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Issue 339 31 October 2023

Enabling securities finance

Murex's Sabine Farhat discusses the power of a single system to break silos and maintain risk awareness

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ISLA launches public register for performance measurement

The International Securities Lending Association (ISLA) has released a set of standards for data aggregation and calibration of performance related metrics.

Market participants will now be able to view a list of all ISLA member firms that have pledged to integrate the principles outlined in the industry guidance.

In September 2020, ISLA issued industry guidance on Securities Lending Performance Measurement to create an industry standard that is designed to improve the quality and standardisation of data used for peer comparisons.

Ultimately, it aims to provide greater transparency for market participants.

The guide defines the standards with respect to both data aggregation and calibration of performance-related metrics, focusing on data governance, securities lending contribution to an underlying portfolio, and relative performance of securities lending.

Commenting on the launch, Farrah Mahmood, director of regulatory affairs at ISLA, says: "It is encouraging to see so many firms get behind this initiative to promote greater transparency when it comes to returns generated from securities lending, for beneficial owners to effectively compare peers.

"Differences in the way that firms report data can often lead to distorted performance outcomes, and this guide creates a level playing field to ensure consistency across the market."

Brooke Gillman, global head of client relationship management at eSecLending, adds: "Data aggregation tools in the market allow us to better understand revenue and performance for our client programmes. Creating consistent and reliable standards will further increase accuracy and reliability for peer comparisons that are integral to understanding performance."

George Dennant, agency securities finance product manager at J.P. Morgan Chase Bank, comments: "We see this as a big step forward for the industry. Adoption and integration of these best practice guidelines across the market can benefit all stakeholders through greater data comparability and transparency, ultimately providing users with higher quality and more useful data."

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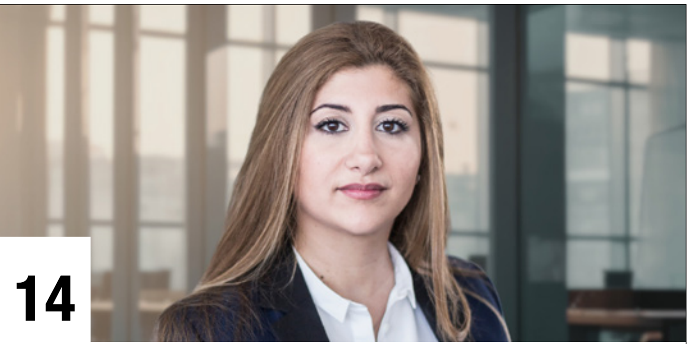

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Meritsoft reveals new post-trade automation platform

Meritsoft has successfully launched a next-generation technology platform for process automation capabilities.

The platform is specifically designed to support firms' post-trade processing requirements, including fails management, financial transaction taxes (FTTs), Central Securities Depositories Regulation (CSDR) penalty management, and comprehensive claims management solutions.

In addition, the firm says the platform will deliver greater operational efficiency gains and cost optimisation opportunities.

Data generated by the platform can be interrogated by machine learning engines and artificial intelligence tools to enable predictive analytics and improve overall performance, according to Meritsoft, which is owned by New Jersey-based IT and consulting company Cognizant.

Handley launches SecFin Solutions

Glenn Handley announces a new venture with the launch of management consultancy firm, SecFin Solutions.

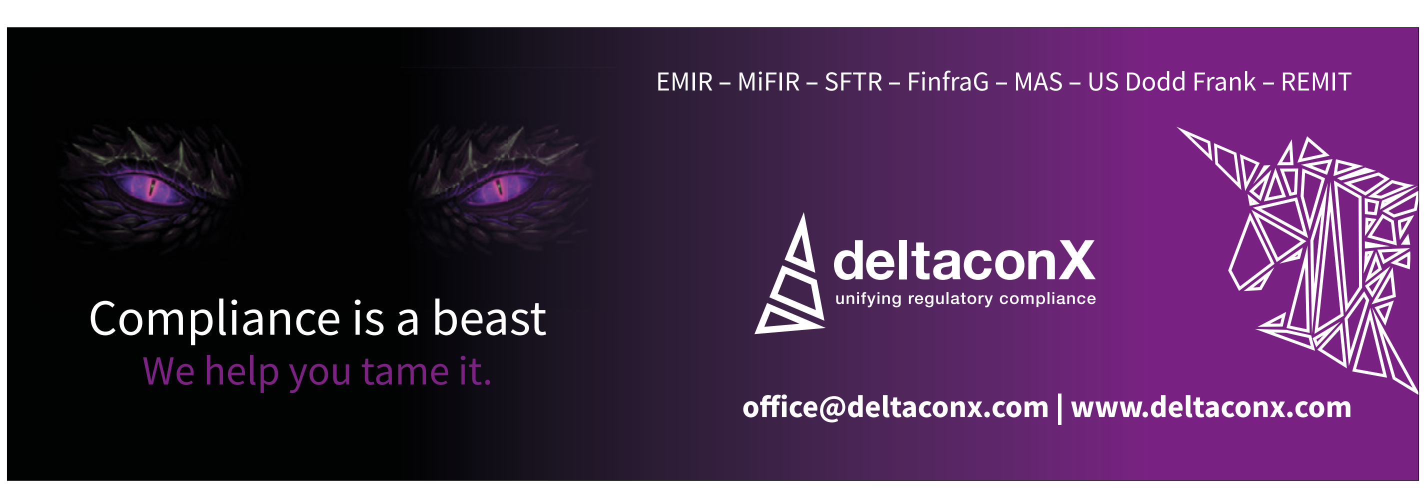
The London-based consultancy firm aims to provide advice and solutions for securities finance and lending, repo, treasury, as well as asset and liability management.

Clients will have access to a number of services including management strategy, regulation and market reform, as well as revenue growth and revenue protection.

Handley will lead the business, drawing on his 33 years of experience within global markets.

Previously, he served for 16 years at HSBC, where he was most recently managing director, global head of G10 rates cash financing solutions, and head of repo and cash financing solutions EMEA at HSBC Global Banking and Markets.

He also brings experience within collateral management, including uncleared margin changes. Handley says he helped HSBC and its clients to navigate the legal and liquidity



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challenges associated with the Uncleared Margin Rules (UMR).

Prior to this, Handley held positions at Commerzbank from 2004 to 2006, and Barclays Capital from 1989 to 2004.

Commenting on the launch, Handley says: “At SecFin Solutions, we emphasise forging solid, ongoing relationships with our clients, ensuring we are with them every step of the way — through market shifts, evolving infrastructures and emerging trends.

