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Issue 343 9 January 2024

Growth Trajectory

Donia Rouigueb reflects on the expansion of Caceis' securities finance coverage to new locations and user communities

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SEC adopts rules on central clearing for US Treasury market

The Securities and Exchange Commission (SEC) has adopted rule changes to enhance risk management practices for central counterparties in the US Treasury market and to facilitate additional clearing of US Treasury securities transactions.

The rule changes provide an update to the membership standards required of covered clearing agencies for the US Treasury market, with respect to a member's clearance and settlement of specified secondary market transactions.

According to the Commission, these rules are designed to reduce the risks faced by a clearing agency and "incentivise and facilitate" additional central clearing in this market.

Covered clearing agencies within the US Treasury market will now adopt policies and procedures that require their members to submit for clearing certain specified secondary market transactions.

These transactions include all repo and reverse repo agreements centralised by US Treasury securities entered into by a member of the covered clearing agency, unless, the SEC states, "the counterparty is a state or local government or another clearing organisation or the repurchase agreement is an inter-affiliate transaction".

Additional transactions included in this rule are all purchase and sale transactions entered into by a member of the clearing agency that is an interdealer broker, or entered into between a clearing agency member and either a registered broker-dealer, a government securities broker, or a government securities dealer.

The amendments permit broker-dealers to include customer margin required and on deposit at a clearing agency in the US Treasury market as a debit in the customer reserve formula. Furthermore, clearing agencies in-scope will be required to collect and calculate margin for house and customer transactions separately.

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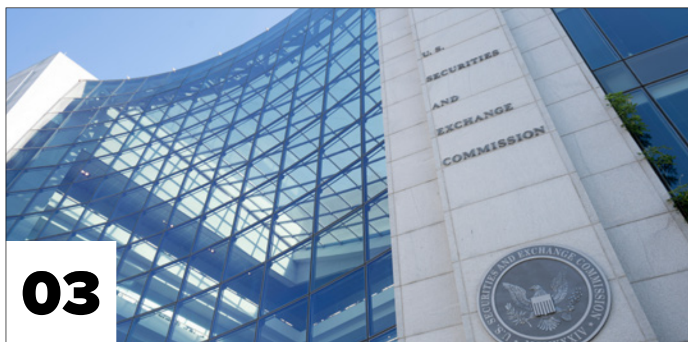

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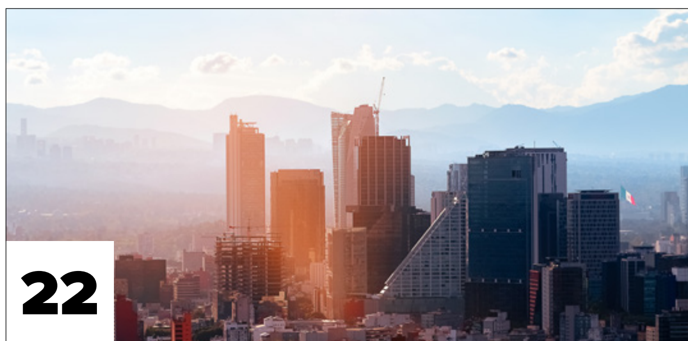

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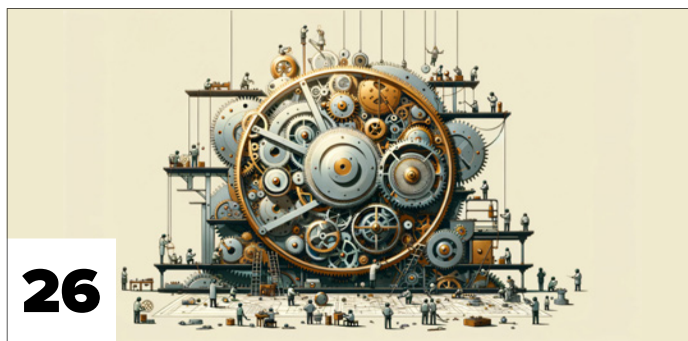

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Baton partners with J.P. Morgan

Baton's Core-Collateral solution has been integrated into J.P. Morgan's CCP Margin Exchange (CCPMx) in an effort to enable triparty clients to automate the optimisation of collateral to meet margin calls at a range of central counterparties (CCPs) globally.

The firms aim to roll out the solution across Baton's CCP network. The network currently includes 13 major CCPs across EMEA, North America and Asia together comprising more than 94 per cent of cleared margin posted by US registered futures commission merchants.

Triparty clients can now aggregate all available collateral across their various sources into a single longbox, automatically select the most cost-effective securities and rapidly mobilise all assets, the companies say. This improves the efficiency of the collateral management process, they add, allowing more effective funding decisions to be made and reducing operational risk.

Graham Gooden, EMEA head of triparty collateral management at J.P. Morgan, says: "We are delighted to help clients find increased efficiencies through improved collateral mobilisation in the clearing process."

Arjun Jayaram, founder and co-executive officer at Baton Systems, comments: "We are proud to be collaborating with J.P. Morgan to allow clearing members to most efficiently meet their CCP margin requirements. Through this partnership we are able to extend the economic value our Core-Collateral offering can bring to additional market participants, which is proving increasingly important given the current environment."

