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Finding opportunity in chaos

Courtney Campbell leads Digital Prime Technologies' new platform to bridge the gap between markets

India launches consultation on securities lending

The Reserve Bank of India (RBI) has put forward proposals for the extension of securities lending to government securities.

This will allow lending and borrowing in all government securities (G-Secs) issued by the Government of India, the country's central government, with the exception of treasury bills. These government securities lending (GSL) transactions may be for a minimum of one day and a maximum of 90 days.

Market participants that are authorised to engage in repo transactions against government securities, or that are eligible to engage in short-selling in the Indian market, will be permitted to borrow securities through a GSL transaction.

The RBI specifies that all GSL trades will settle through the Clearing Corporation of India or another RBI-approved central counterparty, with the opening leg of the GSL trade settling on T+0 or T+1. The CCP will determine the level of haircut or margin applicable for the GSL trade. Trading counterparties must both report trade details to CCIL — or to any other trade repository that has been approved by the RBI — within 15 minutes of execution, or the trade may be reported by the electronic platform used to execute the trade.

On the basis of this reporting, RBI — and other RBI-approved entities — may publish anonymised data relating to GSL trading in the Indian market.

Trading parties will typically employ a standard bilateral master GSL, as approved by the Fixed Income Money Market and Derivatives Association of India, as contract documentation for the loan transaction.

Reflecting on this development, the RBI explains that "a well-functioning market for securities lending and borrowing will add depth and liquidity to the Government securities market, aiding efficient price discovery."

With this in mind, it plans to introduce lending and borrowing in G-Secs that will complement the current market for 'special repo'.

The proposals, which have been submitted to the market for consultation, refer to loan trades conducted OTC between lender and borrower — or their relevant lending intermediaries — without an obligation to execute the trade via a stock exchange SLB segment.

The RBI indicates that GSL trades may be conducted by any mutually-agreed trading process, including bilateral or multilateral arrangements, quote-driven or order-driven, which may or may not be anonymous.

BNY Mellon expands collateral platform to Malaysia

Malaysia has become a new market for BNY Mellon's International Collateral Management platform.

The expansion aims to unlock Malaysian equities and fixed income instruments for use as eligible collateral under the firm's standard pledge arrangements for English and Belgian law, with the first trade expected to be executed in Q1 2023.

By expanding into Malaysia, BNY Mellon says it will broaden the firm's capacity and builds on recent successes including triparty platform Stock Connect and Bond Connect.

The firm says it is working to enhance its platform and enable clients to use assets across locations and venues, with a key focus on resiliency, digital enablement and market connectivity.

In terms of market connectivity, BNY Mellon plans to assess how it can connect clients to new venues and markets.

In challenging market conditions, clients look to maximise the use of assets on their balance sheet, the firm says.

With growing balances in markets such as Malaysia, there was increased demand for efficient secured financing solutions, according to BNY Mellon.

EquiLend to launch Competitive Bid

EquiLend will welcome hybrid screen and messaging-based Next Generation Trading (NGT) workflow, Competitive Bid, into production.

Expected to launch soon, Competitive Bid combines NGT, post-trade and market-level data into a single location and will aim to promote greater liquidity in the automated trading market of hard-to-borrow securities.

The workflow is designed to provide insight into available inventory, demand, open contracts and market benchmarks to allow traders to make more informed decisions.

According to EquiLend, the new tool will enable traders to view and agree the

core specials they want to trade across multiple counterparts.

This will ensure that users have more control during agreement, while maintaining certain automated processes, the company adds.

Competitive Bid is to be included in the current NGT solution at no extra cost for clients.

Commenting on the announcement, Mike Norwood, director and global trading product owner at EquiLend, says: “Competitive Bid represents a new evolution of NGT by providing clients with the flexibility to choose from a spectrum of automation, ranging from screen-based behaviour (full manual) and full straight-through processing, to a hybrid approach.”

He adds: “The platform will be viewable to users through an interface that represents a first foray for us into leveraging our data and analytics solutions, in concert with our post-trade data, into a single view to improve trading workflows.

“Client reaction has been overwhelmingly positive so far, and I think users will really appreciate the centralisation of distribution and the ability to digitise another segment of the securities lending market."

Swiss National Bank accepts digital native asset as eligible collateral

The Swiss National Bank (SNB) has accepted a digital native asset as eligible collateral for SNB repos for the first time.

The bond was first issued by the city of Lugano in January 2023, with dual listings on SIX Digital Exchange (SDX) Trading AG and SIX Swiss Exchange.

The SDX says that the move represents a major milestone in the adoption of digital bonds and “another world first”.

According to Moody’s Investors Service, the different technology will not add materially higher risks compared to a traditional issuance.

Alexandre Kech, head of digital securities at SDX, says: “We are pleased that the SNB has included the Lugano digital bond in the SNB General Collateral Basket.

“I see this as an important signal to market participants that digital bonds have not only arrived in the domestic CHF bond market, but

have established themselves as an integral part of the capital market value chain in Switzerland."

Clearstream GSF volume outstanding dips to €542 billion for January

Clearstream's global securities finance business for January was slightly down on January 2021 in terms of volume outstanding, contracting two per cent year-on-year to €542.4 billion.

However, assets under custody in Clearstream were slightly up year-on-year, rising one per cent to €17,002 billion.

The company's Luxembourg-based ICSD business also grew relative to 12 months previously, with transaction volume processed rising eight per cent YoY for January 2023 to 6.4 million and securities held on deposit climbing five per cent to €7,973 billion.

January was less fruitful for the CSD business — embracing Clearstream Banking Frankfurt and Clearstream Banking Luxembourg CSD activities — with aggregate transaction volumes down 11 per cent to 14.5 million YoY and securities on deposit shrinking slightly to €5,839 billion, one per cent down on January 2022.

The Investment Fund Services business has contributed strongly to Clearstream's revenue stream in recent times, but experienced a seven per cent contraction YoY for January in securities held on deposit to €3,189 billion. Transaction flow processed through this collective investments and ETF division was down 13 per cent YoY for January to 3.7 million.

DSB to release its UPI testing framework

The Derivatives Service Bureau (DSB) has confirmed a release date for its UPI service to support the mandatory inclusion of a Unique Product Identifier for swap transaction reporting in the US.

The DSB, which brands itself as the golden source of reference data globally for OTC derivatives, will be making its Unique Product Identifier (UPI) user acceptance testing (UAT) framework available to users from 17 April 2023.

The DSB's UPI Production environment will be extended to users from 16 October 2023, providing a three-month window to ensure readiness prior to this UPI change being enforced.

The DSB will also release its Client Onboarding and Support Platform (COSP) with the release of the UPI service. This is a self-service online platform designed to help users to onboard to the UPI service and to manage UPI user access and connectivity.

Last week, the Commodity Futures Trading Commission (CFTC) released an order mandating that a UPI and product classification system must be employed in swaps trade reporting and record keeping in the US from 29 January 2024.

This will be applicable, in the first instance, for interest rate, credit, equity and forex swap trade reporting.

The CFTC hopes that the use of UPIs will increase transparency in the swaps market, facilitating real-time public reporting of swap transaction and pricing data and helping the Commission to provide effective oversight of this derivatives marketplace.

According to CFTC director of the Division of Market Oversight Vince McGonagle: "The order represents another important milestone in the Commission's long running efforts to harmonise and standardise the swaps data elements required to be reported under the Commission's regulations with those required to be reported by authorities in other jurisdictions."

The Financial Stability Board has marked the DSB as the single UPI Service Provider responsible for generation and distribution of UPIs.

UPI is designed to facilitate effective aggregation of OTC derivatives trade reports on a global basis. The UPI will work in conjunction with Unique Transaction Identifiers (UTIs) and Critical Data Elements (CDE) as key transaction data that swaps trading entities must report to a trade repository.

This forms part of G20 commitments, representing a package of reforms to OTC derivatives markets implemented after 2008. The requirement to include the UPI in swap data reporting and derivatives recordkeeping has been enforced in the EU, the US and Australia, with other markets likely to be added shortly.

