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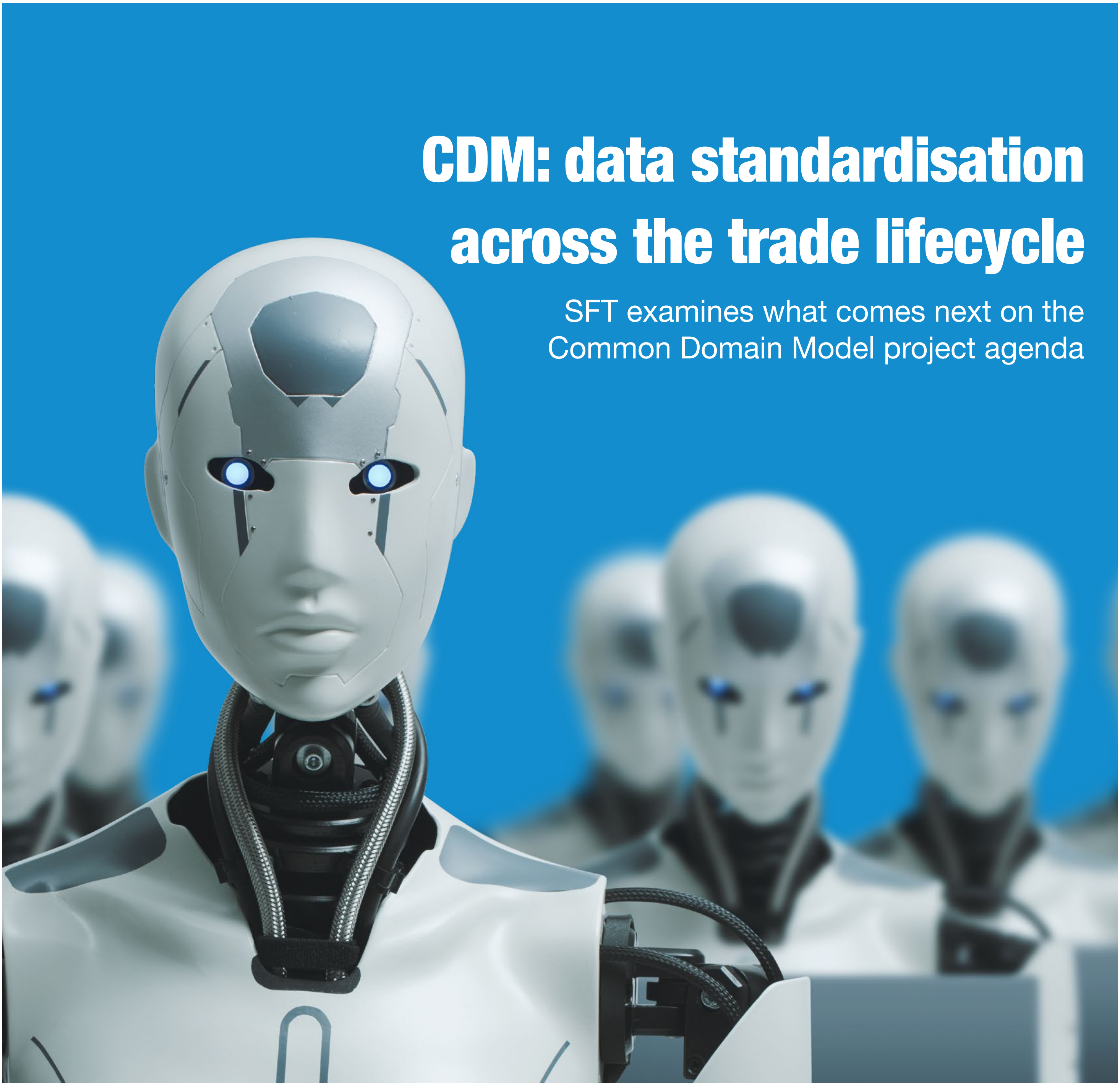
CDM: data standardisation across the trade lifecycle

SFT examines what comes next on the Common Domain Model project agenda







Citi goes live with Nordnet on its Securities Lending Access platform

This solution brings together Citi's lending platform with Sharegain technology to support securities lending that is crafted to the requirements of underlying individual investors as well as traditional lenders.

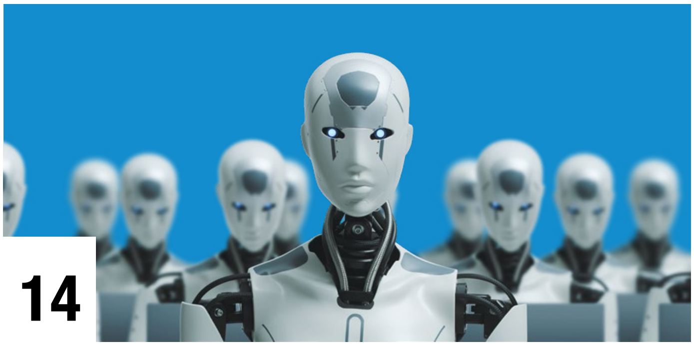
Citi describes this as an end-to-end solution that digitises and automates the full securities lending transaction lifecycle. Co-sponsored by Citi Ventures' D10X programme, this aims to democratise securities lending by extending access to a wider community of investors through their existing banks, brokers or financial advisers.

Through this service, Nordnet, the pan-Nordic online broker and digital investment platform, expects to widen its securities lending programme to new client segments and markets.

Citi Agency Securities Lending offers lending activities in 75 markets, supported by trading desks in five countries and on-the-ground custody expertise from more than 60 proprietary custody branches worldwide.

Commenting on its securities lending solution, Citi's global head of securities services Okan Pekin says: "Citi continues to embrace innovative ideas to deliver new services to our clients. By levelling the playing field, we anticipate this solution will help pave the way for future democratisation of securities lending."

Quincy Curry, director of securities brokerage at Nordnet, says: "Nordnet was one of the first online brokers in Sweden and has since expanded into a pan-Nordic leading digital platform for savings and investments. We are proud to add this collaborative initiative to our ever-growing list of market innovations for our customers."



PASLA backs stance of Korea Exchange CEO

Organisations in the Asia-Pacific region are calling for the Korean government to curb restrictions on short selling as Korea ventures to reach MSCI developed market status.

The Pan Asia Securities Lending Association (PASLA) has backed recent comments made by Korea Exchange CEO Sohn Byung-doo on the importance of removing all remaining restrictions on short selling in the Korean market.

A temporary ban on short-selling activities was imposed by market authorities in South Korea in March 2020, which were designed to "help ease market anxieties" with the onset of the COVID-19 pandemic.

South Korea's Financial Services Commission (FSC) has since announced steps to improve public trust in the short-selling system, including a package of measures designed to tighten oversight of illegal short selling and to improve the operation of the short-selling system, which was announced in July 2022.

Clearstream releases Collateral Mapper

Clearstream has released a solution to optimise management of equity collateral, providing predictive analytics and data relating to collateral portfolios and equity capacity.

The service, named Collateral Mapper, delivers an automated and integrated view of the collateral inventory and offers pre-emptive insights on the potential of an equity portfolio. This uses automated workflow and end-of-day data, thereby minimising manual requirements.

In doing so, it highlights any spare capacity in rebalancing an inventory towards equity, enabling higher-quality collateral assets to be deployed for other uses.

Priya Sharma, head of data and connectivity at Clearstream, says: "Due to the current changing interest rate climate, market participants are placing a renewed focus on collateral management. We at Clearstream combine the power of high-quality data and pre-emptive analytics to provide clients with innovative and reliable insights.

"With the Collateral Mapper, we enable them to maximise their collateral pool across different asset classes. Today, more than 10 per cent of triparty repo collateralisation is taking place in equities, bringing potential to optimise eligible inventory."

Marton Szigeti, head of collateral, lending and liquidity solutions at Clearstream, adds: "Providing our clients with reliable and scalable state-of-the-art solutions that reduce the frictional costs of trading through transparency and automation is core to our collateral management strategy.

