securitiesfinancetimes
The primary source of global securities finance news and analysis
Issue 331 11 July 2023

Forging a clear pathway

Cboe Clear Europe's president Vikesh Patel discusses the launch of the firm's upcoming clearing service for SFTs and how regulation is redefining the clearing landscape

EQUILEND T+1
ENSURE T+1 READINESS WITH EQUILEND

HQLA^X

Redefining Collateral Mobility

Frictionless, precise and real-time transfer of ownership of securities

www.hqla-x.com

Matrix Applications forms strategic partnership with ZeroBeta

Matrix Applications, a wholly-owned subsidiary of South Street Securities Holdings, has formed a strategic partnership with ZeroBeta to elevate its risk management capabilities in the capital markets.

ZeroBeta is a provider of cross-asset, real-time risk, collateral and market data management technology.

Its BlueShift Platform will combine with Matrix's suite of collateral management, margining, clearing and back-office systems, aiming to provide a comprehensive solution to tackle complex challenges faced by institutional firms.

The New York-based fintech service bureau says the collaboration will offer clients an end-to-end solution that optimises risk exposure across asset classes, enhances operational efficiency, minimises counterparty risk and helps to drive growth.

Users of the platform will have access to a suite of tools and functionalities that aim to facilitate efficient trade processing, accurate risk assessment and streamlined collateral management.

Commenting on the partnership, Stephen Mellert, head of business development at Matrix, says: "Our partnership with ZeroBeta is a natural fit, aligning our respective strengths to deliver a holistic risk management solution.

"By using ZeroBeta's technology and our industry experience, we can offer our clients an integrated platform that addresses their evolving risk management requirements."

Manjusha Tipre, co-founder and board member of ZeroBeta, adds: "This partnership will create a powerful FinOps SaaS offering for Matrix and its clients. It will provide fixed income institutional players with agile and nimble technology modernisation under the secure and compliant operations of Matrix."

Key contents

03

Matrix Applications forms partnership with ZeroBeta

Matrix Applications, a wholly-owned subsidiary of South Street Securities Holdings, has formed a strategic partnership with ZeroBeta to elevate its risk management capabilities in the capital markets

06

Acadia launches initial margin calculation tool

Risk management services provider Acadia has launched IM Recalibration Analytics (IMRA), an initial margin (IM) calculation tool

16

Forging a clear pathway

Cboe Clear Europe's president Vikesh Patel discusses the launch of the firm's upcoming clearing service for SFTs and how regulation is redefining the clearing landscape

20

Regulators see the bigger picture

Nick Moss of MarketAxess discusses the advantage regulators have when assessing data quality and how the industry can adopt a similar approach

22

Three predictions for H2 2023

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, shares his predictions for how securities financing activity will unfold during the second half of 2023

24

Industry appointments

Fran Garritt has departed from his position as director for securities lending and market risk at the Risk Management Association (RMA)

Think you can't access the repo market? Think again.

An entirely new way to leverage excess cash balances, backed by the one of the world's largest custodian banks. This is Venturi,[SM] the revolutionary peer-to-peer financing platform that changes everything.

statestreet.com/venturi

Venturi[SM]
by State Street

5408523.1.1.GBL.INST
Expiration date: 1/12/2024

Acadia launches initial margin calculation tool

Risk management services provider Acadia has launched IM Recalibration Analytics (IMRA), an initial margin (IM) calculation tool.

The tool, designed for firms that have to conform to Uncleared Margin Rules, allows users to evaluate the International Swaps and Derivatives Association's (ISDA) Standard Initial Margin Model (SIMM).

IMRA enables users to see the impact of changes on their initial margin calculations by automating tasks such as counterparty viewing and netting set level exposure changes. It also houses daily trend analysis to track potential changes in IM differences.

By incorporating existing data from Acadia's IM Exposure Manager and IM Threshold Monitor, IMRA gives users a complete view of their initial margin requirements — without the need to upload new data, Acadia says.

Major market shocks, which drive a considerable change in risk, can be factored into the ISDA SIMM model on a quarterly and annual basis, Acadia adds.

Murex introduces MX.3 for Collateral Management at DZ Bank

Murex, a trading, risk management and processing solutions firm for capital markets, has incorporated its MX.3 for Collateral Management extension at DZ Bank.

DZ Bank's operations, treasury and risk business units will be able to access a number of enhancements and process automations with the MX.3 extension, says Murex. This will include connectivity to platforms such as MarginSphere and TriResolve, as well as an automated allocation process and an improved trade import process.

According to the firm, DZ Bank processes 1400 collateral calls per day across more than 5400 collateral agreements.

Rüdiger Welsch, head of operations IT at DZ BANK, says: "The use of the integrated MX.3 platform generates considerable cost synergies in operations and further development compared to a standalone solution.

"For the participating units from operations, treasury and risk control, several business

EMIR – MiFIR – SFTR – FinfraG – MAS – US Dodd Frank – REMIT

Compliance is a beast
We help you tame it.

office@deltaconx.com | www.deltaconx.com

... to the next level.

Let Securities Lending take you...

Make idle assets work harder with Securities Lending. Behind the scenes, we generate low-risk additional revenues on your securities. The only impact on your business is enhanced performance figures, and today, every basis point counts.
We offer tailor-made agency, principal and lending solutions with remote access to suit your precise needs.
CACEIS, your comprehensive asset servicing partner.