Legal documentation, UPI product templates and connectivity specifications are available on the DSB website, along with a UPI User Guide.

Emma Kalliomaki, managing director of the DSB and the Association of National Numbering Agencies, says: “The DSB has undertaken extensive collaboration with stakeholders to ensure the UPI Service is fit-for-purpose and the objectives of the Service align with the DSB principles, such as cost recovery, reasonable and non-discriminatory (RAND) access and equal treatment, preserving the DSB common agreement and ensuring parity and efficiency in delivery of DSB Services.

“With firm UPI reporting dates now published, we will continue to support the industry with their preparations and UPI implementation.”

MTS and Wematch partner for IRS voice trading

MTS and Wematch have partnered to offer web-based interdealer trading for interest rate swaps.

This solution, MTS Swaps by Wematch. live, aims to digitise voice trading in rates swaps, combining benefits of traditional voice trading and fully electronic execution platforms in providing additional flexibility to traders to do voice negotiation supported by digital workflow.

Traders will benefit from higher automation compared with traditional voice-based trading workflows, along with trade protection through pre-trade price and size controls, and electronic audit trails across the negotiation and trade lifecycle.

The service partners indicate that this facility will reduce trading costs through a transparent fee schedule offering per-trade or packaged (“all you can eat”) fee options.

This will be released with interdealer order-book trading functions and will offer additional negotiation choices to the electronic rates swap market such as meet-in-the-middle and upsize.

The two companies indicate that D2C request for quote (RFQ) trading facilities are likely to be added later this year.

MTS Swaps draws on Euronext MTS’ large European trading network, which supports average daily trading volume in advance of €160 billion, reinforced by Wematch’s expertise in delivering digital trading workflow.

This offers dealer negotiation and execution of package trades including Curve, Flies, Gadget, 3m/6m Tenor Basis, ESTR/Euribor Basis and Eurex/LCH basis.

Joseph Seroussi, Wematch CEO and founder, says: “Wematch is on a mission to empower financial institutions through digitisation. Our cross-asset platform is designed to serve dealers with ease and efficiency.

"With nearly 1000 traders and sales at 90 financial institutions already utilising our highly-regarded securities finance platform, we are proud to be leading the change in bridging traditional and digital finance. We remain committed to delivering robust and scalable alternatives to voice trading, and are thrilled to announce the launch of MTS Swaps by Wematch.live in partnership with MTS."

Angelo Proni, CEO of MTS, Euronext Group, comments: "There has been a major structural shift toward electronic trading in the interest rate swaps market since the introduction of new regulation in the wake of recent macroeconomic uncertainty.

"MTS Swaps combines MTS's network, regulated markets, connectivity and rates franchise with Wematch's flexible, agile technology to deliver an innovative solution that puts the trader front and centre."

DZ BANK adopts Metaco's Harmonize

German banking group DZ BANK has selected technology provider Metaco's Harmonize platform to develop its digital asset management offering.

Harmonize supports several types of digital assets, including tokenised securities and digital currencies. DZ BANK will integrate these offerings into its existing asset management services for institutional investors.

The platform's governance framework includes customisable risk and compliance controls and segregates business units and clients to isolate policies, users, accounts and assets.

DZ BANK is the latest to adopt Metaco's Harmonize, with DekaBank and Togg onboarding the platform in January 2023.

Nils Christopeit, lead solution design for digital custody at DZ BANK, says: "In terms of our security, scalability, and future requirements of our digital asset custody initiative for institutional clients, starting with crypto securities as per the German 'Act to introduce electronic securities'(eWpG), Metaco Harmonize has proven to be a powerful solution that can support our intended operating model.

"We trust to create a durable and fast-growing business cooperation as well as an attractive solution for our clients that can meet the requirements of digital currencies and decentralised financial instruments."

Craig Perrin, chief sales officer at Metaco, comments: "Metaco's digital asset technology infrastructure is purposely designed to support financial institutions to capitalise on the digital asset economy. We are excited to announce this cooperation as it further establishes Metaco as a market leader in Germany."

Duco releases EMIR Refit solution

Duco, a cloud-based data automation company, is to roll-out a no-code solution to help firms meet data quality requirements of upcoming EMIR Refit rules.

The European Market Infrastructure Regulation (EMIR) Refit will make changes to the data and reconciliation requirements for firms reporting derivatives trades to trade repositories.

To meet these requirements, Duco warns that firms will need to remap their existing data processes, adapt to new data types and ensure that they can detect reporting errors.

The Duco platform will offer a no-code functionality to remap existing processes or build new ones without technical knowledge, the firm says.

The "self-service" cloud solution aims to present firms with a range of data integrity capabilities, from controlling upstream intersystem data to ensuring downstream data integrity.

Duco looks to support financial institutions to reconcile sent and received data with trade repositories and regulators post reporting, to achieve accurate reporting and avoid errors and fines.

Phase I of the EMIR Refit rules is expected to go into effect on 29 April 2024, while Phase II is to follow two years after.

James Maxfield, head of product and solutions at Duco, says: "The EMIR Refit is just the latest in a long list of regulatory changes for firms. As the scrutiny over data quality increases, it is vital that firms have technology that enables them to put robust controls in place to ensure the accuracy and completeness of their data, yet retain the agility necessary to respond fast to inevitable changes.

"Duco customers are already able to cover a wide variety of transaction reporting use cases and our significant investment in our transaction and trade reporting solutions will only strengthen the ability to ensure accurate, complete reporting data."

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79
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125B
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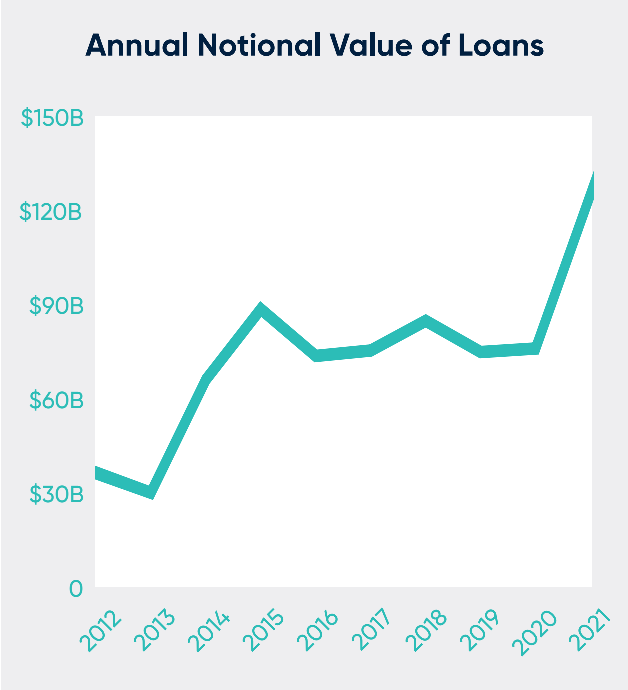

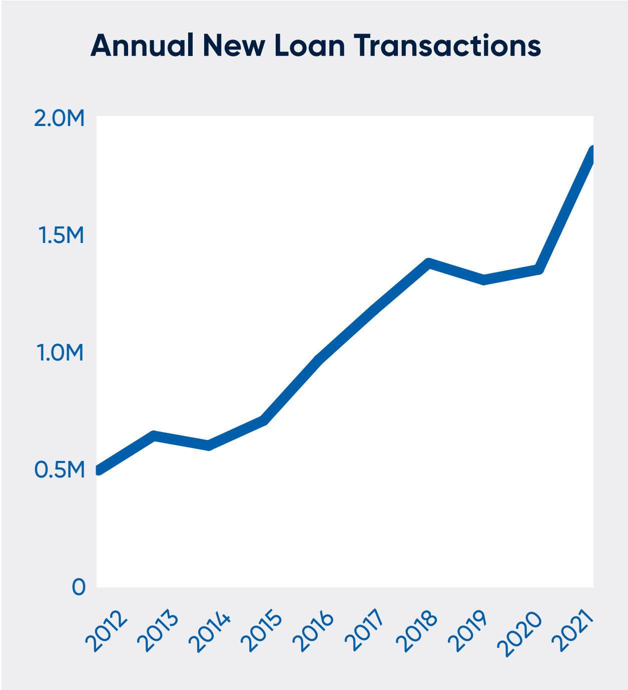

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Courtney Campbell
Head of lending solutions
Digital Prime Technologies

A bridge between markets

Digital Prime Technologies' head of lending solutions Courtney Campbell speaks to Carmella Haswell about spearheading the firm's new digital asset lending platform, Tokenet, and how it plans to reshape the institutional digital lending market

Digital Prime Technologies is set to release its automated lending platform Tokenet at the end of Q1 2023. The platform will enable institutional dealers to post borrow needs, broadcast lend availability and select collateral haircuts. It seeks to provide loan lifecycle management, as well as a number of counterparty risk tools.