SEC adopts rules on central clearing for US Treasuries

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The final part of the new rule changes will ensure that the covered clearing agency has the appropriate means to facilitate access to clearing, including for indirect participants.

Exemptions for transactions apply where the counterpart is a central bank, sovereign entity, international financial institution, or "natural person".

Changes regarding the separation of house and customer margin, the broker-dealer customer protection rule and access to central clearing are to take effect by 31 March 2025.

Following this, the requirement to clear specific transactions would come into effect in two

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phases, initially with a requirement to clear cash transactions and then a requirement to centrally clear repo transactions.

Compliance by the direct participants of a US Treasury securities central clearing agency, with the requirement to clear eligible secondary market transactions, would not be required until 31 December 2025 and 30 June 2026, respectively, for cash and repo transactions.

Commenting on the decision, SEC chair Gary Gensler says: "The US$26 trillion Treasury market — the deepest, most liquid market in the world — is the base upon which so much of our capital markets are built.

"Having such a significant portion of the Treasury markets uncleared — 70 to 80 per cent of the Treasury funding market and at least 80 per cent of the cash markets — increases system-wide risk."

He adds: "The adopting release addresses clearing of Treasury securities in two important ways. First, the final rules make changes to enhance customer clearing. Second, the final rules broaden the scope of which transactions clearing house members must clear. I am pleased to support these rules because they will help to make the Treasury market more efficient, competitive and resilient."

In response to the news, Ragu Raymond, director of collateral management business development and client success at Baton Systems, comments: "The market in 2024 needs more clarity as to what percentage of the US Treasury and repo trading book will be subject to mandatory clearing.

"If clearing becomes mandatory for certain trades but not all, there is a risk of creating a bifurcated market structure with different pools of liquidity for trades that are newly cleared versus those that remain bilateral, introducing previously unencountered costs and hurdles."

Raymond indicates that firms will be forced to adhere to more restrictive collateral schedules "as most CCPs only accept high-quality liquid assets (HQLA), whereas bilateral over-the-counter repo provides a greater degree of flexibility".

"This has benefits from a transparency and market stability perspective, but you have to balance that out with higher costs on the collateral side, from CCP fees and an operational processes perspective," he concludes.

The Depository Trust and Clearing Corporation (DTCC) says its Fixed Income Clearing Corporation (FICC) will take the necessary steps as required under the amendments to prepare for this significant initiative.

The firm adds: "DTCC remains committed to supporting the industry and providing solutions that enable compliance with the expanded treasury clearing rule. We are prepared for this significant undertaking and will continue to evolve our access models and enhance capital efficiency whenever possible to effectively support our clients."

Marc Natale, global head of presales, marketing and GTM at Murex, says: "Mandatory clearing of US Treasuries and US Treasury repo will require market participants to post more collateral at CCPs, bringing with it greater operational work for sourcing and then posting the required collateral.

"Those affected by the new rules will need collateral management systems that are flexible and agile in identifying what the most eligible collateral is across their desks and how they mobilise it for posting at CCPs."

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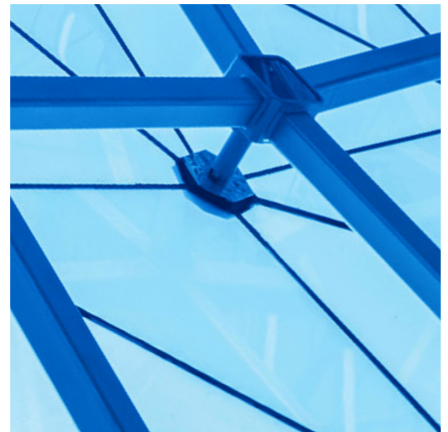

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ESMA publishes consultation on CSDR penalty mechanism

The European Securities and Markets Authority (ESMA) has published a consultation paper on technical advice to the European Commission on the CSDR penalty mechanism.

The consultation aims to collect data on the effectiveness of the current penalty mechanism in discouraging settlement failures and incentivising their rapid resolution, and will run until 29 February 2024.

The publication seeks feedback on ESMA's preliminary proposals regarding alternative parameters, when the official interest rate for overnight credit charged by the central bank issuing the settlement currency is not available.

In addition, the consultation requests feedback regarding the treatment of historical reference data for the calculation of late matching fail penalties, and alternative methods for calculating cash penalties.

Transcend secures Citi Investment for inventory optimisation solutions

Transcend, a provider of liquidity, funding, and collateral optimisation solutions, has secured banking partner Citi as its latest investor.

Citi becomes the third global bank to invest in the fintech firm along with other institutional investors.

The investment was made through Citi's Strategic Investments arm and will support Transcend's global roll out of its solutions.

The agreement will also enable Citi to enhance the efficiency of how it deploys cash and collateral across its global network.

Formed in 2013, the Transcend solution integrates activity across bilateral, cleared and triparty collateral requirements and allows allocation of the best collateral.

Alain Verdickt, head of collateral optimisation at Citi, says: "The industry-wide solutions that Transcend is developing have the promise to dramatically shift the efficiency and profitability of the entire industry and we are glad to play our part in facilitating these advances."

