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Issue 340 14 November 2023

Transforming the MENA markets

Absolute Collateral CEO Steven Griffiths discusses the launch of the firm's collateral management trading platform in Bahrain

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Financial Services Commission applies short selling ban in South Korea

South Korea's Financial Services Commission has posed a ban on stock short selling in domestic markets as it looks to 'improve the system'.

The ban will commence from 6 November 2023 until the end of June 2024, and will prohibit the short selling of all KOSPI, KOSDAQ and KONEX listed items.

Following the discovery of a number of illegal naked short selling practices — conducted by foreign and institutional investors — the FSC finds this activity in the market 'very dire'.

The commission says the illegal activity "can erode the fair pricing function of the market and degrade confidence in the market".

During the period of banning short selling, the South Korean government will work on a three-fold plan to improve the system and root out illegal activities when short selling resumes in 2024.

The FSC will focus on measures to 'level the playing field' between institutional and retail investors, which remains 'not levelled'.

Further, the authorities will search for an alternative to building a real-time illegal naked short selling detection and prevention system. It will also analyse the recent cases in this area and seek guidance from market experts and stakeholders.

Thirdly, the authorities will step up efforts to detect and punish naked short selling activities with the launch of a special short selling investigation unit which aims to 'thoroughly' look into this sector.

At a media briefing on 5 November, FSC chairman Kim Joo-hyun said that the top priority of the government's capital market policy is to create a fair and efficient market to protect investors and ensure confidence in the market.

Joo-hyun added that the government will do all it can to bring improvements to the country's short selling system, so that it can develop into one where every investor can have confidence.

Commenting on the decision, the Pan Asia Securities Lending Association (PASLA) says: "We regret the Financial Services Commission's announcement to reimpose a full ban on short selling in South Korea. There is never any place for illegal, naked short selling.

"PASLA is fully committed to promoting open, transparent and regulated securities lending, which is a prerequisite for covered short selling, across Asia Pacific equity markets.

"We will continue our close engagement with our Korean stakeholders and support the review of the market structure, rules and infrastructure. We look forward to the introduction of a new framework for regulated short selling in the near future."

03

Financial Services Commission applies short selling ban in South Korea

South Korea's Financial Services Commission has posed a ban on stock short selling in domestic markets as it looks to 'improve the system

16

Transforming the MENA repo markets

Justin Lawson, Securities Finance Times publisher, speaks with Steven Griffiths, CEO and founder of Absolute Collateral, about the firm's newly launched collateral management trading platform and the Gulf bond market

18

New directions in collateral management

Gael Delaunay, Clearstream's global head of collateral management, speaks to Bob Currie about the resurgence of GC Pooling, collateral mobilisation and extending triparty collaborations into new jurisdictions

24

Sponsored clearing: meeting demand for connectivity

GLMX CEO Glenn Havlicek speaks to Carmella Haswell following the firm's integration with LCH SA to provide classic and sponsored clearing for European repo

26

Elevating businesses: consulting on market challenges

Global markets veteran Glenn Handley speaks to Carmella Haswell about his new consultancy firm which promises to deliver solutions for institutions engaging in securities finance and lending, repo and treasury

30

Industry moves

Sunil Daswani has departed from Standard Chartered Bank after more than three years. Based in London, Daswani was global head of the bank's securities lending department

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RBC Investor Services to expand securities lending programme

RBC Investor Services has confirmed the expansion of its securities lending programme.

The move will extend its service coverage to support the lending of client assets held in Malaysia, the Canadian bank 34th market.

Users of RBC Investor Services' securities lending programme can use the service to generate 'incremental portfolio returns' within their defined investment and risk guidelines, the bank says.

Its securities finance offering enables clients to customise lending parameters, as well as access custody or third-party lending as well as disclosed and undisclosed agency models. It also deals in bilateral and triparty collateral management.

Commenting on the move, Kyle Kolasingh, head of market services solutions at RBC Investor Services, says: "The inclusion of Malaysia in our securities lending programme marks the latest step in a long-term plan to expand our market presence.

"We are consistently evaluating new key markets aligned with our beneficial owners' global asset classes, keeping an eye on the horizon for upcoming opportunities in the securities lending landscape. Our focus remains on optimising our clients' assets."

ISS and Strate partner on proxy voting solution

Corporate governance and sustainable investment solutions provider Institutional Shareholder Services (ISS) has partnered with Strate, South Africa's principal central securities depository (CSD) and collateral platform, on a global proxy distribution (GPD) project.

Through the collaboration, global and custodian banks using ISS' GPD outsourced voting solutions will be able to use Strate's central platform for the direct vote processing of South African issuers' shareholder meetings.

Integrating the two organisations' services will improve voting efficiency, corporate governance and transparency for investors, the firms say, streamlining the proxy voting lifecycle.

Rudi Kuntz, head of global proxy distribution at ISS, says: "Our collaboration with Strate enhances our GPD outsourced voting solution for custodians with global and local investor clients seeking to exercise effective investment stewardship in South Africa.

"The new arrangement removes a step in the intermediary chain for vote processing

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in the local market and provides institutions with extended voting deadlines. This benefits custodians' investor clients by allowing more time for engagement and vote decision-making ahead of company meetings in South Africa."

Gregory Naicker, head of CSD services at Strate, comments: "Collaboration is key for Strate as we integrate with ISS GPD to create further efficiencies for electronic proxy voting within the South African market. This milestone will afford ISS GPD clients with direct market access to vote and to connect with local issuers, thereby enhancing investor stewardship."

ICMA ERCC reveals update to European repo guide

The International Capital Market Association (ICMA) has updated its best practice guide on the European repo market following 18 months of consultations with members.

Created by ICMA's European Repo and Collateral Council (ERCC), the guide is designed to avoid uncertainty and disagreements among market participants, helping to foster a more efficient and orderly repo market in Europe.

After receiving feedback from ERCC members, ICMA has updated a number of areas within the Guide to Best Practice in the European Repo Market, including interest claims and Central Securities Depositories Regulation (CSDR) cash penalties, repo re-rates, re-sizing repo and ways of clearing up accrued interest.

In the revised document, the term 're-rate' refers to an agreed change in the repo rate on fixed-rate repos, including open repos not linked to an index.

However, the document states that an "agreed change in the spread in the case of a repo paying a periodically-refixed index plus or minus a spread in basis points, but not to regular changes in the index," are better described as a "re-set" or "re-fixing".