“My focus is on delivering strategies that navigate and capitalise upon the ever-evolving landscape of securities finance, ensuring businesses are always one step ahead.”

DTCC to acquire Securrency

DTCC has signed an agreement to acquire Securrency, a developer of digital asset infrastructure.

As part of the mandate, Securrency will become a fully-owned subsidiary of DTCC and will operate under the name DTCC Digital Assets.

The acquisition, which is expected to close within the next few weeks, will enable DTCC to further embed digital assets within its existing products and services.

Nadine Chakar, CEO of Securrency, will join DTCC as managing director, global head of DTCC Digital Assets, reporting to Lynn Bishop, DTCC managing director and chief information officer. Chakar will also join the DTCC management committee.

In addition, Dan Doney, chief technology officer of Securrency and its co-founder and chief operating officer John Hensel, will become DTCC employees. Additionally, other members of the Securrency leadership team, as well as approximately 100 Securrency staff, will become employees of DTCC.

DTCC also plans to provide global leadership to foster industry-wide collaboration to help avoid fragmentation with different digital technologies and standards. DTCC says Securrency’s technology can address this issue “by acting as a DLT-agnostic harmonisation layer that promotes interoperability, liquidity, transparency and security”.

By combining DTCC’s digital capabilities and Securrency’s technology, DTCC will track development of its digital asset platform to take advantage of institutional DeFi.

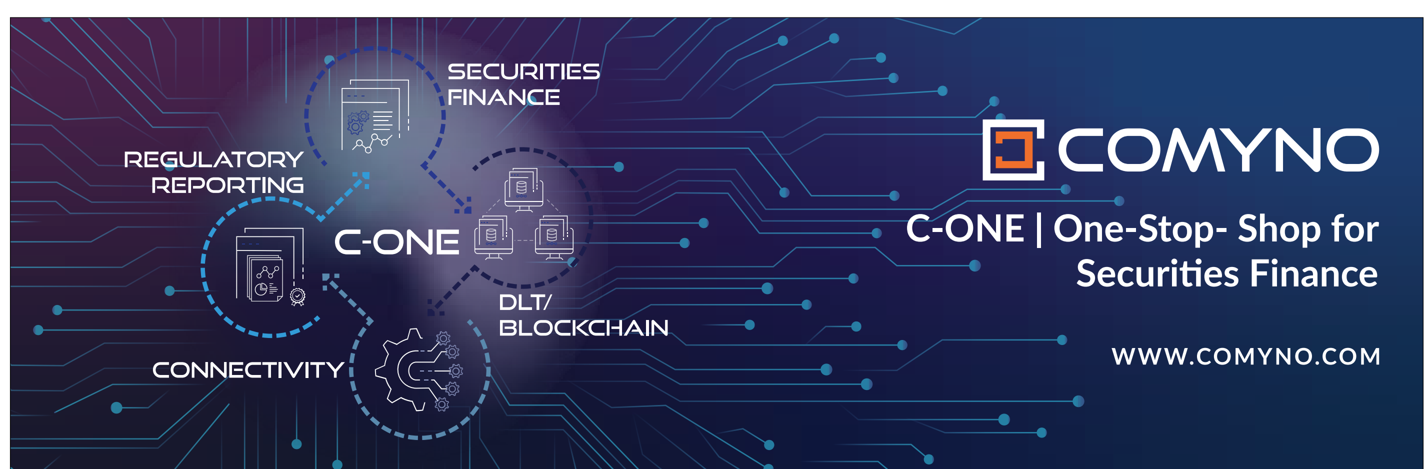
It will utilise the technology over time to embed digital assets within its existing products and services, while developing new, regulatory-compliant blockchain-based offerings and exploring use cases with buy-side asset managers, broker-dealers and custodians to collaborate on new DTCC blockchain-based solutions.

Clearstream GSF volumes outstanding up 18%

Clearstream’s global securities financing (GSF) business recorded an 18 per cent year-over-year jump in volumes outstanding to €693.8 billion for September, according to recent monthly figures.

Year-to-date GSF outstanding volumes have increased 7 per cent to €632.3 billion for 2023, relative to €588.9 billion for the equivalent period in 2022.

Assets under custody held in Clearstream have risen 7 per cent YoY to €17,798 billion for the month of September. Year-to-date,



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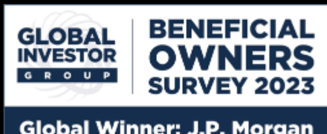

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assets under custody have grown 5 per cent rise to €17,400 billion for 2023.

For Clearstream's investment funds services (IFS), securities deposits were up 3 per cent YoY for September to €3,305 billion. The volume of transactions through the funds division has declined by 6 per cent YoY to 3.39 million.

International business securities deposits through the Clearstream ICSD have increased 5 per cent YoY for the month to €8,388 billion. The number of transactions through this service has climbed 4 per cent YoY to 6.1 million for September.

Cboe Europe to launch single stock options

Cboe Global Markets has secured support to launch single stock options on Cboe Europe Derivatives (CEDX), where it will offer options on 133 companies from 12 European countries.

CEDX, Cboe Europe B.V.'s pan-European equity derivatives exchange, will begin offering equity options from 6 November 2023. It plans to broaden its universe of available products by the end of Q1 2024.

Interactive Brokers has committed to connecting to CEDX to provide its clients with access to the suite of pan-European equity derivatives offered by the exchange, including single-stock products.

The firm will become a direct trading participant on CEDX and a direct clearing participant for equity derivatives on Cboe Clear Europe N.V., Cboe's pan-European clearing house.

ABN AMRO Clearing, All Options, Barak Market Making and Goldman Sachs are among those participants supporting the firm's expansion into equity options.

Commenting on the news, Iouri Saroukhanov, head of European derivatives, Cboe Europe, says: "We are delighted to have secured the support of such a strong group of participants to support the launch of single stock options on CEDX.

"Their support demonstrates the need for a more efficient options marketplace in Europe as envisioned by CEDX, which is designed from a pan-European point-of-view, increases competition and lowers barriers to entry for

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institutional and retail investors."

He adds: "CEDX will offer efficiencies to options participants from a trading and clearing perspective, including margin efficiencies and domestic stock settlement on options exercise, to help grow options markets in Europe."

CEDX launched in September 2021, initially offering trading in futures and options based on key Cboe Europe single country and pan-European indices, with clearing provided by Cboe Clear Europe. N.V.

The exchange has been designed to promote on-screen liquidity and offers a single access point to pan-European equity derivatives products, creating operational and capital efficiencies to participants.

