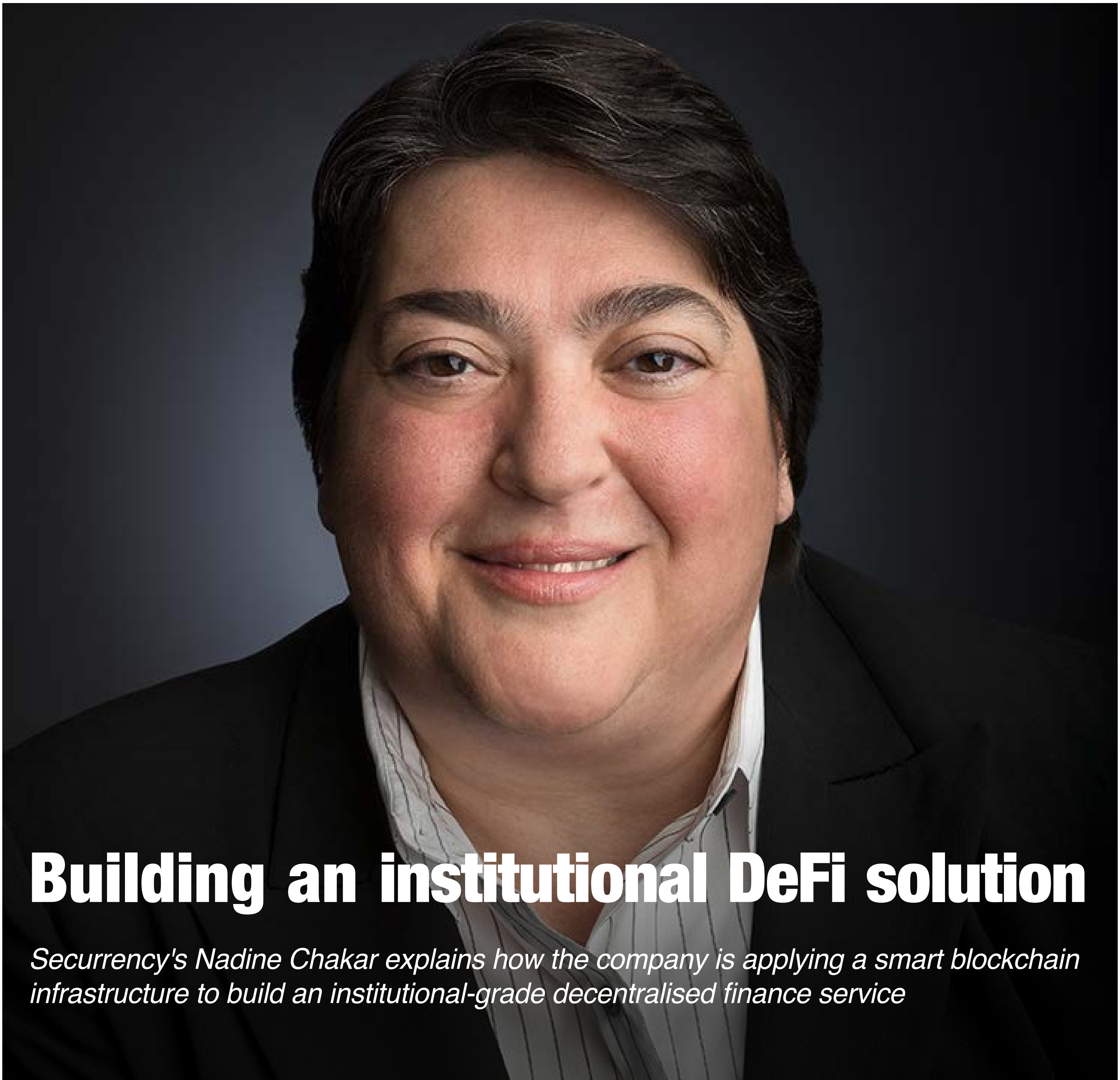
securities finance times
The primary source of global securities finance news and analysis
Issue 330 27 June 2023



Building an institutional DeFi solution

Securrency's Nadine Chakar explains how the company is applying a smart blockchain infrastructure to build an institutional-grade decentralised finance service

EquiLend and Broadridge collaborate over central clearing of SFTs

EquiLend and Broadridge Financial Solutions have formed an agreement to facilitate straight-through processing (STP) to the National Securities Clearance Corporation's (NSCC) central counterparty for equity securities finance transactions (SFTs).

The offering will allow clients to trade and automatically submit through the Broadridge SFT Submission Service without a large change in operational processes. It will also utilise EquiLend's liquidity sourcing options.

Clients will profit from the capital cost and risk reduction benefits of central clearing through the new offering, according to the two firms.

The Broadridge SFT Submission Service aims to provide the market with the capability to meet the NSCC requirements to match and submit through an approved trade submitter.

EquiLend's 1Source — a distributed ledger technology (DLT)-based single source of truth for SFT lifecycle information — is designed to direct securities lending trades seamlessly to the NSCC for central clearing through Broadridge's Trade Submitter Service.

According to EquiLend, more than 2.2 million global transactions are executed on the technology firm's Next Generation Trading (NGT) platform each month, which translates to more than US$2 trillion in total notional value.

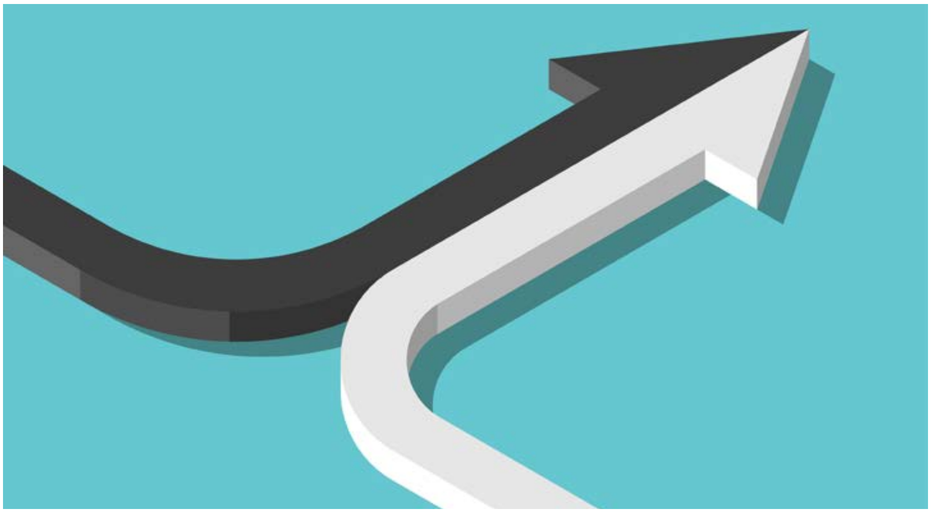
US equities, which are eligible for central clearing with the NSCC, form the largest segment of securities on loan in the global securities finance markets, the firm adds.