The guide warns that cleaning-up accrued repo interest by terminating and then replacing a transaction will generate additional settlements and cost, as well as additional reporting requirements.

ICMA's ERCC indicates that it is therefore best practice when cleaning-up accrued repo interest to do so by modifying the terms of a transaction and making only an interest payment.

The ERCC Guide is a flagship document for ICMA and provides detailed guidance, best practice recommendations and clarifications that are intended to support the trading and settlement of repos.

First published in 2014, the document has since been regularly reviewed and updated to ensure that the guide continues to accurately reflect current market practice.

Repo ADV rises 41.2% YoY for October, reports Tradeweb

Repo average daily volume traded on the Tradeweb platform increased 41.2 per cent year-over-year to US$527.2 billion for October 2023.

Further client adoption of Tradeweb's electronic trading solutions drove global repo activity for the month. US market conditions shifted demand from the Federal Reserve's reverse repo facility to money markets.

The global operator of electronic marketplaces for rates, credit, equities and money markets reports that the ADV across all asset classes for October reached US$1.75 trillion, an increase of 66.3 per cent YoY.

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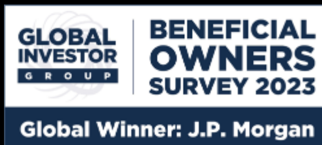

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US government bond ADV was up 27.7 per cent YoY to US$163.7 billion for October. European government bond ADV was also on the rise by 12.0 per cent YoY to US$42.3 billion.

According to Tradeweb, US and European government bond volumes were supported by sustained rates market volatility.

For swaps and swaptions, ADV climbed 121.1 per cent YoY for October to US$463.4 billion. Total rates derivatives ADV also increased, rising 174.0 per cent YoY to US$749.6 billion.

In credit markets, fully electronic US credit ADV grew 24.9 per cent YoY to US$5.6 billion while European credit ADV was up 27.4 per cent YoY to US$2.1 billion.

US credit volumes reflected continued client adoption across Tradeweb protocols, the US-based firm says, including request-for-quote (RFQ), portfolio trading and Tradeweb AllTrade.

DTCC launches data access service for OTC derivatives

New York-based market infrastructure giant DTCC has released OTC Direct Connect, a data access service for OTC derivatives transactions that fall under regulatory reporting obligations in the US and Canada.

DTCC states that this solution eliminates manual data collection, offering automated and scalable access to data published through the DTCC Data Repository's public price dissemination dashboard. It notes that this solution will help subscribers to manage market risks and trading risk factors in near real-time.

Subscribers to OTC Direct Connect will receive data held on Amazon Web Services (AWS) via the AWS Data Exchange, which provides ready access to third-party data held in the cloud in AWS, and links to other AWS services including Amazon Simple Storage Service (Amazon S3), Amazon Athena and Amazon Redshift.

Commenting on the OTC Direct Connect solution, managing director of DTCC Data Services Tim Lind says: "This solution systematically and seamlessly disseminates OTC derivatives transaction data to interested parties.

"OTC Direct Connect improves transparency in the OTC derivatives markets, as intended by regulatory disclosure mandates, by

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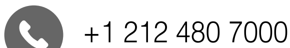

Eric Brandt

Director of Sales

Christian Bullaro

Director of Sales

providing subscribers with improved information access."

"OTC Direct Connect provides a seamless, low-friction experience with daily and intra-day updates," adds Christopher Nardo, product management at DTCC.

Eurex Repo average daily volume climbs 78% YoY for October

Trading volumes on Eurex Repo have grown 78 per cent YoY to €460.5 billion for October, also representing a significant month-on-month increase from the €385.1 billion average daily term-adjusted volume reported for September.

This year-on-year growth was driven by a 191 per cent YoY increase in GC Pooling average daily term-adjusted volume to €212.6 billion and 34 per cent YoY growth in special repo average daily volume to €247.9 billion.

For OTC derivatives clearing, notional outstanding volumes have risen 15 per cent YoY to €32,497 billion.

This growth has been driven by 7 per cent YoY expansion in notional outstanding for interest-rate swaps to €13,955 billion for October, of which overnight index swap clearing volumes have risen 25 per cent YoY to €2,974 billion.

Average daily cleared volumes through Eurex Clearing have increased 22 per cent YoY for October to €225 billion.

This features a 30 per cent YoY decline in average daily cleared volume for interest rate swaps, although overnight index swaps average daily cleared volume was up 37 per cent YoY for October to €14 billion.

Philippines permits short selling on PSE Index stocks

Short selling is permitted in the Philippines from today, with 52 stocks and one exchange-traded fund listed on the Philippines Stock Exchange now available for short sales.

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This includes stocks included in the stock exchange's PSE Index, along with select equities from the PSE MidCap and PSE Dividend Yield Indices.

The terms for short selling activities on this list of stocks are detailed in the PSE's Guidelines for Short Selling Transactions.

In May, the Securities and Exchange Commission (SEC), the securities market regulator in the Philippines, approved use of offshore collateral in securities-based lending transactions.

Four months later, the Philippines Board of Internal Revenue approved the filing and registration of the Global Master Securities Lending Agreement (GMSLA) in September.

A set of rules and guidelines was initially approved by the Securities and Exchange Commission (SEC) in December 2019, but was subsequently sent back to the market for further consultation. It was then subject to further delays owing to the Covid pandemic.

The initial proposal, advanced in 2019, extended short selling for PSE Index stocks, but the exchange has now widened the range of eligible shares as detailed above.

Commenting on these developments, Ramon S Monzon, president and CEO of the Philippines Stock Exchange, says: "We are grateful to the SEC and BIR for their approvals on important regulatory aspects of SBL and short selling. This development [has prepared the way for] the full adoption and implementation of these much-awaited programmes."

Stephen Howard, CEO of Pan Asia Securities Lending Association (PASLA), comments: "PASLA welcomes this significant milestone in the evolution of the Philippines equity markets and their market structure.

"This is the culmination of extensive efforts on the part of the Philippine Stock Exchange, launching its securities

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financing solution that provides a short-selling infrastructure to market participants. It is an exciting development that will undoubtedly enhance liquidity and market efficiency."

OCC average daily loan value grows 27.7% YoY for October

The Options Clearing Corporation (OCC) has recorded a 27.7 per cent year-on-year increase in average daily loan value for securities lending trades, generating US$147.7 billion for October.