Courtney Campbell will spearhead the institutional dealer-to-dealer digital asset lending platform that hopes to build a bridge connecting traditional finance to digital asset lending and prime brokerage markets.

Since the inception of Digital Prime Technologies in 2019, regulation, compliance, transparency, best practices and corporate governance have all been core to the firm's DNA, according to Campbell. The provider of prime brokerage technology solutions was formed with a focus to build an enterprise-grade product that was embedded with best practices that could plug into traditional financial institutions.

"We are emulating what is seen and works in traditional finance and applying that to digital assets," says Campbell. "Today, this approach is more relevant than ever, based on what we have all witnessed in the digital landscape in the past 12 months."

Speaking to SFT, Campbell indicates that Tokenet will mirror traditional finance lending platforms to allow its clients to enter the world of digital asset lending, in the same familiar confines that they are accustomed to from traditional finance. "We know the language that our clients speak and we have created a system that speaks the same language," Campbell adds.

Tokenet looks to resonate with clients from an operational, compliance and business opportunity perspective. Users are able to post needs and axe lists, set terms of loans, agree on acceptable collateral and have the support of the system for a full suite of reports.

Having access to a platform that emulates traditional finance creates opportunity for participants in that space to enter into digital asset lending, as those tools "currently, do not exist", explains James Runnels, Digital Prime Technologies co-founder and CEO.

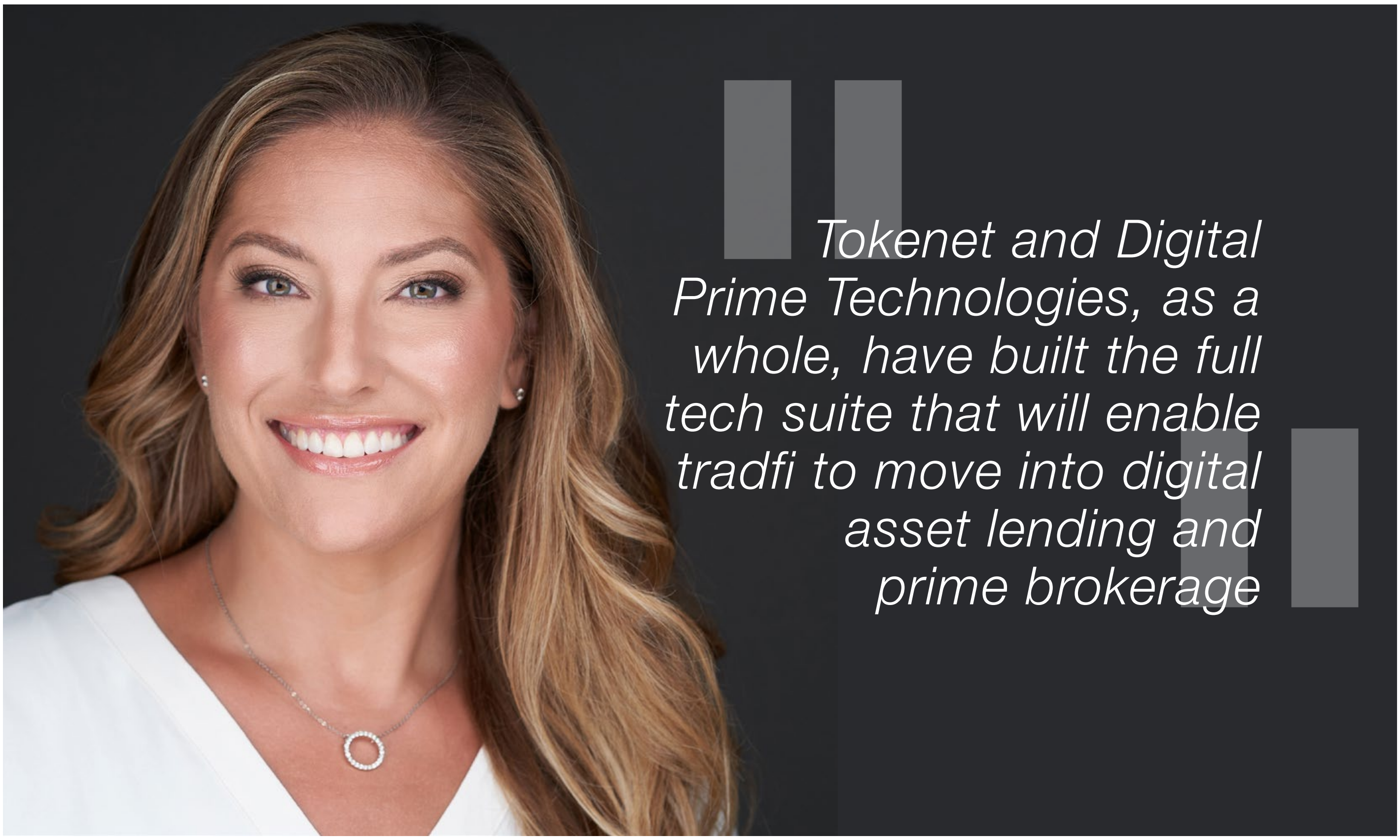
According to Runnels, there have been some painful moments in the digital asset lending space over the past 12 months. "As rapidly as that business has grown, from inception to today, there were a lot of blow ups — mostly due to a lack of best practices in the digital asset space," Runnels says.

The "blow ups" were reflected in international headlines that announced the names of several digital asset lending firms that entered bankruptcy. The world watched as crypto trading and derivatives platform FTX filed for Chapter 11 bankruptcy in November 2022 in the District of Delaware. Digital asset lender BlockFi also filed for bankruptcy later that month and crypto lender Celsius did so four months previous.

"While what we witnessed could essentially be considered a stain on the space, within that chaos, you can find opportunity," Runnels explains. "That is the opportunity that we are solving for, to clean up that non-traditional approach to digital asset lending, provide traditional institutions with the tools that they are accustomed to and manage the cycle of a loan in a very efficient, best practice type manner."

Tackling the hurdles of recent headlines, Campbell believes that Tokenet will bring back confidence and trust in the market. Efficient markets require borrow and loan activity, which have been in decline recently, according to Campbell. She predicts that the use of proper governance and risk management tools will bring participants off the sidelines and back into the digital asset lending space.

Tokenet will support users in managing risk and collateral. Clients will have the ability to post collateral bilaterally or in an FBO triparty account with a qualified custodian. Lenders and borrowers using



Tokenet will have a transparent view of their collateral, as well as a real-time valuation of that collateral. A full suite of APIs, among other technologies, will be incorporated to provide clarity and transparency for each Tokenet user.

The platform offers a full robust chat functionality that aims to help users to speak to one another and negotiate on collateral and mark-to-markets. In addition, users will have the ability to turn on and off different counterparties, set collateral haircuts and assign credit limits, depending on their risk parameters.

Staying ahead of the game

After spending the entirety of her career in the securities finance industry across a number of Wall Street firms, Campbell made the jump to digital assets in 2022. Viewing firsthand how digital asset lending differs from traditional lending, Campbell says the contrast was day and night.