ESMA extends CCP collateral emergency measures

The European Securities and Markets Authority (ESMA) has extended emergency measures which temporarily expand the pool of eligible collateral for all types of counterparties.

These measures will be extended for a limited period of six months, according to the European securities markets regulator.

Uncollateralised bank guarantees for non-financial counterparties (NFCs) acting as clearing members and public guarantees for all types of counterparties will continue to be temporarily eligible by central counterparties (CCPs) to avoid potential disruption during the upcoming cold season.

The temporary measures set out in ESMA's Final Report were adopted on 14 October 2022 to alleviate liquidity pressures observed in cleared energy markets in the spring and summer of 2022.

These pressures were felt by NFCs, says ESMA, that were active on gas and electricity regulated markets and that would clear through EU-based CCPs.

Anson Advisors fined for short selling violations

The Securities and Exchange Commission (SEC) has fined Toronto-based Anson Advisors for violating its rules relating to short selling of securities.

It ruled that Anson Advisors Inc (AAI) purchased equities for private fund clients through three public offerings, having previously engaged in short sales of the same stocks shortly beforehand.

This action violated SEC Rule 105 of Regulation M under the Securities Exchange Act of 1934 which prohibits short selling of an equity during a restricted period — typically five business days prior to a covered public offering — and then subsequently buying the same security in the public offer during the restricted period.

The US securities market regulator indicates that Rule 105 applies regardless of the trader's intent and is in place to prevent manipulative short sales before the pricing of covered share offers.

In its statement, the SEC finds that AAI violated Rule 105 by participating in three follow-on offerings, in December 2019, June 2020, and April 2021, after it had engaged in short sales of the same securities during the restricted period. "AAI's violations stemmed from an incorrect understanding of how to comply with an exception to Rule 105," it says.

The SEC indicates in its order that AAI has subsequently taken remedial action, including reviewing its Rule 105 policies and procedures.

AAI has agreed to cease and desist from committing or causing violations under Rule 105, without admitting or denying the conclusions of the SEC order. It will pay US$2,469,109.11 in disgorgement, prejudgment interest of US$261,285.20, and a civil penalty of US$600,000.

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Adapting to a changing securities finance environment

By consolidating securities finance, collateral operations, post-trade processing and risk management into a single system, clients can break silos and mitigate risk, says Murex's Sabine Farhat. Carmella Haswell reports

Sabine, having been a part of Murex for the past 15 years, how have you seen the business transform and evolve over this time?

Securities finance is an ever-evolving activity. It has always been the backbone of the financial market — the energy that makes the machine function. In a sense, securities finance ensures shorts are covered, risk is hedged, liquidity is available to fund activity and collateral is available to support and cover activity exposure.

Securities finance players have a key role in executing liquidity mandates and optimising balance sheets. At the same time, they ensure compliance with an increasingly regulated market. We have always been a one-stop shop when there is a need for securities management, as well as liquidity mining. Juggling those mandates comes at a cost. Desks operate complex operations ranging from negotiation, pricing and trading to risk management, corporate actions execution, settlement and more.

Ideally, they should operate on a cross-function, low-touch system to lift the burden of manual intervention and ease communication between desks. What I can see from this perspective is not so much a change, but

waves of moving from one product to another and from one mandate to another based on liquidity cost, collateral scarcity and regulations. The real transformation and evolution of the market is seen in the mandatory use of technology to cope with the current era of standardisation, regulation and steps to reduce the total cost of ownership (TCO).

Our users can utilise MX.3 to assist them with the emergence of new products and the shift of mandates. With our cross-asset system, we provide a fit-to-purpose solution and low-touch usage for front-to-back-to-risk-to-collateral across equities and fixed income, while ensuring quick time to market.

What key lessons have you learnt from your time in the securities finance and lending industry and how are you applying these to provide for your clients?

Even though operations, regulatory reporting and risk management can be standardised and optimally be packaged in an out-of-the box system, the financing tools, the optimisation algorithms, position sweeping between desks and cost allocation is very specific to the strategy of the financial institution and its trading decisions. As a result, from a system perspective, it is mandatory to have optimal workflow for operations with the highest straight-through processing (STP) rate, providing credit risk, compliance and a sharp eye on regulations. Flexible and large financing tools that cope with any strategic trading decision and openness to apply the rules and cost of positions and liquidity usage are the way forward.

As a result, in securities finance it is extremely important to understand not just the securities finance industry and the customer, but also what is happening in equity cash, fixed income, liquidity and collateral management. When we see trends in volatilities for equities or new indices in the market, we know that in a few months it will have a direct impact on securities finance, because we are financing the inventory of equities and fixed income or raising secured funding. If we want to be ahead of the market, service our clients to the best of our abilities, and provide them with the technology solutions to be able to operate, we need to look beyond the direct industry and monitor widely.

Even though the market operates differently when there is a split between repo, delta 1 and securities lending, equity and fixed income, sell-side and buy-side, in-house, agency or broker, they are always interlinked. Consequently, from a software house perspective, we ensure functionalities are available on all types of securities financing transactions (SFTs), regardless of underlying, desk or actor. This has helped Murex clients that merge desks to have a fully operating centralised desk with a single system.

Lastly, regulation is key in these times. Whenever there is a study or a project on regulation, we need to make sure that we are participating in the workshops and listening to different audiences, because when a project is finalised, it will be too late to develop. We are a software company at the end of the day — we are here to help our clients operate. If we want them to operate correctly, we need to be involved in every step of the regulation.

What are Murex's prime focus points for H2 2023 and going into 2024?

We maintain a focus centred on the three pillars of our offering.

Product catalogue. We want to provide the widest financing tools offering with a full support of all types of underlying, while having a tailored user experience to each product lifecycle. For instance, we recently added total return futures to our catalogue, working hand in hand with Eurex, and the total return swap on iBoxx. We are currently adding margin lending, as we believe this will be the new financing product in Europe with regards to the Eurosystem Collateral Management System (ECMS).

Centralised firmwide inventory and liquidity ladder. Murex is adding the necessary tools to optimise its securities inventory and has added the capacity to algorithmically allocate the best securities for repo funding and collateral allocations automatically. Moreover, we continuously enrich our internal funding module to sweep positions and their cost or gain between desks in a low-touch way.

Automation and connectivity. Securities finance operates in a large system in the market. We need to be connected easily to all service providers and automate our internal processing in a seamless manner — a key area to reduce implementation costs.

Where are you focusing your resources to enhance your MX.3 offering?