Contact:
seclending@caceis.com

www.caceis.com

caceis
INVESTOR SERVICES
solid&innovative

improvements were achieved compared to the legacy application. For example, an increased level of automation in collateral operations was achieved for cash and security allocation and electronic margining."

Philippe Helou, managing partner and co-founder of Murex, adds: "This is a milestone in the longstanding partnership between Murex and DZ Bank, capitalising on the ongoing evolution of the platform.

"DZ Bank joins a community of more than 100 financial institutions that trust the collateral management solution provided by Murex. Operations, treasury, risk and IT departments at DZ Bank collaborated closely with Murex and Capco. The bank has gained a future-proof and cost-effective collateral management architecture and platform."

ISLA confirms destination for 2024 conference

The International Securities Lending Association (ISLA) has named Geneva, Switzerland as the location for its 2024 summer conference.

The 31st Annual Securities Finance & Collateral Management Conference will be held across three days, between 18 June and 20 June next year.

It will take place at the Hotel President Wilson, a five-star hotel which faces Lake Geneva and is just a few minutes from a number of parks and boutiques along the famous Rue du Rhône.

Attendees of the event can expect a mix of keynote presentations, panel discussions and networking events.

The announcement comes a week after ISLA celebrated its 30th Securities Finance & Collateral Management Conference in Lisbon.

To catch up on the 2023 Lisbon conference, panel discussions and more, view SFT's ISLA Daily content for day one, day two and day three of the event.

CACEIS finalises purchase of RBC European asset servicing business

CACEIS has completed the acquisition of RBC Investor Services' European asset servicing business and its Malaysia operations centre.

The deal was announced in October, when CACEIS agreed to buy RBC's European securities services business, including custody and global custody FX, securities lending, fund administration and transfer agency, along with middle-office services.

The completion of this transaction aligns with the proposed timeline framed out in October, when the two parties signed a memorandum of understanding and indicated that the deal was likely to be completed by the end of Q3 2023, subject to the normal antitrust scrutiny and regulatory approvals.

CACEIS also expects to complete the purchase of the UK branch of RBC Investor Services and Trust and RBC Investor Services' Jersey operation in coming months, subject to the required regulatory approvals.

Commenting on the acquisition, CACEIS chief executive Jean-Pierre Michalowski, says: "This deal further strengthens CACEIS' leadership position as a front-running asset servicing player. I believe that the staff who are joining us are proud to be part of our group.

"Together we will construct the benchmark

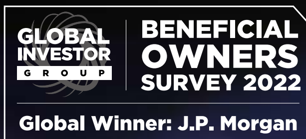
SECURITIES FINANCE
REGULATORY REPORTING
C-ONE
DLT/ BLOCKCHAIN
CONNECTIVITY
COMYNO
C-ONE | One-Stop- Shop for Securities Finance
WWW.COMYNO.COM

J.P.Morgan

Agency Securities Finance

| Performance | Analytics | Governance

Unlock your portfolio's full potential, enhance returns and finance efficiently with customizable lending solutions linked to J.P. Morgan's global equity, fixed income and cash management capabilities. We offer full-service agency securities financing backed by over four decades of expertise, proprietary technology and advanced analytics and insights.



Contact your representative to learn how we can help or visit www.jpmorgan.com/securities-services

© 2022 JPMorgan Chase & Co. and its subsidiaries. All rights reserved. This advert is for institutional and professional investors only and subject to the important disclosures and disclaimers at www.jpmorgan.com/pages/disclosures.

for the sector in Europe. With motivated individuals all working collectively to serve our clients, we are on the right track."

Francis Jackson, CEO of RBC Investor Services, adds: "We are incredibly proud of the business we have built in Europe and pleased that both clients and employees of our business will benefit from being part of what is expected to become one of the largest asset servicing providers in Europe."

AFME backs EU Council and European Parliament's provisional CSDR agreement

The Association for Financial Markets in Europe (AFME) has released comment on the EU Council and European Parliament's provisional CSDR political agreement, also known as CSDR Refit.

The proposed law aims to reduce the financial and regulatory burden on central securities depositories (CSDs) and improve their ability to operate across borders, while also strengthening financial stability.

In a statement commenting on the planned legislation, Peter Tomlinson, director of post trade at the AFME, says: "AFME welcomes the political agreement [...] which views mandatory buy-ins as a measure of last resort."

The CSDR Refit contains measures to improve efficiency by amending certain elements of the settlement discipline regime, including the preconditions for applying mandatory buy-ins. Under the proposed law, buy-ins will be activated subject to assessment and only in the case where the level of settlement fails in the EU has not reduced and is deemed to pose a financial stability risk.

While settlement efficiency has slowly improved since the adoption of the 2014 regulation, it is still lower than in other developed capital markets, says the EU Council.

The new regulation has also been proposed to make it easier for CSDs to offer services across borders and improve cooperation among supervisors.

In cases where a CSD's activities in at least two other Member States are considered to be of substantial importance to the functioning of the securities markets and investor protection, a college will be set up to facilitate cooperation

Dip your toes before diving in

Due to increased demand, Trading Apps have launched a new approach that may be perfect for your business. We can now give you quick access to our fully automated technology on a month-by-month service contract, where you don't pay anything until you're satisfied our product is delivering what we said it would do. We call it a 'no win, no fee' commitment.

Streamline your trading operation.
Increase your profits.
Start winning with zero risk.

TradingApps

Book a demo,
visit: tradingapps.com

GLOBAL SECURITIES FINANCING

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

*Group 2 Borrower - Global Market Lenders and Borrowers were split into 2 groups based on the volume traded

Natixis Corporate and Investment Banking offers high quality solutions thanks to its in-depth knowledge of the Securities Financing market.