Similarly, total securities lending transactions cleared on the OCC platform faced a YoY increase of 19.8 per cent to 221,451 for the same month.

Total volume for all futures and options cleared through the equity derivatives clearing organisation has risen 8.6 per cent YoY to 988.3 million contracts for October 2023.

Year-to-date average daily volume for all futures and options cleared on the platform through 2023 was 44.4 million contracts, up 8.2 per cent compared to YTD average daily volume through 2022.

OCC experienced a 32.5 per cent YoY hike in index options contracts for the month of October to 100.7 million and a 48.6 per cent YoY rise in cleared futures contracts to 6.4 million.

ETF options contracts cleared on OCC have risen by 25.6 per cent YoY for October to 460.2 million. However, equity options volumes declined 9.1 per cent YoY to 421.0 million for October.

Global securities finance revenue drops 4% YoY for October

Activity in the global securities finance industry has fallen 4 per cent year-on-year, generating US$751 million in revenue for lenders in October 2023, according to DataLend.

The 4 per cent decrease comes as a result of a mixed performance across both regions and asset classes.

Month-over-month, this revenue figure for lenders declined 2 per cent from the US$767 million generated in September 2023.

The market data service of fintech EquiLend says global broker-to-broker activity — where broker-dealers lend and borrow securities from each other — remained 'roughly flat' YoY, totalling an additional US$217 million for October.

However, revenues generated from equity lending for the EMEA region contracted 33 per cent YoY for October, with loan balances falling 32 per cent YoY.

In the fixed income lending market, revenue from sovereign debt lending fell by 12 per cent overall, with US (-8 per cent), Canadian (-11 per cent) and UK (-38 per cent) issued bonds all falling behind their 2022 marks.

The APAC equity lending market continues to be a bright spot, says DataLend, with a 33 per cent increase in revenue YoY for October. A combination of a 22 per cent increase in fees and a 10 per cent rise in balances has powered these to annual gains.

The top five earning securities in October were Sirius XM Holdings Inc. (SIRI US), Fisker Inc. (FSKR US), Ecopro Co Ltd (086520 KS), iShares iBoxx Trust Investment Grade Corporate Bond ETF (LQD US) and Lucid Group Inc. (LCID US). The five securities in total generated US$56 million in revenue for the month.

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SimCorp and Axioma announce merger

SimCorp has announced a merger with factor risk model, portfolio construction tool and multi-asset class enterprise risk solution provider Axioma.

The announcement follows the acquisition of SimCorp by Deutsche Börse Group in September 2023. Axioma has been part of Qontigo, a Deutsche Börse Group subsidiary, since 2019.

Axioma became a strategic partner of SimCorp in 2021, with its portfolio optimisation and risk analytics capabilities made available to the latter's investment management platform clients. The joint value proposition has sparked a number of appointments by clients, including Hassana Investment Company, AP3 and AP4.

Currently, SimCorp provides the technology backbone for more than 300 major financial institutions, while more than 380 investment managers use Axioma's solutions worldwide. Following the merger, SimCorp's open platform strategy and the Axioma brand will remain available to other risk management and investment management platform providers respectively.

Christian Kromann, CEO of SimCorp, says: "To succeed in today's rapidly evolving investment landscape, a flexible and holistic approach to portfolio construction and risk management is essential. The combined strength of SimCorp and Axioma makes our agile, front-to-back platform market-leading.

"By merging with Axioma, SimCorp further strengthens our presence in key markets, such as North America, which is our primary growth market. This paves the way for accelerating growth. Over the past two years, our partnership has proven highly successful, and by strategically utilising each other's market positions, we can now access a broader market with an even stronger offering."

Nasdaq completes acquisition of Adenza

Nasdaq has confirmed the completion of its acquisition of risk management, regulatory reporting and capital markets software provider, Adenza.

The move aims to advance Nasdaq's transformation, further expanding the company's capabilities to support financial institutions with 'mission-critical' solutions.

In conjunction with the completed transaction, Nasdaq has appointed Holden Sphat, managing partner at Thoma Bravo, to serve as a member of Nasdaq's board of directors.

The New York-based technology firm says it has "evolved its corporate structure"' and will now be aligned across capital access platforms, market services and financial technology — which will comprise capital markets technology, as well as regulatory technology.

News of the acquisition was reported in June, where Nasdaq confirmed that the US$10.5 billion acquisition would comprise US$5.75 billion in cash and 85.6 million shares of Nasdaq common stock, based on the volume-weighted average price per share over 15 consecutive trading days prior to signing.

As part of its exit, Thoma Bravo, former majority owner of Adenza, is expected to retain a 14.9 per cent take in Adenza, the financial services software company that was created through the combination of Calypso and AxiomSL.

Commenting on the acquisition, Adena Friedman, Nasdaq chair and CEO, says: "The acquisition of Adenza represents an important milestone in Nasdaq's ongoing transformation, accelerating our vision to become the trusted fabric of the financial system.

"Nasdaq, with Adenza, is strongly positioned to deepen our strategic relationships with the world's financial institutions. We are uniquely placed to help our clients navigate rapidly evolving changes in the capital markets and regulatory environment and address their most complex challenges across risk and crime management, compliance and reporting."

Pirum goes live with T+1 solution

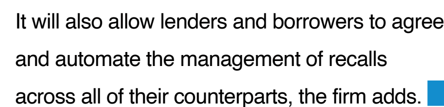
UK-based financial services technology vendor Pirum has launched its borrower automation solution with its Recall Manager service.

The solution is designed to enable full automation of the recall lifecycle ahead of the T+1 settlement deadline in the US, Canada and Mexico in May 2024.

Pirum says the firm is going live with a number of global agent lenders over the coming weeks, with a number of other users later this year.

The Recalls Manager service is an interoperable recalls service which aims to streamline and automate the entire end-to-end recall workflow.

It will also allow lenders and borrowers to agree and automate the management of recalls across all of their counterparts, the firm adds.



Transforming the MENA repo markets

Justin Lawson, Securities Finance Times publisher, speaks with Steven Griffiths, CEO and founder of Absolute Collateral, about the firm's newly launched collateral management trading platform and the Gulf bond market

What is the main objective of the newly launched platform, Absolute Collateral, and why have you chosen to launch in Bahrain and target the Gulf Cooperation Council (GCC) markets?