In addition to the points above, we have a dedicated group that monitors regulations and their impact on our value proposition, as well as enriching our out-of-box proposal for credit risk management. T+1

proposals from the US Securities and Exchange Commission (SEC), ECMS and Basel are the current areas of focus.

Ultimately, our trademark is our rich product catalogue, which can be booked, priced, monitored, operated and optimised within the same system, front-to-back-to-risk-to-collateral. This is our DNA — everything evolves from this point.

Murex recently partnered with Rabobank to expand its securities finance solution. In what direction will this collaboration take the firm and its clients? Are there plans in the pipeline to further expand MX.3 for Securities Finance?

It was an amazing opportunity to work with Rabobank — I am very proud of this work. It was quite rewarding and resulted in fast-paced time to market. We have adopted this approach in all of our investments. We collaborated with different clients to publish automation of the equity total return swap process and optimisation of securities allocation on money fill repos.

We have published our newly refurbished lending solution, which uses our existing repo and synthetics products. We are continuing to invest in that area to enrich our optimisation offering. Securities finance and collateral management are a major focus of Murex — we aim to ensure that we continuously evolve in these areas.

The richness of our offering comes from the fact that we have clients across regions, and each one brings their knowledge on the same module, which makes it possible to transpose in case of expansion or market availability.

How is technology disrupting the securities finance industry and how is this changing how Murex is engaging with the market?

I don't see technology as disrupting securities finance — I see it more as enabling securities finance. What we can do today, we couldn’t have done historically without the use of technology. Technology has provided automation and scaling, the capacity to collect, clean, transform and analyse data for more knowledgeable decisions, accurate pricing, known risk and compliance with regulations, and has provided a major reduction in desk operation costs.

Clients using technology for securities finance today can expand volumes, which should lead to reduced costs and increased profits. This has been a major enabler to the market. The addition of new technology is not disruptive, it is an enablement.

We are achieving major enhancement in securities settlement failures through a highly automated process, for example the algorithmic optimisation of automatic sweeping position cost, accounts and more.

A real, disruptive shift will be seen in the securities finance market when it increases its use of machine learning and artificial intelligence. The disruptiveness will not be operational, but it will come. Will some counterparts be forced out or forced in? Will optimisation be different? Will pricing be different? It will be a new era for the financial market, not just securities finance.

In terms of regulation, where are you seeing the most impact on your side of the market over the next 12 months?

We should no longer say regulation is impactful. It is part of the normal day-to-day business, the quotidian. We should expect to have more regulation, which is more extreme and more real time. As a technology provider, we need to make sure that we have the richest data possible in our system to ensure that, whenever a regulation comes into force, our clients have the capacity to generate the necessary data and report on time with the highest STP rate and with the lowest failure rate possible. When it comes to standards, we need to ensure that we are aware and that we can easily comply by having appropriate API, flexibility and openness.

There are numerous regulations and standards coming into force — the T+1 settlement, Basel III Endgame adjustments, ECMS collateral settlement and liquidity in European central banks, as well as the SEC regulatory reporting for the US. Each has a different impact on the market, vendors must operate to be compliant and support the service on time.

The impact of these new standards and regulations mostly falls on the cost of funding, use of funding and settlement. As a result, for us, it is imperative to be able to accurately monitor the P&L of investments and funding, allocation of internal cost, rating aggregation and calculation to accurately estimate capital charges, settlement situation and accurate generation of instructions, among other factors. All of this impacts our areas of focus for development. We continuously monitor new market standards, requirements and regulation to ensure we are providing our clients with the best service.

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SEC adopts Rule 10c-1 relating to reporting of securities lending trades

After issuing an initial document for public consultation in November 2021, the US Securities and Exchange Commission has now published the SEC 10c-1a Final Rule designed to promote transparency in securities lending markets by requiring parties to report the material terms of the trade by end of day on T+0. Bob Currie reports

On Friday 13 October, the Securities and Exchange Commission (SEC) confirmed its final design for implementation of SEC Rule 10c-1a (under the Securities Exchange Act of 1932), almost 18 months after the close of its two-part public consultation held in Nov-Dec 2021 and March 2022.

In proposing this regulatory package, the SEC contends that the securities lending market is opaque and there is a lack of comprehensive information on current market conditions. These gaps, the US securities regulator believes, create inefficiencies in the securities lending market and make it difficult for borrowers and lenders to know whether the terms of their loans are consistent with market conditions.

Although some market participants, such as certain registered investment companies, are required to periodically make certain disclosures regarding their securities lending activities, the SEC notes that parties to securities lending transactions in

the US have not previously been required to report the material terms of those transactions.

With these concerns in mind, the SEC issued the draft Proposed Rule 10c-1 for public consultation in late November 2021. This proposal required lenders to report the material terms of securities lending transactions to a registered national securities association (RNSA), along with details of securities on loan and available for loan.

In this initial public consultation, the SEC put forward 97 questions in its consultation document but gave the industry just 30 days to respond prior to the close on 7 January 2022. Reacting to the weight of feedback received during this initial consultation and the unanswered questions that this presented, the SEC voted to reopen public consultation through an additional 30-day window which extended until 1 April 2022.

Securities Finance Times provided a two-part examination of the content and potential implications of the SEC Proposed Rule 10c-1, and the main points raised by respondents to the consultation process, in SFT Issues 296 and 297 published in February 2022.

Available for loan' securities

Almost 18 months after the close of this second round of consultation, the SEC has now released final rules for 10c-1a implementation.

On the same day, it also adopted new Rule 13f-2, which will require institutional investment managers that meet specified disclosure thresholds to submit confidential monthly reports detailing their short-selling activity and short positions. These reports will be filed on the newly-adapted Form SHO.

One of the most noteworthy amendments in the 10c-1a Final Rules is that the SEC has removed a requirement for lenders to report details of securities currently on loan and securities available for lending.

This was a point of concern for a number of respondents in their feedback to the SEC during the initial public consultation on the Proposed Rule draft. For example, the Securities Industry and Financial Markets Association (SIFMA), in its consultation response submitted on 7 January 2022, expressed concerns that the SEC's proposal, requiring firms to calculate and report securities "available to lend", may paint a picture which "grossly overinflates' the number of securities available for lending.

SIFMA indicated that this would be likely to create a "wholly inaccurate and unhelpful understanding of what is actually available to lend" — and generate confusion regarding market liquidity and pricing. Potentially, this may also compromise trading strategies based on the exaggerated availability data and it may potentially expose the market to heightened risk (p 8).