Collaboration || Financing || Solutions

Contact: Romuald Orange, GSF - Global Head of Client Strategy
Tel: +33 1 58 55 11 09 - romuald.orange@natixis.com

www.cib.natixis.com

and information exchange between Member State authorities. Supervisors will also have access to better information about the activities of non-EU CSDs operating in the EU.

In addition, the proposed law would be put in place to create a simpler passporting regime. The current passporting regime is "lengthy and burdensome and discourages cross-border services," according to the EU Council.

"The text clarifies and simplifies the rules, thus reducing the barriers to cross-border settlement and easing the administrative and financial burden," it adds.

Elisabeth Svantesson, Swedish minister for finance, comments: "CSDs are vital to the EU's financial system and for the Capital Markets Union, yet they still face obstacles in terms of high costs and excessive red tape. [The agreement] will help us unlock the full potential of the EU's capital markets, making them more attractive to investors."

Commenting further on the decision, AFME's Tomlinson says: "The CSDR Refit legislation in the EU will include a mandate for ESMA to undertake an assessment on the possibility of shortening the settlement cycle in the EU.

"AFME looks forward to engaging with European authorities and market participants on this topic as part of the new European industry Task Force which was established by AFME earlier this year.

"The task force will examine all aspects in this debate, including direct economic costs and savings to the industry, as well as factors relating to global alignment and market attractiveness."

ISLA responds to HMRC on Stamp Duty and SDRT

The International Securities Lending Association (ISLA) has released a response to the UK HMRC consultation on modernisation of stamp tax on equities trading and stock lending transactions.

OVERCOME YOUR CAPITAL MARKETS CHALLENGES

Enhance Performance | Manage Costs | Increase Access to Liquidity | Manage Exposure and Mitigate Risk | Improve Governance and Transparency

Tackle these challenges head on with solutions from Northern Trust Capital Markets – capitalise on advanced technology, transparent trading, quality execution and smart liquidity solutions across:

Foreign Exchange | Securities Finance | Integrated Trading Solutions | Transition Management

For more information, visit **northerntrust.com**

©2023 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the U.S. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation.

Northern Trust Capital Markets is comprised of a number of Northern Trust entities that provide trading and execution services on behalf of institutional clients, including foreign exchange, institutional brokerage, securities finance and transition management services. Foreign exchange, securities finance and transition management services are provided by The Northern Trust Company (TNTC) globally, and Northern Trust Global Services SE (NTGS SE) in the European Economic Area (EEA). Institutional Brokerage services including ITS are provided by NTGS SE in the EEA, Northern Trust Securities LLP (NTS LLP) in the rest of EMEA, Northern Trust Securities Australia Pty Ltd (NTSA) in APAC and Northern Trust Securities, Inc. (NTSI) in the United States.

This material is directed to institutional investors and professional clients only and is not intended for retail clients. **For Asia-Pacific markets, it is directed to expert, institutional, professional and wholesale clients or investors only and should not be relied upon by retail clients or investors. For legal and regulatory information about our offices and legal entities, visit www.northerntrust.com/disclosures.**

His Majesty's Revenue and Customs (HMRC), in its consultation document, examines whether it is beneficial to adopt a single tax framework for securities transactions, rather than the current arrangement where securities trades fall into scope of both the Stamp Duty and Stamp Duty Reserve Tax (SDRT) frameworks.

ISLA indicates that it supports the adoption of a single tax on UK securities and steps to modernise and simplify legislation, enabling firms to comply with a single, modern and simplified digital tax.

Specifically in its response, the trade association engages with content of the consultation document relating to stock lending and repurchase relief.

It shares its concerns, along with the Association of Financial Markets in Europe (AFME) and some other trade associations, that the UK government is missing an opportunity by not intending to widen the geographical application of tax relief for stock lending and repo transactions to regulated brokers and lending agents in countries that have a double taxation treaty (DTT) with the UK.

ISLA understands that the UK government's position is driven by the fact that no strong case has been made for this geographical extension of tax relief for SFTs.

The Association aims to make a case for doing so, outlining the expected benefits for the securities lending industry and the improved liquidity this will potentially deliver for UK-listed equities.

It proposes that the UK has taken a position which no other country has adopted relating to applying a geographical limit for securities lending trades.

It therefore encourages the UK government to fix the shortcomings in the alternative (pre-MiFID) relief detailed in s.88AA(3) Finance Act of 1986, which makes this tax relief difficult to obtain since it applies HMRC published practice dating from 10 years ago.

When you're looking to extend your global reach, turn to the proven prime finance solutions and seamless execution of BMO Capital Markets.
BMOCMPrimeBrokerageSales@bmo.com

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (member FDIC), Bank of Montreal Europe p.l.c., and Bank of Montreal (China) Co. Ltd, the institutional broker dealer business of BMO Capital Markets Corp. (Member FINRA and SIPC) and the agency broker dealer business of Clearpool Execution Services, LLC (Member FINRA and SIPC) in the U.S., and the institutional broker dealer businesses of BMO Nesbitt Burns Inc. (Member Investment Industry Regulatory Organization of Canada and Member Canadian Investor Protection Fund) in Canada and Asia, Bank of Montreal Europe p.l.c. (authorised and regulated by the Central bank of Ireland) in Europe and BMO Capital Markets Limited (authorised and regulated by the Financial Conduct Authority) in the UK and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license. ® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

Two flavours of relief are currently available under Stamp Duty and SDRT that are applicable to securities lending trades. Those under s.88AA(2A) were introduced in 2007 to comply with the Markets in Financial Instruments Directive (MiFID), which remains applicable after Brexit to firms authorised by their national regulator to provide MiFID investment services business and which are acting as principal (either as lender or borrower) to a securities lending transaction.

