at ING, including regional head of financial markets, Americas and global head of securities finance.

Head of trading Americas Katharyn Meyer will oversee financial markets for ING Americas until a successor is found.

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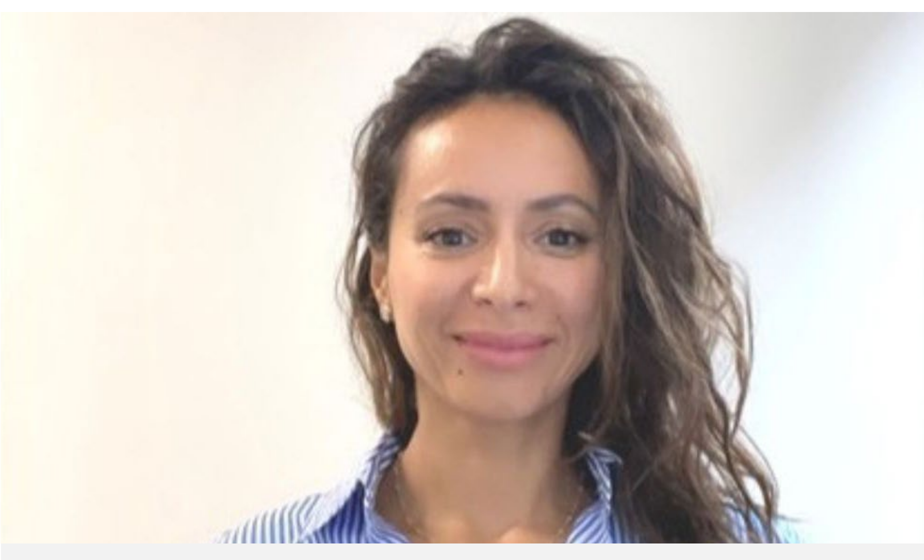
global market risks and earnings across bank investment and liquidity portfolios, asset-liability management (ALM) and global USD repo trading desks, to name a few.

Previously, Petrie held a number of senior positions during his seven-year term at Deutsche Bank — including co-head of ALM, interest rate risk in the banking book (IRRBB) and balance sheet management — and 13-year term at Barclays, where he was formerly director and head of USD global macro portfolio management.

Commenting on the announcement, FinOptSys founder and CEO Divyesh Bhakta says: "Understanding our clients' needs from a market practitioner's standpoint has always been a core value for FinOptSys.

"Partnering with an experienced industry veteran like David is not only a testament to this, but it also aligns with our collective passion for empowering the collateral financing ecosystem of stakeholders to promote the adoption of extraordinary innovation."



S&P Global Market Intelligence Cappitech appoints Navarro

S&P Global Market Intelligence Cappitech, a provider of regulatory reporting and business intelligence solutions, has appointed Isabel Navarro as product manager at associate director level.

Based in London, Navarro will support Cappitech's end-to-end Securities Financing Transactions Regulation (SFTR) reporting solution.

In this role, she will report to Shuwen Lin, product management director at S&P Global Market Intelligence Cappitech.

Navarro joins the firm from a senior consultant position at Broadridge, where she focused on regulatory reporting between 2017 and 2022.

Prior to this, Navarro was client service manager for regulatory reporting at the Depository Trust & Clearing Corporation (DTCC) from 2013 to 2017.

Previously, she has held positions at J.P. Morgan and Nationwide Building Society.

Wematch, a dealing workflow platform for traders, sales and brokers, has appointed Ross Levin to head of securities lending product.

Based in New York, Levin will be responsible for the strategic direction of Wematch's securities lending module.

The module digitalises and automates workflow — including special and general collateral, collateral management and optimisation, and trade lifecycle management.

Wematch's securities lending product is part of a suite of workflow solutions which includes total return swaps, repos and sales to traders.

With more than 20 years of experience in financial services and technology, Levin has held a number of senior positions in the financial industry.

Previously, Levin was managing director and head of product development at US Tiger Securities, and its sister company TradeUP Securities, where he helped to implement US self-clearing capabilities.

Prior to this, Levin was head of technology for Cowen's global clearing and securities finance division, where he built securities finance and self-clearing capabilities.

During his long career in the industry, Levin also held roles at Itau — where he built a prime services business — and at Royal Bank of Scotland — where he headed

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product development for the firm's prime services division.

Commenting on the role, Joseph Seroussi, co-founder and CEO at Wematch, says: "Wematch is on a mission to bring unprecedented efficiency and productivity to dealing workflows while dramatically reducing operational risks. That means hiring the very best technology and product talent available to help ensure our products remain at the leading edge.

"Ross' vast experience in both technology and securities makes him the ideal fit for our securities lending product as we look to target rapid growth in the years ahead. Levin is a strong addition to our team and will help ensure that we are better able to deliver against our clients' requirements."

BrokerTec, a provider of electronic trading platforms and technology services for fixed income markets, has appointed Samantha Hodgson as director of BrokerTec repo product.

Hodgson will focus on BrokerTec Quote for Europe, the Middle East and Africa (EMEA), the product is a dealer-to-client request-for-quote trading solution designed to provide more efficient trading.

Hodgson joins BrokerTec's London office from a sales and relationship management position at LCH, where she held the title from 2020 to 2022.

Prior to this, Hodgson was vice president of UK sales and account management at Tradeweb during her time with the company from 2010 to 2019.

BrokerTec has appointed two additional directors to the firm, including Jamie O'Hara as director of BrokerTec products and Luke Negal as senior director of government bonds.

O'Hara brings 20 years of experience in fixed income trading to the New York-based role, where he will support the dealer-to-client venue, BrokerTec Quote, in the US.

Negal joins the firm's London office having held fixed income trading roles at ING Bank, RBS and Morgan Stanley. He will lead the business for European government bonds and manage the firm's US treasury business in EMEA.

The announcement follows growth across all of BrokerTec's key markets in 2022, according to the firm. BrokerTec's US treasury business saw an increase of 10 per cent year-over-year to an average daily volume of US$126 billion for 2022.

The firm's US repo business was up 19 per cent YoY to US$277 billion and EU repo was up 18 per cent YoY to US$345 billion for 2022.

Commenting on the hires, managing director of BrokerTec John Edwards says: "Jamie, Sammie and Luke bring deep and varied skills and experience from the fixed income markets. They will help drive further client engagement and innovation as we continue to help clients manage risk and trade more efficiently.

"Our core markets in US treasury, EU and US repo trading performed well across 2022 and we are particularly excited about the continued progress we are making in supporting clients with new features and trading modalities, including our dealer-to-client repo venue, BrokerTec Quote, which has seen particularly strong growth in 2022.

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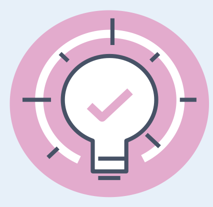

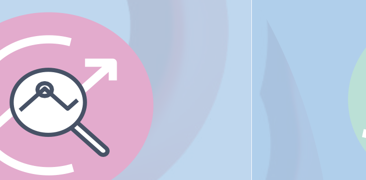

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