With this in mind, SIFMA advised that the Commission should take more time to find an appropriate solution, one which mitigates the risk of overstatement while providing a useful source of data. "One idea which may merit consideration could be to reference publicly available data on a security's total share float — which would be both accurate and readily available," says SIFMA.

Igor Kaplun, global head of business development at S&P Global Market Intelligence Cappitech, indicates that his company agrees with the SEC's decision to remove the obligation to report securities "available for loan". This could have created confusion regarding how to interpret when a particular security is available for lending, he says, potentially resulting in an inaccurate picture of what is available for loan. He adds that the 10c-1 design advanced in the Proposed Rule would have created significant operational challenges and might have had a significant impact on lending and borrowing behaviour.

> *One of the most noteworthy amendments in the 10c-1a Final Rule is that the SEC has removed a requirement for lenders to report details of securities currently on loan and securities available for lending.*

For Kishore Ramakrishnan, managing director and capital markets advisory leader at regulatory consultancy Treliant LLC, the SEC's decision — to remove its earlier requirement for firms to report their securities inventory available for loan — is a positive to emerge from the consultation process and comes as a relief for many within the industry. "The Proposed Rule met with stiff resistance from the market since it was operationally burdensome and did not add any meaningful

value in terms of fulfilling the transparency objective in the functioning of securities lending markets," says Ramakrishnan.

Transparency objectives

According to EquiLend's head of RegTech solutions Kevin McNulty, the SEC has two transparency objectives with Rule 10c-1: to provide information for supervisory oversight and to create more general public awareness. "I think in terms of general design, which involves relatively few data fields and one-sided reporting only, the rule should generally meet these objectives," he says. "On the public disclosure, the SEC has balanced a desire to level the information playing field between all investors with the concern that certain disclosures could discourage activity and damage market liquidity."

Jonathan Lee, senior regulatory reporting specialist at Kaizen Reporting, believes that the SEC has found a good initial balance in the regulatory design that it has put forward in its 10c-1a Final Rule. This was always going to be a fine line to tread, he notes, and there will be further opportunity to review and refine these initial provisions, in consultation with FINRA, when the Rule is live and when the market starts to see transaction data being published.

Particularly for the retail investor, Lee believes that 10c-1a will deliver a significant advance in the level of price transparency that they are able to see around securities lending transactions. With this, they will be better positioned to make informed decisions around their securities lending activities, particularly in the context of the US equity markets.

S&P Global Market Intelligence Cappitech's Igor Kaplun indicates that the final rule provides clarity for participants in the SFT industry. "While there may be complexities for many firms in meeting compliance — depending on their size, sophistication and resources — the final rule is workable and fair," he says. Moving ahead, the firm will examine FINRA's rules carefully to understand the technical and operational requirements and how these affect implementation. By providing aggregate data to the general public on a T+1 basis, this will offer greater transparency to retail investors in a timely manner.

As a US broker-dealer and ATS, Provable Markets indicates that the 10c-1a Final Rule is a step in the right direction towards meeting the SEC's objective of promoting greater transparency in US securities lending markets. "It is no secret that those directly and indirectly involved in the securities lending marketplace, including retail investors and buy-side firms, have been pushing for greater transparency for a long time," notes Provable Markets' CEO Matt Cohen. Currently, it can be challenging to pull together data from a number of sources available in the market and to aggregate and validate this data, not to mention costly. "We are not ignoring that nothing is free, including the implementation and ongoing compliance demands 10c-1a will bring, but it hopefully bridges a gap," says Cohen. Consequently, for many lenders and borrowers it will be valuable to have a golden source of SBL transaction data generated from end-of-day trade reporting delivered to FINRA.

According to Adrian Dale, head of regulation, digital and market practice at the International Securities Lending Association (ISLA), [the reporting commitments required under] this final rule potentially does address immediate transparency challenges. "However, as I wrote in my response letter to the SEC, we may find that what is being requested is not sufficient," he says. "This raises a concern that any required revisions will add further development costs for firms — not least for those who will now be required to form new partnerships to publish their data."

End-of-day reporting

In addition to removing the commitment to report "available for loan" securities, the Commission has also revised the requirement to report new and modified trades within 15 minutes of execution that was advanced in the original proposal.

For securities lending transactions, it is commonly the fee or rebate rate that principally determines the earnings of the securities lender and borrower. This rate can typically be renegotiated during the lifetime of the loan and, with this in mind, there may not be a strong alignment between the time that the SBL trade is executed and the return benefits accruing to the lender and borrower over the transaction lifecycle. Critics have indicated that the proposed 15-minute reporting window would have added significant operational burden and cost to market participants, without providing significant transparency benefits.

Taking this feedback into account, the SEC's Final Rule has dropped the 15-minute reporting requirement for securities lending trades and now requires lenders to report loan data to an RNSA — FINRA is currently the only RNSA that has been approved to receive this trade reporting — by the end of each trading day.

FINRA will maintain this information confidentially and will release only a subset of this information for public viewing on the next business day.

This information released on T+1 will include details of the time of the loan transactions, the collateral used and pricing information such as the loan's rate. FINRA will also release aggregated data for the previous day's loan activity, broken down by security.

However, FINRA will not disclose details of the loan amount on T+1. Rather, this information will remain confidential for a further 20 days.

Reflecting on these changes, EquiLend's McNulty observes that the SEC has tried to balance their objective of increasing general public awareness of securities lending activity with concerns that real-time publication could increase the risk that information may reduce firms' willingness to engage in the market."

For McNulty, it is also important to recognise what the SEC did not change from the consultation document circulated in November 2021. "The SEC remains determined to capture market activity between prime brokers and their customers," he observes. "This is an area where SIFMA and others pushed back heavily in the original consultation and where I expect there will be some discussion around the interpretation of the final rule."

In responding to industry consultation, the SEC has taken industry feedback in removing its original requirement for a 15-minute reporting window, notes Provable Market's Cohen. FINRA will also delay the release of securities loan transaction volume data to prevent leakage of information relating to firms' SBL trading strategies. "In making these amendments to the Proposed Rule, the SEC clearly sought to strike a balance among the diversified feedback from a wide range of respondents and has attempted to tailor the final rule to align more closely with the requirements of the securities lending market and the workflow it employs", says Cohen. This is also evidenced by the many footnotes to comment letters in their final rule and industry calls. "It is encouraging to see this type of engagement in such a complex market structure," he adds.