Commenting on the announcement, CEO of EquiLend Brian Lamb says: "We are pleased to be working with Broadridge to offer our clients streamlined access to the benefits of central clearing.

"EquiLend is committed to working with our partners in the industry to bring new efficiencies and unprecedented interconnectivity throughout the global securities finance marketplace."

Darren Crowther, head of securities finance services at Broadridge, comments: "We are delighted to be able to offer our joint clients straight-through processing to central clearing via our SFT Submission Service platform.

"Interoperability across our platforms, as well as the entire trade lifecycle event workflow, will enable our clients to benefit from the advantages of the NSCC offering while minimising the time to market due to our out-of-the box connectivity."



Margin Reform and Pierpoint Financial form collateral partnership

Margin Reform (Consulting) has formed a partnership with Pierpoint Financial Consulting which enables the firms to complement their margin and collateral management expertise across derivatives, repo and securities lending.

Commenting on the announcement, Margin Reform CEO Shaun Murray says: "The partnership is a natural progression as both companies have built respect and trust over the past four years working together.

"We share the same vision and goals and have complementary skills and strengths. It is a decision we have explored for a while, and we believe it will enhance the value we can offer clients and enable us to deliver more comprehensive and innovative solutions across our respective fields of expertise."

Roy Zimmerhansl, practice lead at Pierpoint Financial Consulting, adds: "What I have seen over the past 15 years is a growing convergence and overlap between the various securities finance transactions, the wider collateral marketplace and derivatives.

"This is both investor-driven and a shift towards risk management and operational efficiency. The combination of the two firms is uniquely qualified to support clients on this journey."

CACEIS completes migration of Kepler Cheuvreux's clearing services

CACEIS has completed its migration of Kepler Cheuvreux's clearing and settlement services.

The mandate means that the Swiss-based asset servicer will control Kepler's clearing and settlement, custody, securities lending and reporting services for corporate brokerage.

The mandate covers approximately 30 trading venues and eight central counterparties across 35 central securities depositories.

Grégoire Varenne, chairman of the executive board for Kepler Cheuvreux, says: "This migration marks the beginning of a very exciting journey as we embark on a series of impactful developments for our clients that will disrupt the execution space."

Joseph Saliba, deputy CEO of CACEIS,

adds: "Based on Kepler Cheuvreux`s requirements, our tailor-made, cross-border services are delivered out of Paris, Munich and Luxembourg. As a comprehensive asset servicing provider, we deliver efficient services with a high degree of security across the board for Kepler Cheuvreux's transactions."

Cboe Clear Europe to introduce clearing service for SFTs

Cboe Clear Europe, wholly owned by derivatives and securities exchange network Cboe Clear Markets, will introduce a central counterparty (CCP) clearing service for securities financing transactions (SFTs).

The Amsterdam-based clearing house is set to launch the new service in Q3 2024, which will introduce matching, CCP clearing, settlement and post-trade lifecycle management for SFT transactions in European cash equities and exchange-traded funds (ETFs).

The clearing house claims to be the only pan-European CCP offering these consolidated services for SFTs in European cash equities and ETFs.

Agent lenders and borrowers can secure settlement of trades within 19 European Central Securities Depositories (CSDs). The new service aims to help bring improved capital efficiencies, enhanced risk management and streamlined operational procedures to the market.

According to Cboe Clear Europe, European SFTs are primarily transacted on a bilateral basis and are not cleared.

However, new regulations including the Central Securities Depositories Regulation (CSDR), Securities Financing Transactions Regulation (SFTR) and planned Basel IV implementation, have led to market participants managing increased capital demands and additional operational inefficiencies. This has increased the costs of bilateral SFTs, the firm adds, and may lead to a reduced capacity and appetite to borrow or lend.

Through its CCP clearing and settlement service offering for SFTs, Cboe Clear Europe says it will help clients to navigate these new rules, reduce their capital burdens — associated with bilateral SFTs — and achieve operational advantages including greater settlement efficiency, post-trade lifecycle processing and an elimination of agent lender disclosures.

Securing support for the launch of the new service, Cboe Clear Europe has onboarded participant agent lenders BNY Mellon and Citi, in addition to participant borrowers ABN AMRO Clearing Bank, Barclays, Citigroup Global Markets, J.P. Morgan and Goldman Sachs.

President of Cboe Clear Europe Vikesh Patel comments: "We are delighted to bring a CCP clearing service to Europe's SFT market, helping market participants improve their capital and operational efficiencies in relation to these products.

"It is a natural progression for our business, another important step in our mission to become Europe's leading multi-asset class clearing house. It further demonstrates our commitment to developing client-driven solutions. We are excited to be working with leading firms in the SFT market on this important initiative."

Consort1 collaboration to extend access to sec lending and repo markets

Consort1 has entered into a collaboration

with a group of banks, financial infrastructure, fintech software and advisory companies to extend access to securities lending and repo markets.

The Jersey-based financial technology company will work with Clearstream, NatWest, Standard Chartered Bank, treasury and wealth specialist Arlingclose and financial software and solutions providers BankClarity and Alpha Group to support the trading of secured deposits.

With this development, securities lending and repurchase agreement markets will be accessible to government entities and supranationals, fund managers, corporates and other institutional entities that may previously not have had access to these markets.

Gloucestershire County Council has been named by the participating companies as one of the first UK local authorities to use the new service.

This will provide the usual risk management and revenue generating benefits of being able to access these SFT markets, lowering the risk profile of cash deposits while continuing to work with mainstream banks across the usual tenors to enable firms to realise greater pick up on their cash holdings.

Commenting on the initiative, Consort1 co-founder and CEO Justin Clapham says: "We are committed to providing innovative solutions for our clients and we are both proud and honoured to be working with so many global institutions and clients to bring the repo and collateralised secured deposit service to institutions that have not previously enjoyed access."

Marton Szigeti, Clearstream's global head of collateral lending and liability solutions, comments: "Clearstream's custody solution adds the highest liquidity and security for stable cash to help our bank clients better manage their regulatory liquidity requirements.

"We are working closely with the Consort1 team to deliver the benefits of triparty to a segment of clients that would previously have been excluded from the market."

Standard Chartered Bank's global head of repo and collateral trading Ed Donald adds: "Along with our global partners, [this] innovation in the securities finance industry, broadens the reach of the repo product while

reinforcing our commitment to providing progressive solutions for our clients."

Bursa Malaysia expands Approved Securities criteria

Bursa Malaysia has expanded its criteria for Approved Securities as part of its commitment to foster a dynamic and vibrant market.

The Kuala Lumpur-based stock exchange of Malaysia has reduced the daily market capitalisation requirement from RM500 million (US$108.2 million) to RM200 million (US$43.3 million), therefore providing a broader selection of Approved Securities aimed at meeting investors' evolving needs.

Approved Securities are securities that have met the criteria prescribed by the exchange and may be utilised for purposes of securities borrowing and lending, as well as short selling.

Bursa Malaysia says the expansion will provide a greater ability for investors to manage their portfolios and boost vibrancy in securities borrowing and lending activities.