"When James and Bob approached me to spearhead the launch of Tokenet I jumped at the chance, because I knew something like this was desperately needed for the market to mature and to get to that level of institutional adoption," Campbell recalls.

She continues: "Tokenet and Digital Prime Technologies, as a whole, have built the full tech suite that will enable tradfi to move into digital asset lending and prime brokerage. With our technology, our team and our guidance, the market will be able to uncover new revenue streams and meet their client needs in the digital asset space."

Financing and lending is the backbone of traditional capital markets, Runnels notes. Without having a safe way to effect that, it will be hard to accomplish mass adoption, from an institutional perspective, in the digital asset world. Tokenet was designed to solve this.

Runnels states that Tokenet provides only a small learning curve for users, as it emulates what has already been accomplished in traditional finance. He explains: "Participants are already accustomed to the practices that are embedded in Tokenet, the only difference really would be that instead of traditional equity securities, these are now digital assets.

"The movement, the operational practices, the governance behind it all is similar to what participants are using already. We feel that Tokenet will be a seamless integration into tradfi, to solve for the lack of safe borrowing and lending in digital assets."

Currently, Campbell believes that there remains a "massive" opportunity in capital markets, with a large amount of revenue "sitting in the investment bank" — one of the main opportunities that digital assets bring to the prime brokerage space. Moving forward, Campbell predicts a significant uptick for traditional finance to offer prime brokerage in digital assets.

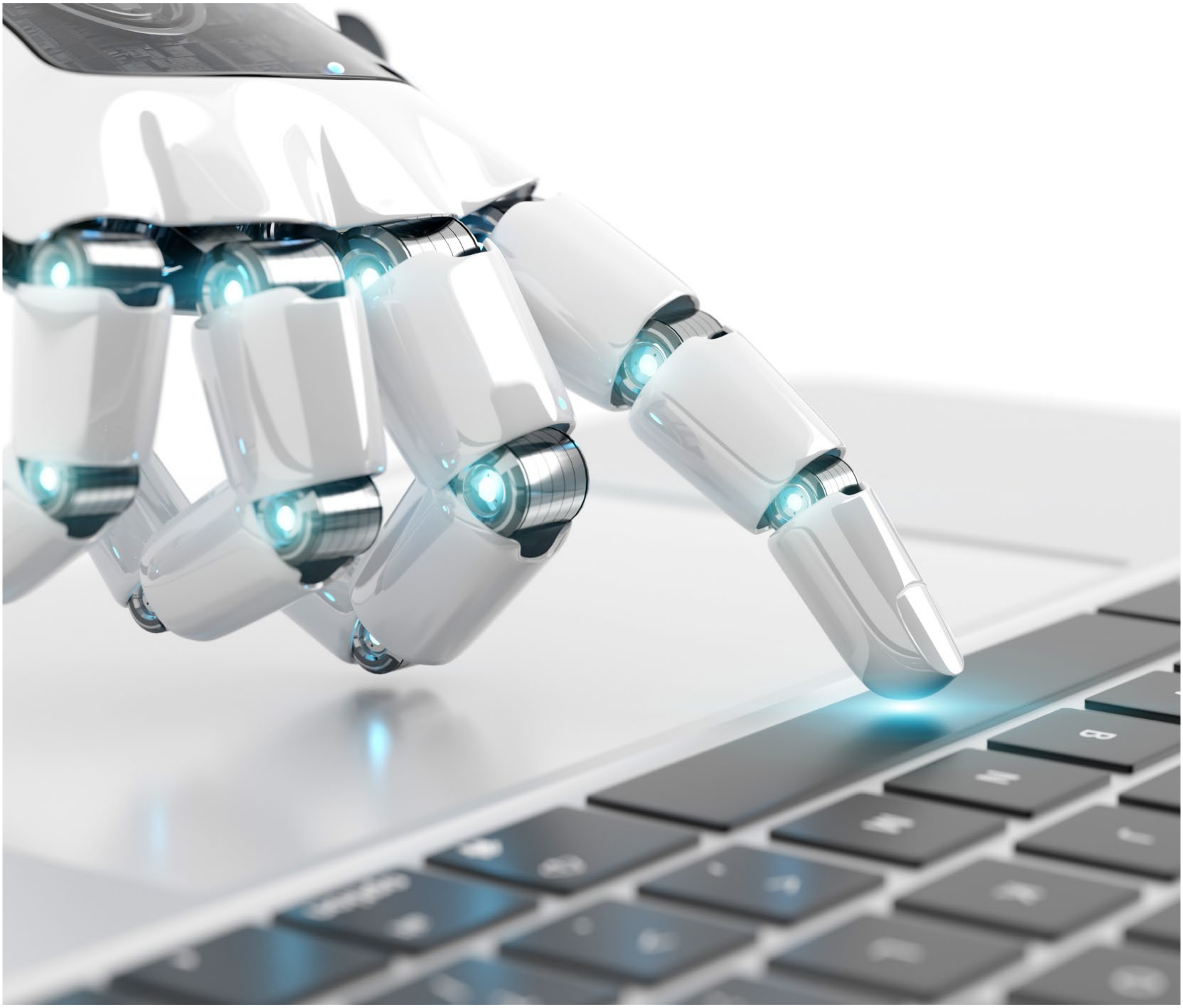
Following Campbell's comments, Runnels indicates that due to the retail-driven nature of the digital asset sector, a number of prime brokerage tools were not brought to market properly — something Digital Prime Technologies aims to combat with its prime solutions tech stack.

"How prime brokerage has been defined in the digital asset space is definitely not the same way as how traditional finance has defined prime brokerage," Runnels highlights. "When regulation does become clearer for regulated banks and broker-dealers, I think we are going to see some swift movement into the prime brokerage space, as we define it from tradfi and we are well positioned for that. It is one of our core offerings, there is a lot of opportunity there to do it properly."

Digital Prime Technologies has received positive feedback from the industry regarding its Tokenet platform, according to Runnels, something that is indicative of what the firm has built and what is needed in this space.

He says: "There is a lot of grey space in digital assets — specifically in lending and in prime — we are here to take that grey space and make it black and white, and define it in a manner that folks are accustomed to and need."

'Best practices' is not just a term, it is how Digital Prime Technologies operates, says Campbell. She concludes: "Staying ahead of the game by bringing the right team in is how we are going to make a difference and get things safely moving in the right direction. It is all embedded in our product suite. It reflects the collective experience and culture of our firm."



The need for automation in legal opinion

Legal opinions are a fundamental component of global financial stability. They underpin regulatory acceptance of close-out netting, which reduces financial institutions' capital costs, risk and legal uncertainty, and are key for financial stability. Yet their current format is unwieldy, overly complex and increasingly no longer fit for purpose, as Akber Datoo, CEO of D2 Legal Technology, explains

The co-architect of the design and drafting of the current incarnation of master trading agreements, Jeff Golden KC (Hon), once stated that "the answer is always netting". The truth of this statement, in terms of its importance to trading parties for credit risk mitigation and financial stability, has certainly continued to hold true. However, the effectiveness and enforceability of netting under these master trading agreements has grown around the provision of legal opinions to confirm this enforceability. Yet 35 years after the capital markets industry started to utilise these legal opinions for this purpose, very little has changed in terms of the manner in which they are provided. It has simply not kept up with the current demands of a more complex trading environment, regulatory requirements and the increasing role of technology and the digital agenda.

Legal opinion and why it is Important

A legal opinion — also known as an 'opinion letter' in pure legal terms — might be defined as "an opinion from lawyers issued in letter form expressing legal conclusions about, and/or legal analysis of, a transaction or matter which is relied on by the addressee of the opinion".

The main purposes of a legal opinion are:

- to inform the addressee of the legal effect of a transaction or matter.
- to identify legal risks that the addressee should consider further and evaluate.

Within the context of financial markets, and close-out netting in particular, the legal opinion takes on a slightly more nuanced and complex purpose, though its form remains the same.