The other is available under s.88AA(3), which was applicable before 2007 and continues to apply today where trades are conducted on a regulated market, multilateral trading facility or recognised foreign exchange.

ISLA indicates that this tax treatment under s.88AA(2A) restricts liquidity of UK equities in the hands of brokers outside of the UK and European Economic Area.

It also limits the ability of UK-based beneficial owners to lend UK securities since this tax provision results in securities issued in other countries being more readily available for lending or for use as collateral.

In case of settlement fails, or other operational failure, this also makes it more difficult for firms without a direct relationship with a UK or EU-based broker to borrow UK shares to use as fails coverage.

ISLA describes the relief available under s.88AA(2A) as a “historical anomaly” that resulted from the UK’s previous membership of EU and the requirement for UK firms to comply with MiFID.

“In our view, it makes no sense and is inconsistent with a so-called “modernisation” of the stamp taxes code to restrict a commercial relief to certain parties due to the legal situation in 2007, which no longer applies, rather than sensibly assessing the commercial landscape regarding UK shares and which should be able to benefit from this relief in 2023,” ISLA says in its consultation response.

Developing this point, ISLA indicates that most countries that apply stamp tax or financial transaction taxes to securities lending and financing transactions typically apply an exemption to temporary title transfers, as may be applicable to securities lending and repo trades or to the associated collateralisation of those transactions.

Only the UK imposes conditions relating to the geographical location of the parties to the trade, ISLA notes.

The Association also urges modernisation of tax treatment of SFTs under s.88AA(3). “Where a lending agent, such as a global custodian bank, acts on behalf of a lender in an agency capacity in lending its securities to a borrower, the agent is not able to benefit from relief available under s.88AA(2A), discussed above, which is only available to firms acting as principal,” says ISLA.

It proposes that a better relief framework could be entirely self-assessed or based upon more specific conditions, such as where trades are reported through the UK CSD, Euroclear UK and International, as being loan trades or loan returns. “This creates a clear and automated audit trail … where stock lending relief is asserted [that] the shares are in fact returned,” ISLA concludes.

The HMRC consultation on Stamp Taxes on Shares Modernisation was open for eight weeks following the publication of the consultation paper, running from 27 April until 22 June 2023.

securitiesfinancetimes

HAVE YOUR COLLEAGUES SUBSCRIBED?

Never miss an issue and the latest news Subscribe now!

MUREX

MX.3 for Collateral Management and Securities Finance

Banks can now break silos and bridge the gap between collateral management, settlement and securities finance for a wide asset class catalog.

Benefit from Murex technology and deploy centralized real-time inventory management, a holistic strategy on funding activities and a high level of automation that can mitigate risk, manage liquidity and reduce cost.

Vikesh Patel
President
Cboe Clear Europe

Forging a clear pathway: introducing operational efficiency using a CCP

Cboe Clear Europe's president Vikesh Patel discusses how regulation is redefining the clearing landscape and how the launch of the firm's upcoming clearing service for SFTs contributes to its broader development strategy. Carmella Haswell reports

Many factors are redefining the clearing landscape for European securities financing transactions, the main one, of course, being regulation, says Cboe Clear Europe's Vikesh Patel.

He indicates that the forthcoming Basel IV regulations could potentially have serious consequences for the SFT industry. The introduction of a stricter standardised approach for measuring counterparty credit risk could result in higher capital requirements for participants and create increased expense for those accessing the securities lending market.

New regulations, including the Central Securities Depositories Regulation (CSDR), Securities Financing Transactions Regulation (SFTR) and planned Basel IV implementation, are forcing market participants to manage increased capital demands, as well as additional operational inefficiencies that increase the costs of bilateral SFTs and may lead to a reduced capacity and appetite to borrow or lend.

In this context, use of a central clearing counterparty (CCP) model could reduce the capital burdens associated with bilateral SFTs and offer significant operational advantages, Patel explains, therefore helping to maintain and grow activity in this capital markets function. From a capital efficiency perspective, trade exposure on CCPs offers lower risk-weights for borrowers and optimised netting benefits.

"There have been initiatives to introduce clearing to the European SFT market in the past," Patel explains, "but these have had little success." Cboe Clear Europe explored the introduction of an SFT clearing service in 2018, but decided not to proceed to delivery at the time for a multitude of reasons.

Fast forward, the firm was re-approached by securities finance participants to deliver a solution to mitigate existing and anticipated capital constraints, counterparty exposure limits and indemnification costs.

Responding to this request, the pan-European central counterparty is now working on a project to introduce a new clearing service for SFTs. Securing the support of a range of key market participants — including participant agent lenders BNY Mellon and Citi, and participant borrowers ABN AMRO Clearing Bank, Barclays, Citigroup Global Markets, J.P. Morgan and Goldman Sachs — the service is set to be introduced to the industry in Q3 2024.

Cboe Clear Europe says the new offering will introduce CCP clearing, with matching, settlement and post-trade lifecycle management for European SFTs in cash equities and exchange-traded funds (ETFs) for agent lenders and borrowers.