The Pan Asia Securities Lending Association (PASLA) welcomed the news regarding short selling, which the Association believed would support greater liquidity and more efficient price discovery in the Malaysian market.

According to PASLA, all listed exchange-traded funds (ETFs), with the exception of inverse ETFs, will also be declared as Approved Securities for short-selling.

CEO of Bursa Malaysia Datuk Muhamad Umar Swift comments: "By broadening access and choice for investors, we are solidifying our commitment to improving market efficiency.

"As a maturing market, it is vital that we offer a marketplace with robust facilities to cater to the differing needs of investors, while remaining focused on ensuring a vibrant, fair and orderly market."

Credit risk RWAs could prove challenging under Basel III rules, says ISLA

The International Securities Lending Association (ISLA) has published an overview of the Basel III framework, its impact on the securities finance market and how to address upcoming challenges.

Basel III is a set of international standards developed by the Basel Committee on Banking Supervision (BCBS), which produced a framework of measures to strengthen the supervision and risk management of banks.

The Basel III framework reforms took effect from 1 January 2023 and look to impact banks engaged in securities financing activity. In most instances, banks will now need to allocate more capital to support these activities, according to ISLA.

The Prudential Banking Rules: Explanatory Note published by ISLA reveals that credit risk risk-weighted assets (RWAs) under the Output Floor, as well as minimum haircuts for securities financing transactions under the Basel III reforms, could prove challenging for the industry.

For credit risk RWAs, ISLA observes, the challenge presented to the market is the "potentially significant and disproportionate increase" in the amount of capital banks need to hold under the Output Floor for credit risk in relation to their securities borrowing activity.

According to the Explanatory Note, the counterparty risk weights for most principal lenders under the standardised approach used in the Output Floor increase from low numbers today — typically around 10 per cent under the internal ratings-based (IRB) approach — to 100 per cent, alongside other increases in RWAs for banks at the same time.

ISLA believes that the proposed treatment of exposures to unrated low-risk counterparties could have an adverse impact on the global securities lending market.

The Output Floor for RWA will be phased in over a five-year period, through transitional arrangements until 1 January 2028.

The Output Floor is a measure that sets a lower limit (floor) on RWAs based on the revised standardised approaches in the framework, therefore limiting the benefit banks can obtain from their use of internal models to measure credit risk and market risk RWAs. This aims to reduce unwarranted variability and increase the comparability of capital ratios of banks using internal models.

However, some jurisdictions have accelerated the timeline for the Output Floor for RWA, while others are planning their implementation on a later timeline.

FICC sponsored clearing passes US$750 billion in daily activity

The Depository Trust and Clearing Corporation (DTCC) has reported continued growth of its sponsored clearing services through its clearing subsidiary, the Fixed Income Clearing Corporation (FICC), with daily sponsored activity rising to more than US$750 billion.

The New York-based post-trade infrastructure provider flags up the release of its sponsored general collateral service in September 2021 as an important driver in fuelling this expansion, with Sponsored GC now passing US$100 billion in daily notional value.

The current US$750 billion aggregate daily notional represents a new high point since DTCC first introduced its sponsored clearing solutions, first rolled out in 2005 as a sponsored repo service.

Through these sponsored solutions, DTCC has aimed to bring a wider range of market participants into central clearing, including an expanding community of buy-side firms.

Dinosaur Merchant Bank expands prime services

Dinosaur Merchant Bank (DMBL), a full-service, international investment bank, has expanded its prime brokerage services.

The London-based bank says its enhanced prime brokerage services are designed to meet the evolving needs of today's dynamic financial landscape.

These services aim to support a range of clients including hedge funds, asset managers, institutional investors and trading firms, to name a few.

DMBL's prime brokerage and institutional investment services include custody and clearing for a range of financial instruments, equity swaps, securities financing, repo and margin finance.

The bank also offers global electronic trading, custom structured trades and financing, as well as trading and execution services.

Commenting on the announcement, Tenette Abanilla, director and chief operating officer at DMBL, says: "We see prime brokerage as one of the primary pillars of our business. Andrew Richards and Scott Fuller, who have recently joined Dinosaur Merchant bank, bring a vast combined experience of 55 years from the prime brokerage Tier 1 world.

"Their expertise will enable DMBL to better understand the needs of clients of both emerging managers and established institutions including aggregators, family offices and corporates."

Building an institutional DeFi solution

Securrency chief executive Nadine Chakar speaks to Bob Currie about how the company is applying a smart blockchain infrastructure to build an institutional-grade decentralised finance service

Many in the financial services industry have recognised the potential for revenue growth and investment efficiency offered by extending institutional and retail investor access to digital assets. But institutional expansion has been a tough nut to crack, with many pensions, endowment and insurance funds cautious about increasing their allocations until the digital market infrastructure matures, standards of safekeeping and asset protection improve, or until their investment guidelines and articles of association are broadened to enable them to increase their holdings of digital assets.

US-based digital markets infrastructure specialist Securrency has been active on the frontline in confronting this challenge, working to develop institutional-standard decentralised finance technology, tokenisation engines and account management tools hosted on blockchain.

Headquartered in Washington DC, Securrency was founded in 2015 by chief technology officer Dan Doney. It also established operations in Abu Dhabi in 2017 and is regulated by the Abu Dhabi Global Market (ADGM) Financial Services Regulatory Authority (FSRA), with the company continuing to host a share of its operations and a sizable staff team in the emirate.

Nadine Chakar joined as chief executive in January 2023, having previously headed State Street Digital and, prior to this, fronted State Street Global Markets. Earlier in her career, Chakar had been CEO of ABN AMRO Mellon after the merger with BNY Mellon and CIBC and subsequently became global head of financial institutions at BNY Mellon SA.

With Chakar joining as Securrency chief executive, this has given freedom to Doney to focus his energies on the CTO and lead architect roles, concentrating on solutions development and delivery.

The company is privately owned, with US asset manager WisdomTree, State Street, US Bank, and Abu Dhabi government-backed strategic investment companies Mubadala and ADQ as its major funding partners.

WisdomTree was a lead investor in Securrency's Series A funding round at the end of 2019 and featured at the heart of the US$30 million Series B investment, alongside Abu Dhabi Catalyst Partners, State Street and US Bank in April 2021. In extending this finance, WisdomTree indicated that it was attracted by the potential that decentralised finance offers to deliver greater automation, transparency and improved audit standards in financial services.

Elaborating on this investment partnership at the time of the Series B funding round, WisdomTree highlighted how one of its foremost development priorities lies in evolving open-ended funds — regulated in the US by the 1940 Investment Company Act — through applying blockchain technology and drawing on the distributed-ledger technology (DLT) and business expertise offered by Securrency.