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Transcend founder and CEO, Bimal Kadikar, adds: "The use of collateral has moved beyond operations and is now being seen as a strategic enterprise-wide business opportunity."

Buy-side associations take legal action against SEC over short-sale disclosure

Three buy-side trade associations have launched legal action against the Securities and Exchange Commission (SEC), asking for the US Court of Appeals to invalidate rules on reporting and public disclosure of securities lending and short selling.

The Alternative Investment Management Association (AIMA), the Managed Funds Association (MFA) and the National Association of Private Fund Managers (NAPFM) argue in their petition that the SEC rules apply "contradictory and incoherent approaches" to two aspects of the same underlying transaction, specifically the short-sale and the stock borrow.

In one rule, the SEC protects the anonymity of the short seller, claim the trade associations. In the other, it exposes confidential securities lending and position information on a granular basis.

Despite finalising these two closely related rules on the same day, the SEC has disregarded how the two rules are connected and has applied very different reporting requirements, the associations claim.

In their petition, the joint associations refer to the SEC's final rule in Reporting of Securities Loans, Release No 34-98737. The other rule is the SEC's final rule in Short Position and Short Activity Reporting by Institutional Investment Managers, Release No 34-98738.

"The SEC entirely disregarded the impact of one rule on the other, including by failing to conduct a sufficient cost-benefit analysis

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of both rules' cumulative impact," say the trade associations.

In the Short Position Reporting Rule, the SEC recognised that "frequent, detailed disclosures relating to short-sale activity can impose substantial harms on markets" — including by compromising price discovery, liquidity and the ability to detect corporate waste or misconduct — the petitioners say.

In trying to avoid these "harms", the SEC has adopted a delayed public disclosure regime for short-sale activity based on aggregate data.

"Yet the Commission then contradicted and undermined those very same considerations in the Securities Loan Reporting Rule by requiring daily disclosure of individual transaction information pertaining to loans of securities in a manner that effectively serves as a proxy for short-sale activity," says the petition.

"The Commission did not even attempt to explain its starkly different approaches, and it inexplicably refused to consider the rules' cumulative economic impact despite adopting them on the same day," it continues.

Given these shortcomings, the trade associations suggest that these rules present a "particularly stark example of arbitrary and capricious rulemaking in violation of the Administrative Procedure Act" and run counter to the SEC's stated mission to protect investors and maintain fair, orderly and efficient markets.

The trade associations contend that the SEC's rules are also invalid for additional reasons: they will impose substantial costs that outweigh the benefits of the new rules; they will conflict with the SEC's statutory authority; and they fail to comply fully with procedural rulemaking requirements under the Administrative Procedure Act (APA).

The Short Position Reporting Rule also purports, impermissibly, to apply extraterritorially to securities traded outside the United States, the associations claim.

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Global securities finance revenue climbs 8.6%

The global securities finance industry generated US$10.7 billion in revenue for lenders in 2023, an 8.6 per cent year-on-year increase, according to market data provider DataLend.

The figure represents a "record high" for DataLend since it began recording annual revenue a decade ago and is 16 per cent up on the US$9.28 billion in revenue recorded in 2021.

Global broker-to-broker activity totalled an additional US$2.86 billion in revenue for 2023, a 4.4 per cent increase from 2022.

DataLend says the increase in lender-to-broker revenue over 2022 was driven by strong borrower demand for equities in North America and APAC, which saw a US$492 million and a US$228 million increase in revenue, respectively.

A 9.6 per cent increase in fees to borrow North American equities and an 11.3 per cent increase in on-loan value for Asian equities drove global equity lending revenue up by 8.2 per cent over 2022.

EMEA equity lending revenue fell by 8.1 per cent as a 19.3 per cent drop in loan value offset a 14.4 per cent increase in average fees to borrow.

The top five earners in 2023 were AMC Entertainment (AMC), followed by Sirius XM (SIRI), Beyond Meat Inc. (BYND), Lucid Group (LCID) and Nikola Corporation (NKLA). The five securities in total generated US$1.1 billion for lenders over 2023.

ICMA survey shows outstanding value of €10,794 billion for June 2023

ICMA's European Repo and Collateral Council (ERCC) has released the results of its 45th semi-annual survey of the European repo market.

The survey measures and analyses the value of outstanding repo plus reverse repo on the books of 62 participants before 14 June 2023. This excludes monetary policy repos with central banks and is not adjusted for double counting.

The total size of the survey grew 11.5 per cent year-on-year to a record €10,794 billion, with the sample representing the minimum size of the European market.

This was driven by the flow of new cash into repo, higher interest rates and steeper yield curves in the money market, and the protection given by repo against credit and liquidity risk.

However, the ERCC has recorded signs of survey growth decelerating. In net terms, the survey sample cut back its longstanding cash lending/securities borrowing position, reflecting the quantitative tightening driven shift away from the trading of specific and special collateral.

Floating-rate repo continued to gain share in the rising interest rate environment while triparty repo rallied on the back of the recovery in general collateral repo.

The survey shows that the share of French government bonds used as collateral overtook that of German government bonds, as benign market conditions dampened demand for what has been the preferred safe asset for investors.