Several years ago, I visited Bahrain for the first time for a conference. From the start, its entire ecosystem — which is built up of the Central Bank of Bahrain (CBB), the Bahrain Economic Development Board (EDB), Bahrain Börse, the International Islamic Financial Market (IIFM)

and the Bahrain Association of Banks (BAB) — were all, and continue to be, very welcoming and motivated to put ideas into action.

Bahrain stood out as an ideal place to launch this new collateral management trading platform due to the available access to key players that have the ability and desire to implement new and innovative ideas into the markets. I feel very lucky and proud to say we have launched from Bahrain.

How does Absolute Collateral aim to increase transparency in the Gulf bond market?

We are looking to increase trading cooperation between regional players and capture what is currently being traded off and on the platform, via the phone and email. This is the beginning of creating transparency in the market, to first shed light on what is happening and what is being traded.

Why is there optimism that GCC banks and international banks will adopt the standardised documentation provided by Absolute Collateral?

Motivation to sign our standardised trading agreements stems from the new trading connections that are being established, as well as the new players that are entering the market. Both require trading documentation and unilateral negotiations — which are more effective than bilateral negotiations.

What challenges do GCC banks face when trading with international investment banks, and how does it affect pricing?

For GCC banks, trading with any bank can involve multiple bespoke repo documentation. For market participants pricing repos, this adds an extra layer of complexity where it is imperative for traders to keep track of each repo agreement versus each client they want to show a price to.

This is not dissimilar to what the Interest Rate Swap market historically experienced with its multi-currency, multi-haircut Credit Support Annex (CSA), where now the trend is to have single currency agreements. In short, documentation complexity and variety can create noticeable price variances for the same trade. As a result, some clients would be more adversely affected than others.

What is currently lacking in the GCC repo market, and how can platforms like Absolute Collateral help address this issue?

From our perspective, a tradable market includes repo, securities lending, the secondary trading of bonds and equities, as well as derivatives.
The GCC greatly benefits from this tradable market. For this to happen effectively, I believe greater intra-country trading — banks within one country trading with each other — is needed. When each country has this type of trading momentum, it can expand beyond its border and it becomes easier for different countries and regions to trade with each other.

Having unilateral trading documents further supports this momentum and helps to create deep and liquid markets that are sustainable in the long run.

How can a viable repo market impact the trading of sukuk, and what are the potential advantages?

The primary issuance of a bond, such as sukuk, would greatly benefit from a follow-up, tradable market, where those bonds are embedded into the instruments traders use. Establishing a repo market is the beginning of opening up dynamics that encourage the secondary trading of sukuks and that can feed-back into larger, more frequent primary issuances of sukuks.

What potential benefits does a platform like Absolute Collateral offer in terms of standardisation and pricing information for sukuk trading?

In this respect, standardisation can take the form of pooling repo trading liquidity in the most active bonds to create benchmark rates from trading data, which can then be utilised by traders and issuers.

Do you have plans to bring Absolute Collateral to other markets?

We are currently working with a number of GCC countries, specifically the United Arab Emirates (UAE) and Qatar. We aim to include all of the GCC countries and the wider Middle East and North Africa (MENA) region while simultaneously working with clients outside of the region that would be interested in trading within this market.

New directions in collateral management

Gael Delaunay, Clearstream's global head of collateral management, speaks to Bob Currie about the resurgence of GC Pooling, collateral mobilisation and extending triparty collaborations into new jurisdictions

As one of the largest post-trade market infrastructure companies globally and a provider of triparty collateral services for more than 30 years, Clearstream has been on the frontline in driving measures to promote collateral mobility, to tap underutilised pools of collateral and to deliver greater safety and technical efficiency to collateral movements and settlement.

Since joining Clearstream last October as global head of collateral management, Gael Delaunay is charged with carrying this momentum forward and crafting a collateral management ecosystem that meets the needs of the future. In doing so, he brings more than two decades of experience in post-trade financial services, having previously served at The Bank of New York Mellon as head of collateral management for Europe.

Prior to this, Delaunay held senior relationship management roles for securities services and cash management at J.P. Morgan and BNP Paribas' Securities Services.

Monetary normalisation

Delaunay comes to the Deutsche Börse-owned market infrastructure specialist at a time of monetary readjustment when an extended period of low interest rates and abundant liquidity — supported by central bank asset purchase programmes (APPs) initiated after the 2008-9 Global Financial Crisis and reinforced through major balance sheet expansion during the Covid crisis — has been displaced by an aggressive phase of monetary tightening and initial steps to unwind central bank APPs.

With the ECB's aggressive tightening of interest rates, this has triggered a steepening of the yield curve and has opened the door for renewed interest in GC Pooling and special repo.

From Q3 2022, Eurex and Clearstream have noted a steady flow of banking participants returning to their CCP-cleared repo marketplace — some of which had been absent for some time, given the ready access to funding through central bank liquidity support programmes. In the second half of 2022 activity was predominantly in longer maturities, but during 2023 there has been a significant rise in GC trading volumes in shorter maturities, from overnight up to one week. In line with this trend, GC Pooling balances have risen by more than 200 per cent over the past 12 months.

For October 2023, Eurex Repo recorded a major increase in daily GC Pooling volumes, up 191 per cent to €212.6 billion, with special repo activity up 34 per cent YoY to €247. 9 billion. In aggregate, total average daily term-adjusted repo volume increased 78 per cent YoY in October to €460.5 billion.

For the first half of 2023, Eurex Repo's overall outstanding volume increased by 62.9 per cent YoY, with the GC Pooling market up by 89.6 per cent and the Eurex Repo market expanding by 50.4 per cent.

This reactivation of GC Pooling as a liquidity management tool has benefited from the supportive push of higher interest rates, reduced excess liquidity and more attractive GC Pooling rates offered to the market.

A comprehensive revision of the ECB's Targeted Longer-Term Refinancing Operations (TLTROs) in October 2022 resulted in repayments of around €300 billion in November and around €450 billion in December 2022, which reduced excess liquidity. By mid-2023, approximately half of the aggregate €2 trillion in funds loaned to European banks under the TLTRO III programme had been repaid, with the remaining TLTRO III operations due to mature at the end of 2024.

For cash lenders, new players have been attracted to special repo and GC Pooling channels as government-backed deposit schemes have seen their deposit rates reduce significantly. "Cash providers are less motivated to deposit cash with their central banks given they can attain a higher yield on their cash investments by entering into secured repo transactions with Street-side counterparties, while benefiting from the operational efficiency and risk management features offered via a triparty programme," says Delaunay.