Payment netting is often confused or conflated with close-out netting. Payment netting takes place during the normal business of a solvent firm and involves combining offsetting cash flow obligations between two parties on a given day in a given currency into a single net payable or receivable. Although important in, for example, managing Herstatt (or "daylight" risk), it pales to insignificance with respect to the benefits offered by close-out netting. This refers to a process involving termination of obligations under a contract with a defaulting party and subsequent liquidation of any resulting damage or gain by combining positive and negative replacement values into a single net payable or receivable.

It is important to be sure that close-out netting is enforceable in the relevant jurisdiction, were the trading counterparty to become insolvent. If not, any exposure to that trading counterparty ought to be viewed on a gross basis (i.e. without combining positive and negative values), rather than a net basis. This is because insolvency administrators might engage in cherry picking, which involves an insolvency administrator demanding performance of contracts favourable to the bankrupt firm but rejecting contracts burdensome to the bankrupt firm. Accordingly, one might be obliged to pay in full on obligations and, yet, with respect to the obligations owed, prove as an unsecured creditor against the insolvent estate of your counterparty. The impact on credit exposures resulting from this can be very significant.

Global standard-setters recognise the importance enforceable close-out netting has with respect to risk reduction in the financial system, both when it comes to setting regulatory capital requirements and developing effective resolution regimes (for example, the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions).

Additionally, by obtaining reasoned, written legal opinions that confirm the enforceability of the close-out netting provisions of master netting agreements that they use, prudentially regulated firms can use net, rather than gross, exposures to calculate their regulatory capital exposures. The regulatory capital savings for large investment banks in the capital markets run into billions of dollars.

Specifically, the regulations require a legal opinion to be obtained in respect of each such master trading agreement — such as the General Master Securities Lending Agreement (GMSLA) — before the regulatory capital benefit can be taken. The legal analysis may differ for some counterparty types — such as insurance companies, due to some specific insolvency rules relating to such entities in some jurisdictions — and agreement type. However, industry opinions are often obtained to provide for generic advice for a particular jurisdiction (of the counterparty) and agreement type, with further analysis required to make this apply to individual facts and circumstances.

This results in large banks needing to maintain large portfolio legal opinions in this way, in some cases running into close to a thousand such opinions. Given insolvency (and other relevant) laws and regulations are dynamic and change over time, the regulatory requirement is to keep this legal advice current and up-to-date — with the increasing expectation being that these legal opinions are refreshed annually. By way of example, earlier this year, updated insolvency laws in the Bahamas meant that a legal opinion in respect of Bahaman bank counterparties changed such that close-out netting can no longer be regarded as enforceable against them.

While these trading agreements, such as the GMSLA, are standard in that most of the terms come from a pre-print, some of the terms and conditions will be amended by the counterparties — which requires further legal analysis to confirm whether any such amendment changes the legal opinion's view regarding the enforceability of close-out netting. Additional annexes, such as for evergreens, may require additional legal analysis and may therefore not be covered under the scope of the industry (or bespoke) opinion on which a firm might otherwise wish to rely.

The current format of legal opinions

There are a number of issues with the current format of legal opinions which render them impractical for use as a business tool at best — and, at worst, actually contribute to firms' operational risk.

The first of these issues relates directly to the characterisation of the legal opinion as an 'opinion letter'. In the case of close-out netting, legal opinions can be far more lengthy than a letter; indeed, some can be hundreds of pages in length and wander across topics of definitions, relevant regulations and legal guidance. Opinions generally provide a discussion with a non-binary conclusion, resulting in the need for further interpretation and evaluation by a legal professional to answer the fundamental question of whether the master agreement can be enforced given particular facts. For example, legal opinions are subjective, when their regulatory purpose is to provide an objective answer.

The second major issue with current legal opinions lies in their paper-based format. That legal contracts are often unsuited to the business needs of the contracting parties is no longer an unsolicited view. Indeed, the Research Handbook of Contract Design advocates for a move from "the model of a contract as text only towards a more open-textured model of contracts that can be visual, text-based, code-based, or hybrid depending on the needs of the audience." Knowing where, within a document of a hundred pages, the relevant issue is raised — which may mean a netting flag needs to be re-evaluated — is an arduous, manual and therefore costly exercise.

The final, significant problem with today's legal opinion is one of data management. If a financial institution has legal opinions numbering into the hundreds, let alone thousands, then knowing which legal opinion needs reviewing — according to, for example, legal changes in the relevant jurisdictions, changes to the financial transactions themselves, or even simply unforeseen changes — becomes a Herculean task. Moreover, once the applicable section(s) of the legal opinion(s) are located, the specific guidance must, again, be reviewed and further interpreted.

Applying automation

The current close-out netting legal opinions are, quite frankly, impenetrable to most — if not the majority of — capital markets lawyers, being an extremely niche yet vital area.

To start, it is often not clear what the counterparty scope of a legal opinion is. Many firms fail at this initial hurdle, failing to ensure that the right legal opinion is obtained and reviewed in respect of a trading counterparty. This requires significant counterparty due diligence, from reviews of constitutional documents, prospectuses and various registers. This is an operational task that, all too often, has been left to expensive legal teams to plough through and is operated in a silo from KYC teams, despite the overlap in work required.

Even after the relevant legal opinion has been obtained and reviewed, essentially a long and complex legal opinion needs to be reduced to a "Yes" or "No" for regulatory capital purposes, based on certain facts that need to be ascertained — such as terms of the agreement, features of the transactions and where assets are located. This is, unfortunately, all too often "done in the head of the lawyer", with little audit trail or working relating to the path to the decision, despite its complexity.

It is no wonder that so many netting determinations are suspect and that the regulators have begun to question prudentially regulated firms on their processes and systems (if any) in respect of close-out netting. In doing so, they are trying to force firms, typically through fines and other demands for action, to improve their management of legal opinions and the netting determinations — should they wish to receive the huge regulatory capital benefits of doing so. This is where automation and data come in, as the current process is just not scalable manually. Also, there is surely too much at stake in terms of financial stability!

The industry has recognised the issues of manual process and an analogue approach to master trading agreements. If the answer truly is "always netting", we need to ensure the digital journey of the industry — from clause taxonomies and libraries to the common domain model and document negotiation platforms — does not miss out the role of the close-out netting legal opinion. And we need to design for the digital future of such opinions to unlock business value.

Entering a new era

ISLA's CEO Andrew Dyson and first female chair Ina Budh-Raja speak with Carmella Haswell on the Association's three-year strategy as the industry undergoes an unprecedented period of transformative change

The International Securities Lending Association (ISLA) is paving out its next steps in leading the industry through periods of transformation, with a new board of directors and its first female chair and person of Asian heritage taking the reins.

"It is an exciting time to be taking on the position of chair as the industry undergoes an unprecedented period of transformative change," says ISLA chair Ina Budh-Raja. The ISLA team and previous board of directors, which Budh-Raja has been a part of for the past three years, have built the foundations essential to supporting members through the forthcoming evolution of the securities finance industry.

The post-financial crisis regulatory reform agenda is now well-matured and a new era of regulatory policy is taking shape, Budh-Raja notes. The board is ready to address future priorities such as digitisation, sustainability, increased investor and consumer protection, with an overarching focus on market efficiency, resilience and accountability.

Entering a new era for the Association, a revised three-year strategy, extending through to 2025, gives detailed attention to the digital agenda, which covers the tokenisation of conventional asset classes, as well as the introduction of new 'native' digital assets.

In November 2022, ISLA released a report proposing alterations to the Global Master Securities Lending Agreement (GMSLA) to allow for market engagement with digital assets. The paper, entitled 'Preparing the Global Master Securities Lending Agreement (GMSLA) for an Evolving Digital Asset Landscape', discussed how digital assets could transform liquidity management and revolutionise the global securities finance industry. It further pinpointed elements within and outside of ISLA's remit that need to be addressed, including legal, commercial and documentation issues.

"There is no doubt that new and novel asset classes, including digital and crypto assets, are increasingly demanding the attention of the investment community," notes ISLA CEO Andrew Dyson. "As these asset classes come into the mainstream, it will be important for those that serve these industries, including securities lending, to be duly prepared to support them."