This also highlights how the unwinding of European Central Bank support forced peripheral eurozone banks back into the repo market, boosting use of Italian and Spanish collateral.

Meanwhile, the share of sterling repo contracted, possibly reflecting a shrinking short base as economic conditions in the UK stabilised.

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Growth trajectory

In line with the international expansion of its asset servicing business, Caceis is extending its securities finance coverage into new financial centres and to a wider community of lenders and borrowers. Donia Rouigueb, Caceis' head of sales, securities finance and repo, speaks to Bob Currie about market dynamics, growth strategy and how recent acquisitions will turbocharge its offer

Caceis has engaged in an ambitious programme of expansion in recent years, reflecting a drive to complement organic growth with the continued expansion of its international coverage through acquisition. Senior management at the Paris and Luxembourg-based bank is emphatic that further consolidation is likely in the asset servicing sector and that Caceis aims to be a primary driver of that consolidation in Europe and beyond.

While these ambitions extend across its asset servicing franchise, this growth creates opportunities for Caceis' securities finance division through the potential extension of its securities lending, funding and financing presence into new locations globally and the significant widening of its pool of asset owners and borrower counterparties.

With sharp changes in the macroeconomic environment post-Covid, securities finance clients are asking Caceis to help them to transition away from an extended period of low interest rates and abundant liquidity, while negotiating an ongoing stream of regulatory deadlines and the need to deliver technical and digital upgrades to their businesses.

In a recent interview with SFT's sister publication, Asset Servicing Times, Caceis' deputy CEO Joe Saliba highlighted that the goal through this acquisition strategy is to bring organisations together to become stronger, combining the bank's expertise with other entities to create a new Caceis that will be better positioned to define the future.

This is not just a feature of the bank's recent history, illustrated by the purchases of RBC I&TS, Kas Bank and Santander Securities Services. Prior to that, Caceis engaged in a series of purchases that strengthened its positioning for future expansion. This includes the 2007 acquisition of HVB Germany's custody business from Unicredit and, in 2010, it bought the fund depository and custody business of HSBC France.

Market dynamics

Against this background, it continues to be a buoyant period for securities lending. Rouigueb describes how, after an exceptional 12 months for securities lending during 2022, there was some anxiety within the industry that 2023 would fail to reproduce this rich pipeline of revenue generation. But 2023 has confounded the pessimists and has been another fruitful year for securities lenders.

According to S&P Global Market Intelligence, the first half of 2023 recorded the second-highest six-monthly securities lending revenues to date, raising US$7.02 billion, US$5.39 billion of which came from equities lending.

US equities lending has been an important contributor to these overall revenue numbers, generating an impressive US$2.59 billion which represents 48 per cent of global equity revenues for H1 2023. US equity specials made a major contribution to this six-monthly figure, accounting — at US$2.05 billion — for 79 per cent of equities lending revenue generated over the period. This represents a 44 per cent rise on the US$1.40 billion generated in H1 2022.

For fixed income lending, 2022 was also a good year for corporate bonds, with global lending revenues rising 11 per cent YoY to US$279 million. Higher average fees have continued to support growth in corporate bond lending revenues, despite a 2 per cent YoY contraction in loan balances during H1 2023 and a 3 per cent drop in utilisation.

"Although there was a temporary slide in US specials revenue for one or two months over the summer, specials bounced back as we moved into the third quarter and, over the 12 months, this has been another hugely successful year for securities lenders," explains Rouigueb.

Monetary tightening

The European monetary policy environment has entered a phase of transition since mid-2022, moving from an extended period of low interest rates and abundant liquidity, fuelled by central bank liquidity support, to a post-Covid environment of accelerating inflation, rising interest rates and the expectation that central banks will step up the unwind of their asset purchase programmes.

Against this earlier background of low interest rates, securities borrowers that were long cash demonstrated strong appetite to deploy cash as collateral in their securities lending transactions and against other collateralised exposures.

However, 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 liquidity in circulation in the Eurozone. 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.

With the central banks raising interest rates since mid-2022, and with some firms repaying initial tranches of their TLTRO financing, this has reduced excess liquidity and presented more favourable cash investment options for firms that are long cash. This has led to an expected reduction in securities borrowers wanting to push cash as collateral, she notes, with many now preferring to post non-cash wherever they can. However, it has not contributed to a strong uptick in activity through agent bank cash reinvestment programmes. Among other options, new cash lenders have been attracted to secured financing markets as deposit rates paid through government-backed deposit schemes have declined significantly.

Capital cost

For bank counterparties, capital cost efficiency remains a primary consideration in defining their securities borrowing and financing activities and these costs are expected to increase substantially under the Basel III Endgame and Basel IV regimes.

As the International Securities Lending Association (ISLA) has noted in its October 2023 paper, Prudential Banking Rules: Basel III Endgame and the Buy-side, the core purpose of the Basel framework is to protect the resilience of banks and banking systems. The Basel framework is not a binding regulation, but it offers a common approach and a minimum standard to determine the amount of capital that banks must hold when balanced against the risks that they are exposed to in their banking activities.

“This is a conversation that needs to happen between sell-side firms and their buy-side counterparts, delivering a deeper understanding across the asset owner and asset management communities regarding how their lending strategies may affect capital costs on the sell side of the trade,” says Rouigueb.