More broadly, Delaunay's suggests that a wider range of large institutional investors — including European pension and insurance funds, sovereign wealth funds, public authorities such as debt management offices, central banks and supranationals, and increasingly UCITS funds — are using, or intend to use, GC Pooling and special repo to generate improved risk-adjusted return on their asset holdings.

With this in mind, Clearstream is working closely with the Eurex team to bring more buy-side firms into GC Pooling. Through ISA Direct and ISA Direct Indemnified, Eurex Repo and Eurex Clearing aims to combine the benefits of direct clearing access for buy-side firms with the advantages of traditional sponsored access via a clearing member. This

creates a principal-client relationship between the buy-side firm and the CCP, but with a clearing agent performing additional service functions to enhance the clearing solution.

Delaunay also identifies a sizeable pool of corporates that are active in funding markets as cash providers and would benefit from this triparty repo programme as a safer and more efficient mechanism for realising a yield pick up on their cash holdings. “It is noteworthy that some corporate entities continue to lend cash on an unsecured basis,” says Delaunay. However, the collapse of Silicon Valley Bank in March of this year — and historical bank defaults going back to the Global Financial Crisis and before — provide a lasting warning of the potential risks associated with unsecured lending.

Regulatory capital

For bank counterparts, there is also an incentive to trade and finance through CCP-cleared channels, given the advantages this affords in terms of managing their regulatory capital. Commercial banks are looking to manage their regulatory capital requirements as efficiently as possible, including their Net Stable Funding Ratio (NSFR), Liquidity Coverage Ratio (LCR) and Risk-Weighted Asset calculations under the Final Basel III Rules. As this rule set takes effect, banks may be confronted by higher regulatory capital costs as they adapt to the revised calculation methodology required under these Basel III Endgame obligations. Published in 2017, these Final Basel III Rules came into effect on 1 January 2023 and will be

For cash lenders, new players have been attracted to special repo and GC Pooling channels as government-backed deposit schemes have seen their deposit rates reduce significantly.

phased in over a five-year timeframe, although some jurisdictions may slightly compress or extend this implementation timetable.

Among its prominent requirements, these Final Rules impose an output floor, applying a lower limit on RWAs based on the revised standardised approaches in the framework. This will limit the regulatory capital benefit that banks can obtain from use of internal models to evaluate credit risk and market risk. RWAs linked to credit valuation adjustment risk and operational risk must be calculated using standardised approaches under the Final reforms.

“This change may result in banks being required to allocate substantially more regulatory capital against their trading and financing activities — an increase that may be a multiple of their previous regulatory capital cost,” explains Delaunay. As they seek to minimise balance sheet impact of these business activities, banks are increasingly looking to CCP-intermediated trading and financing relationships as one favourable option, which also adds the benefits of netting. A second, he notes, is that many bank counterparties are exploring opportunities to make greater use of pledge-based collateral agreements, given the regulatory capital cost advantages that this may offer to their collateralised trading and financing activities.”

Removing collateral fragmentation

In parallel, Clearstream continues its journey to help clients to mobilise collateral more efficiently and to reduce collateral fragmentation across geographies and product silos. This was a primary rationale for the release of Clearstream’s Global Liquidity Hub in 2009 and a focus that endures into the 2020s. “Where we can, we will continue to break down silo-based approaches to collateral management and to reduce fragmentation,” says Delaunay. “Where we cannot do so immediately, we will offer bridges to support collateral mobilisation and transfers.”

Continuing this tradition, Clearstream delivered a project in 2022 known as Collateral Mobility designed to centralise all cleared repo activity under its international platform and set of accounts. This set the premise for migrating the central bank pledges alongside the ECB’s project to harmonise the payments, securities settlement and collateral management systems for the Eurosystem. In doing so, the ECB has replaced its legacy TARGET2 payments system with a new real-time gross settlement system, labelled T2, which was launched on 20 March 2023. In doing so, it aims to consolidate T2 with the Eurosystem’s TARGET2-Securities (T2S) securities settlement system onto a single platform and, in April 2024, it plans to release the delayed Eurosystem Collateral Management System (ECMS).

The ECMS is a centralised collateral management facility for Eurosystem central banks that will replace collateral management operations currently conducted at national level on the systems of 19 eurozone central banks. By launching the ECMS platform, the ECB aims to consolidate and modernise monetary policy collateral management operations across the Eurosystem.

Through its Collateral Mobility project, Clearstream has transitioned collateral management activities for German domestic business previously conducted on Clearstream’s German CSD Xemac platform onto their ICSD CmaX platform that supports its international triparty collateral management business situated in Luxembourg. Consequently, the CmaX platform centralises all triparty collateral management services in Deutsche Börse, from straightforward repos, securities lending, CCP margining, structured trades — and central bank pledges in the near future — onto a single platform.

In doing so, Clearstream aims to provide standardised operational procedures and interoperability across the services offered by its Luxembourg-based ICSD and its CSD in Germany. For users, the aim is to offer efficient mobilisation, optimisation and allocation of collateral across their international and domestic activities from a single pool of securities accounts.

In line with this objective, Clearstream will also introduce a series of enhancements to its collateral programme, offering additional flexibility in optimisation logic from full rebalancing to a more granular set-up completing the already large array of services. In combination with the uncleared repo flows in central bank money that are soon to arrive, Clearstream aspires to make the secured financing market safer and more efficient.

By the end of 2023, Clearstream will add ESG scores to its collateral optimisation capability, enabling users to apply additional sustainability criteria alongside other eligibility factors in defining their collateral schedules and optimisation methodologies.

This optimisation capability is complemented through the release of

OSCAR, a tool for collateral eligibility negotiation and collateral screening that Clearstream launched in 2023 in partnership with Brussels-based fintech Intelli-Select. This collateral solution, named Own Selection Criteria with Automated Reasoning (OSCAR), utilises Intelli-Select's software, applying artificial intelligence strategies to evaluate collateral eligibility profiles when working with collateral baskets.

This streamlines the process for developing and negotiating individual collateral baskets by applying AI techniques, including knowledge representation and reasoning (KRR), machine learning and structured natural language processing (NLP). OSCAR generates a digital version of a collateral schedule which can be agreed with trade counterparties through a smart online interface, reducing a process that may previously have taken several hours potentially down to minutes.