The report highlighted the message that digital assets would revolutionise the market. For Dyson, the paper presents a fundamental first step in analysing the key considerations and potential issues that may arise when incorporating digital assets, and sets out a long term agenda for their discussion and resolution.

As markets begin to embrace these new asset classes, preparations will continue on the digital agenda. Dyson states that the Association's work on the Common Domain Model (CDM) will provide the foundation for much of this development. "I would also expect to see more from the joint associations (ISLA, ICMA and ISDA) as we build out our respective data models, with the move to a true open source environment through FINOS being transformational," he adds.

The global sustainable policy agenda will also become a dominant theme for ISLA. It is an agenda that impacts all corners of the financial markets and requires the industry to adapt to consider environmental, social and governance (ESG) factors and to maintain liquidity in the capital markets. Continued market education and advocacy will be required to prevent attrition of lendable assets, says Budh-Raja, to maintain stability and liquidity underpinning the broader markets.

ISLA will also assist members in navigating the regulatory frameworks that are developing around digitisation and sustainability. This will require further analysis and advocacy to drive robust, risk-managed and, where possible, standardised outcomes for the industry.

In line with ISLA's geographical remit, the Association is deepening its coverage of the Middle East region, recognising that these jurisdictions are now rapidly developing their capital markets infrastructure and that securities lending is a priority in the region as a foundation for deep and liquid markets.

As part of ISLA's aforementioned three-year strategy, 2023 will see continued engagement and advocacy with policy makers in the region, development of market structure guidance, standardised legal documentation wherever possible — including entity-specific considerations such as Sharia constructs and revisiting netting capabilities in relevant jurisdictions. Budh-Raja adds: "While this is a sizable book of work for the ISLA team, it is one which will support new opportunities for members operating both in the region and on a cross-border basis."

Accounting for D, E and I

By taking on the position of ISLA chair, Budh-Raja became the Association's first female lead since it was formed 35 years ago. "In my 25 plus years of working in financial services, I have learned from personal experience that representation really matters. At a very basic level, it is important to see 'people like you' performing well in roles which may otherwise have seemed inaccessible within historic systemic norms."

Budh-Raja remains an active advocate for diversity, equity and inclusion (DEI), having worked alongside the Women in Securities Finance organisation for the past five years as co-lead of the London chapter.

"I have certainly been inspired by examples of positive representation and it is therefore incumbent on me — and others like me — to step into leadership roles where possible, even if that means facing our natural fears of being 'the first (female)' in the position," she adds.

Not only does Budh-Raja hold the metaphorical torch as the first female ISLA chair, but she also represents the first ISLA chair of Asian heritage, an achievement that is equally important for Budh-Raja in terms of embedding DEI in the industry and creating a level playing field for people from all backgrounds, across several diversity factors.

“Diversity of skill sets and perspectives is essential to the growth of our industry,” Budh-Raja explains. “I hope I can serve as an example, at least in some small way, to others who work in securities finance roles which may traditionally have been viewed as tangential to the business, but in fact, are increasingly critical components of a well-functioning, progressive business.”

DEI will form an intentional strand of the overall ISLA strategy going forward. By the end of Q1 2023, new policies and procedures will be in place to embed DEI criteria more formally, including the creation of a Code of Conduct, now in place, to cover ISLA events and policies outlining DEI considerations for the events team. A series of DEI initiatives is soon to be announced by the organisation.

Dyson concludes: “As an Association that seeks to include all in the work that we do, I firmly believe that we have a very real responsibility to pursue diversity, equity and inclusion across our industry into all facets of our lives. ISLA has a real opportunity to drive the reforms needed to deliver a diverse and more inclusive workplace environment and helping to deliver on those objectives will be an important part of our collective efforts this year.”

An important year ahead

Systemic risk events have tested the financial markets to the extreme, says Dyson. Considerable volatility put pressure on the markets, and the banking sector more broadly, during early 2022. Following the UK mini budget in autumn of 2022, market participants also faced intense volatility in the UK Gilt market, which led to the so-called liability-driven investment (LDI) crisis — leaving market participants struggling to fulfil margin obligations under long-term swap transactions.

Although order was restored after the intervention of the Bank of England, Dyson warns that the industry needs to be mindful of the messages that these events have sent, as the market continues to think about liquidity and, notably, the availability of collateral.

The impact of the sudden and dramatic demise of FTX in 2022 has added to this market uncertainty. “Many of the issues swirling around the company and its founder relate to very familiar themes associated with proper and transparent governance and oversight,” Dyson indicates. “Some of the work that we are looking to do at ISLA around documentation for that segment of the market will be part of an inevitable process as this market evolves and matures.”

Evaluating the financial landscape, Dyson believes 2023 will be an important year for the industry. Opportunities are arising with risk-weighted assets (RWAs) and total return swaps (TRS) front and centre, while the regulatory agenda is set to alter as new narratives emerge.

In his analysis, Dyson says: “As the real impacts of the implementation of the Basel framework become clear, we are already seeing the market actively looking at new and different ways of transacting business that either negate or significantly reduce RWA charges associated with the traditional lending model.”

Market participants are paying increasing attention to pledge collateral

“We are at an inflection point, where market participants are having to adapt at pace to solve for new regulatory changes, resource constraints and to manage capital more acutely to remain competitive”

Ina Budh-Raja
Chair
ISLA

models, with Dyson anticipating an acceleration in their use, especially if so-called regulatory uncertainties around the structures are resolved. In addition, synthetic lending in the form of TRS are attracting a considerable focus from the market, due to the lower RWA costs associated with derivatives, as well as the ability to net street and client trades from a balance sheet perspective. Dyson predicts that the use of TRS will grow exponentially throughout 2023 and 2024 as lending agents look to develop greater capabilities in this area.

The reduced number of brokers in the European market today is impacting market behaviour, notes Dyson. He explains: “While it is acknowledged that the remaining incumbents have taken up much of the flows from departing firms, the market is now, in my view, struggling with single counterparty concentration issues and therefore looking at other ways to get securities to the end users.”

A direct implication is that central clearing — that has for long been problematic for the market — may now be welcomed more widely as a solution that diversifies risk and reduces RWA costs.

Budh-Raja states: “We are at an inflection point, where market participants are having to adapt at pace to solve for new regulatory changes, resource constraints and to manage capital more acutely to remain competitive.” The combined effects of changes to the Basel framework, RWA implications and single counterparty concentration limits require firms to be nimble, resource efficient and to have a suite of solutions available to them, Budh-Raja adds, which may include increased use of pledge collateral arrangements, the emergence of agency synthetic TRS solutions and a new advent of CCP solutions.

EU and UK markets are to face tremendous regulatory change in 2023 as policy makers address factors highlighted by recent market volatility, as well as tackling the systemic and cultural changes necessitated by digital transformation and sustainability agendas.

Budh-Raja continues: “We are already seeing the beginnings of policy divergence in a post-Brexit world and the impact on the financial services' regulatory agenda is increasingly complex as we adapt to parallel regulatory regimes, while operating global businesses straddling nuanced regulatory differences.”

The ISLA chair expects to see significant regulatory and policy developments associated with the broad sustainability and digital agenda, as well as investor protection and fund structure regulation — which will all require strategic advocacy and active representation from a securities finance perspective.

As an association that has its membership now largely split between the EU and the UK, Dyson notes that it is important that ISLA works actively with its respective member firms to ensure that the Association continues to deliver the right outcomes as these two areas potentially diverge.

Budh-Raja concludes: “It is imperative that ISLA is one step ahead in supporting its members through this period of change and innovation, advocating with regulators for pragmatic outcomes which are compatible with securities lending and do not result in inadvertent limitations on this market.”