“Confronted by these balance sheet constraints, there is no question that sell-side firms will need to adapt,” she continues. “This will require active engagement from lending counterparties and the loan intermediaries that they do business with.”

One potential option will be an extension of pledge arrangements in collateralising SFTs. The use of the Global Master Securities Lending Agreement (GMSLA) 2018 Security Interest (‘Pledge’) allows borrowers of securities to transfer collateral to lenders by way of security interest rather than a transfer of title.

This GMSLA Pledge potentially enables borrowers to benefit from better regulatory capital treatment since the borrower retains a property interest in the collateral assets and is not exposed to the same level of risk that excess collateral is not returned by the lender.

However, use of pledge collateral arrangements may only be available to certain counterparties, given that some buy-side firms — for example UCITS and other regulated funds — are restricted in their ability to accept pledged collateral. For example, ESMA Guidelines on ETFs and other UCITS issues, published in 2012, apply a longstanding rule that UCITS may not sell, pledge or re-invest non-cash collateral and these guidelines also limit the degree to which these firms may reinvest cash collateral.

A second option is greater use of central counterparty clearing for SFT transactions. Central clearing has been well established for repo transactions for many years, but CCP launches to support securities-based lending (SBL) activity have previously struggled to build volume. This will potentially change with the amendments to the Basel capital rules, with more sell-side firms interested to manage lending through a central counterparty and with a growing number of global clearing houses (including Eurex Clearing and OCC, with Cboe Clear Europe scheduled to launch a solution during 2024) now offering, or planning to offer, a SBL clearing solution. “As an agent lender, we will support securities lending and borrowing activity on either a cleared or uncleared basis, but our clients need to have a benefit from it,” says Rouigueb.

Given the parallel implications for lending intermediaries, agent lenders are also reconsidering whether, and how, they will offer trade indemnification in times ahead.

Cost of providing indemnification has been estimated to be close to 13bps under the current Basel regime, but this cost is likely to escalate when the Basel III Endgame and Basel IV rules take effect (see, for example, the paper by Mark Faulkner, Something Better Change: Securities Lending Indemnification is Unsustainable in its Current Form, Credit Benchmark, June 2022 and the July 2022 interview with Faulkner in SFT). All leading agent lenders currently provide loan indemnification and few lenders are likely to rush to lend without

indemnification in the near term, given that indemnification has been freely available.

This may change, however, as lender and borrower engage in a considered discussion about the associated risk and costs of securities lending. Under the new Basel Rules, banks will be forced to evaluate the aggregate cost of trading in more detail and some lender clients may be willing to reconsider whether they will operate without indemnification, in a well managed risk framework, providing they are incentivised to do so through a share of the cost savings or other benefits. "Among other consequences, this may prompt lending agents and their lender clients to look more carefully at their profit splits," says Rouigueb.

International expansion

In line with the bank's aspirations for its wider asset servicing business, Caceis has been working in its securities finance division to expand its international coverage and to deepen its global pool of lenders and borrowers.

"On the client side, we continue to strengthen the client experience, providing new features through the Caceis' Olis dashboard to improve client insights, analytics and ease of use in the programme," explains Rouigueb. "This forms part of wider plans to digitise and enhance the client experience for SFT business and across the asset servicing division."

Caceis' business growth, since its formation in 2005, reflects an ambitious strategy of organic expansion and acquisition. The firm is now providing custody for more than €4.6 trillion in client assets and close to €3.3 trillion in assets under administration, currently offering services in 17 countries globally.

In July, Caceis completed the acquisition of RBC Investor Services' operations in Europe and Malaysia. In 2019, it finalised the purchase of Dutch custodian and pension services specialist Kas Bank, thereby taking on Kas' book of business in the Netherlands, Germany and the UK and a strong pool of institutional asset owners using this service. The bank indicates that it is now being included in RFPs in the UK and in many other European markets, including Germany, Switzerland, Italy and Spain, thereby also deepening the pool of beneficial owners active in the bank's lending programme.

Prior to that, in 2019, Caceis reached an agreement to combine its custody and asset servicing operations with Santander's post-trade

"Caceis has been working in its securities finance division to expand its international coverage and to deepen its global pool of lenders and borrowers."

Donia Rouigueb
Head of sales, securities finance and repo
Caceis

arm, Santander Securities Services (S3). This resulted in the transfer of 100 per cent of S3 Spain and 50 per cent (minus 1 share) of S3's operations in Latin America to Caceis, with the transaction extending Caceis' service coverage in Spain and into Latin America, with operations in Brazil, Columbia and Mexico.

Importantly, the RBC purchase provides valuable technical and operational resources to support Caceis' future expansion strategy. With the purchase, Caceis has acquired an operations service centre in Kuala Lumpur with more than 1200 staff.

"More generally, we will conduct a thorough review of each of our models, agency and principal lending, to ensure that these are as efficient as possible," comments Rouigueb.

"We have a sophisticated internal tool that we developed in-house, enabling Caceis to monitor performance, risk and cost across the SFT transaction value chain, including the aggregated capital cost of trading." The securities finance division has also invested heavily to automate trade flows across the SFT lifecycle and to improve the efficiency of collateral mobilisation and transfers.