"We at Clearstream are the innovation partner of choice in digital post-trading, an expertise that we are bringing to bear in the transformation of the collateral management space."

Clearstream indicates that this Collateral Mapper tool can be accessed via Clearstream's Xact platform and is now available to users for a 3-month trial on a free of cost basis.

CAF mandates BNP Paribas Securities Services

Latin America and Caribbean development bank Corporación Andina de Fomento (CAF) has selected BNP Paribas Securities Services as agent lender for its US$1.3 billion portfolio.

The partnership follows BNP Paribas' 2020 issuance of a COVID-19 recovery bond to CAF and the company's continued relationship with the LatAm region.

CAF will benefit from more than 100 counterparties through BNP Paribas Securities Services' third-party global lending model. This will allow for the expansion of its portfolio revenues.

CAF's sustainable development model focuses on equity, efficiency, sustainability, institutionality and integration.

Claudia Calderon, head of Hispanic LatAm for Securities Services at BNP Paribas, comments: "We are very pleased to continue building upon the strong partnership BNP Paribas has developed with CAF over the past few years. We are delighted to add them to our selective portfolio of securities lending clients and as the first supranational entity in LatAm to join our programme."

Gabriel Felpeto, chief financial officer at CAF, says: "This milestone allows us to enhance our portfolio revenues in Latin America and the Caribbean and strengthen our commitment to sustainable development in the region."

European Repo Survey reveals new record high

The total value outstanding of repos and reverse repos on the books of the 61 institutions that took part in the recent European Repo and Collateral Council (ERCC) survey has grown to a record high of €10,374.2 billion, a 12.8 per cent rise year-on-year and 7.2 per cent rise from the June 2022 survey.

Some of this increase in value outstanding reported in the latest European Repo Market survey, which measured the amount of repo business outstanding on 8 December 2022, reflects the addition of new participants to the survey — up from 56 participants that contributed data to the 8 June 2022 ERCC survey.

The latest survey reported a sharp drop in the share of triparty repo from 9.0 per cent in June 2022 to 6.5 per cent, which occurred despite an increase in the number of participants reporting triparty business and the revival of general collateral (GC) repo.

Data provided by automatic trading systems (ATS) in Europe highlighted a further acceleration in the growth of repo trading value. The outstanding value of repos executed on these platforms increased 15.7 per cent to €1,651.4 billion on 8 December 2022, compared with the previous survey in June 2022.

However, growth in the outstanding value of ATS trading was boosted by the addition of SIX SIS to the set of ATS providing separate returns to the survey, meaning there was a significant deceleration in the growth of ATS balances, the survey reports.

The European Repo Market survey conducted by the International Capital Market Association (ICMA) reveals that the key developments impacting the survey were the market turmoil in September and dealer preparations for the year-end, resulting in the temporary winding-down of their balance sheets.

The market turmoil, arising from uncertainty over the pace and size of central bank interest rate increases and the shock of the UK mini-budget, occurred against the background of rising activity in the repo market, in addition to increased cash-driven trading and growing securities-driven trading, reports ICMA ERCC.

These events helped to boost demand for German and, to a lesser extent, other core eurozone government securities. However, the sell-off of UK gilts by Liability Driven Investment (LDI) pension funds "may have sapped subsequent activity in the gilt repo".

ICMA notes that as the year-end approaches, dealers typically "window dress" their balance sheets by shrinking them to minimise costs and consequences linked to end-year balance sheet size. In 2022, these concerns manifested themselves as early as summer. Forward prices implied severe market tightness by the year-end, the survey reports.

Notwithstanding, the report indicates that the 2022 year-end passed smoothly. This was largely the result of early preparations by dealers and their customers and supportive

action by the market authorities — for example, the issuance of additional German government securities and the loan of these securities to ease collateral shortages.

Natixis picks Adenza for regulatory reporting

Natixis Corporate & Investment Banking (CIB) has selected Adenza's AxiomSL ControllerView to automate regulatory reporting in Hong Kong.

The Adenza solution fully automates the regulatory reporting process by integrating, managing and reconciling volumes of disparate data.

It applies local regulatory rules with strict adherence to policy and comprehensive governance controls.

Adenza's AxiomSL regulatory reporting solutions deliver a consistent, transparent, automated approach to capital calculations, regulatory reporting, data management and analytics, says Natixis.

The solution allows Natixis CIB to manage a wide range of regulatory reporting requirements, the firm adds.

Thomas Puget, chief financial officer of Asia Pacific at Natixis CIB, says: "Ensuring that our regulatory reporting framework addresses our needs and has the ability to anticipate future requirements was a key consideration for us. As a global player and a leader in regulatory reporting in the Asia Pacific region, Adenza's deep knowledge of the space positioned them as the ideal partner for Natixis CIB."

Subbaiyan V, senior director and head of financial regulatory products for the Asia Pacific Region at Adenza, comments: "As a truly global player, Natixis CIB understands how important it is to develop regulatory reporting strategies that incorporate both hyperlocal expertise and worldwide scale. We're honoured that Natixis CIB has selected us for this critical function and we look forward to continuing to grow with them."

ESMA goes live with DLT pilot

The European Securities Markets Authority's (ESMA's) distributed ledger technology (DLT) pilot regime has gone live on 23 March.

The pilot builds on the existing Markets in Financial Instruments Regulation (MiFIR) and includes tokenised financial instruments. This aims to bring pre- and post-trade transparency and market abuse monitoring to DLT-based securities.

The regime allows some exemptions from the EU's MiFIR and Central Securities Depositories Regulation (CSDR) regimes, making it easier for market participants to trial DLT when trading and settling financial instruments, says Etrading Software.

As part of the programme — which was introduced by the European Commission in 2020 as part of its digital finance package — ESMA recommends the International Standards Organisation (ISO) standard 24165 digital token identifier (DTI) codes, issued by the DTI Foundation (DTIF), as a compensatory measure.

DTIF and the Association of National Numbering Agencies (ANNA) — ISO Registration Authority for ISO 6166 international securities identification numbers (ISINs) — have been running a joint task force which was formed to explore the synergies between DTIs and ISINs.

The task force has recommended close cooperation between the registration authorities and has been working on identifying security tokens with existing ISINs to allow these to become issued DTIs.

Currently, more than 50 such tokens have been identified, verified and added to the DTI registry. The task force will continue its work to support participants in the DLT Pilot in meeting ESMA's recommendations.

According to Alisa DiCaprio, chief economist at R3, today's launch of the EU's DLT pilot regime represents an important opportunity for those working in DLT and financial services.

She continues: "By providing the regulatory framework to apply DLT across a range of use-cases, the pilot will enable companies to explore the ways in which this technology can make the financial sector more efficient while reducing risk and increasing profitability."

DiCaprio states that this will help accelerate innovation in Europe's financial sector, bolstering the long-term competitiveness of European capital markets.

As other jurisdictions such as the UK, US and Middle East look to emulate the EU's programme, institutions should make the most of the opportunity to understand more about how DLT can enhance their services and collaborate to realise these benefits, DiCaprio advises.

Commenting on the release of the DLT pilot, Etrading Software CEO Sassan Danesh says: "The DTI standard is critical to help the industry know what they are dealing with. They continue to adopt the standard to help build increased transparency and clarity in the market. ESMA's pilot today signals the importance given to pre- and post-trade transparency and protecting industry against market abuse."

Stephan Dreyer, managing director of ANNA, adds: "Working with the DTIF, ANNA is building interoperability between the ISIN and DTI, harmonising standards in this space. The ISIN standard (ISO 6166) will continue to provide unique instrument identification as it has for the past 40 years and incorporate new assets, including digital assets.

Central banks take action to enhance US dollar repo operations

Central banks are taking action to enhance the provision of liquidity through the US dollar liquidity swap line and repo operations.