Building on this capability, Clearstream is working with Intelli-Select to develop additional functions. It recently launched marriage brokering, which helps with the identification of trading counterparties based on specific client profiles and trade axes, thereby creating new potential trading opportunities. Trade proposition, which is scheduled for release during the first semester of 2024, evaluates the buckets of underutilised assets that the client holds on CmaX and will identify potential eligible counterparties from the list of firms that have signed up for the marriage brokering service, here again adding value for Clearstream clients by suggesting trading ideas to place underutilised assets.

Through Collateral Mapper — a module of Clearstream's in-house built Xact web portal, Clearstream offers a client dashboard that provides an integrated view of a firm's collateral holdings on CmaX. This provides detailed analytics on collateral usage and identifies opportunities for users to further utilise equities not currently held at Clearstream to enhance optimisation of their Clearstream collateral baskets — and thereby free up high-quality assets. This solution has been available since March 2023 to support optimisation of clients' equity holdings and Clearstream plans over the coming months to extend this coverage to a wider range of asset classes.

Canadian Collateral Management Services

In May, Clearstream and TMX Group — the Canadian exchange and post-trade infrastructure operator that owns CDS, the Canadian central securities depository — announced plans to launch a Canadian Collateral Management Services (CCMS) that delivers the benefits of Clearstream's international triparty solution to the Canadian market.

Released in the third quarter of 2023, the new CCMS facilitates optimisation and collateralisation of securities finance activities in the Canadian market, establishing Canada's first domestic triparty capability.

The roll-out phase of the CCMS supports the activities of market participants in Canada's secured funding market, providing an automated collateral management process across the SFT lifecycle, while facilitating the transition to next-day securities settlement for Canada in May 2024.

This arrangement with TMX is a forebear to further efforts from Clearstream to further market partnerships globally, enabling market infrastructure in other markets to employ Clearstream's global collateral management technology and systems to deliver domestic triparty and associated collateral management functions.

This builds on a collaborative approach that has been integral to the Global Liquidity Hub since its launch in 2009, enabling market participants in locations including Australia, Brazil, Canada and South Africa to benefit from an international collateral network established through links between Clearstream Banking in Luxembourg and the domestic CSDs. Through this hub, users can access a diversified network of counterparties across these locations, enabling them to collateralise exposures across this network using Clearstream's international collateral management solution while their assets remain in the domestic market.

In concluding, Delaunay notes that this changing collateral management environment is driving new collateral paradigms, marking a return to some of the market characteristics and standards prevailing before the Lehman crisis — particularly with reduced access to central bank liquidity motivating firms to extend their secured financing activities with Street-side counterparties.

This new dawn for secured lending is shaped by new regulations, participation from new market players and by long-established market infrastructure providers, such as Clearstream, supporting this evolution with new solutions and innovation.

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Sponsored clearing: meeting demand for connectivity

GLMX CEO Glenn Havlicek speaks to Carmella Haswell following the firm's integration with LCH SA to provide classic and sponsored clearing for European repo

Global technology solutions platform GLMX Technologies has completed an integration with LCH's Paris-based subsidiary LCH SA to support classic and sponsored clearing for European repo.

As part of the mandate, clients will have access to the GLMX platform which aims to enhance liquidity access.

Mutual clients of the two firms will benefit from the move, the businesses say, namely GLMX's client base of more than 115 global firms, and more than 20 third-party order management systems (OMS) and execution management systems (EMS).

Industry utilities, including triparty agents and central clearing counterparties, will also benefit.

GLMX is a global technology solution for trading money market instruments, including repo and securities lending transactions. Founded in 2010, the dealer to buy-side securities finance trading firm has more than US$1.7 trillion in daily balances. These balances represent the trading activity of global financial institutions that utilise GLMX technology to negotiate and execute securities financing transactions (SFTs).

The "search for liquidity" has become a catalyst for this recently announced integration, according to GLMX's CEO Glenn Havlicek. He continues: "As a result, the markets in which we operate contain a number of connections among participants, vendors and other key market infrastructure providers. A valuable component of the service GLMX provides to our clients is seamless integration between them and the wider ecosystem."

GLMX is working 'continuously' to refine the technical architecture of the platform to support increasing demand for connectivity to multiple liquidity pools within the broader securities finance ecosystem. The firm has had to make minor technical adjustments to the existing link it has in place with LCH for sterling sponsored clearing to accommodate the integration. In addition, GLMX worked closely with LCH SA to ensure that its work met the clearing house's technical and operational requirements.

Central clearing reduces capital costs, mitigates credit risk and generates liquidity, which are priority concerns for securities finance participants. Havlicek anticipates that the significance of central clearing will continue to grow in the face of current global regulatory commitments. He adds: "Our connection to LCH SA's powerful central clearing capability is an important step as GLMX establishes itself as the nexus of deep liquidity pools for our rapidly growing European buy- and sell-side network."

Olivier Nin, head of RepoClear and calm risk at LCH SA, indicates that through this integration, buy-side members can benefit from greater access to the Euro liquidity pool, "while banks can leverage enhanced netting opportunities, operational efficiencies and alleviate balance sheet pressures".

"We see sponsored clearing as one of a number of tools available to our user community. Its usage will be a function of client needs and wider market evolution, especially around regulation, capital requirements and costs," Havlicek notes.

Referencing the Depository Trust & Clearing Corporation's (DTCC's) Fixed Income Clearing Corporation (FICC) solution for sponsored repo clearing, and drawing lessons from this activity in the US, Havlicek says: "The DTCC FICC sponsored model is different in certain respects, but the significant flows which that model has attracted demonstrate the appetite for efficient solutions to capacity constraints within what is an existentially critical market."

Looking forward to the further development of the company, GLMX indicates that it has experienced "exponential annual growth" on its platform over the past several years, which shows "no sign of abating" as the firm's daily outstanding balances surpass US$1.8 trillion. The company aims to continue building innovative functionality to ensure clients can benefit from user-friendly and well-integrated technology.

In his concluding thoughts, Havlicek says: "We see tremendous potential to apply the same playbook to key adjacent markets — our fixed income securities lending offering continues to gain traction — and we will continue to invest in securities-based lending in the coming year. In addition, our nascent money market offerings are showing particular promise."