The fund manager anticipated that its investment in Securrency would also create opportunities to deliver a wider set of features to support mutual fund issuance, including peer-to-peer fund transfers and secondary market trading. The aim, it says, is to create blockchain-enabled WisdomTree funds with features that extend beyond ETFs, while drawing on the advantages of its "modern alpha" strategy — one that targets the outperformance potential of active management with the benefits of passive investing. Its search is to identify innovative technology that will deliver disruption to the ETF marketplace in the way that ETFs have delivered to mutual funds.

Solutions portfolio

Securrency describes its core platform, the Capital Markets Platform (CMP), as an integration and harmonisation solution that brings together each of the fundamental components of the digital assets market in one place. The objective is to deliver an automated and interoperable DLT-based front-to-back digital infrastructure, providing "compliance-aware" tokenisation, client onboarding and account management services, along with advanced analytics and regulatory reporting.

The client can communicate with the platform via open API, a web-based user interface or by mobile app. The benefits, it notes, include faster time to market, stronger interoperability between DLT platforms and across tokenisation protocols, and the potential for CMP users to generate stronger revenues by digitising issuance in public and private markets.

"We view this capital markets platform as having two edges," explains Chakar. One edge integrates with the client's legacy environment, bringing the flexibility and additional functions offered by the Securrency platform without the need for the client to undertake a wholesale transformation of its core technology to

> *"I am interested in playing a key part in building something that will transform the industry for generations to come"*

Nadine Chakar
Chief executive
Securrency

realise the benefits of this distributed ledger based solution. The second edge is a client-facing portal, providing a user-friendly interface which enables the user to integrate the benefits of the CMP platform into their business model, from onboarding and KYC/AML across the trade lifecycle.

Complementing the CMP, Securrency is building a data platform called LedgerScan that was conceived initially to meet a Securities and Exchange Commission (SEC) requirement for WisdomTree. The US securities market regulator provided authorisation for WisdomTree to natively issue their '40 Act funds but specified that all official records should be held off blockchain. To accommodate this, Securrency designed a solution, built in collaboration with Google, to reconcile all on-chain and off-chain records in real-time. This data can then be made accessible to the user, or to their service intermediaries, in a format that can be easily handled by their legacy accounting systems.

For Chakar, the jewel in the company's solutions portfolio is its Digital Asset Composer, a no-code tool to compose smart contracts. This can take a range of smart contract designs — whether open source, a proprietary design or a smart contract issued by an industry peer — enabling firms to build rule sets into a token that can, for example, enforce jurisdictional regulatory obligations, trade and liquidity requirements or fulfil client authorisation and authentication.

Summarising these thoughts, Chakar indicates that Securrency is applying a smart blockchain infrastructure to build towards an institutional DeFi offering. "We start with compliance, we overlay this with tokenisation and then we overlay this with data," she says. "The Smart Contract Composer sits on top of these core modules, enabling the user to craft their own contracts. This is how we believe we can deliver an institutional-grade service, one that is fully compliant with regulations applicable to institutional investors and which helps to fulfil their responsibilities as fiduciaries."

Within the Securrency ecosystem, the firm also operates an Abu-Dhabi-based broker-dealer, Securrency Capital, which was established in April 2022 and offers brokerage services for digital and traditional assets, utilising the CMP platform front-to-back. Inter alia, this supports the tokenisation and fractionalisation of tradable securities, offering full support around the issuance, governance and lifecycle management for these regulatory-compliant tokens.

WisdomTree has close to US$90 billion in assets under management and predicts that at least 10 per cent of this AUM is likely to be represented in tokenised form, indicating a pipeline of more than US$9 billion in natively-issued digital assets on the platform. These digital assets in the WisdomTree product range are issued on blockchain, with the ownership record managed on chain.

Chakar likens this arrangement to setting up an investment bank or fund manager in a box which is then powered and operated by the end client. “Securrency does not operate these functions,” says Chakar. “We provide the technology layer and help the client to deploy the technology that best suits their use case,” she says. Through this arrangement, for example, WisdomTree manages the investors’ digital wallets and acts as a liquidity agent and distributor for its investment products, but with the activity hosted largely on Securrency’s platform.

Until recently, Securrency also maintained a digital transfer agency (TA) platform as part of its service portfolio — a solution also developed initially to support the requirements of WisdomTree’s product range — but the asset manager has now taken the operation of this TA service in-house. This now forms a key building block in its WisdomTree Prime service, a direct-to-retail digital wallet available to the customer via a digital app or web portal. To provide an integrated post-trade environment for this activity, Securrency has also integrated WisdomTree’s main custodians, State Street and HSBC, onto its CMP platform.

Widening the network

As this network expands, Chakar predicts that the advantages that it offers to participants in this digital ecosystem will continue to build. From a securities finance perspective, one of the benefits is that it has enabled users to create a securities lending pool of assets that can be managed using smart contracts. This enables the firm to integrate digital instruments within its pool of lendable assets and to mobilise digital assets as collateral in cases where this aligns with counterparty collateral eligibility schedules.

“The ability to run a securities lending programme at a high level of efficiency with embedded compliance in your tokens, this more than pays for itself,” says Chakar. “This enables 24/7 trading, without requiring that the firm maintains a network of trading desks around the world.”

These are the building blocks of the Securrency ecosystem, she explains, offering liquidity access and market making, along with an electronic DLT-based record of legal ownership. The task now is to expand the network to deepen liquidity, to extend product distribution and to improve efficiency in managing lifecycle events.

Significantly, the Securrency tokenisation engine enables users to take any open-source smart contracts and to add their own specific business- and compliance-driven requirements when writing new smart contracts. “Multiple tokenisation companies have grown up across the industry, but it is rare for them to provide interoperability, the ability to support a wide array of industry-standard tokens, the compliance element and the capacity to deliver a capital markets stack from client onboarding through transfer agency and brokerage,” she says.

Based on this programme, Chakar suggests that Securrency has developed a proof-of-concept that demonstrates that it can replicate the key components of the securities transaction lifecycle based on tokens in smart contracts.

In regulating these activities, financial supervisors are particularly focused on consumer protection, on anti-money laundering and know-your-customer validation, and on containing any potential systemic risks. With this in mind, the financial authorities are maintaining a close dialogue with Securrency and other digital asset platforms to promote this safety and risk control across the digital asset lifecycle.

It has been a long road to this point but, for Chakar, the investment and hard work are paying off. WisdomTree will be the first firm to go live with the Securrency platform, with the launch expected in the next two months. “I have joined as chief executive to bring my capital markets expertise and to help Securrency to expand our digital ecosystem, to commercialise our technology and bring this to market,” she says.

From her experience in the digital asset marketplace, Chakar is very aware of how fast this sector is evolving and the huge potential this offers. “I am interested in playing a key part in building something that will transform the industry for generations to come,” concludes Chakar. “Alongside this, I aim to nurture a company that reflects greater diversity, equality and inclusion and to mentor younger talent that will embrace these principles and carry them forwards. I find that prospect very exciting.”