The Bank of England (BoE), the Bank of Canada, the Bank of Japan, the European Central Bank, the Federal Reserve and the Swiss National Bank have agreed to increase the frequency of seven-day maturity operations from weekly to daily to improve the swap lines' effectiveness in providing US dollar funding.

In-line with these plans, BoE will increase the frequency of seven-day maturity US dollar repo operations from weekly to daily, commencing on Monday 20 March 2023 and continuing until Friday 28 April 2023.

The operations will take place at 08.15 GMT, the closing time for bids will be 08.45 GMT, and the results of the day's USD repo operation will be announced by the BoE at 10:00 GMT, or as soon as possible thereafter.

The pricing for seven-day standing US dollar repo operations will be the matched maturity US dollar overnight index swap (OIS) rate plus 25 basis points.

The market notice comes as a result of the Credit Suisse Group crisis. Previously, Credit Suisse suffered losses of close to US$5.5 billion with the default of Archegos Capital Management — an in-depth discussion on the default of Archegos and the impact on Credit Suisse can be found in SFT Issue 284 and SFT Issue 289.

The network of swap lines among these central banks is a set of available standing facilities and, according to the BoE, "serves as an important liquidity backstop to ease strains in global funding markets".

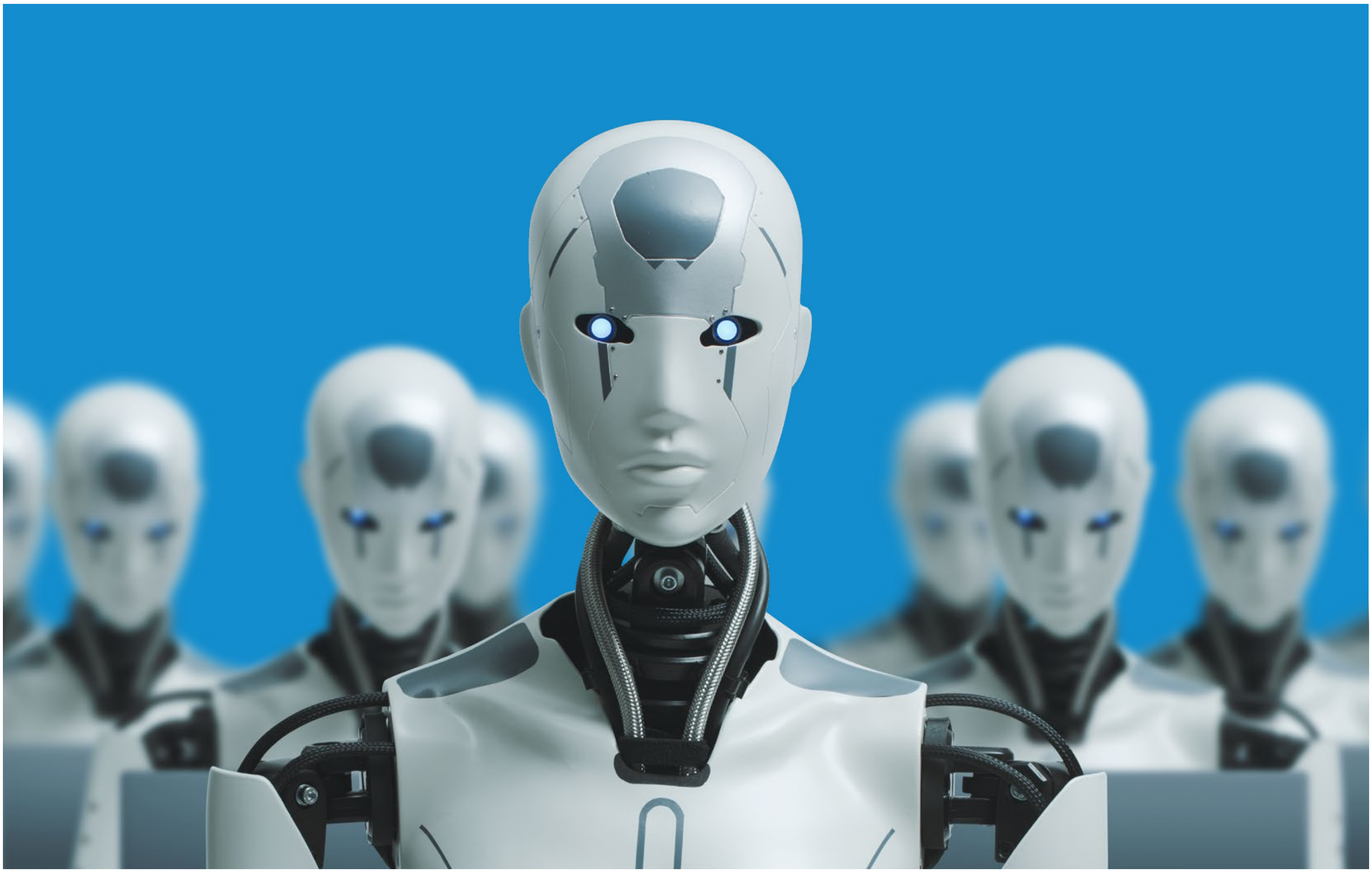
The initiative aims to help mitigate the effects of such strains on the supply of credit to households and businesses.

Investment bank UBS has since announced its takeover of Credit Suisse "to secure financial stability and protect the Swiss economy in this exceptional situation", according to the Swiss National Bank — which has provided "substantial liquidity assistance" to aid the transition.

Secretary of the treasury Janet Yellen and Federal Reserve Board chair Jerome Powell, comments: "We welcome the announcements by the Swiss authorities to support financial stability. The capital and liquidity positions of the US banking system are strong, and the US financial system is resilient. We have been in close contact with our international counterparts to support their implementation."

Christine Lagarde, president of the European Central Bank, adds: "I welcome the swift action and the decisions taken by the Swiss authorities. They are instrumental for restoring orderly market conditions and ensuring financial stability.

"The euro area banking sector is resilient, with strong capital and liquidity positions. In any case, our policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed and to preserve the smooth transmission of monetary policy."



CDM: promoting data standardisation across the trade lifecycle

Bob Currie reports on efforts to promote a common digital representation of lifecycle events for securities lending, repo and derivatives trades and examines what comes next on the Common Domain Model project agenda

The Common Domain Model — or CDM — provides a common data representation of transaction events, offering a common template or set of fields that the industry will use to share trade information and other key data. Among multiple benefits, CDM adoption aims to reduce the burden of reconciliation and lower the risk of mismatches or settlement failure caused by inconsistency in how data fields are used.

For four years, the International Swaps and Derivatives Association (ISDA) has been active in the OTC derivatives market in promoting a common digital representation of the steps, or 'lifecycle events', associated with a derivatives transaction.

Subsequently, the International Securities Lending Association (ISLA) has been working with ISDA and the International Capital Markets Association (ICMA) to apply a CDM to securities lending transactions, and ICMA has been doing similarly for repo and bond trades. Aligned to this activity, these trade associations have been working to develop digital versions of their market standard master agreements.

In May 2022, the three industry associations which have collaborated to deliver the CDM project issued a tender to meet the requirements of providing a repository for the CDM resources.

The requirements included maintaining the CDM code, facilitating the growth of a community of CDM contributors, and creating governance structures which allow these contributions to be overseen by the associations. On the basis of this request for proposal (RFP) and selection process, FINOS was appointed in September 2022 to provide this repository service, enabling users to access CDM resources as open source.

In line with this agenda, Ian Sloyan, senior adviser, data and digital solutions at ISDA, explains that the recent project focus has been on moving the core of the CDM to the open-source repository at FINOS. "We are taking the CDM elements that will be made open source, which is the vast majority of the CDM code, and managing its migration into the FINOS repository — in doing so, we are aligning with the governance structures that FINOS requires," he says.