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

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Elevating businesses: consulting on market challenges

Global markets veteran Glenn Handley speaks to Carmella Haswell about his new consultancy firm which promises to deliver solutions for institutions engaging in securities finance and lending, repo and treasury

With more than three decades of experience within financial services, global markets veteran Glenn Handley has entered into a new venture through the launch of management consultancy firm, SecFin Solutions. Leading the company, Handley seeks to deliver strategies that navigate and capitalise upon the evolving securities finance landscape, ensuring businesses are always one step ahead.

Harnessing his expertise in all financing functions within banks, such as markets treasury, asset, liability and capital management (ALCM), global banking and related areas, Handley will provide advice and solutions for securities finance and lending, repo, treasury, as well as asset and liability management.

As a front office trader of 33 years, Handley has held a number of senior positions across three international banks, including Dresdner Bank (now Commerzbank) and Barclays. Most recently, he served as global head of G10 rates cash financing solutions, and head of repo and cash financing solutions EMEA at HSBC Global Banking and Markets.

During his career, Handley built large financing and interest rates trading businesses from scratch. He has also managed risk and trading and sales teams, as well as working alongside regulators and central banks.

Speaking to SFT, Handley says: “I set up SecFin Solutions to help clients to navigate their way around securities financing and to increase profits. My three decades on a trading desk at investment banks makes me uniquely qualified to provide services to others that need new skills or to refine their skills.”

A trusted advisor

Located in London, the new consultancy firm will provide a number of

services from management strategy, regulation and market reform, to revenue growth and revenue protection, and expert witness services. The firm aims to navigate clients through fluctuating markets, shifting infrastructures and emerging trends, ensuring their enterprise not only adapts but thrives amid change.

According to Handley, clients are looking for a trusted advisor and critical friend. It is important to find a consultancy firm that is independent from the business and is able to review a client's company without any preconceptions.

"If clients have been in their firms for a long time, they may not understand how other financial institutions approach things or what a different infrastructure looks like," Handley explains. "It can be quite reassuring to have someone come in from the outside, who has experience with several different types of firms, different types of collateral, with central banks and regulators."

He observes that although investment banks often have a good level of experience using consulting firms, this may be a new concept for buy-side firms such as insurance companies, corporate treasuries and pension funds, when it comes to securities financing strategy. However, with the market and infrastructure changing so rapidly, Handley believes it "makes sense for [buy-side firms] to engage with a specialist who has experience in managing these changes".

Market participants, and especially banks, have been forced to adjust to the impact of a wide range of regulatory changes since the global financial crisis of 2008-09, including Basel III, which has provided alterations to how banks handle liquidity, capital and leverage. Handley says: "When it comes to complying with these new financial market regulations, using the services of a consultant could be a new thing, but the services I offer are extremely relevant to a new audience and are critical to success."

Handley indicates that to elevate a business it is imperative to understand the regulatory environment, changes in technology and the opportunities and threats that it brings, as well as understanding the market landscape and infrastructure, and how trades settle.

Industry movements

Noting his experience through a number of crises and interest rate cycles, Handley recalls a large shift in industry approaches to finite resource management, a move from developed markets to emerging markets, and a focus away from low returning G10 rates to become more "asset class agnostic".

In terms of finite resource management, Handley says there were far fewer constraints on banks in the 1990s, which meant that banks defined their own risk appetite and managed accordingly. He has seen a large change in this through various global financial crises and all of the resulting regulation that followed.

Building on this point, he explains that a number of asset classes, that were previously relatively illiquid, have now become more tradable, such as Mexico, South Africa and Thailand government bonds. New parts of the world are also opening up in the securities finance space, such as mainland Africa and emerging markets in Latin America and in Asia.

Reflecting on the rise in interest rates in G10 economies, Handley indicates that firms are prioritising "capital efficiency and managing their total securities inventory, and ensuring that firms finance their positions as cheaply and efficiently as possible". For example, this was often facilitated via collateral upgrade or downgrade trades. More broadly, firms are merging fixed income and equity finance to create integrated securities finance desks.

Handley says: "I have a lot to offer clients who are looking at the new regulations, how the market is changing and how it will affect them. I take a very practical point of view so that clients can maximise profit and reduce costs. I can also help banks, hedge funds and other institutions upgrade and refine their strategy, focus and look at new markets, asset classes and relationships."

"I help institutions to look at their current business model and to shape it and optimise it for the future," Handley explains. "Having a medium to longer term strategy is critical in the current environment."

In this respect, Handley suggests firms keep an eye on changes related to reduced risk-weighted assets (RWA) allocation from banks and how they will structure the business. There may well be a move towards off-balance sheet solutions, as well as adoption of guaranteed and committed repo, he adds.

Handley concludes that with an increasing number of people also looking at distributed ledger technology (DLT) and working on solutions for this, "it is a very exciting time to be in securities financing".

Meeting converging trends

Combining the benefits of triparty with the simplicity of direct bilateral collateral delivery, J.P. Morgan's CCP Margin Exchange is expanding connectivity across CCPs and collateral markets, says Graham Gooden EMEA head of triparty collateral management at J.P. Morgan

What is CCPMx?

Traditionally, central clearing counterparties (CCP) prefer to receive collateral bilaterally. In the past, triparty agents have tried to guide CCPs towards the triparty model by asking them to accept collateral via triparty, which some do to a limited degree. The CCP Margin Exchange (CCPMx) model goes to the mountain, as opposed to trying to bring the mountain to it, by making the delivery to and from the CCP bilaterally. Through the combination of triparty's optimisation and eligibility engines with bilateral market movements, J.P. Morgan has established a model that provides the benefits of triparty — robust optimisation, automation and eligibility testing — while retaining the current model for CCPs of bilateral direct delivery.

The key theme highlighted in our conversations with market participants active in margining CCPs was the need for automation and, if possible, standardisation. CCPMx aims to simplify the delivery and return of CCP-related collateral, including intraday recalls and substitutions, delivering substantial operational efficiencies and, at the same time, providing economic benefits to the clearing members by replacing the cash margin auto-debited by CCPs with more optimal (cheapest-to-deliver) securities.

Collateral mobility

CCPMx not only eliminates the daily task of selecting the optimal collateral, but also the operational and often cumbersome task of moving it back and forth across multiple CCPs, while removing the need for the clearing member to manage differing connectivity protocols per CCP. Clients manage their inventory flow to their longbox, and J.P. Morgan takes care of all downstream margining at various CCPs.