Getting connected: regulatory change through 30 years of the ISLA conference

Securities finance veterans from Kaizen Reporting and London Reporting House reflect upon the past 30 years, where regulatory requirements have paved the way for incredible growth in the securities lending and repo markets

The first ISLA conference was pioneered in 1992 in Gleneagles, a fertile ground for laying the foundations of today's trillion-dollar securities financing markets. Similar to the 1992 Stereophonics hit, the securities lending industry really was getting "Connected". It also marked the year of the first International Capital Market Association (ICMA) General Master Repurchase Agreement, as the concept of robust, legally enforceable contracts for repo and securities lending transactions were successfully ported from the US, where they had been in place since the 1980s.

Explosive growth

The establishment of a community and a legal basis for securities financing transactions (SFT) to take place were key components of the success of the securities lending and repo markets. Without it they would not exist, nor would the explosive growth we have witnessed over the past 30 years have happened. The confidence this industry thrives on is dependent upon the legal and regulatory framework in place across the world's major financial markets.

As a barometer of the SFT market, we have approximately seen 1000 per cent growth in the European repo market since 1992 to a current size of €10 trillion.

Despite regulation, or perhaps because of regulation, beneficial owner, client and market counterparty confidence is such that volumes have exploded, markets have opened up and flexibility, as well as adaptability, has been the name of the game.

Innovation from regulation

Opinions are changing and, while it is unlikely that regulation will ever be seen as more than a burden, it is hard to deny that it can be associated with innovation, the adoption of standards and best practices, and far greater market data utilisation than was ever previously possible. This innovation has taken many forms, from the widespread use of CCPs — therefore limiting counterparty risk — to use of triparty agents for collateral optimisation or agent lenders facilitating far greater buy-side asset utilisation.

Together, with changes on the standards front — for example, the adoption of legal entity identifiers (LEIs), unique trade identifiers (UTIs), ISO 20022 and ISO codes for benchmark rates — we have seen greater transaction definition, reduced operational burden, increased settlement efficiency and greatly enhanced portfolio, collateral and financing optimisation.

Trade associations' partnerships

The work of trade associations, such as ISLA, is paramount in partnering with the industry and its regulators through good and bad times to ensure that the legal and regulatory framework evolves and that the markets continue to grow and prosper. Invariably, throughout this period, the regulatory burden has only ever grown larger. Firms have been forced to establish how meeting regulatory requirements has become an integral part of their businesses. This has presented questions such as "how can the adoption of standards and best practices, and the data contained within reports, be used to our best advantage?". The trade associations have certainly stepped up, progressing hand-in-hand with firms to meet the ever-growing regulatory brief. They are at the forefront of innovation, making regulation compatible with meeting the complex needs of investment firms, agent lenders, beneficial owners, fund managers and market utility and infrastructure providers.

Pre 2008: markets open up

Before the global financial crisis in 2008, engagement between the industry and regulators tended to be driven by the desire to open up new markets for lending and repo. The focus was primarily to ensure that an appropriate regulatory, legal, tax and operational regime was present to allow business to take place. By 2008, while already large, these were much more nascent markets. Indeed, even the unsecured lending market was still very buoyant in pre-Northern Rock times.

1994: first Overseas Securities Lending Agreement

The year 1994 was significant for ISLA, with the launch of the first Overseas Securities Lending Agreement (OSLA). This, the precursor to the General Master Securities Lending Agreement (GMSLA), was key to creating enforceable contracts, netting and in resolving disputes. This was closely followed by the Gilt-Edged Securities Lending Agreement (GESLA) in 1995, bringing the benefits of securities lending to the UK market.

The US pioneered repo agreements with the Securities Industry and Financial Markets Association (SIFMA) creating the Master Repurchase Agreement (MRA) of 1984, while ICMA's Global Master Repurchase Agreement of 1992 brought repo as a tradable, contractually enforceable product across the rest of the world in the 1990s.

Having achieved this primary goal of establishing legal frameworks, legal documentation and standardised contracts, the global financial crisis meant that attention was turned to controls and supervision.

2006: ALD goes live in the US

Even pre-crisis, attention had already turned to Agent Lending Disclosure (ALD), following concerns raised by the US Securities and Exchange Commission (SEC) in 2003 about broker-dealer counterparty, concentration and credit exposures with the beneficial owner clients of agent lenders.

Prior to ALD, without access to principal exposures, regulatory capital requirement calculations were imprecise and inefficient. ALD went live in the US in 2006 and was subsequently adopted in Europe in 2008, helping to optimise balance sheets, regulatory capital and liquidity buffer requirements.

2008: global financial crisis hits

The global financial crisis of 2008 was a significant inflexion point for the engagement between regulators and the securities finance industry. Post-crisis, regulators adopted a much more proactive approach to the product, especially given that securities finance was perceived to be a key component of the so-called 'shadow banking' industry.

Regulatory initiatives have focused on two key themes:

- Investor protection and treating customers fairly. This means:
  - making sure that market participants have the necessary capacity and authority to conduct business on behalf of their underlying beneficial owner clients.
  - ensuring that these clients have a proper understanding of the activity being conducted on their behalf.
  - ensuring a sufficiently transparent regime when it comes to the revenue being generated by this activity.

An example of this type of regulation is the ESMA guidelines for Efficient Portfolio Management (EPM) activity, which includes securities finance — first published in 2012.

- Measures to identify, monitor and ultimately limit systemic risk posed by securities finance transactions as part of the broader 'shadow banking' industry. Much of these stemmed from the work of the Financial Stability Board (FSB) in the years following the crisis.

An example of this type of regulation is the introduction of minimum haircut floors for securities financing transactions, brought in as part of the Basel framework for regulatory capital requirements.

2020: SFTR goes live

The Securities Financing Transactions Regulation (SFTR), published by the European Securities and Markets Authority (ESMA) in 2015 and implemented in 2020, has proved quite pioneering, despite delays. Published just one month after the seminal FSB document "Standards and Processes for Global Securities Financing Data Collection and Aggregation", and while overblown and under-defined, it has become a beacon of how to capture all SFT activities for regulators in one place.

Upcoming US regulation

US SFT data collection is set to be made up of four distinct datasets for cleared repo (direct from DTCC), triparty (direct from BNY Mellon), securities lending (proposed to be submitted to the SEC via FINRA), and uncleared bilateral repo to the Office of Financial Research (US Treasury Board).

Greatly delayed implementation has also meant that the US authorities have been forced to openly admit the holes in their data set, amid the regional banking crisis they are currently experiencing. On uncleared bilateral repo reporting, the Federal Register stated that it was, "a critical blind spot in a market that plays a key role in financial stability".

Short selling concerns

In the context of impending US SEC securities lending reporting there have been concerns about short selling. This remains a politically charged issue when evaluating its impact on underlying equity markets, the perceived lack of a level playing field and the effects played out on retail investors' saving, stock portfolios and pension funds.