ISDA indicates that it welcomes the opportunity this will offer to broaden the base of CDM contributors and to use the open-source tools and best practices available through FINOS to widen the scope of contributors. "To date, many of the contributions to the CDM project have been coordinated through the trade associations and their technology partners," says Sloyan. "As part of the FINOS community, this will enable us to link with a wider range of projects under the FINOS umbrella and to align more easily with industry standards and protocols, including FIX and ISO 20022 standard messaging supported on the SWIFT network."

Trade negotiation

ISLA's CDM Trading Working Group was established at the end of Q1 2022, providing an open invitation to vendors and other market participants in the trading space to apply the model to their trading solutions and to deliver greater standardisation across securities finance trading activities.

"As an Association, ISLA has played a role — alongside ICMA and ISDA — in facilitating this conversation," says David Shone, director of digital affairs at ISLA. "We identified an opportunity through CDM to standardise trade negotiation workflow, which is our first step into applying the workflow elements of the CDM."

Open collaboration

FINOS was established to provide a forum for non-competitive open collaboration between participants in the financial services industry. In pushing this objective, it aims to offer both the open-source tools and the community of users that will propel the development and adoption of the CDM.

In 2020, FINOS staged a pilot programme for submitting changes to the CDM model using Legend, its open data modelling collaboration platform developed initially by Goldman Sachs in collaboration with FINOS and a number of other large global investment banks.

In addition, the FINOS Financial Objects Special Interest Group (FO SIG), led by Goldman Sachs and ISDA, provides a forum for collaboration on data modelling for a range of business use cases, for example carbon credits for energy projects and data lineage of digital assets.

"We have a successful track record of model development using Legend at FINOS and we are fully committed to establishing an operating model that incorporates both Legend and Rosetta [a language and tool set developed by REGnosys] in the CDM modelling process," says Ian Sloyan, ISDA's senior advisor, data and digital solutions and a co-lead of the FO-SIG.

At a recent Open Source in Finance Forum in New York, ISDA released its Digital Regulatory Reporting (DRR) live in production with one of its association members, BNP Paribas, using code developed using the CDM to meet regulatory reporting obligations under the US Commodity Futures Trading Commission's (CFTC's) revised swap data reporting rules.

In a joint statement released on 18 February 2023, ICMA, ISDA and ISLA announced that the CDM is now available in FINOS under the FINOS Community Specification License 1.0. Further details are available via the FINOS Common Domain Model web page or via the GitHub.

Now, the CDM Working Group is looking to move beyond the product, transaction and legal components, which have been its primary focus until now, to apply the CDM more widely across the transaction value chain — recognising that there is great value in applying standardised procedures to operational processes.

In February, the three trade associations held an industry event in London to profile the work that has been done to develop a CDM for the securities financing, repo and derivatives markets, providing opportunity for firms to discuss concrete use cases and to share their experiences in applying CDM.

Mike Lambert from Broadridge and Robert Miles from GLMX presented at this CDM Showcase event, which illustrated the practical steps that the group has done and their work as vendors in turning this into practical application.

This explained the workflow in diagrammatic form and then in coded form through examples using Rosetta, REGnosys' regulatory reporting platform. This use-case employs “propose-counter-accept" workflow for trade negotiation. With this, the user can accept a proposal and execute. Alternatively, the user can issue a counter proposal, amending the original and presenting this back to the counterparty for review — with the proposal going backwards and forwards as many times as required. Or the proposal can be rejected.

This provides a mechanism for automated negotiation between counterparties that largely eliminates manual touch points.

Code reusability

In their CDM work to date, and in their future plans, the trade associations have adopted a deliberate strategy to focus on different parts of the transaction workflow. Chris Rayner, ISLA senior associate for market infrastructure and technology, points out that development work on trading workflow conducted by ISLA is applicable not only to securities lending trades, but may be applied more widely in modelling derivatives, repo and other trade types — and this is similarly the case for the work done by each of the trade associations. The standardisation offered by the CDM is key to enabling re-use of CDM objects across trade types and use cases.

For ISDA, a core component of its recent CDM development work has been on digital regulatory reporting. The challenge of ensuring that market participants report their derivatives trade data in the correct format — and maintain accurate and timely trade reporting as regulation is constantly released and amended — has been a major overhead for the derivatives industry. This has been a key driver for its Digital Regulatory Reporting (DRR) initiative.

This DRR project aims to deliver a standardised data model to guide trade reporting. Rather than each firm creating a regulatory reporting solution based on its own interpretation of the rules, market participants are developing an industry-led standardised interpretation of the regulation as open-source code. In turn, DRR will allow regulators to publish reporting rules as machine-executable code that can be automatically read and interpreted by the IT systems of reporting firms, thereby improving the reporting process across asset classes.

In November 2022, BNP Paribas was the first company to go live with the DRR under the CFTC’s amended swap data reporting rules in the US, representing the first implementation of ISDA’s DRR solution in a real-world production-level environment, with trade data submitted to the DTCC’s swap data repository.

Commenting on this development, ISDA’s director of data and reporting Andrew Bayley, explains that DRR is live for the CFTC’s amended swap data reporting rules and ISDA is now working on EU reporting rules under revisions to the European Market Infrastructure Regulation (EMIR), or EMIR Refit. Many of the same firms that participated in the CFTC initiative are involved in the build for the EMIR Refit, with new firms joining on an ongoing basis. This, he suggests, reflects the success of the DRR service and the positive feedback it has generated since BNP Paribas announced it is using the DRR for its CFTC reporting.

Other jurisdictions are now preparing for similar rule rewrites. For example, the Japanese Financial Services Agency (JFSA) has announced it will implement amendments to its derivatives reporting rules in April 2024. Updates are also being made in Australia, Canada, Singapore and the UK.

One of the strengths of the DRR, Bayley believes, is the reusability of code which will help speed up the modelling process. For example, ISDA anticipates that the combined EMIR and CFTC rule set will cover more than 90 per cent of the JFSA requirements.

“In short, we are no longer starting from scratch for subsequent regulatory implementations,” he says. “The development process for the

CFTC amendments took just over 12 months, but this could fall to a few months in future. As regulators make further incremental changes, the implementation time could fall to a few weeks or even days, depending on how significant the changes are."

The DRR can be used in different ways. For example, BNP Paribas is utilising the DRR to generate its outgoing reports. But firms could also use an in-house solution or an alternative vendor to generate their regulatory reports and use the DRR to validate their implementation against the regulatory requirements.

Repo lifecycle

ICMA is set to conclude Phase 2 of its CDM project for repos and bonds close to the end of Q1 2023, enabling users to automate repo processing and to streamline trade reporting.

The Association reports that its focus during Q4 2022 was on finalising technical programming of repo structures and processes into the CDM model. It has been working with REGnosys to capture repo lifecycle events such as interest rate changes, close and reopening of a trade position, and shaping a trade — splitting a large trade into smaller elements to improve settlement efficiency.

ICMA was approached for an interview for this article, but did not put forward a spokesperson prior to publication. However, SFT understands that the next steps in ICMA's CDM project include integrating elements of the General Master Repo Agreement (GMRA) clause library as a foundation for smart contracts and to apply commonalities between the ICMA Common Data Dictionary for primary bond markets and the CDM to facilitate issuance, trading and settlement of DLT-issued bonds.

More broadly, beyond CDM, ICMA's DLT Bonds Working Group continues to work to advance the development of nascent DLT bond markets and to liaise with financial supervisors, investors and issuers on raising awareness and understanding of this digital asset class.

Pre-trade accuracy

For ISLA's CDM Trading Working Group, one of the next items on the project agenda will be to tackle loan availability. Mike Lambert, securities lending product director at Broadridge Financial Solutions, notes that in assessing loan availability, a firm may receive information from multiple lenders, each of which may employ a different data format and a slightly different definition of what loan availability means. For the recipient, the challenge is to take in this data — sometimes via API, but often sent as an excel file or via email — to collate, validate and normalise this data before it can be used as an input for trade negotiation. This data cleansing and validation process is resource intensive — and the working group is confident that CDM will bring major benefit in standardising data formats and reducing costs of data cleaning.