J.P. Morgan connected to the Chicago Mercantile Exchange (CME) as its inaugural CCP and has announced the addition of its second CCP, as well as the launch of its connectivity with Baton Systems' Core-Collateral solution to expedite the roll out of incremental CCPs.

Integration and global availability

Partnering with Baton allows J.P. Morgan's triparty clients to address their margin obligations at 13 CCPs globally, without having to do incremental work integrating with Core-Collateral. In providing this service, J.P. Morgan manages collateral against margin obligations, continuously adhering to the CCP's eligibility requirements, the clearing member's optimisation parameters and the CCP's specific messaging protocols.

CCPMx is now international, recently posting collateral on behalf of clients to our first European CCP, ICE Clear Europe. Collateral providers can leverage their existing longbox to optimise non-cash securities as collateral at the individual CCPs across an increasing number of global collateral markets — US Fixed Income securities held in custody at the Federal Reserve, with the addition of Clearstream Bank Luxembourg, Euroclear Bank and Euroclear UK & International as new settlement locations for CCP eligible collateral.

Expanding the scope of collateral that can be posted to CCPs and the breadth of markets that collateral can be sourced from multiplies the benefits provided by the solution, while maintaining the simplicity of maintaining one longbox.

Enterprise-wide collateral management

The addition of CCPs as destinations for collateral held in J.P. Morgan triparty is part of a broader convergence trend we have seen gaining momentum over a number of years, creating efficiencies by optimising collateral from a single longbox to exposures generated from repo, securities lending, pledge, segregated initial margin and CCP collateral activity. Broker-dealer clients will have a consolidated view of their global collateral obligations across various financing markets and trade types.

We are actively expanding the list of connected CCPs and have an exciting 2024 ahead, expanding across to our first Asia Pacific CCP and layering in additional optimisation functionality.

EX

Don't mind the gap

Our repo markets bridge liquidity gaps. More than 160 European financial institutions are currently active on our Repo, GC Pooling, HQLA^{x} and eTriParty markets. They benefit from trading opportunities with fully integrated clearing and settlement.

Architects of trusted markets EUREX

Major moves at RBC, Standard Chartered, Tonic and eSecLending

EquiLend has appointed Clark as senior client relationship manager.

Based in London, Benjamin Clark will report to Emily Hollyoake, head of client relationship management for EMEA.

Clark brings six years of experience within financial services to the role, which he gained from MarketAxess Post Trade.

First joining the firm as a client service associate, Clark was most recently relationship manager at the fixed income electronic trading platform.

RBC selects Kim and Dragic as Canadian prime brokerage co-heads.

Global investment bank RBC Capital Markets has appointed Roanna Kim and Vesna Dragic as co-heads of Canadian prime brokerage.

Both co-heads bring a high level of securities finance experience to the new role. Their combined skill set will position the desk for growth in the coming years.

Kim takes on the role after five years with RBC Capital Markets, where she was previously director of equity finance. Prior to this, Kim held a 15-year tenure at State Street.

She spent 12 years in the securities finance division within State Street Global Markets, where she held positions in business development and relationship management. Kim also spent eight years on the firm's equity and fixed income lending desk.

Kim is the vice president of the board of directors at the Canadian Securities Lending Association (CASLA) and is the Toronto chapter co-lead for Women in Securities Finance.

Dragic enters the co-head role with 14 years of experience at RBC Capital Markets, where she was formerly director of prime brokerage.

Daswani leaves Standard Chartered

Sunil Daswani has departed from Standard Chartered Bank after more than three years.

Based in London, Daswani was global head of the bank's securities lending department.

In 2020, he joined the bank's securities services division as global head of agency securities lending where he reported to Madeleine Senior, head of securities services, UK and Europe.

Prior to his term with Standard Chartered, Daswani was head of securities finance solutions at MarketAxess for shy of two years.

He helped to lead the business development and strategy for MarketAxess and EquiLend's joint solution for the Securities Financing Transactions Regulation (SFTR).

Daswani was a central figure in promoting MarketAxess' transaction identifier portal which aimed to solve SFTR challenges for buy-side members.

Earlier in his career, Daswani served for 15 years at Northern Trust, where he was most recently head of international securities lending for EMEA and APAC.

Daswani was also PASLA Chairman from 2004 to 2008 and previously held positions at Citi and UBS.

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Terry Barton will depart from Nationwide Building Society in January 2024 after nine years following a restructuring within the bank.

Barton has held his current role as head of short term funding and derivatives for almost six years. Prior to this, he was senior manager of collateral and encumbrance optimisation.

He joined Nationwide from a 12-year tenure at Danske Bank, where he acted as a senior repo, liquidity and collateral trader.

Earlier in his career, Barton was a repo trader for Morgan Stanley's fixed income department between 1990 and 2002. He was also part of money markets trade support at Yamaichi International from 1988 to 1990.

Barton will take a period of gardening leave before his official departure from the bank. He continues to seek opportunities within the treasury space.

Financial services firm Tonic has appointed Steven Czarnota as a business analyst and senior consultant.

In the London-based role, Czarnota will work on key specialist transformation projects across areas including collateral and post trade.

Czarnota has more than four years of industry experience, and joins Tonic from Accenture. Most recently he was a consultant at the firm, before which he was a consulting analyst.

Earlier in his career, Czarnota spent two years at IT services and consulting firm ServerSource.

Commenting on his appointment, Czarnota says: "I was drawn to Tonic by the model of working in an expertise-led environment and the opportunities this would give me to learn from my new team. I'm eager to apply my knowledge and experience in collateral management, confirmations and settlements to help our clients transform their post-trade operations."

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.

"Having worked in both Tokyo and Hong Kong in securities lending, his depth of first-hand experience in the region will be invaluable to optimising performance for our beneficial owner clients."

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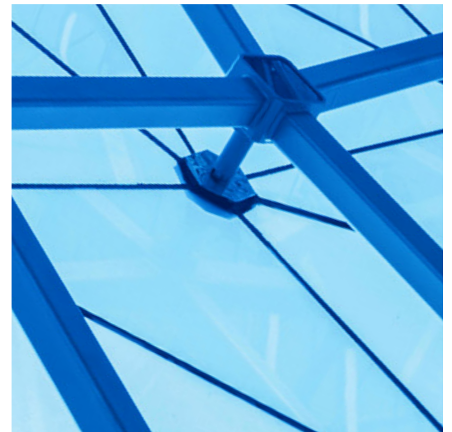

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