> ***"We have a sophisticated internal tool that we developed in-house, enabling Caceis to monitor performance, risk and cost across the SFT transaction value chain."***

This will also support the drive for sustainable investment, and sustainable lending and borrowing, across the division's client base. Caceis has been green well before green values started to receive their recent prominence, deputy CEO Joe Saliba recently told Asset Servicing Times. This is characterised by Caceis' ESG-Climate Reporting solution, for example, which is designed to help institutional investors and asset management companies to evaluate their portfolios according to ESG-Climate criteria and to provide transparent information on the social and environmental impact of their investment activity.

While sustainable lending and borrowing is still a work in progress — particularly when it comes to applying ESG screening to collateral eligibility schedules, for example — the industry has moved a long way in ensuring that asset owners can fulfil their shareholder responsibilities through voting their stock on key resolutions at AGMs and EGMs. In meeting this demand, Caceis has effective provisions in place to recall shares prior to record date, thereby ensuring that shareholders can exercise their voting entitlement.

Caceis has long had a diversified client base across the bank, and the securities finance division, embracing pension and insurance funds, sovereign wealth funds, central banks and corporates. The securities finance area has traditionally been strong in France, Luxembourg and in the French-speaking countries. With the acquisition of the European business of RBC I&TS, this has strengthened its coverage across a predominantly English-speaking client base in the UK, Ireland and North America. The purchase of S3 has also extended Caceis' presence in Central and South America.

The asset servicing product offer is now wider than it has been previously and this is feeding additional business into the securities lending and financing franchise. Caceis now has a complete asset servicing offer front to back, with a more sophisticated offer for servicing alternative assets, pension funds, custody for digital and traditional assets, and a range of other segments. This is supported by product centres of excellence in France, Luxembourg, Germany, Malaysia, Hong Kong and Madrid.

"This is integral to extending the bank's footprint and reputation as a specialist provider of agency and principal lending services," concludes Rouigueb. With a securities finance trading desk based in Luxembourg, Caceis offers a sales presence in Paris, London and an expanding number of European and global financial centres, extending into the Asia Pacific and the Americas. "The goal is to reinforce our presence as a leading international player and to continue our expansion as an asset servicing leader in Europe," she concludes.

SECURITIES FINANCE
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Panel topics to include: T+1, SEC 10c-1, repo, central clearing, collateral and more.

GBM: an expert view on securities lending in Mexico

Irais Vargas, head of securities lending and global operations at Grupo Bursatil Mexicano (GBM), speaks to SFT about the expansion of securities lending opportunities in the Mexican market

Could you please tell SFT readers more about your organisation?

GBM is the leading financial institution in the investment sector in Mexico, with more than 37 years of experience in the market. We currently offer service to over 6 million investment accounts, providing service to institutional clients, individual investors and financial advisors with a range of different products and services. Over the last decade, GBM has invested in digital solutions and alliances that have helped to democratise access to investment for all Mexicans.

What is your role within the organisation and what function does your department play within the securities finance market?

I am vice president of the cash management team and head the securities lending department.

We strive to provide the best investment solutions ecosystem to deliver return on users' assets, with securities lending being a fundamental component in delivering this objective. The experience, talent and integrity that we offer has enabled our firm to become the largest investment company in Mexico.

Our company is also one of the few firms promoting securities lending and short selling services in Mexico. Through our GBM app, we enable retail clients to engage in short selling within minutes, with appropriate risk controls in place. GBM is currently a leader in equities lending in Mexico and we are constantly working to increase local and foreign inventories and to enhance the experience and service quality for our institutional and retail clients.

A wide range of brokerage houses and banks are active in the securities lending market as lenders and borrowers, with institutional investors and investment funds offering a primary source of loan supply. The Mexican Stock Exchange, Bolsa Mexicana de Valores (BMV) and Bolsa Institucional de Valores (BIVA), may facilitate securities lending transactions, with lending activity supervised principally by the Comisión Nacional Bancaria y de Valores (CNBV), the Mexican securities market regulator.

There are three platforms in Mexico which trade and manage securities lending. One of these, owned by GBM, was established more than 10 years ago and we have continued to invest and improve this platform. This is audited regularly by the Mexican financial authorities to ensure that this protects the best interests of our clients.

What types of securities are commonly lent in the Mexican market. Are there any restrictions on eligible securities?

Brokerage firms may lend shares that are registered in the National Securities Registry or listed in the International Quotation System — including ordinary participation certificates in these securities — as

"In 2022, Congress ratified a decision to enable hedge funds to engage in short selling. This long-awaited change will be a significant driver for the growth of the securities lending business."

Irais Vargas
Head of securities lending
Grupo Bursatil Mexicano

well as equity contribution certificates representing the share capital of development banking institutions which appear in the National Securities Register.

Securities lending and borrowing is also permitted in securities including Banco de Mexico bonds (BREMS) and other government securities, bank securities, foreign securities and savings protection bonds.

SIC names — those registered in the International Quotations System (SIC) for equities — are typically hard to borrow, given that the core holders of these securities, namely mutual funds and retirement fund administrators (AFORES), are still awaiting regulatory authorisation to be able to lend equities in the Mexican market.