For ISLA's Adrian Dale, changing the requirements [from a 15-minute reporting window] to an end-of-day distribution certainly eases the challenge firms had expressed, and so is a positive and pragmatic conclusion. He notes that some market participants would have welcomed further amendments and others have continued apprehension about how this 'new' data may be used — for example, whether this data could be employed as leverage for new commercial offerings. Some are also concerned that potential misrepresentation of this data could adversely shape the direction of future regulatory proposals.

The SEC remains determined to capture market activity between prime brokers and their customers. This is an area where SIFMA and others pushed back heavily in the original consultation.

While 15-minute reporting might be appropriate for cash equities markets, Kaizen Reporting's Lee indicates that for securities lending transactions — particularly for the retail investor — much of this information would be largely noise and would not provide any additional information that is useful to the investor. This published data is likely to be more useful in normal market conditions, rather than in a highly volatile market, Lee suggests. However, lending fees and rebate rates are generally more stable in normal market conditions and, consequently, there is not a strong case in these conditions to require 15 minute reporting.

McNulty indicates that loans transacted on EquiLend's NGT platform can be reported in near real-time. Although there is now only an obligation to report loan activity at the end of the day, he believes that there could be a lot of value in FINRA accepting files throughout the day in order to publish transaction identifiers (UTIs) in a timely fashion.

"One thing we learned from the Securities Financing Transactions Regulation (SFTR) is that modifications to transactions can occur very quickly after execution, and if these happen before a UTI is generated, it can cause complications," explains McNulty. "We will certainly be discussing this issue with FINRA as they develop their rules and platform."

Regulatory scope

Significantly, the SEC has also redefined the scope of eligible transactions captured under 10c-1a and the range of firms that are required to report. The Final Rule replaces the term “securities loan” [used in the Proposed Rule] with “covered securities loan”, explains Treliant’s Ramakrishnan. In doing so, the final rule provides additional guidance in its preamble that makes a distinction between reportable securities loans from repos and other financing transactions.

“It is worth noting that the final rule places the onus of reporting responsibility on lenders and lending agents, mindful of the fact that broker-dealers that borrow securities from their customers are required to report such loans,” he adds (see box below).

“On balance, we feel that the 10c-1a Final Rule is a net positive for the industry,” concludes Provable Markets’ Matt Cohen. The scope of the reporting regime is now drawn in terms of covered persons and covered loan transactions in an attempt to bring greater clarity to which transactions and parties are covered under 10c-1a, though some ambiguity remains and engagement from the market will be key as FINRA shapes its final rule and best practices are formulated.

It is noteworthy that the final rule does not include central counterparties, which serve as buyer to every seller and seller to every buyer in the SBL transaction and therefore sit on both sides of the trade. The “covered person” category excludes any clearing agency that provides only a CCP function, thereby minimising risk that SFT trade reporting from CCPs would result in duplication of reporting for any covered loan transaction.

Learning from SFTR?

SEC Rule 10c-1 looks quite different in its initial and final design from the SFTR reporting template in Europe — with 12 reporting areas for example, compared with 155+ reporting fields in SFTR. Given the significant differences in their approach to gathering SBL trade information and promoting transparency, SFT asked to what degree will Rule 10c-1a deliver different regulatory outcomes to that delivered in Europe by SFTR.

Covered loans, covered persons, covered securities

The final rule defines a “covered securities loan” as a transaction in which any person on behalf of itself or one or more other persons, lends a “reportable security” to another person (except for a position at a clearing agency that results from certain central counterparty or central securities depository services). However, the use of margin securities by a broker or dealer is not a covered securities loan under the Final Rule unless the broker or dealer lends such margin securities to another person.

The term “covered person” is defined to mean: (1) any person that agrees to a covered securities loan on behalf of a lender (“intermediary”); (2) any person that agrees to a covered securities loan as a lender when an intermediary is not used unless [applicable] to a broker or dealer borrowing fully paid or excess margin securities; or (3) a broker or dealer when borrowing fully paid or excess margin securities.

If any person agrees to a covered securities loan on behalf of the lender (an “intermediary”), the intermediary has the obligation to provide Rule 10c-1a information to an RNSA. If an intermediary is not used, the lender is required to provide Rule 10c-1a information to an RNSA. If a covered securities loan consists of a broker or dealer borrowing fully paid or excess margin securities, only the broker or dealer is required to provide the Rule 10c-1a information to an RNSA, not the lender.

The term “reportable security” is defined to be any security for which information is reported to the consolidated audit trail as required by Rule 613 of the Exchange Act and the CAT NMS Plan (“CAT”), the Financial Industry Regulatory Authority’s Trade Reporting and Compliance Engine (“TRACE”), or the Municipal Securities Rulemaking Board’s (“MSRB”) Real-Time Transaction Reporting System (“RTRS”), or any reporting system that replaces one of these systems.

The outcomes in the US will be different to Europe because the objectives and scope are different, notes S&P Cappitech's Kaplun. The SEC is focused on providing transparency in the market to the general public and has required FINRA to publish the data in aggregate on T+1 and transaction by transaction on T+20. SFTR only requires for the data to be published in aggregate on a weekly basis and there is no transaction level detail available. In contrast, SFTR sought to give regulators access to the SFT data for monitoring of system risk and market abuse. Whether providing daily aggregate data and then delayed transaction data to the general public has significant value for retail traders and investors is still to be determined and the industry will really only know when the reporting requirements take effect in two years.

The European regulators and the SEC have taken different approaches and both, it appears, have their strengths and disadvantages. Rule 10c-1 focuses on a smaller set of data fields and, for EquiLend's McNulty, this could arguably deliver transparency on lending in US securities that is easier to understand. The SEC will not, however, have data on loans of non-US securities by US lenders.

It is useful also to reflect on the overlap in scope between these two regulatory regimes. SEC Rule 10c-1 considers the securities that are lent and borrowed, essentially US securities and possibly cryptoassets, whereas reporting obligations under SFTR are determined firstly by the jurisdiction of the parties involved. This will mean that some transactions will need to be reported under both regimes.

Under the SEC 10c-1 regime, some of the data fields may need to be represented as multiple data points, observes S&P Cappitech's Kaplun. For example, rates, fees, charges and rebates for the loan, as indicated in the SEC Final rules, may be represented as separate data points in the FINRA technical requirements. Having said that, Kaplun believes it will be easier to report than under the SFTR and, for those firms that already report under SFTR, the implementation will be significantly easier. Additionally, 10c-1 has explicitly excluded the reporting of repo transactions, while SFTR required the reporting of both SBL and repo trade information.