Operating across 18 European markets, with settlement taking place

in 19 European central securities depositories (CSDs), the clearing service will be the only pan-European CCP offering consolidated services for SFTs in European cash equities and ETFs, the Amsterdam-based clearing house confirms.

An opportune time

With approximately 12 months until live date, the CCP aims to bring improved capital efficiencies, enhanced risk management and streamlined operational procedures to market participants. This includes greater settlement efficiency, as well as improved practices around fees management, corporate actions and post-trade lifecycle processing.

"We believe SFT clearing has strong synergistic benefits with our existing cash equities clearing and will provide a clear pathway to clearing SFTs in other jurisdictions"

Vikesh Patel
President
Cboe Clear Europe

From an operational perspective, Patel indicates that a cleared model will help to harmonise, standardise and automate processes across the trade lifecycle, with the CCP being the "golden source for processing and reporting". All parties will face Cboe Clear and no agent lender disclosures will be required, Patel confirms, thereby helping to reduce operational overheads.

Inevitably, the release of a new SFT clearing service will increase competition and choice for clearing customers. Well established players already dominate the sector including London Stock Exchange-owned RepoClear, which provides clearing for cash bond and repo trades across European markets. Eurex Clearing delivers services for derivatives, equities, bonds and secured funding, with a reach across Europe and for the clearing of swaps within the US. Also, the Depository Trust and Clearing Corporation (DTCC) provides clearing across US equities and fixed income markets.

Cboe Clear Europe identifies strong potential synergies between its proposed SFT clearing service and its pan-European cash equities franchise. From the launch of SFT clearing, the firm plans to offer cross-product margining between cash equities and ETFs, SFT trades and required value (RQV) in cash equities and ETFs.

From Patel's perspective, this is an opportune time to deliver such a service to the market. Capital charges associated with SFTs continue to rise and this is driving demand among market participants for a clearing model.

He continues: "SFTR has been implemented, which has freed up clients' capacity for change projects. The industry has moved beyond some of the uncertainties associated with Brexit, with Cboe Clear itself having become the first EU-based CCP to achieve permanent recognition from the Bank of England to operate as a third-country CCP in the UK."

The launch of the clearing service fits within Cboe Clear Europe's strategy to become the leading multi-asset class clearing house in Europe. In holding the necessary regulatory licences and having a deep pool of risk management expertise, the clearing house intends to expand the range of services it offers through client-led innovation.

Through its core cash equities franchise, Patel identifies solid growth potential in its interoperable and preferred clearing services. The firm says it aims to bring a competitive clearing environment where "full interoperability does not exist" and it anticipates an increasing uptake for this service on Euronext venues, particularly in Milan.

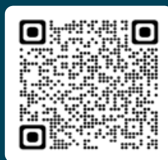
Patel expects the firm to clear its first trades on Deutsche Börse later this year and it is seeking access to additional venues across Europe. The firm recently expanded into equity derivatives clearing in support of Cboe Europe Derivatives (CEDX), a pan-European derivatives exchange operated by Cboe. In addition to clearing CEDX's existing equity index derivatives, Patel confirms that Cboe Clear Europe is supporting the exchange's launch of single stock options in November 2023, subject to regulatory approvals.

He concludes: "We believe SFT clearing has strong synergistic benefits with our existing cash equities clearing and will provide a clear pathway to clearing SFTs in other jurisdictions, as well as fixed income products subject to client demand."

All Your Securities Finance Needs

When traditional investment returns come under pressure, the ability to generate supplemental revenue from your existing portfolio can help maintain performance. We provide tools to source liquidity, borrow securities (as needed) and lend securities to help enhance portfolio returns.

Our solutions include: Agency Securities Lending, Principal Lending, Sponsored Member Program, Secured Loans and Agency Investment Product.



To learn more about all of our Securities Finance Services, scan the QR code.

Regulators see the bigger picture

Nick Moss of MarketAxess discusses the advantage regulators have when assessing data quality and how the industry can adopt a similar approach

ESMA's recent paper on data quality highlights the increasingly data driven approach being taken by regulators and the extent to which they are using real-time metrics and sharing data across jurisdictions to help identify data quality issues.

The regulatory data sets required under the Markets in Financial Instruments Regulation (MiFIR), the Securities Financing Transactions Regulation (SFTR), the European Markets Infrastructure Regulation (EMIR) and other G20 regulations are complex.

In some cases there can be more than 150 fields in a single regulation, combined with the pressures of hundreds of millions of records reported daily.

To fulfil these requirements, data needs to be drawn from multiple different upstream systems within a firm and transformed to meet specific regulatory needs.

To further compound the problem, change is constant within organisations and a small alteration to any of the upstream systems can create big problems once the data has been fed down into the regulatory report.

Advanced techniques are required to analyse and monitor data, and need to be combined with a full reporting data set and smart technologies. Unfortunately, individual firms often do not have these requisite capabilities and this leaves them vulnerable to fines and reputational damage.

The traditional approaches to ensuring regulatory data accuracy are to perform end-to-end reconciliations (a requirement under RTS 22) or periodic sample-based control reviews. On the surface, this control framework appears satisfactory, but when you dig a little deeper there are three key inherent weaknesses.

Context

Without access to the same industry-wide data set as regulators, these controls become too internally focused and omit key market

context. Institutions may ask: ‘How is everyone else reporting this type of trade?” Or: “Are all my counterparties reporting the same trade timestamp as I am?”

Coverage

By definition, these controls don’t cover the whole population of reported trades, meaning, at best, it can take between three and six months to identify an error. At worst, it could be missed altogether. This can mean a relatively small issue escalates into one that requires a significant amount of back reporting to resolve.