How does the legal framework in Mexico address issues such as collateral, fees and terms in securities lending agreements?

When entering into a securities loan, the parties enter into a contract approved by the trade union and may draft certain specific clauses. The collateral must always be deposited in a securities depository and the parties may freely agree on the term. However, this must expire no later than the business day prior to the maturity date of the loan securities. Transfer of the loan securities may be no later than four business days from the date on which the loan was agreed.

The securities lending may be terminated early according to the conditions specified in the contract.

Are there specific tax implications associated with securities lending transactions in Mexico?

Under Mexican law, securities lending transactions do not trigger a sale event if the borrower returns the securities at the end of the agreed loan period. The borrowing fee is taxed as interest and is therefore subject to withholding tax. Mexico has double taxation treaties in place with more than 40 jurisdictions.

The lender retains all ownership rights of the security during the loan period and the borrower is obliged to pass through to the lender any dividends or interest payments that accrue from the issuer during the loan period. These entitlements are characterised as interest payments for tax purposes.

What risk management practices are commonly employed in Mexican securities lending, particularly related to counterparty and market risks?

Risk management practices in Mexican securities lending are crucial to ensure the integrity and stability of the financial system. Common risk management practices, particularly related to counterparty and market risks, include due diligence on lender and borrower counterparties and on market intermediaries.

Collateral eligibility screening and haircuts are applied on securities delivered as collateral, depending on the liquidity and market risk of those securities. Collateral concentration limits are applied, depending on the asset class, mark-to-market valuations and closing position policy relating to uncovered margin calls. Our risk management department constantly checks all micro and macro variables.

We have invested extensively in our technology over the past 10 years to extend automation and to reduce operational risk across the loan transaction lifecycle.

Are there any recent developments or trends in the Mexican securities lending market that market participants should be aware of?

In 2022, Congress ratified a decision to enable regulated hedge funds (that is mutual funds that are permitted to engage in short selling). The initiative is already approved and is pending publication. This long-awaited change will be a significant driver for the growth of the securities lending business.

The Mexican Stock Exchange will move to T+1 securities settlement from late May 2024 for Canadian and US securities. Our expectation is that this change will increase securities lending volumes as some cross-border transactions could take longer than expected.

What does 2024 hold for your organisation?

We look forward to sustaining the growth we have seen over the past decade as we continue to make Mexico a market that is truly attractive to investors. We recently launched a revamped app that will offer the best investor experience that is available in Mexico. This will provide an effective springboard, enabling our company to add further features and new financial services in times ahead.

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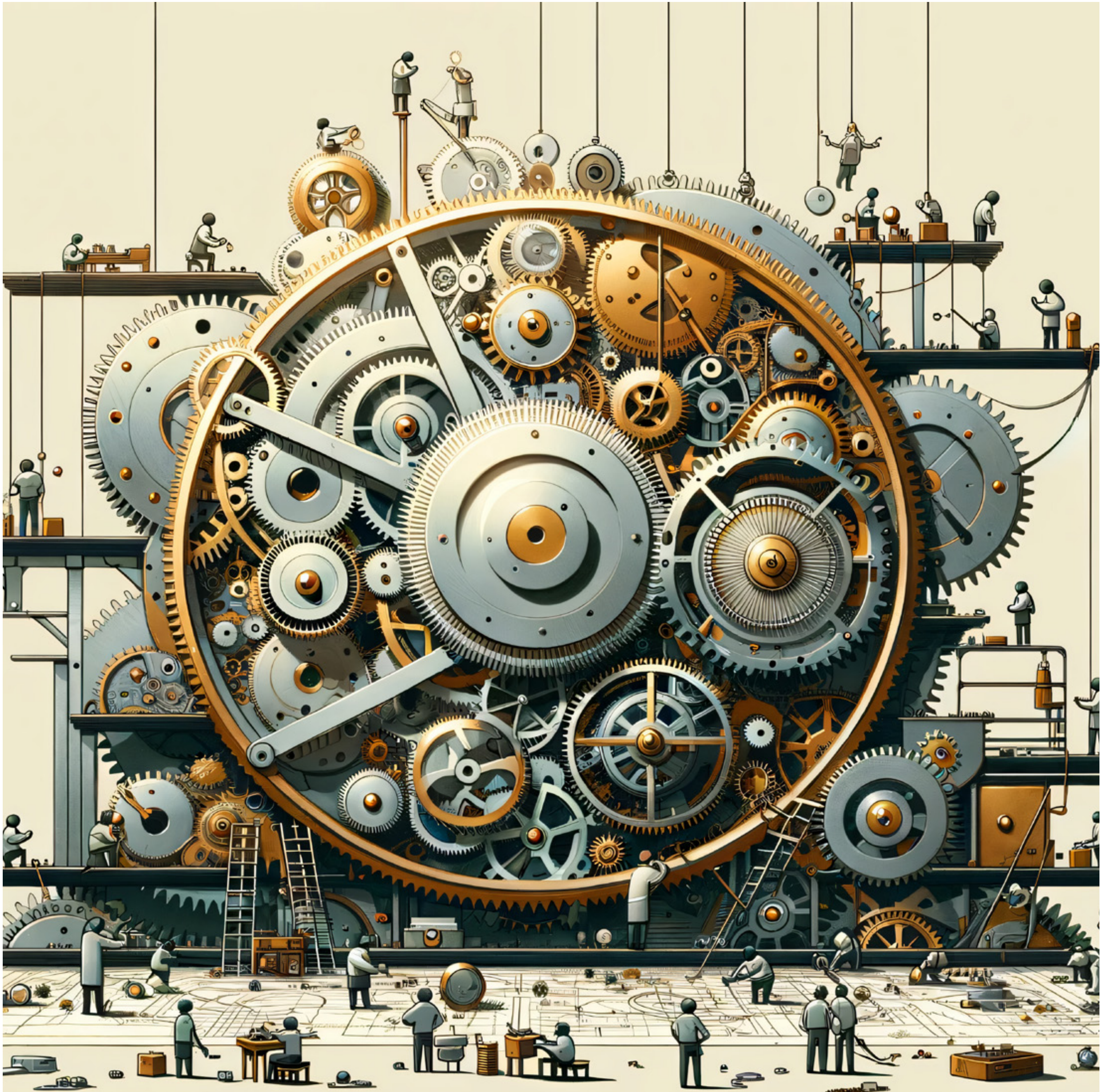