“As an Association that seeks to include all in the work that we do, I firmly believe that we have a very real responsibility to pursue diversity, equity and inclusion across our industry into all facets of our lives”

Andrew Dyson
CEO
ISLA

Asia outlook

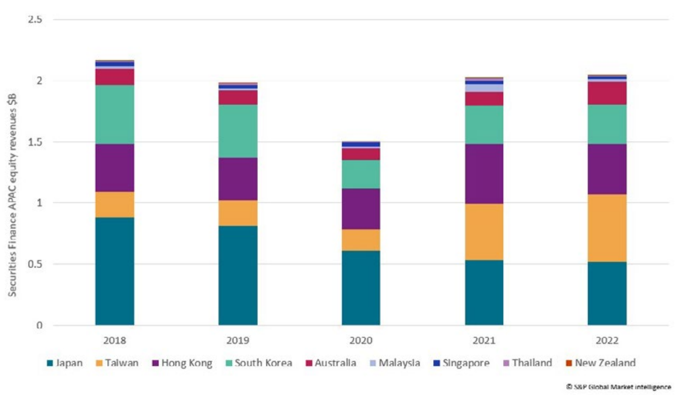
The APAC region remains highly significant in terms of the pace of growth of its securities finance market and its contribution to global revenues, says S&P Global Market Intelligence's director of securities finance, Matthew Chessum

The Asia-Pacific region continues to be an important driver of securities finance revenues for market participants. Since 2018, the region has continually generated more than 20 per cent of annual equity revenues. This is expected to grow in the future, as the region is well placed to exploit additional opportunities in new markets such as Indonesia, India and mainland China.

Lending fees tend to be higher within the APAC region due to a combination of operational nuances, increased levels of recall risk and the resulting liquidity premium. Average fees increased 3 per cent across APAC equities during 2022 to 97bps and the return to lendable for the MSCI AC APAC ex-Japan index was 5.3bps in 2022, down from 5.6bps in 2021. Specials activity — which we class as any loan traded with a fee greater than 500bps — hit an all-time high during 2018 when over US$102 million in revenues were generated, but this declined to US$76 million in 2022.

As the PASLA conference is due to take place on 7-8 March, it seems appropriate to analyse the performance of markets across the APAC region and to see where any new opportunities may lie.

Fig 1: APAC equity revenues (US$) per market

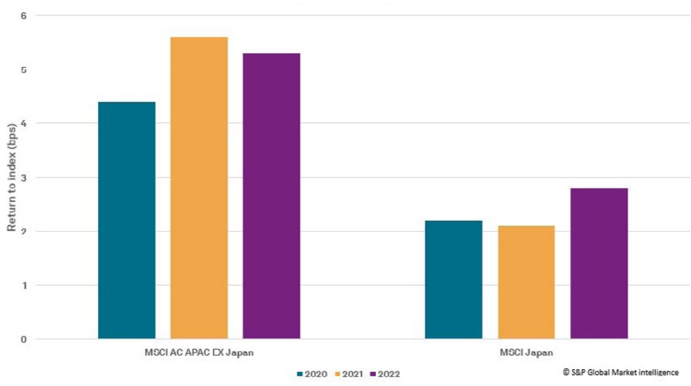


Japan

Japan is not only the host country for the PASLA conference but, until last year, it has always been the most lucrative market in terms of APAC equity revenues. In 2022, the revenues generated by Japanese equities, at US$520.8 million, were surpassed by Taiwan, at US$547.6 million. Looking back to 2018, when Japanese equities generated US$878.9 million, revenues in the country have been decreasing year-on-year. Average fees have also been in decline. In 2018, the average fee was 90bps and during 2022 this more than halved to 42bps. Despite this fall in average fees, the return to lendable vs MSCI Japan index increased to 2.8bps in 2022, from 2.1bps in 2021 and 2.2bps in 2020.

Japan is a significant market in Asia for fixed income assets. Government bond lending in Japan has recently become more expensive, with the volume-weighted average fee for Japanese Government Bonds (JGBs) hitting 29bps. Average fees for JGBs have increased as investors look for additional sources of liquidity and place directional trades, speculating that yields will move higher if the central bank changes its target range policy on the 10-year JGB. During 2022, revenues generated by JGB lending increased by 17.5 per cent YoY, more than doubling the US$22.9 million generated in 2020.

Fig 2: Return to Index



Taiwan

Taiwan is a relative newcomer when compared to the more traditional APAC lending markets such as Japan and Australia. As an automatic buy-in market, it also remains operationally intensive, requiring greater coordination in relation to recalls, with pre-sale notification often a standard market requirement for lenders. Despite this, it is a significant contributor to overall revenues generated in the region and its contribution continues to grow year-on-year. In 2018, revenues from the lending of Taiwanese assets accounted for just 10 per cent of all regional revenues, but in 2022 this increased to 27 per cent. Since 2018, revenues have more than doubled, hitting US$547.6 million during 2022. Average fees also hit a recent high in 2022, averaging 258bps over the year, with an all-time quarterly high of 273bps achieved during the third quarter of 2022.

With a technology heavy economy, the market remains affected by the health of the global economy. It also remains sensitive to the geopolitical climate. Despite this, the revenues on offer continue to grow and show no signs of abating in the future.

South Korea

South Korea is an important market for securities finance activity within the Asia Pacific region. During 2022, US$326 million was generated in securities finance revenues, placing it in fourth place among its regional peers after Japan, Taiwan and Hong Kong. Average fees remain elevated in South Korea as a result of the strict settlement regime — South Korea is considered a no-fails market — and the level of small and mid-cap equity borrowing. The 2022 average fee stood at 201bps, which was a 4 per cent decrease when compared with 2021. Both average fees and revenues have declined in the country since 2018, when over US$480 million in revenues was generated (at an average fee of 350bps).

As a result of a heavy retail presence within the investment landscape and the small and mid-cap nature of the assets often traded, the local regulator remains sensitive to falls in the main index. As a result, the regulations regarding short selling change on a frequent basis and this has a direct impact upon securities finance revenues.

As further hedging and market making tools are developed in South Korea, particularly in support of the KOSDAQ constituents, securities lending and borrowing activity are expected to grow, as PASLA itself has noted. As the market develops, securities finance activity is expected to broaden to encompass a larger proportion of large cap borrowing. South Korea has punched above its weight with regards to revenues and remains comfortably in the “one to watch” category for future market developments.

Hong Kong

Hong Kong is one of the most actively traded markets within the region. The market is continually well represented in the top 10 borrowed stock lists for the region and continues to generate considerable revenues for market participants. Securities finance revenues reached US$491 million in 2021, but declined in 2022 to US$414 million. When considered as a percentage of overall APAC equity revenues, the importance of the market has increased since 2020 — representing 18 per cent of the market in 2018, 17 per cent in 2019, 22 per cent in 2020, 24 per cent in 2021 and 21 per cent in 2022. On loan balances were significantly lower last year relative to 2021, contracting 24 per cent to US$33 billion. Despite this, average fees increased 10 per cent YoY to 126bps.

Hong Kong remains one of the only Chinese equity markets that is accessible to offshore investors. As a result, it has an important role to play in the management of investors' exposure to mainland China and offers a great deal of potential for the future.

Others

Australia contributed 10 per cent of APAC equity revenues during 2022, at US$185 million. Last year was one of the best in terms of revenue generation for the country as mining, natural resource and financial stocks listed in the country commanded ever higher fees.

Revenues in Malaysia fell dramatically to US$18.8 million during 2022, after reaching all-time highs of US$63 million during 2021. A similar story also took place in Thailand — with revenues contracting from US$19.2 million in 2021 to US$16.1 million in 2022 — and in New Zealand, where revenue fell from US$5 million to US$4 million.

Revenues in Singapore dropped to US$18.7 million in 2022 from US$31.2 million for the preceding year, resulting in its contribution to aggregate APAC equity revenues shrinking from 2 to 1 per cent.

The APAC region remains significant in terms of the growth of the securities finance market and in its importance to market revenues. Looking ahead, the region offers strong opportunities in Indonesia and the Philippines. If the capital markets open to offshore participants in China and India, and a viable solution can be found to operate with their CCP structures, then the contribution of APAC equities to overall securities finance revenues will swell, consolidating its position as the second-highest revenue generating region for securities finance activity.