To date, ISLA's CDM Working Group has focused its initial energies on trade negotiation, digital documentation and other pre-trade processes. Lambert explains that its rationale was twofold. By getting the pre-trade elements right, this accuracy and standardisation feeds onwards throughout the trade lifecycle. Second, the pre-trade segment remains a relatively underserved part of the transaction lifecycle and has benefited from a concerted focus within the WG on how to eliminate pre-trade errors and mismatches — errors that are a frequent cause of downstream processing errors and STP breaks.

By applying CDM from trade negotiation downstream across the lifecycle, this eliminates the risk of mismatches and reconciliation breaks, creating a golden entry point where trade data is booked in standardised format prior to executing the opening leg of the SFT. Delivering standardisation pre-trade means less risk of downstream operational errors and it reduces the reconciliation burden.

In November 2022, ISLA also launched its Document Digitisation Working Group, which is focused on digitising the Global Master Securities Lending Agreement (GMSLA, relating to title transfer trades) and the Securities Interest over Collateral (for pledge transactions). This group is administered by D2 Legal Technology (D2LT), but with contributions from key specialists in this space including document negotiation platforms such as SmartDX and Broadridge. Sixteen firms are now participating in this working group.

ISLA's David Shone indicates that the group is currently working with the Clause Library and translating this into the CDM's data structure. This will facilitate counterparties' ability to negotiate SLB transactions electronically and to create a CDM object that captures the legal terms of the trade, represented in the same model as the trade details and product representations that they govern. This paves the way for further automation of lifecycle events for SLB, repo and derivatives transactions.

The group has outlined the modelling principles, specifying the rules that should be followed. “We now have group members actively working to model their own agreement clauses,” says Shone. “With multiple firms contributing, each is gaining modelling experience, applying the CDM principles to their own use cases and keeping the project advancing at good speed by sharing the development workload.”

CDM repository

In February, the three trade associations migrated the CDM code into the FINOS repository and this is now available as an open-source resource. Some administrative details are still to be finalised, notes ISDA’s Sloyan, but the CDM code is available to users via the FINOS GitHub common domain model page.

The inaugural CDM meetings at FINOS took place on 14 March and these CDM meetings are open sessions that can be attended by interested parties from across the FINOS community. There will be subsequent FINOS meetings to build, agree and maintain the code on an ongoing basis.

For collateral management, CDM development activities will be coordinated through a Collateral Working Group that will be administered by FINOS. Participation will be open to any firm that wishes to attend from the FINOS open source community.

As co-lead of the FINOS Financial Objects Special Interest Group (FO-SIG), Sloyan indicates that ISDA’s focus to date has been principally on the DRR and it has not yet had opportunity to make big commitments to other use cases. However, through the FO-SIG, he notes that there is an ongoing dialogue on sustainability data and integrating that with the financial infrastructure, as well as standardisation of data elements to support the trade lifecycle for digital assets.

“We are confident that FO-SIG will provide a space where participants can discuss new ideas, and then those ideas can become reality, if applicable, via the CDM governance structures or through other projects at FINOS or elsewhere,” says Sloyan.

Outside of the DRR, Sloyan indicates that the primary focus for FINOS will be on collateral. Initially, this will centre on the development of digital collateral eligibility models that are built on CDM formats and will lower eligible collateral negotiation times, improve interoperability and streamline user onboarding by enforcing a standardised data structure.

Preliminary work is also ongoing to support further automation of interest calculation and processing for cash collateral, automating collateral calculations and movement of funds while reducing settlement fail rates.

Steps to improve data reconciliation are inherent to the CDM and this model will be applied to support automated portfolio reconciliation and collateral dispute resolution. By enforcing standardisation of data requirements, this provides opportunities for users to focus on mismatches and to deliver genuine exception-based workflow.

Production use-cases

Arguably, the CDM project is now reaching a tipping point where it has moved beyond proof of concepts to real-life production examples, where the securities finance community can see concrete applications of the CDM in live use cases and can identify this as a benefit to their company and to the industry at large.

“Firms may recognise, for example, that had CDM already been in place at the time that the Securities Financing Transactions Regulation (SFTR) was implemented, their preparations for SFTR would have been much more straightforward,” says Broadridge’s Lambert. “By the same token, we believe that having CDM in place will make it significantly easier to prepare for future regulatory adaptation.”

For ISDA’s Bayley, the time and resources committed to regulatory adaptation in recent decades has been enormous and broadly unsustainable. Financial supervisors recognise this and are focusing on steps to accelerate this process and reduce costs. The UK Financial Conduct Authority's (FCA's) Transforming Data Collection initiative provides one example. In the EU, regulators are engaging with the industry to promote machine-readable and executable regulatory reporting.

“No matter how regulators label these initiatives, it is likely they will promote standardised data models that look much like the CDM and deliver solutions that look much like ISDA’s DRR initiative,” concludes Bayley. ISDA, ICMA and ISLA, as trade associations, are at the forefront in promoting CDM-based data modelling that will benefit financial regulators and the industry at large.

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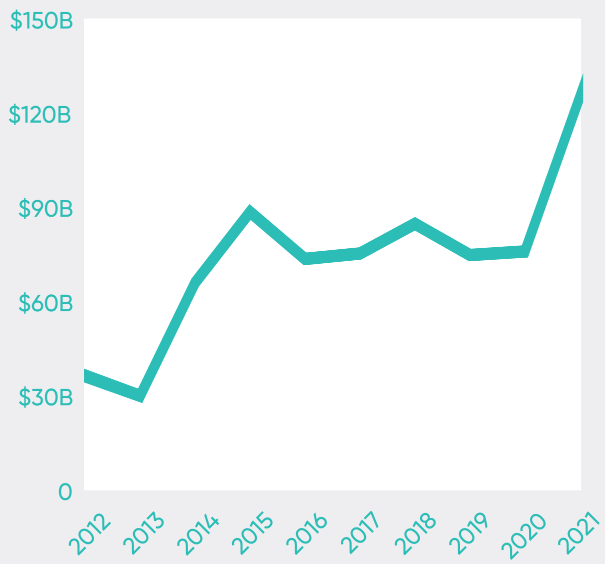
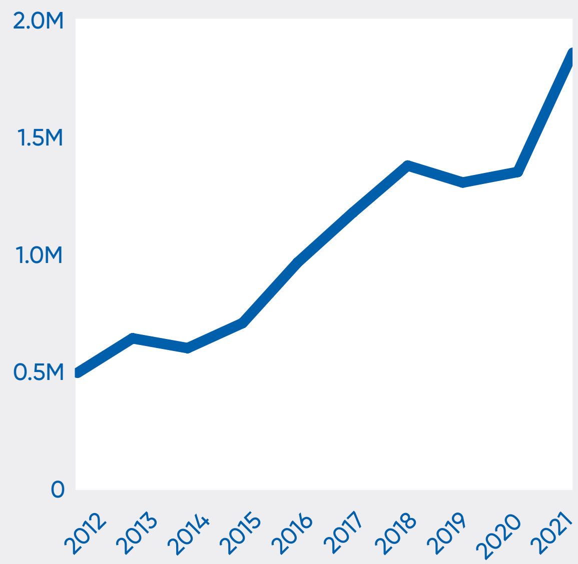


Annual New Loan Transactions



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Forming a tokenised economy

Industry bodies are working to create a safe environment for the mainstream adoption of digital assets. Carmella Haswell reflects on how market practice changes, regulation and advances in technology and standards will define this journey

The coexistence of digital assets and traditional finance is creating a new world of opportunities for the industry. Firms are continuing to adapt to the changing landscape, where institutional adoption of tokenised and digitised assets is on the rise.

Weaving through the challenges of implementation, the market calls for further education and refined regulatory frameworks to provide a safe environment for this migration, and hopes that these factors will act as a catalyst for moves towards a more tokenised economy.