Cost

Traditional data quality reviews are often resource intensive, requiring significant manual effort or the budget for third-party experts to run. Cost is also often the enemy of coverage. It’s important to ask how you can improve your data and proactively highlight potential errors, considering the backdrop of increased scrutiny from regulators, the techniques they are employing to monitor the market and deficiencies in traditional models. In essence: how can you start employing the same techniques your regulator uses?

Having listened carefully to how regulators are using their data sets to monitor accuracy, we realised that we could use our unique industry-wide dataset, powered by our network of more than 950 clients, to apply innovative data techniques to help firms undertake similar checks and address the limitations in existing models.

MarketAxess’ solution, SensAI, allows you to assess every field of every transaction you report, providing feedback on anomalies before they become issues. Machines are only as good as the data that feeds them, and that is where the real value of SensAI lies — its ability to provide context. Our regulatory reporting data set gives us a view similar to that of your regulator. This means we can monitor market trends and behaviours to spot outliers in your data that wouldn’t otherwise be possible. If the whole industry is reporting a certain transaction type in a particular way, but you are doing it differently, SensAI will spot that.

SensAI’s highly automated approach to analysis means cost is no longer a prohibitive factor. The solution is designed to streamline your internal regulatory controls and checks, making them more efficient, more accurate and more consistent. SensAI is here to help you safely navigate the deep and murky waters of regulatory reporting.

“Advanced techniques are required to effectively analyse and monitor data, and need to be combined with a full reporting data set and smart technologies”

Nick Moss
Head of post-trade product management
MarketAxess

Three predictions for H2 2023

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, shares his predictions for how securities financing activity will unfold during the second half of 2023

The first half of 2023 held many surprises for investors. Following a rapid decline in valuations during Q4 2022, the NASDAQ experienced its best opening six months of the year ever. Likewise, the S&P 500 gained 13 per cent so far this year, helping it to recoup any losses incurred when the US Federal Reserve started to raise interest rates during March 2022. The index remains approximately 22 per cent higher than its most recent low on 12 October 2022, firmly placing it in bull market territory.

All of this has taken place against a backdrop of financial market stress, rapidly increasing interest rates, stubborn inflation and further geopolitical risk. Given the uncertainty and confusion that exists in financial markets heading into H2, it is probably slightly incongruous to start predicting what may happen in the securities finance markets during H2. Nonetheless, looking at the big themes, some predictions are clearly gathering momentum.

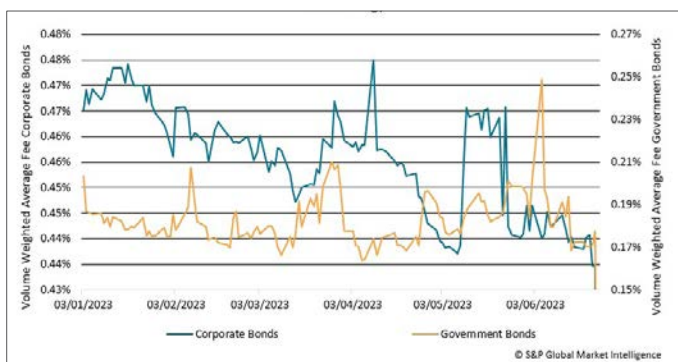
Interest rates continue to rise

First, interest rates will continue to climb, maintaining the attractiveness of fixed income assets. Given the stickiness of core inflation across the globe, interest rate increases remain a reality. The Fed may have paused for a month during June, but so did the Bank of Canada and the Reserve Bank of Australia during May before recommencing interest rate hikes the following month. The Fed is expected to raise rates twice before the end of the year and the Bank of England and the European Central Bank clearly have more work to do to get inflation back to the 2 per cent target.

Fixed income assets have performed very well from a securities lending perspective over H1 (fig 1). An increase in benchmark interest rates has made short-dated government bonds trade special, pushing average fees up to 19bps for January to May. Hedging strategies and general liquidity have been strong drivers of demand. Across corporate

bond portfolios, the increase in interest rates has had a similar impact. Average fees have increased to 46bps for January to May and lenders have experienced record-breaking revenues.

fig 1: Volume-weighted average fee: fixed income assets H1 2023 (ex-financing)



As interest rates climb ever higher and the risk of recession increases as a result, pressure on this asset class is expected to increase as refinancing rates edge higher and credit issues start to appear because of recessionary pressures. Utilisation and balances are also expected to increase — with May utilisation up 5.8 per cent and balances rising to US$264 billion — as a result. A decrease in risk appetite for equities is likely to increase liquidity requirements for investment grade corporate bonds and an increase in negative sentiment regarding non-investment grade corporate bonds is expected to provide opportunities for investors that are looking to take advantage of any weakness.

Prominence of specials activity

Second, equity revenues will become increasingly reliant upon specials activity. Not only has the S&P 500 recently entered bull market territory, but the DAX in Germany hit an all-time high and the Nikkei in Japan hit a 33-year high. Recent financial reports suggest that the most recent AI inspired bull runs are starting to broaden out as investors look to reallocate to the equity markets to capture some of the recent gains. Looking at the options markets, the CBOE Skew index, which is a measure of potential tail risk, is trading at its lowest level since 2019. Call index options linked to the S&P 500 have also reached record highs. A gamma squeeze is reportedly taking place, given the speed of market increases, pushing markets higher still. This signifies that traders are confident that the index will keep rising. Many investors that were short allocations to equities are now playing catch up and reallocating to the asset class, which is also contributing to the recent gains across global indices.