Latest industry moves at State Street, HSBC and Clear Street

Pirum has appointed Stuart Cornock as EMEA origination director within the firm's EMEA sales team.

Based in London, Cornock will be responsible for client origination and expanding relations with a number of existing Pirum clients, as he works alongside the firm's sales team.

Previously, Cornock held a six-year term at S&P Global (formerly IHS Markit) as director of market intelligence. He first joined the firm as associate director of sales in 2018.

He spent five years helping clients with their regulatory needs, including building the organisation's Securities Financing Transactions Regulation (SFTR) solution.

Commenting on the appointment, EMEA head of origination Scott Brown says: "I am delighted to welcome Stuart to the team. His experience, relationships and track record of developing client solutions is a great match for Pirum. I look forward to working with Stuart as we engage new and existing clients."

Vantage Capital Markets appoints Bingre

Investment bank and financial broker Vantage Capital Markets has appointed Jim Bingre as senior bond repo broker.

Based in London, Bingre will report to Arnaud Bernard, head of repo at Vantage Capital Markets.

Prior to joining the firm, Bingre was sales trader assistant on the credit repo and financing desk at BNP Paribas CIB, where he aided the US, Europe and Asia desks.

He began his career at BNP Paribas in 2017 as an operations analyst.

Commenting on his new role in an online post, Bingre says: "I am thrilled to announce that I am starting a new trading role as senior bond repo broker at Vantage Capital Markets' London desk. I am looking forward to all the opportunities and challenges it will bring."

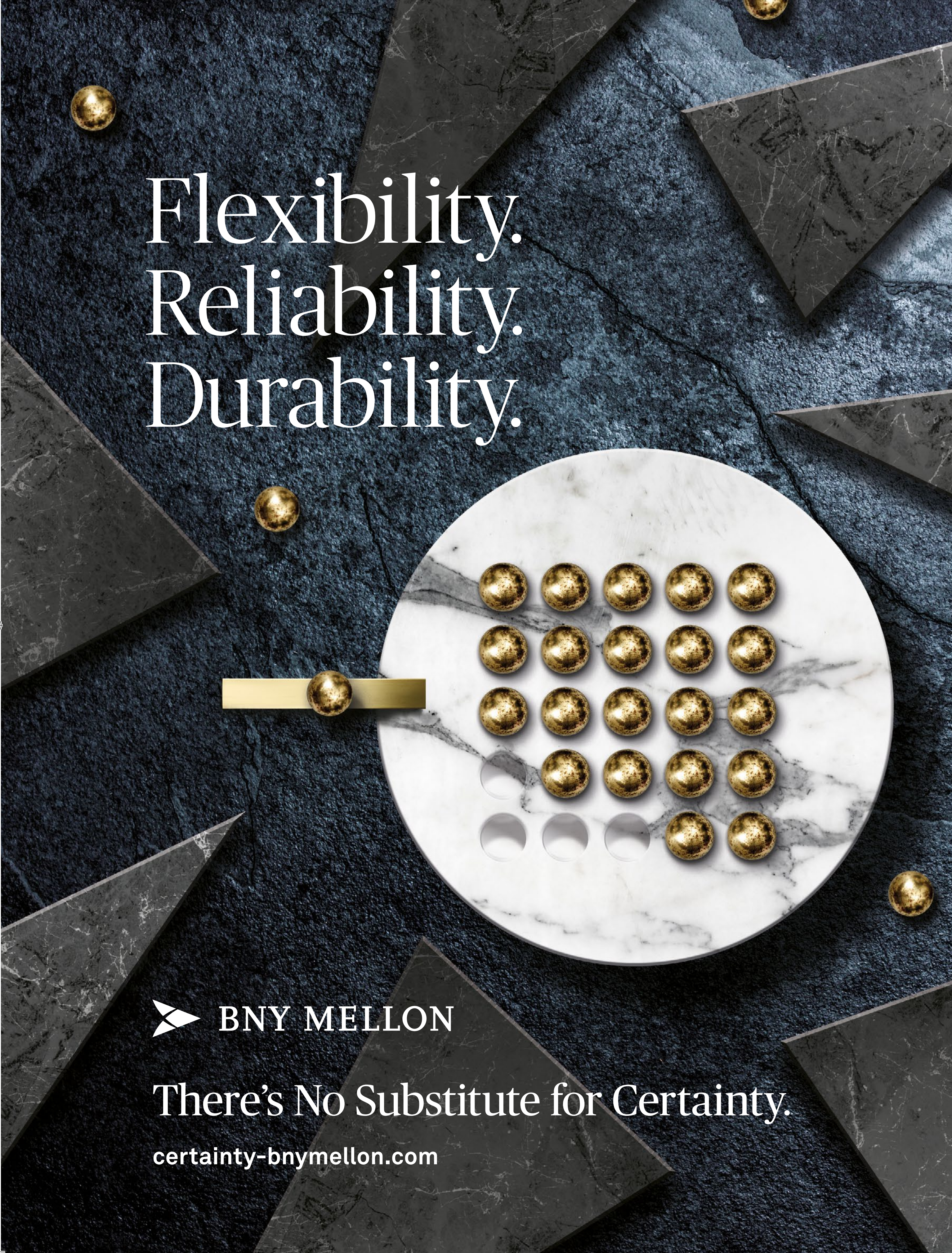
State Street has appointed Taryn Siglain as global head of its principal securities lending programme, Enhanced Custody. She reports to Gino Timperio, global head of financing solutions at State Street Global Markets.

In the role, she will be responsible for the development, execution and delivery of securities lending solutions.

Siglain joins from Morgan Stanley, where she began her career in 2007. She served in a variety of roles at the company, including investor relations vice president, head of client financing and secured funding strategy and, most recently, head of Americas secured funding trading and collateral optimisation.

Commenting on her appointment, Siglain says: "I am excited to join State Street and work collaboratively across the organisation to ensure that our Enhanced Custody solution continues to provide opportunities for our clients to generate alpha.

"As a leader in the investment services industry, State Street is the ideal place for me to bring my knowledge and experience to



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continue the growth and exceptional client service of the team.”

HSBC has appointed Greg Bunn as head of securities financing, Americas with immediate effect.

The move follows HSBC’s expansion of its prime finance business, which covers equities, foreign exchange, futures and repo globally.

Joining the bank’s New York office, Bunn brings more than 25 years of experience in the financial sector, holding a number of senior investment and hedge fund positions during his career.

He will lead securities finance for the Americas after heading institutional markets at Blockchain.com.

Prior to this, Bunn was global head of counterparty strategy and central funding at Citadel from 2019 to 2020.

He spent almost two decades with Deutsche Bank, taking on several senior roles including global co-head of prime finance and global head of financial resource management.

HSBC’s securities financing business offers multi-asset cash and synthetic financing solutions to fund managers who want to connect to the bank’s global prime finance platform.

The bank has seen a number of new senior hires including Ken Hon as head of prime finance for Asia and Jodi Damico as global head of client executives for hedge funds.

Commenting on the announcement, global head of prime finance at HSBC Loic Lebrun says: “We are pleased that Greg has joined HSBC to lead the growth of our prime finance business in the US.

Clear Street has welcomed Raj Karan Singh as senior managing director of securities finance.

Based in London, Singh will report to Andy Volz, chief operating officer and head of prime sales and electronic execution at Clear Street.

Singh takes on the position from his previous role as global head of securities finance at BCS Global Markets.

He has held a number of senior positions during his term at the investment banking division of BCS Financial Group, including deputy head of securities finance and delta one.

Singh joined the organisation in 2017 as senior vice president of trading and strategy, after a six-year term at Nomura International, where he was previously an equity finance trader.

Joseph Lotito has departed from his role as executive director of equity finance trading at Mizuho.

Lotito has gained more than 20 years’ experience in the securities lending sector, joining Mizuho’s New York office in 2019.

He joined the financial services firm from UBS Investment Bank, where he was director of securities lending sales and trading within the firm’s prime services division between 2012 and 2019.

Previously, Lotito held similar positions during his two-year term with Barclays Capital and nine-year term at Goldman Sachs.

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