Unlike EU SFTR reporting obligations, SEC's 10c-1 reporting regime at its core requires only basic data about trades to be reported by just one party to the trade — the lender or lending agent — confirms Treliant's Ramakrishnan. SFTR's 155+ fields — which is more than 10 times the number of reporting data elements outlined in SEC's 10c-1 regime — is operationally burdensome and more challenging, given the dual-sided nature of reporting since it means more reconciliation efforts in Europe. Also, the need to store and process these many data elements is likely to cause data quality issues in the reporting infrastructure, which adds to the complexity of ensuring compliance with the SFTR regime.

At its core, suggests Ramakrishnan, SFTR was designed to support macro-prudential regulation — regulation aimed at monitoring and reducing risks to the stability of the overall financial system — and the primary consumers of SFTR data have been the European and UK central banks rather than regulators responsible for financial conduct.

Kaizen Reporting's Lee believes that FINRA is likely to be stringent in implementation and enforcement with regard to reporting errors and late reporting. The lessons from SFTR come particularly from the implementation of standards, best practices and discipline, with broader adoption of post-trade contract compare and matching services.

"We would expect the equivalent controls layer to enhance booking practices and timeliness, with daily reconciliation processes, documented controls and quality assurance testing to provide comfort to beneficial owners, lenders, banks, brokers and agents alike," says Lee. "On the one hand, the data requirements are significantly reduced relative to SFTR and this is single sided reporting. On the other hand, FINRA will enact far swifter justice for any reporting breaches."

For ISLA's Adrian Dale, SFTR has taught us all that reporting obligations are just that. They are a data schema devised for supervision that does not necessarily improve market operation. These can increase operating costs in a non-uniform manner, they may result in a higher cost of entry for some firms and, because of revisions required to accommodate market evolution, these may result in greater overall complexity.

"It is my belief that financial markets should operate through agreed standards and that the data models used in that market should then be leveraged to assist supervisors," comments Dale. "Evolution in the operation of financial markets should therefore require a flexible approach to regulatory reporting, as opposed to the legacy snapshot method used in past decades."

The second part of this article will be published in SFT Issue 340, released on 14 November. ■

Q3 revenues down in face of geopolitical tensions and hawkish monetary policy

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, reflects on how a YoY dip in Q3 securities lending revenues belies strong YtD performance and potential for record lending revenues for the second consecutive year

With the US debt ceiling and bank solvency concerns in the rear-view mirror, financial markets reverted to the familiar themes of growth, inflation and central bank decision making during the third quarter. Across most developed markets, inflation moderated and investor focus moved to peak rates and the end of tightening policy.

During the quarter, the bullish sentiment that lifted shares out of a bear market at the end of last year started to fade. The idea that interest rates would be staying higher for longer, and that any central bank pivots to lower rates may not be triggered until mid-to-late 2024, started to impact equity markets. The term "higher for longer" became popular among market analysts and bond yields started surging to multi-year highs as a result. Prices in both equities and fixed income assets fell in tandem, even across those AI-inspired tech stocks that have driven most of the market rally experienced this year.

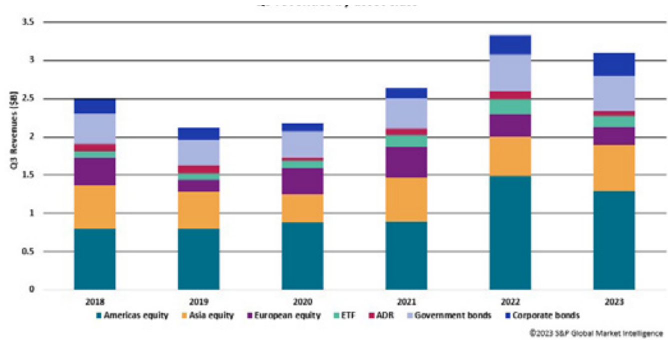
In the securities finance markets, revenues started to slow as Q3 produced US$3.131 billion in revenues. This represents a 7 per cent decrease YoY, but it is important to remember that Q3 2022 was the highest revenue-generating quarter of last year.

Equities generated just under US$2.4 billion during the quarter. This represents a decline of 10 per cent YoY. The largest contributor to these revenues were Americas equities, which generated US$1.3 billion.

In the Americas, US equities generated the lion's share of the revenues, producing US$1.18 billion alone, which is a 15 per cent reduction YoY. In the other markets that make up this category — Canada, Brazil and Mexico — revenues all increased YoY with Brazil positing a 191 per cent increase over the period. All of these markets also experienced YoY increases in average fees and Canada was one of the only countries globally to not experience a reduction in utilisation.

In the EMEA region, securities lending revenues suffered substantial YoY declines during both August and September, pushing the quarterly total down 25 per cent YoY. Balances declined by 27 per cent and utilisation fell by 35 per cent. When looking across the individual markets, there were no real bright sparks to be seen. Finland and the Netherlands did experience increases in revenues YoY but their contribution to the total revenues for the asset class were minimal, hence their lack of impact on the final numbers.

Fig 1: Q3 revenues by asset class

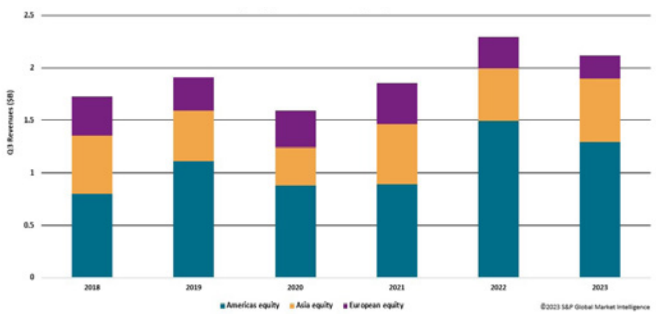


APAC equities did offer some relief to market participants. Not only was there a 20 per cent increase in YoY revenues, but also an 8 per cent increase in balances and an 11 per cent increase in average fees. Revenues were buoyed by a substantial increase in revenues within South Korea, where returns increased by an impressive 92 per cent YoY, as well as ongoing strong performance in Japan (+21 per cent) Taiwan (+10 per cent) and Hong Kong (+6 per cent). Australia was the only major market within the region to buck this trend, falling 44 per cent.

Equity specials

Equity specials have been a huge driver of revenues for lenders over the last few quarters. US equity special revenues reached US$909.7 million during Q3, accounting for, on average, 70 per cent of all US equity revenues over the period. Specials activity declined significantly during September, however, as both the AMC and Johnson & Johnson (JNJ) trades completed. With a decline of over 60 per cent experienced between August and September, Americas equity revenues are likely to suffer a substantial rebasing heading into Q4.