Higher, single directional equity markets usually translate into a decline in borrowing activity in securities finance markets. During May, balances declined as short covering took place and revenues were increasingly driven by specials activity only. This is likely to remain the case heading into H2. Opportunities do exist in this market segment, however, as recessionary pressures and the furor surrounding artificial intelligence are likely to create fertile ground for short sellers. Higher interest rates are also likely to impact some sectors more than others which, in turn, will add to the breadth of specials stocks in demand.

During H1, specials activity across all equities generated approximately 70 per cent of revenues, at US$2.4 billion.

Increased use of cash collateral

As interest rates normalise and the rate of return available in money market funds and reinvestment vehicles climb, the expectation is that this will result in greater use of cash collateral. Excess cash balances will be put to work and increasingly used as collateral for securities finance trading. In an environment where money markets are fully priced in the expected terminal rates of central banks, cash reinvestment returns will continue to strengthen. Since the beginning of the year, the average return on cash reinvestment across all equities has climbed from 15.75bps on 2 January to 19.7bps on 23 June.

As uncertainty persists regarding any potential pivot in interest rates — as experienced during 2020, during a declining interest rate environment — lenders can expect to receive strong returns from cash reinvestment activity. Reinvestment vehicles invest across maturities to produce higher average rates. As interest rates decline, reinvestment rates offer higher returns due to the maturity spread of their investments. Year to date, through to 23 June, cash reinvestment across all equites has generated approximately US$329 million in revenues for lenders.

Conclusion

During the first half of 2023, securities finance markets performed exceptionally well. Market conditions remained volatile, with changes to monetary policy leading to the biggest bank failures since 2008. Uncertainty remains, looking towards the second half of the year. Given the events of H1, it is difficult to know exactly what to expect in H2 — but, using H1 as the benchmark, tighten your seat belts and hold on tight. It is likely to be a bumpy ride.

Major industry moves at Clearstream Banking AG, EquiLend and CIBC Capital Markets

CIBC Capital Markets has appointed Michael Saunders as executive director of its global markets funding desk at the firm's New York office.

Saunders joins the Canadian-based firm from a decade-long career at BNP Paribas, where he was formerly head of agency lending for the Americas within the firm's Securities Services business.

He was responsible for the management of the firm's global securities financing business including trading, business development and client services.

Saunders joined BNP Paribas in 2013 as director, head of trading and investments for the firm's North American agency securities lending team.

He announced his departure from BNP Paribas' Securities Services in April 2023, which followed a period of gardening leave.

Clearstream Banking AG has appointed Stephanie Eckermann as CEO following the departure of Berthold Kracke.

Eckermann will now lead the strategy of Clearstream Banking AG while remaining responsible for strategy, finance and compliance across Clearstream in its entirety.

She has been a member of the executive board at Clearstream Holding AG since September 2020 and remains a board member of Institutional Shareholder Services.

Garritt departs from the RMA after 23 years

Fran Garritt has departed from his position as director for securities lending and market risk at the Risk Management Association (RMA).

As a well-known representative of the RMA, Garritt dedicated more than two decades to the Association. He spent the past 14 years focused on market risk and securities lending.

His role included all aspects of securities lending and regulatory outreach. In terms of market risk, functions revolve around all aspects of funding and traded market risk, counterparty risk, collateral management, model risk and country risk.

During his time with the Association, Garritt has been a driver behind the RMA's efforts to work with global regulators to better understand the securities finance and lending business and drive improved outcomes for members.

Additionally, Garritt has worked to broaden the RMA membership over his tenure to foster a more inclusive association. He has helped to author several key white papers for the membership, ensuring the RMA's mission of education is met.

Garritt took over as director of securities lending and market risk in 2013 from his previous position as associate director.

He replaced former director Christopher Kunkle after proving instrumental in the development of market risk and securities lending for six years prior.

Securities Finance Times publisher Justin Lawson comments: "Having worked with Fran for nearly 20 years — and even closer while running Securities Finance Times and producing the RMA Daily magazine for the annual RMA Securities Finance & Collateral Management Conference — I was saddened to hear of his departure."

Eckermann was most recently head of strategy and controls, pre- and post-trading at Deutsche Börse. Previously, she was a partner at McKinsey & Company during her nearly two-decade tenure with the firm.

Eckermann takes on the role from former CEO Kracke, who served in the position for eight years of his 25-year-long career at Clearstream. Kracke retains his seat on Clearstream Holding AG's executive board, which he joined 8 years ago.

Commenting on her new role via Linkedin Eckermann says: "I am honoured to have been appointed CEO of Clearstream Banking AG. Kracke will still be on the board of Clearstream Holding AG and continue to focus on leading Clearstream Global Operations as his primary task."

Eckermann added: "I want to thank all of my Clearstream senior management colleagues for their support and I look forward to working in this role together with you."

Clear Street has hired a team of investment bankers to build an investment banking and advisory offering.

The business aims to provide strategic advisory, transaction and capital solutions to emerging growth companies.

In addition, the selected team will provide an investment banking practice that offers traditional and alternative capital markets services.

The team will consist of John D'Agostini, co-head of investment banking, who joins Clear Street after more than 12 years as managing director of investment banking at JonesTrading. He began his career in equity sales and trading at Cantor Fitzgerald.