Throughout history, short sellers have often been made the scapegoats when markets fall sharply. Often, the knee-jerk reaction of regulators is to ban short selling in the hope that this will somehow support asset prices and stop (or at least limit) these falls. The problem is that short selling bans simply do not work. Since 2008, there have been several instances where they have been introduced and there have been numerous academic studies into their impact. The overwhelming conclusion of these studies is that short selling bans have no effect on the underlying market price. In fact, the only discernible impact was to damage market liquidity and widen bid or offer spreads to the detriment of all market participants.

2023: market turmoil

Indeed, calls for a short selling ban have been heard as recently as early 2023, in the wake of the demise of the Silicon Valley Bank, following the Gamestop debacle and market turmoil in the US bank sector. There remains a fine balancing act between promoting securities financing market business growth and in strengthening the regulatory framework to mitigate systemic risks, protect less sophisticated investors and ensure markets remain well regulated, liquid, fair, sustainable and orderly. Trade associations such as ISLA continue to play a crucial advocacy role in helping to steer regulators towards sound, evidence-based decision making and policy that promotes growth and does not stifle innovation.

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30th Annual Securities Finance & Collateral Management Conference

Securities Finance Times takes a look at some of the sessions which ran during the 30th ISLA Annual Securities Finance & Collateral Management Conference in Lisbon

ISLA highlights importance of innovation and cooperation in 30-year reflection

In welcoming attendees to the ISLA 30th Annual Securities Finance & Collateral Management Conference, ISLA's chief executive Andrew Dyson reflected in his opening remarks on how the securities lending marketplace has evolved from 30 years ago, when "the world was a different place".

Many of the association's activities at that time, including the organisation and management of the International Securities Lending Association (ISLA) annual conference, were conducted through the goodwill and volunteering activities of board members.

While it achieved much through this approach, it became clear to the team that they needed to rethink how the conference was organised.

While the industry has changed substantially over this 30-year period, some of the core principles on which the industry is founded remain consistent from year to year.

Reflecting on the Association's 2012 conference, which was held in Madrid, there are a number of subject areas in common at this year's meeting that were discussed 11 years ago, including discussions on tax, trading, hedge funds, regulation and emerging markets. In addition, there were breakout sessions on short selling, shadow banking and discussions on the world of repo.

Looking more closely at how the conference focus has evolved, the 2012 agenda provided only limited discussion on collateral, the sustainability agenda was non-existent and it lacked a dedicated discussion on technology. These subject areas are all fundamental to the conference dialogue scheduled for the event in Lisbon.

Developing this point, technology was often in the background 10 years ago, Dyson recalls, whereas today, it is at the forefront of everything that the securities finance market does.

In his opening comments, Dyson also reflected on how female representation at the ISLA conference has advanced from earlier meetings. In 2012, there was a lack of female representation, with only three women appearing as speakers out of a total of 39. In last week's conference, attendees heard from more than 20 female speakers.

When the ISLA conference moved to Prague the following year, the agenda highlighted the central importance of Basel III and capital considerations in defining how the industry does its securities financing business, with efficient balance sheet management key to shaping sell-side trading strategies. The 2013 conference also introduced the first technology-focused panel.

Technology development and innovation has now become a cornerstone of every ISLA annual conference, with innovation commonly driven by the central question of how firms can move liquidity most efficiently from one firm to another, typically on a collateralised basis. More broadly, ISLA has reflected consistently on how it can encourage collaboration and innovation across the market as one of its fundamental roles as a trade association.

ISLA panellists reflect on a busy 12 months of regulatory change

Advocacy isn't solely about speaking to regulators, ministries and parliamentary bodies, but also advocating to and with market participants, said one panellist at the ISLA 30 Conference.

Set against the backdrop of the end of the current EU parliament and political cycle in Brussels, the first panel of the ISLA 30 Conference reviewed in-flight and imminent regulations and the implications for advocacy.

Panellists discussed the digital landscape, primarily from the perspective of ISLA's strategy and the achievements of its various working groups and streams.

ISLA achieved 'a huge win' at the beginning of 2023 when the UK's Financial Conduct Authority (FCA) made a public statement in response to the FCA's discussion paper on Sustainability Disclosure Requirements (SDR) and investment labels.

The FCA stated that it did not see why securities lending and ESG could not be compatible and supported the application of ESG standards in driving sustainable lending and financing within the functioning of wider capital markets.

ISLA has been attempting to engage with regulators about the intersection of ESG and securities lending for a long period of time.

As a main focus for underlying lenders, the Association has been in conversation with the FCA regarding the application of sustainability criteria in shaping collateral eligibility. The FCA is expected to release its official policy statement on this subject in Q3 2023, according to a panellist.

Referencing the Basel rules, one panellist indicated that there was a major focus on the new capital requirement rules in the EU, where negotiations between the EU Parliament and the Council are soon to come to a close.

ISLA responded to the Bank of England (BoE) consultation on the application of Basel III rules in March 2023 and is now awaiting the release of the Federal Reserve's proposal in the US, which is to appear later in 2023.

Headline regulations including the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR) have also continued to be major catalysts for change in the market — and have provided the foundations for a wider focus on regulatory reporting and settlement efficiency that have featured more prominently in other panel discussions at this year's ISLA annual conference in Lisbon.

Settlement efficiency remains point of concern for sec lending industry, says BoE's Pyzer

Settlement rates remain a point of concern for the securities lending industry, delegates heard at ISLA's 30th Annual Conference in Lisbon.

Jon Pyzer, senior adviser at the Bank of England, told the audience that failure rates for the return leg of a securities lending trade are often above 10 per cent and are sometimes close to 20 per cent in times of high trading volumes. "Settlement frameworks for securities lending trades are not functioning as they should be," he observed.

To address this inefficiency, the Bank of England has established a working group to understand the causes of high settlement rates and to look for solutions. The group anticipates that advances in technology offer potential for significant improvements in straight-through processing (STP) rates across the securities finance transaction lifecycle from pre-trade to closure of the return leg.

However, for Pyzer, the challenge is broader than technology adoption and also lies in motivating firms to change their settlement culture as well as to upgrade their workflow.

Twenty years ago, he recalls a fierce commitment across counterparty firms to ensure that a trade did not fail. Subsequently, he suggests that this commitment has diminished and it is important to refocus on eliminating trade fails, particularly in advance of a future move to T+1 settlement in line with the US, Canada and India.

In planning for next-day settlement, an HM Treasury task force has been established to evaluate the case for T+1 and to scope out the requirements for this to be delivered. In earlier times, when securities were delivered physically from one settlement counterparty to another to complete transfer of ownership, there was a case for working with T+3 (or longer) settlement windows. Now that these transfers take place electronically, the case for settling on T+2 is substantially weaker.

These steps to drive improvements in settlement efficiency will be one element of the Bank's forthcoming plans to review and update the Money Markets Code (MMC), planned for 2024.

The existing code has been in place since 2017 and was drafted by the market with the Bank of England standing as facilitator. The Code has four sections, with its overarching principles and ethics followed by chapters on unsecured financing markets, repo and securities lending markets.

As part of the MMC review, working groups have now started to review each of its existing chapters, updating its content and "keeping it fresh".