"Blockchain is much more than crypto assets," says Bhavna Haswani, vice president of product management and digital assets lead at J.P. Morgan. "On the other side of the spectrum of blockchain, we have digital assets, where we are seeing growing utilisation in the collateral and securities finance space."

A digital representation

According to Simon Squire, managing director, global head of product development for Clearance and Collateral Management at BNY Mellon, tokenised traditional assets are assets that encompass a digital representation of a traditional asset class set on distributed ledger technology (DLT) or blockchain.

There are two main areas of tokenised traditional assets — one is tokenising a specific security and the second is tokenising a pool of assets. Tokenised traditional assets are only one of the non-cryptocurrency aspects of digital assets; securities or other assets may also be issued digitally on a blockchain or DLT. Squire explains that, in this construct, the asset is digitally or originally listed, recorded and then kept on the blockchain or DLT.

As an example, the European Investment Bank (EIB) launched its first ever digital bond issuance on a blockchain platform in 2021, deploying this DLT for the registration and settlement of digital bonds, in collaboration with Goldman Sachs, Santander and Societe Generale.

At the time, the EIB said that the digitalisation of capital markets could bring a range of benefits to market participants in coming years, including eliminating the requirement for certain financial intermediaries, reducing fixed costs, delivering faster settlement speeds and promoting better market transparency by improving their ability to monitor trading flows and the identity of asset owners.

Rina Azumi, executive director of digital assets, Global Banking and Markets, at Goldman Sachs pinpoints an uptick in enterprise readiness and increased institutional adoption of tokenised and natively digitalised assets in recent years. In addition, an acceleration in the representation of traditional financial assets on blockchain has also been evident.

This integration of the digital asset world and the traditional finance world is proving beneficial for market participants. According to Azumi, this evolution provides enhanced functionality — for instance, the speed efficiency in which DLT allows for trading to the nearest minute. Further, it provides potential for fractionalisation — the ability to split an asset into smaller fractions on blockchain and distribute to a wider investor base.

For Azumi, risk reduction is a key additional feature, whereby participants are able to settle with greater precision on blockchain, therefore enabling greater liquidity and capital efficiency. "There are operational efficiencies associated with being able to leverage blockchain and it carries cost savings as it removes the need for intermediaries," she continues. "We have a single source of truth that is shared by all parties, which also removes the need for reconciliation."

According to Digital Asset president Shane Akeroyd, a smart contract contains all of the information that an existing contract does, including an issue date, maturity date and coupon payment date. Smart contracts also include details of workflow or lifecycle events.

"We have checkpoints to ensure that rules, regulations and market standards are adhered to and we have connectors such as SWIFT to allow communication between market counterparties, particularly for the payments leg of the transaction," Akeroyd notes. "What is lacking, and what smart contracts bring to the table, is evidence that this is being done, providing one neutralised view.

"Although we have different roles, responsibilities and permissioning, we will all, using a smart contract, own parts of this process at any moment in time and over time. Multiple parties using a smart contract will have a real-time view of everything that is going on."

Further, Akeroyd says that blockchains are designed to guarantee the integrity of data across multiple counterparties using consensus protocol. There will be various validators on the network that will verify their own information, releasing it to the network on a permission basis or in real time. "One of the benefits," he adds, "is that it will do away with the need to reconcile by replacing it with this consensus mechanism."

The reality of tokenisation

A published report by the Boston Consulting Group (BCG) in September 2022 indicated that the projected growth of asset tokenisation would expand into a US$16 trillion business opportunity by 2030.

The report states there is an impending shift from traditional fractionalisation to on-chain tokenisation, which expands the scope of asset classes, stakeholder groups and regulatory scope for tokenisation. It adds: "Therefore, it is crucial to understand and appreciate the incremental benefit from fractionalising assets on blockchain-based platforms."

Asset tokensiation is opening up a new world of opportunities to revolutionise how assets are issued, managed and transacted, says Yuka Hasumi, head of EquiLend Japan. For Hasumi, “the possibilities are endless”, to tokenise almost anything from personal to business, from property to equity. “Tokenisation is already a reality.”

Focusing on collateralisation and tokenisation — as it continues to evolve towards “a more proactive approach”, with collateral becoming more of a centralised global function for market participants — Hasumi says that though the positives for successful technology adoptions are “obvious”, implementation is always a challenge. Greater efficiency and increased transparency are two benefits of successful technology.

In May 2022, J.P. Morgan announced the transfer of tokenised money market funds (MMFs) shares on blockchain as collateral — stating it was the first firm globally to do so. The firm confirmed that both collateral provider and collateral receiver must be present on the blockchain-based application, known as the Tokenised Collateral Network (TCN), enabling participants to transfer ownership of the collateral without the need to transfer the underlying asset.

“It was a big moment for the industry,” says Hasumi, “in demonstrating how the technology works and to further drive more transparency, diversity and efficient scalability.”

According to Squire, a common problem that the industry faces is getting the right securities in the right place at the right time — an issue that is becoming increasingly important given evolving regulation and the current environment. Squire predicts that this is costing the industry tens, if not hundreds of millions of dollars on an annual basis.

Liquid assets get “stuck” in the real world all of the time, Squire indicates. He uses as an example a European government bond that settles five minutes before market cut off. “Ideally, you have lined up some secured financing for that asset, with five minutes before the market closes, the likelihood of being able to mobilise that asset into the right place is very difficult. The result is that the asset is going to be trapped or unencumbered in that location and not being utilised.

“Imagine a world where that asset is on a DLT and those assets can move seamlessly 24/7, the efficiencies that could be created for our industry is very exciting. Today, global banks hold liquidity buffers in Asia-Pacific, EMEA or the US. Imagine that you could take a US asset as part of the inventory pool and mobilise that around the timezones.”

Squire indicates that DLT gives market participants an opportunity to make assets easier to mobilise.

The next quantum leap

In Q3 2022, EquiLend launched a new DLT solution to combat reconciliation inefficiencies called 1Source. The programme, which is currently in the design phase, aims to use emerging technologies to develop a common record, or “single source of truth”, to support trade processing across the transaction lifecycle. EquiLend indicates that, in building this solution, it will deliver a centralised DLT-based platform that will act as a “single source of truth” for securities finance lifecycle events and a universal source of data for the industry.

Shortly after this announcement, BNY Mellon and Goldman Sachs International settled agency securities lending transactions using the HQLA^{X} DLT platform. HQLA^{X} created ISIN-level securities trackers called Digital Collateral Records (DCRs), from loaned securities it received from BNY Mellon, giving Goldman Sachs a digital copy of those trades. Those records enable holders and agents to transfer ownership of any security on the HQLA^{X} distributed ledger, without the need for conventional settlement mechanisms.

Squire finds a “real value” for DLT in the inventory and collateral management space, noting that the technology can be used to reduce friction associated with the fragmented settlement environments, especially in Europe, where there are a number of different markets. However, there are concerns. Squire highlights: “I do worry a little bit that we are building to create an ecosystem of disparate DLTs and that we end up creating an even more fragmented ecosystem for DLTs and the traditional world.

“We are going to need to take very thoughtful approaches as an industry. We might need to change our approach in the way that we think about competition and the way that we work together to make these worlds really come together and create a collaborative ecosystem.”

Assessing the next move for the industry, Akeroyd believes that there will be an increase in asset tagging — when collateral eligibility details are embedded in smart contracts, similar to how lifecycle events may be embedded into smart contracts. Akeroyd says that this will allow firms to look at the availability of collateral in real time. “A key new functionality is the locking of collateral to secure a party in one location against a liability in another, without having to move the collateral around," he notes.

"A real-time view of our collateral and our positions will allow us to optimise our collateral and manage risk in a more efficient way. Going forward we will see more asset tagging, embedding eligibility criteria into smart contracts, we are going to be able to do this with many more assets than we are currently doing. We are potentially going to open up the world of collateral to assets that were previously not eligible," Akeroyd explains.

Many within the financial industry look positively toward the adoption of digital assets and for this to become a part of an industry standard operating model. However, market participants remain mindful of potential complications and have recommended further education and regulatory frameworks as tools to promote the safe development of a tokenised economy.