Nicholas Hemmerly joins the new team as co-head of investment banking. He has nearly two decades of experience in the industry, holding previous senior positions at J.P. Morgan, PwC and Jefferies, to name a few. Hemmerly was most recently senior managing director and head of investment banking at Bridgeway Capital Partners.

Ryan Gerety has been appointed managing director of the new investment banking business at Clear Street. He was formerly managing director of equity capital markets at JonesTrading. Here, he held an 11-year tenure, first joining the firm in equity sales and trading before moving to the equity capital markets team.

EquiLend appoints Mantle as global post-trade product owner

Gabi Mantle has become product owner for global post-trade solutions at EquiLend.

An expert in post-trade operations and risk for securities finance transactions, Mantle steps up to head EquiLend's post-trade division, having served as head of post-trade client engagement since October 2019.

Prior to joining the New York-based global SFT trading, post-trade, analytics and data specialist, Mantle was client assets control group manager for close to a decade in Bank of America Merrill Lynch's prime brokerage team.

She began her career as a relationship manager in the securities lending group at Deutsche Bank and also had a three-year spell as sec lending RM and operations manager at UBS.

Iain MacKay, who fronted EquiLend's post-trade services area from October 2014, has moved into the company's RegTech Solutions area, becoming global product owner for RegTech Solutions in July 2022.

Kevin McNulty has served as head of EquiLend's RegTech Solutions division since October 2021.

Clear Street completes the team with Wes Heffernan, who will act as executive director of investment banking. Joining Clear Street's newly formed business from EF Hutton, Heffernan was senior vice president of investment banking at the firm. He also served as an analyst at Guggenheim Partners and Maxim Group.

The four hires will report to Clear Street Group's chief operating officer and head of sales Andy Volz, who oversees Clear Street's business development and sales channels, as well as new business initiatives across the organisation.

Commenting on the launch, Volz says: "The investment banking business will further establish Clear Street as an emerging leader in the capital markets space and is another area where we are excited to add value as a trusted partner.

"As we continue to build out our suite of services to meet our clients' needs, we remain focused on our mission to become a single-source platform that serves a variety of investor types, across multiple asset classes, on a global scale."

D'Agostini adds: "We are thrilled to build a next-generation investment bank focused on establishing long-term partnerships and propelling growth using the momentum from Clear Street's expanding platform.

"We look forward to leveraging Clear Street's technology to provide exceptional service and create transformative opportunities for growth companies."

Wematch.live has appointed Olivia Wong as head of APAC securities finance to drive growth in the region.

Wong brings years of experience in the securities finance sector to her new role, where she will oversee a number of responsibilities including supporting and monitoring clients' usage of the platform, providing real-time assistance and ensuring a seamless user experience.

Further, in the Singapore-based role, Wong will engage with clients, onboard new users, and collaborate with the technical support team to address operational issues and suggest platform enhancements.

Prior to joining Wematch.live, Wong was director of prime services and equity financing at Scotiabank, where she oversaw the firm's Asia financing portfolio for five years.

Previously, Olivia spent more than six years at UBS, where she made significant contributions to the firm's secured funding and collateral management strategies.

Her decade-long experience in secured financing within repo, equity stock loan and equity financing provides valuable insights into the industry's intricacies, according to Wematch.

David Raccat, co-founder and global head of securities financing at Wematch.live, says: "We are delighted to have Olivia join our team as head of APAC securities finance. Her deep understanding of the securities finance market and extensive expertise will be instrumental in driving our business forward in the Asia-Pacific region.

"Olivia's ability to foster strong client relationships, her commitment to delivering exceptional service and her strategic mindset will play a key role in shaping Wematch's strategic vision for development and roadmap in APAC."

Publisher: Justin Lawson
justinlawson@securitiesfinancetimes.com
+44 (0) 208 075 0929

Group editor: Bob Currie
bobcurrie@securitiesfinancetimes.com
+44 (0) 208 075 0928

Deputy editor: Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0) 208 075 0925

Senior reporter: Carmella Haswell
carmellahaswell@securitiesfinancetimes.com
+44 (0) 208 075 0927

Reporter: Lucy Carter
lucycarter@blackknightmedialtd.com
+44 (0) 208 075 0925

Junior reporter: Klea Neza

Junior reporter: Jamie Richards

Accounts: Chelsea Bowles
accounts@securitiesfinancetimes.com
+44 (0) 208 075 0930

Studio director: Steven Lafferty
design@securitiesfinancetimes.com

Published by Black Knight Media Ltd
Copyright © 2023 All rights reserved

How do we fix
a problem with
no boundaries

by pushing
our own?

HSBC | Opening up a world of opportunity

Issued by HSBC Bank plc, 8 Canada Square, London. E14 5HQ

A New Era in Prime

The independent prime broker building financial infrastructure for today's institutions.

Our modern platform transforms the clearing, custody, execution, and prime brokerage experience.

Learn more at
clearstreet.io

Clear Street does not provide investment, legal, regulatory, tax, or compliance advice. Consult professionals in these fields to address your specific circumstances. These materials are: (i) solely an overview of Clear Street's products and services; (ii) provided for informational purposes only; and (iii) subject to change without notice or obligation to replace any information contained therein.

Products and services offered by Clear Street LLC, member FINRA and SIPC. Additional information about Clear Street is available on FINRA BrokerCheck (https://brokercheck.finra.org/firm/summary/288933), including its Customer Relationship Summary.

Copyright © 2023 Clear Street LLC. All rights reserved. CLEAR STREET and the Shield Logo are Registered Trademarks of Clear Street LLC.