The MMC is a voluntary code, Pyzer explains, with more than 200 firms on the register that have signed up to the Code. In case of a breach, the Bank has mechanisms to voice its disapproval and to advise that market participants should change their behaviour. The recent case of an EU bank borrowing stock to vote at a company AGM — when Mediobanca borrowed shares in the London market in Trieste-based insurer Generali — provides an example where the Securities Lending Committee made clear its disapproval in the minutes of its quarterly meeting and the UK Money Markets Subcommittee wrote to all signatories to condemn this practice.

The Bank of England Securities Lending Committee was established in 2017 and is a sub-committee of the Bank's Money Markets Committee, involving participants from across the market to discuss development activity, efficiency and stability in unsecured financing, repo and securities lending.

Membership is drawn from across the industry, embracing buy-side, sell-side and their relevant service intermediaries. Members join by invitation from the Bank.

In the discussion, which was moderated by ISLA's head of legal services Tina Baker, Pyzer emphasised that the work of the Securities Lending Committee aligns with the central function of the Bank of England to ensure monetary and financial stability.

Pyzer highlighted the central role that the Bank had played in restoring financial stability in response to the UK gilts crisis that extended from late September into early October 2022, when he observes that the "gilts market was not in a stable format" and many LDI funds were facing large margin calls on the repo and derivatives positions.

"The Bank announced that we would buy the long end of the gilts market," he said, making a commitment to buy up to £65 million in gilts holdings if required. "Our presence in the market was fundamental in breaking that 'doom loop' and to restoring stability," he concluded. In practice, the BoE bought £19.3 million in gilts through its temporary asset purchase programme, well below the £65 million threshold that it had announced, and completed its unwind of this tranche of gilts holdings in January 2023.

Securities finance firms face turbulent tax environment

The securities lending industry is navigating a "somewhat tricky" and "slightly turbulent" tax environment with increased scrutiny from tax authorities across Europe, according to the Legal & Tax Initiatives 2022/23 panel at the ISLA 30 Conference in Lisbon.

The panel provided an overview of the tax environment in which the securities lending industry operates and the challenges the industry is facing from a tax perspective.

Tax rules have always existed on securities lending and continue to evolve, one panellist confirmed.

In 2018, tax came into the spotlight when a consortium of investigative journalists in the EU shone a light on the cum-ex scandal. In the same year, the European Parliament estimated that, at that time, approximately €50 billion was lost to aggressive cum-ex practices in Europe.

Following these events, associations including the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) launched investigations into such schemes.

Currently, the industry is required to comply with an extensive body of legislation requiring market participants to implement robust tax reference frameworks for identifying, mitigating and reporting potential tax abuses, conference attendees heard.

Some initiatives target aggressive forms of securities lending, for example, anti-CoCo circulars in Germany. Some initiatives are more general in their application, such as the Organisation for Economic Co-operation and Development's (OECD's) Mandatory Disclosure Regime. And some "perfectly sensible" initiatives, a panellist noted, have had unintended consequences for securities lending.

The discussion on tax concluded that tax rules should be clear, intelligible, predictable and certain so market participants can confidently comply with their obligations.

In addition, member states need to strike a balance between promoting business and fair play, tax collection and control of tax abuse to maintain the efficiency of capital markets.

Securities finance markets in H1 2023: what lessons can we draw?

As we move into the second half of 2023, Matthew Chessum, director of securities finance at S&P Global Market Intelligence, reviews three big themes from H1 2023 and how these have impacted the securities finance landscape

Several big themes have dominated financial markets during the first half of 2023. Interest rate policy and the impact of the hiking cycle across both the banking and property sectors has captured numerous headlines. A thawing in relations between China and the US has been heavily reported, given the importance that this relationship has on supply chains and the sourcing of electrical components. The progress made in generative artificial intelligence (AI) has sent stock markets higher and the transition towards the broader use of electric vehicles has sharpened investor focus, given the sector's level of competition, financing requirements and demand for raw materials.

As we move into the second half of 2023, we review three of the big themes from H1 2023 and look at how these have impacted the securities finance landscape. We also look forward to the second half of the year to see what themes may dominate in the future.

Interest rates and inflation

Over the first six months of 2023, interest rate policy has undoubtedly generated the most headlines across the financial press. Since January, central banks have continued to pursue their aggressive hiking cycles in a fight to reduce inflationary pressures. Over the past year, the European Central Bank has raised interest rates by 375bps and is expected to keep raising into June and July. The Bank of England has raised rates at the past 12 successive meetings and is expected to continue doing so going into H2, while the Federal Reserve has raised interest rates to a 16-year high.

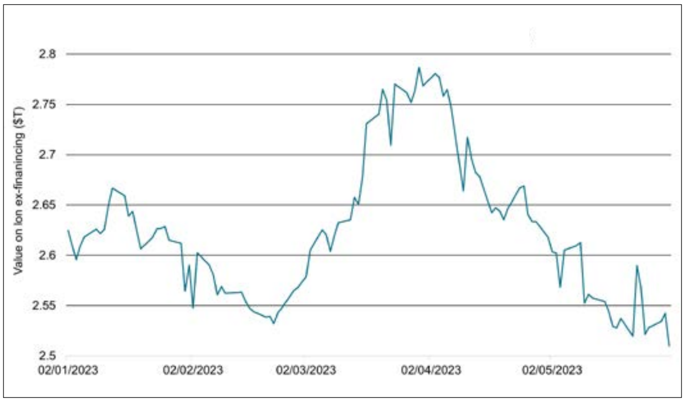
These changes in interest rates have had a significant impact upon government bond activity within the securities finance markets. Over the past 18 months, short-dated government bonds have seen a substantial increase in demand as borrowers look to hedge interest rate moves. Borrowing fees have remained elevated and traded between 17bps and 19bps on average.

Given the increase in fees, revenues from government bonds exceeded those generated throughout 2022 during every month of the year to date. This is despite a decline in balances by an average 17 per cent for January to May. Corporate bond borrowing has also thrived in the current economic environment. The rapid increase in interest rates has led to falling prices and increasing yields. This has increased directional opportunities and provided a strong role for those borrowers looking to provide additional liquidity into the market as long-only investors continue to sit on the sidelines. Average fees have tracked within a range of 45bps to 47bps on average for January to May as a result.

Interest rates have also had a significant impact upon equity markets. A fall in stock markets took place towards the end of 2022 as investors believed a pause in interest rate hiking was imminent. As central banks have continued to increase rates, the S&P 500 has hit bull market territory — 20 per cent higher than its recent low — the DAX in Germany hit an all-time high and the Nikkei in

Japan climbed to a 33-year peak. This increase in stock market values has led to a high degree of short covering and a subsequent decline in balances across multiple regions as a result. Securities lending (excluding financing) balances across all securities declined by more than US$107 billion during May alone (figure 1).