Hasumi suggests that a clear regulatory framework is of key importance — ideally, a global alignment of regulatory framework and complimentary standards — to help force all market participants and vendors to think carefully about the best possible outcome and impact on the economy by creating real value.

In terms of regulatory framework, Akeroyd states that the perimeters for digital assets have been drawn "fairly widely" and, therefore, these perimeters need to be narrowed. This comes as no surprise given the broad definition of a digital asset. As stated by the Internal Revenue Service (IRS): "Digital assets are broadly defined as any digital representation of value which is recorded on a cryptographically secured distributed ledger or any similar technology as specified by the Secretary." Akeroyd notes that there are "obvious" differences in the risks presented by different types of digital asset, for example cryptocurrency and a tokenised government bond. Scalability, interoperability, composability are important to consider in this journey.

He adds: "Education will remain a focus. Like all new technologies there will have to be a translation layer between the market participants who will fund initial application and network development and technology providers. Full benefits will be realised once fast followers join the network as cost and operational efficiencies become obvious."

As the industry looks towards the mainstream adoption of digital assets, industry bodies such as the International Securities Lending Association (ISLA) and the Pan Asia Securities Lending Association (PASLA) are working towards specific objectives to facilitate this journey.

"Firstly, standardisation has been mentioned as something which is very important, we are looking to clearly define what a digital asset is and the risk profile of each of them," explains J.P. Morgan's Haswani. She indicates that the Common Domain Model (CDM) will play an important role in delivering this standardisation, essentially representing a dictionary of common terms. She anticipates that this will produce a clearer understanding of what a digital asset is and how to fit digital assets into the lifecycle of the business.

Secondly, ISLA, PASLA and their members continue their efforts to digitalise the Global Master Securities Lending Agreement (GMSLA) onto the CDM, allowing the standard GMSLA to be used for standard product and digital transactions.

Exploring this further, Haswani says: "For example, in the future, we are going to be seeing clients with a hybrid pool of assets — with traditional assets and digital assets. This portion of digital assets is going to grow in the future. How should clients account for a hybrid pool of portfolios going forward?"

Technology is evolving on a day-to-day basis and new ways are emerging to issue and structure digital assets, says Haswani.

Hasumi adds: "We are not quite tokenised. Ultimate nirvana would be interconnectivity of value and data. There are two segments of DLT — one is DLT of data, which is 1Source, and DLT of value, which is tokenisation. I personally feel this is the next quantum leap for the industry."

"One of the really interesting things with this space is that you don't know what is going to happen next week, let alone in three or five years' time," Squire concludes, "the immediate focus is going to be on-ramp and off-ramp." To clarify, an on-ramp is any platform that facilitates users to acquire crypto assets or enter their markets. An off-ramp is a platform that facilitates a user to dispose of crypto assets or exit their markets.

He continues: "At BNY Mellon, we serve an interesting space where we can issue service custody and help finance those assets. As we talked about the fragmentation in this space, we are going to start to see complete solutions and more collaborations. It is going to be really exciting."

Spotlight on cash reinvestment

As 2023 advances and the interest rate versus inflation debate edges towards a natural conclusion, the market can be confident that cash collateral will continue to play a key role in generating risk-adjusted returns for lenders, says S&P Global Market Intelligence's director of securities finance, Matthew Chessum

The phrase "cash is king" is widely used within financial markets, but during a period of heightened market volatility and technological change, is it still true? Everyday, there are numerous stories in the financial press that report on the development of new crypto currencies, central bank digital currencies and the tokenisation of financial assets. In our day-to-day lives, cash plays a diminished role as the advent of mobile banking and digital wallets has changed the ways in which we transact.

Despite ongoing technological change within the securities finance market, cash has always remained a solid and well used form of collateral. Until recently, the abundance of cash in the financial markets has led to a severely diminished interest rate environment. Given the increases in interest rates seen throughout 2022, S&P Global Market Intelligence Securities Finance data shows that cash collateral, within the Americas in particular, is still alive and kicking and becoming more popular among market participants.

After an unprecedented and protracted period of low interest rates, the end of the pandemic and the reopening of global economies acted as a tipping point for the global financial system. As demand strengthened and supply chains struggled to revert to their pre-covid norms, inflation took hold and a significant change took place in monetary policy. During 2022, the Federal Open Market Committee (FOMC) raised rates at breakneck speed, increasing the benchmark interest rate in the US by nearly 500bps over the year.

This pace of change in global monetary policy is unparalleled. In the UK, the Bank of England (BoE) followed suit with the benchmark interest rate rising from 0.25 to 3.5 per cent and even the European Central Bank (ECB), that had a zero or negative interest rate for the best part of 10 years, increased rates from zero to 2.5 per cent over the year. While the future path of rate increases remains a hot topic among economists and market observers, the move towards a normalisation in the interest rate environment has been reflected in an increase in the amount of cash collateral being used within the Americas.

Despite a decline in balances seen over 2022, predominantly due to a fall in asset prices, the percentage of all securities balances collateralised by cash collateral increased over the year. At the beginning of 2022, approximately 29 per cent of all securities balances were collateralised versus cash collateral (US$815.5 billion), peaking at 37 per cent (US$1.024 trillion) on 28 September before declining again towards year end to 31 per cent (US$810.4 billion) on 30 December.

Across European equities, balances versus cash collateral started the year at 16 per cent (US$32.3 billion), peaking at 28 per cent (US$91.2 billion) during May before falling to 18 per cent (US$40.4 billion) at year end.

Across Asian equities, balances versus cash collateral averaged 23 per cent over the year, with relatively little change seen throughout the period.

Historically, the US market has always experienced the greatest share of cash collateral. Following the Global Financial Crisis, non-cash collateral increased in popularity, with the proportion of transactions collateralised by non-cash assets in the US trending within a narrow range around 50 per cent of all loans. Since 2018, cash collateral has reestablished itself as the predominant form of collateral within the Americas equities market, growing from 53 per cent (US$242 billion) at the beginning of 2018 to just over 60 per cent (US$389 billion) at the end of 2022. The percentage of transactions of Americas equities collateralised versus cash reached a recent high of 65 per cent (US$467 billion) on 20 September 2022.

Cash reinvestment

When examining reinvestment returns over a similar period, the value of the additional revenues generated from the reinvestment of cash collateral decreased during the first three quarters of 2019. It then spiked following the onset of the Coronavirus pandemic during the second quarter of 2020. The additional revenues generated by the reinvestment of cash collateral for all securities during Q2 2020 reached approximately US$735 million during the second quarter. During this period, capital markets experienced a period of uncertainty as economies went into lockdown and central banks instigated unprecedented fiscal and monetary measures to ensure that global economies could cope with the prevailing volatility.

Over 2022, despite the rapid rise in global interest rates, cash collateral reinvestment returns declined between January to September before increasing slightly towards the end of the year (specifically US$424 million in Q1, US$353 million in Q2, US$251 million in Q3, US$272 million in Q4). Reinvestment returns during 2022, at approximately US$1.3 billion, were equal to those generated throughout 2019 when interest rates remained at near all-time lows.