Fig 2: Q3 equity special revenues by region



APAC specials activity increased again over the third quarter, producing US$311 million. The increase was driven by a growing number of specials in South Korea, Hong Kong and Taiwan. You may have read in a recent commentary note that was released by S&P Global Market Intelligence about the advent of a meme stock phenomenon in South Korea that has been pushing stock prices in certain sectors, such as electric vehicles (EVs), to all-time highs. These stocks have been increasing demand to borrow shares as short interest naturally grows, when valuations are deemed disproportionate and investors expect a market correction.

EMEA specials decreased over the period, with only US$93 million being generated throughout Q3. Samhallsbyggnadsbolaget I Norden AB (SBB B) and Nagarro SE (NA9) were the highest revenue-generating EMEA stocks that continued to trade special over the quarter.

Government bonds

Government bond yields remained volatile throughout the quarter, with large moves sparked by further increases in interest rates and the expectation of higher-for-longer terminal rates. The US was stripped of its top-tier sovereign credit grade by Fitch Ratings, shrinking the world's AAA debt options. The agency criticised the country's ballooning deficit and "erosion of governance" that has led to repeated debt limit clashes over the past two decades.

In Japan, speculation of an end to yield curve controls sent 10-year yields to their highest levels since 2014, causing global bond yields to fall further on the fear that Japanese investors may start to look towards repatriating cash to the domestic market. In the UK, HM Treasury released plans to end the ban on naked short selling of sovereign debt.

All this volatility continued to bode well for government bond lending markets. Revenues declined YoY by 2 per cent to US$464 million over the quarter. Q3 was the lowest revenue-generating quarter of the year so far after US$482 million and US$483 million being generated during Q1 and Q2 respectively. US treasuries continued to dominate the revenues, followed by German and UK bonds.

YoY revenue growth in corporate bonds continued. US$279 million was generated throughout Q3, reflecting an 11 per cent increase YoY. This was despite a 2 per cent YoY decline in balances and a 3 per cent decline in utilisation over the quarter. Higher average fees continued to support revenues. Despite the continued increases, it does appear that we may have now reached the peak of corporate bond activity. When looking at the data on a month-on-month basis over the quarter, there has been a decline in balances and average fees which has led to a decline in revenues over the quarter.

As we head towards the end of the year, the likelihood of another year of record revenues does start to become less clear. Geopolitical risk is increasing in the Middle East, and between the US, Europe and China, and the ability of global economies to withstand such an intense period of hawkish monetary policy remains uncertain.

Despite all of this, YTD revenues remain strong. As noted, US$10.15 billion has been generated by the securities lending markets during January to September, which is 7 per cent higher than the US$9.487 billion that had been generated at the same point during 2022. So we may still be looking at record revenues for a second year running.

Tony Holland joins ISLA as regulatory consultant

ISLA has appointed Tony Holland as a regulatory and markets consultant.

He joins with more than three decades of experience in financial operations and securities lending, serving most recently as subject matter expert for the Securities Financing Transactions Regulation (SFTR) implementation at MUFG Securities EMEA.

Holland will be based in London and will focus on advancing standards and best practice for the securities lending industry, including market operating models, legal frameworks, digital and technology applications, and peer association standards. He will also evaluate the impact of recent and forthcoming financial regulation, including transition to a T+1 securities settlement cycle.

ISLA's head of regulation and markets Adrian Dale comments: "[Holland's] experience and depth of knowledge will be invaluable in many workstreams, but particularly with regard to our work on best practices and industry standards."

"This area is a key focus for ISLA as our market addresses challenges associated with T1 and the inevitable digitisation in financial markets."

Robert Chiuch departs from Clear Street

Robert Chiuch has left Clear Street following a number of senior departures.

The agency lending veteran is one of a few senior figures who have left the prime brokerage platform, with the recent departures of Jim McDonald, managing director of financing solutions, Paul Stegmann, director of Canada and ADR, and Vincent Avena, former head of securities finance.

Chiuch joined Clear Street in August 2020 to form a new securities finance initiative aimed at improving the securities finance experience for Clear Street's institutional clients.

Chiuch spent almost eight years at BNY Mellon before joining Clear Street, where he held a number of senior positions. Most recently, he was managing director, global head of equity and fixed income finance.

Formerly, Chiuch was president of the Canadian Securities Lending Association (CASLA).

Before this, he held an 11-year tenure at CIBC Mellon, where he was co-head and executive director of global securities finance trading and capital markets.

Ben Reeder joins eSecLending as VP

eSecLending has appointed Ben Reeder as vice president of trading.

Based in London, he will be responsible for securities lending trading of client lendable portfolio holdings across all Asia-Pacific markets and asset types.

Under Reeder's leadership, the firm plans to increase its footprint with global partners for its auction and exclusive side of the business, as well as its discretionary securities lending on loan balances.

Reeder joins the firm from EquiLend, where he was part of the company's relationship team in London.

Prior to this, he held positions at Lehman Brothers and BNP Paribas in Japan before relocating to Hong Kong, where he worked for CommerzBank, Citi Agency Lending and SBI Securities Hong Kong.

Commenting on the appointment, Mark Wilson, managing director of securities lending trading for eSecLending (Europe), says: "We are thrilled to have Ben join our team to cover all APAC markets for our clients."

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GROUPE BPCE

FinOptSys welcomes Salvatore DiMaggio to advisory board

FinOptSys has appointed D.E. Shaw group's Salvatore DiMaggio to its advisory board.

DiMaggio, senior vice president of D.E. Shaw and a member of the group's treasury department, joins the board to accelerate FinOptSys' solutions in global buy- and sell-side markets.

He will use his extensive experience across capital markets, including in collateral lending, liquidity and financial resources management, as well as securities lending and asset-backed securities repo.

DiMaggio joined D.E. Shaw in 2008 after 25 years at Bear Stearns, where he acted as senior managing director and global head of bank relations and business development.

At Bear Stearns, he managed the firm's financing relationships with more than 100 banks in support of its trading activities in equity and fixed-income markets.

Tonic appoints Ashish Surothia as senior project manager

Tonic has appointed Ashish Surothia as senior project manager.

Based in India, Surothia will focus on market and credit risk-related engagement.

Prior to this role, Surothia was senior project manager at Citi for a year. Prior to this, he was a programme manager at Lloyds bank and BNY Mellon.

"His risk and post-trade expertise will strengthen [Tonic's] capability," says Tonic.

Commenting on his new role, Surothia says: "I look forward to helping our clients on strategic business and IT change programme delivery and product management as well as enterprise analysis."

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