Fig 1: On loan balances ex-financing, all securities Jan - May ($T)



The banking sector and credit risk

Following the rapid increase in interest rates over the past year, numerous financial institutions have come under pressure. In the US, Signature Bank (SBNY), Silicon Valley Bank (SVB) and First Republic bank (FRC) all collapsed during the first half of the year. The failure of First Republic Bank during May was the fourth regional US lender to collapse since early March and marked the second biggest bank failure in US history.

In Europe, the acquisition of Credit Suisse (CSGN) by UBS (UBSG) also took place through a government-backed deal, sending further shock waves throughout financial markets. Many of these banking stocks have traded special over the first six months of the year and short interest as a percentage of market capitalisation across the North American banking sector has remained close to multi-year highs of 0.54 per cent. Credit risk also took on a renewed focus from investors and a review of collateral procedures took place across all securities finance participants.

Technology and innovation

Technology has continued to be an important theme throughout the year. During the early months of 2023, the fallout from the collapse of cryptoexchange FTX was still being felt across financial markets. Within the securities finance market, companies such as Microstrategy Inc (MSTR) and Marathon Digital Holdings Inc (MARA) became popular borrows.

Microstrategy remains in demand and was the third-highest revenue generating stock across Americas equities during Q1. The electric vehicle sector has continued to attract investor speculation throughout the period. Electric vehicles have remained heavily shorted. Popular borrows based upon revenues generated between January and May include Lucid Group (LCID, generating US$111.3 million), Fisker Group (FSR, generating US$47.3 million), Xpeng ADR (XPEV, generating US$46 million), Nikola Corp (NKLA, generating US$42.5 million) Evgo Inc (EVGO, generating US$44.4 million), Tianneng Power International Ltd (HKG: 0819, generating US$8.2 million) and Quantumscape Corp (QS, generating US$48 million).

Across the APAC region, the semiconductor and software sectors remained heavily shorted. Geopolitical risk increased over the first half of the year following the spy balloon allegations, resulting in a change in industrial strategy concerning microchip and semiconductor production and distribution. Companies such as United Microelectronics Corp (2303) and Aspeed Technology Inc (5274) both came under pressure as a result.

Heading into H2

Securities finance markets have shown very strong revenues for the first half of the year, following on from the record Q1 revenues and the continued outperformance through to May. Despite this, H2 does appear to show some potential headwinds for the market. A recessionary environment is starting to take hold and stagflation is likely to become a key theme during H2. This may bring a possible decline in deployable capital and a lack of investor conviction.

A pause in the rate hiking cycle may start to negatively impact both fixed income revenues and balances. Further short covering may take place as the positive momentum continues to grow across equity markets and investment increases in defensive and value stocks. Finally, expect to hear a lot more about the AI revolution throughout the second semester. Is it a bubble or is the technology so transformative that current valuations will continue to rise? This is likely to be a key discussion throughout the coming months with the prevailing sentiment, no doubt, being expressed through the securities finance markets.

Major industry moves at BNP Paribas, Broadridge and Clear Street

Workflow digitisation firm Wematch.live has appointed Roberta Pedersoli as a product manager.

Based in London, she will be responsible for the implementation of new products, the delivery of user-requested features and monitoring the client portfolio.

Pedersoli has more than five years of experience in the industry, and joins Wematch from Morgan Stanley. She spent four years with the firm, first as an equity finance analyst and later as an equity finance trader associate.

Commenting on the appointment, Anne Taieb, head of securities finance product, says: “[Pedersoli’s] extensive experience in securities financing and operational workflows will be invaluable in developing our innovative products. With her expertise, we are confident in our ability to provide cutting-edge fintech solutions to meet the evolving needs of our clients.”

Independent prime broker Clear Street has appointed Kevin McCarthy as its first chief administrative officer and head of clearing.

Based in New York, McCarthy will report to Clear Street co-founder and CEO Chris Pento.

He will oversee the firm's clearing services and will support Clear Street’s expansion as the firm moves into new markets and asset classes.

Prior to joining Clear Street, McCarthy spent more than 30 years at Bank of America Merill Lynch where he was responsible for launching and managing professional

Baudo becomes strategic advisor for Broadridge

Broadridge has selected Michael Baudo as a strategic advisor to perform a deep-dive analysis of its securities finance asset and service platforms.

Baudo will work alongside Broadridge’s president Chris Perry, president of capital markets Vijay Mayadas, and general manager of securities finance and collateral management Darren Crowther.

The team aims to design a long-term, front-to-back strategy that will enable growth across the securities finance market in North America.

Baudo was formerly president and CEO at ING before departing from a more than 23-year career with the multinational banking and financial services corporation in January. He went on to establish Strategic Direction LLC.

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

Earlier in his career, Baudo was regional head of international securities financing at Bankers Trust (now Deutsche Bank) between 1997 and 1999. Previously, he worked for Morgan Stanley from 1992 to 1997.

Commenting on the news, Crowther says: “Mike is a recognised industry expert who can help propel our vision and plan forward, simplifying and streamlining securities finance.

clearing services as well as prime brokerage financing services.

Commenting on McCarthy's appointment, Pento says: "Kevin brings credibility and knowledge to our already robust leadership bench."

Fintech firm Comyno has hired Marko Andrić and Željko Grubišić as development operations engineers to support the firm's growth.

Based in Serbia, the two appointments will report to Raphael Wutzke, chief technology officer for C-ONE Connectivity.

Andrić joins the firm from a five-year term at VERISEC International where he was previously a development operations engineer.

Prior to the new appointment, Grubišić was also a development operations engineer at software development firm Studio Present.

Mizuho has appointed Jorge Castillo as equity finance trader.

Based in New York, Castillo will work on the Delta One trading desk.

Mizuho is the integrated retail and corporate banking unit of Mizuho Financial Group, the third largest financial services company in Japan.

Castillo was previously an equity finance trader at Natixis CIB Americas from 2022 to 2023.

Before that he served as assistant vice president in the securities lending trading team at Cantor Fitzgerald from 2021 to 2022. He was assistant vice president of operations at the company from 2019 to 2021.

Castillo has also served in senior roles at E*TRADE (Morgan Stanley) and was an insurance agent at the New York Life Insurance Company.

Oliver Jacomb has departed from his position as head of prime brokerage sales, EMEA at BNP Paribas.

Jacomb leaves the French bank and financial services firm after a three-year term at its London branch.

He joined BNP Paribas from Deutsche Bank, where he was managing director and head of prime finance sales for the EMEA region.

Earlier in his career, Jacomb held a number of positions at J.P. Morgan between 2008 and 2016, including executive director of prime services sales, hedge funds and alternatives.

Torstone Technology has named Neil Mardon as chief financial officer and a member of the board of directors.

Mardon has more than 20 years of experience in the financial industry and joins Torstone from Scotia bank, where he was a financial services consultant. Prior to this, he spent close to 13 years with Daiwa Capital Markets Europe, first as chief financial officer and later as chief operating officer.

Torstone has seen an uptick in client onboarding and recently appointed Sam Farrell as head of its North American business as it continues to scale.

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Published by Black Knight Media Ltd