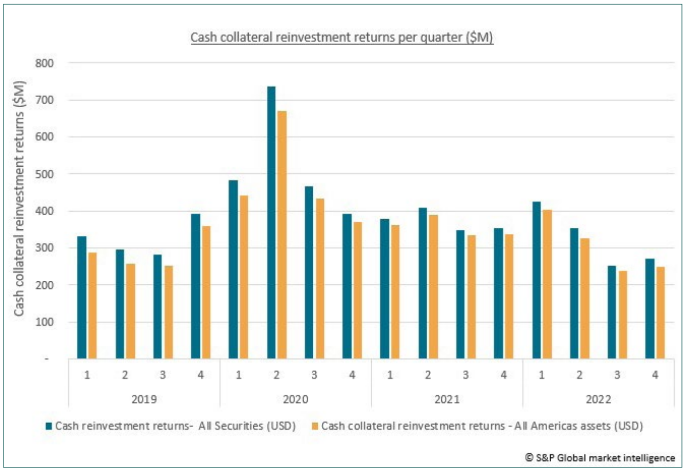
When reinvesting cash collateral, numerous variables exist. Interest rates are only one of several factors that need to be considered. The type of reinvestment vehicle, the risk profile of the reinvestment pool, regulatory guidelines, and the shape of the yield curve, all have a significant impact on the returns on offer. In normal markets, an increase in the interest rate often proves to be advantageous for clients as opportunities to generate additional yield across the yield curve are potentially greater. Investors typically seek to stagger reinvestment maturities to manage duration risk. This ensures that investments continue to mature in a controlled manner and that cash is always available. Cash is then reinvested across the yield curve to ensure that this remains the case.

After an increase or decrease in interest rates, rebate rates on securities lending transactions are immediately updated to reflect the change. Cash reinvestment vehicles typically lag these changes by a period of weeks or sometimes months due to the laddering of the maturities across the multiple investments within the reinvestment vehicle. This duration mismatch can prove to be either positive or negative when reflected across investment returns depending upon whether rates are increasing or decreasing. The multiple interest rate rises seen in recent times have taken place in quick succession, which is likely to have increased the likelihood of keeping investments relatively short dated to ensure that any rate increases can be captured within a shorter period of time.

By not reinvesting cash further out along the yield curve, where rates are usually higher, reinvestment vehicles can sometimes restrict their average returns. In recent months, the fluctuation in US treasury yields, uncertainty surrounding interest rate decisions, and secondary market liquidity in certificates of deposit (CDs) and commercial paper (CP) have all had an impact on the reinvestment rates on offer. Substantially higher interest rates will therefore not always equate to substantially higher reinvestment returns, which is what the data has been showing over recent months.

As the amount of cash collateral increases across Americas equities, along with interest rates and market volatility, it appears that cash, in this market at least, is playing a more prominent role. Cash collateral remains an important tool to manage exposures within the securities lending ecosystem and remains one of the most flexible and accessible forms of collateral. As we have noted, even during times of near zero interest rates, cash collateral has had an important role to play in the risk management of securities lending transactions.

As the year progresses and the interest rate versus inflation debate edges closer towards a natural conclusion, the market can be confident that cash collateral will continue to play an essential role in generating those all-important risk-adjusted returns for lenders.



Major moves across the industry from Euroclear to BNY Mellon, Tradeweb to Tonic

Euroclear, the Brussels-based provider of post-trade market infrastructure services, has welcomed the appointment of Mike Reece as head of collateral management client services and operations.

In his new role, Reece will head a newly combined unit that is responsible for client service, onboarding and operations.

He will be tasked with enhancing the client experience and driving efficiencies to provide a suite of collateral management services to clients. Reece will report to Stephane Bernard, chief operating officer at Euroclear Bank.

Reece joins Euroclear's Collateral Highway management team led by Olivier Grimonpont, head of product management and market liquidity, from a 28-year career with J.P. Morgan.

At J.P. Morgan, Reece was most recently head of international sales for banks and trading services within the firm's Securities Services division.

Euroclear Bank's open architecture platform for collateral management, the Collateral Highway, has seen strong growth, currently mobilising €1.8 trillion according to the firm.

This has been driven by an increasing demand for collateral management and securities lending services from a broad range of market participants, including the buy-side community, Euroclear adds.

Pirum appoints Perry as business development representative

Financial services technology vendor Pirum has appointed Graeme Perry as business development representative.

Perry takes on the role as the firm aims to meet a growth in demand across its full suite of front-office and post-trade services.

Based in London, Perry will report to Karl Wyborn, chief commercial officer at Pirum.

Perry joins the firm after a 14-year career at BNP Paribas Securities Services, where he was most recently director of trading strategy and relationships, and head of agency lending trading, EMEA.

Previously, Perry held senior positions at State Street and various roles at Santander Global Banking and Markets, as well as Bankers Trust International.

Commenting on the appointment, Wyborn says: "We are thrilled to have someone of Graeme's calibre join our growing team.

"His broad base of securities finance experience will be instrumental in helping us achieve our overall strategy of bringing automation and risk reduction to securities finance post-trade."

Perry adds: "The securities finance industry is constantly evolving to meet the needs of all facets of the marketplace and Pirum is at the forefront of leading such change.

"I am therefore thrilled to join them at what will no doubt be an exciting time and look forward to connecting and engaging with our global client base."

The Global Principles for Sustainable Securities Lending (Global PSSL) organisation has appointed Gabriel Grego as an advisor on long and short investments.

Grego is currently managing partner of Quintessential Capital, a long and short global equity fund he founded in 2008.

According to Global PSSL, Grego's work in the industry has stimulated and supported regulatory actions including an ongoing market abuse investigation by the UK Financial Conduct Authority.

The appointment aims to further the organisation's goal of ensuring that Global PSSL continues as a holistic, inclusive and unifying market standard for transparent and sustainable securities lending globally.

Capital markets consultancy firm Tonic has appointed Charles Churchill as global head of delivery as the firm expands its services.

With more than 15 years of experience in consultancy and leadership roles, Churchill will be responsible for delivery governance across Tonic's expanding client base, which includes custodians, dealer banks and digital firms.

Churchill will have a global remit covering Tonic's clients in the UK, Europe, the Americas and Asia-Pacific. In the role, he will be responsible for key client relationship management and team development.

He is expected to play a crucial role in Tonic's ongoing expansion and strengthen the firm's capabilities in delivering successful capital markets projects for its clients.

Prior to joining Tonic, Churchill was the auction manager for the Capital Release Unit at Credit Suisse AG and the firm's senior programme manager on entity optimisation and simplification initiatives.

BNY Mellon has promoted Alessia Faessle-Martini to vice president and relationship manager within the firm's Clearance and Collateral Management (CCM) division.

Based in Germany, Faessle-Martini takes on her new role from her previous position as vice president and account manager within the CCM division.

She first joined BNY Mellon in 2019 as a lead analyst and account manager within CCM.

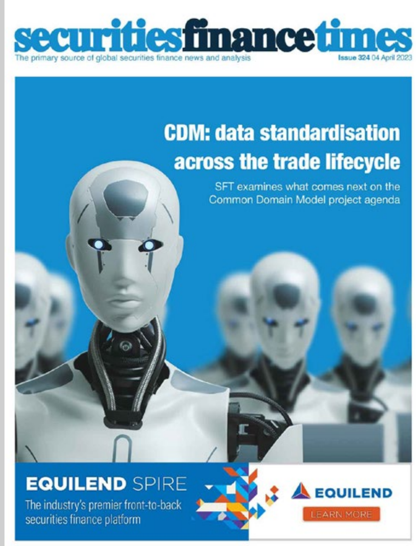
Prior to joining the firm, Faessle-Martini was an account manager at TRAVEL EASY.

Tradeweb, a global operator of electronic marketplaces for rates, credit, equities and money markets, has appointed Tim Cook as director of emerging markets.

Based in London, Cook will lead Tradeweb's emerging markets product distribution efforts across Europe and the UK.

He will be responsible for expanding the adoption of the firm's emerging markets product offering with buy- and sell-side customers.

Cook was previously head of business development at LedgerEdge, a distributed ledger technology (DLT)-enabled trading platform for corporate bonds.



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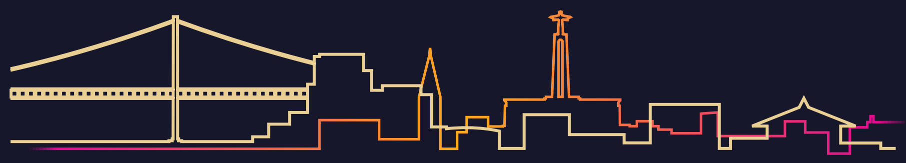

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