Gearing up for a new deadline

Market participants reflect on the postponement of the ECB's Eurosystem Collateral Management System. Carmella Haswell reports

The European Central Bank (ECB) has postponed the launch of the Eurosystem Collateral Management System (ECMS) by seven months until 18 November 2024.

The decision follows an assessment completed by the ECB's Market Infrastructure Board which found that users need additional time to complete testing of the ECMS functionalities in a stable environment.

According to the Bank, the extra time will ensure greater system stability and user readiness, as well as facilitate a smooth migration to the new platform.

It is not the first time the ECB has postponed the launch of the ECMS, with the Bank previously pushing the date back almost six months from 20 November 2023 to 8 April 2024.

The Eurosystem will continue to support users throughout the testing execution phase to ensure that sufficient progress is made and that all milestones are reached in time for the new launch date.

The ECMS is a unified system for managing assets used as collateral in Eurosystem credit operations. It will replace the existing individual systems belonging to the national central banks of the euro area countries, and unify 20 collateral management systems into one.

Alongside other TARGET Services — a number of payments-related services developed and operated by the Eurosystem — ECMS will ensure the free flow of cash, securities and collateral across Europe, and will be available through the Eurosystem single market infrastructure gateway.

The system aims to provide "considerable benefits" to the Eurosystem, its counterparties and the wider market by harmonising collateral management practices and contributing to further EU financial integration.

The realisation phase began in December 2017 and will end when the new system is launched in November 2024.

Migration to the new system will take a 'big-bang' approach, meaning that all interaction related to collateral management between national central banks and their communities — for example, counterparties, central securities depositories and triparty agents — will be carried out using the ECMS from the migration date onwards.

Meanwhile, the current system — the correspondent central banking model (CCBM) — will remain active until the new go-live. The CCBM was introduced by the Eurosystem together with the euro in January 1999, with a purpose to ensure all marketable and non-marketable assets eligible for use in monetary policy operations or to obtain intraday credit in TARGET 2 are made available to all Eurosystem counterparties, regardless of where the assets or the counterparty are situated.

Commenting on the new implementation date, the ECB says it does not expect a significant impact as a result of this postponement as "the old system is always running".

The move came as no surprise to Gael Delaunay, head of collateral management at Clearstream, who indicated that the shift in dates was expected "in light of the overall level of platform and technology readiness".

He adds: "Now it is imperative to work together and to make this project a priority across Eurosystem organisations to make this transition a success. Clearstream is well-advanced in its preparation and we will be ready as of day one to support our clients for triparty and bilateral flows for their central bank operations."

For Sabine Farhat, head of securities finance product management at Murex, ECMS is a big step forward for Europe to move to more automated and standardised operations and assist in better collateral mobilisation. Farhat explains: "Nevertheless, this is the second announced delay, and it shows the real situation on the electronification of the market when it comes to collateral exchanges.

"We faced the same testing-related delays in the Central Securities Depositories Regulation (CSDR) and the Securities Financing Transactions Regulation (SFTR). T+1 in the US, meanwhile, is going fine. One takeaway is we must move to an automated processing of securities exchanges in general to ensure future standards adoption migration is less costly and easier. We must also be better in planning standardisation and regulatory deadlines to have accurate and useful IT budgets."

2024

Swings and roundabouts

Market participants predict and prepare for the highs and lows of an ever-evolving industry in 2024

What do you anticipate will have the largest impact on the securities finance industry in 2024?

Maintaining strong revenues from 2022 and 2023 during a period of stable and positive interest rates while the cost of doing business rises, may be a major challenge in 2024. Volatility is key to generating securities lending revenues and the industry has benefitted from this over the past two years. As a consequence, returns generated on US specials, credit and converts volatility and ETFs were strong. Despite our optimism for 2024, we cannot guarantee the industry will maintain the same level of profitability. The cost of doing business may well rise with the advent of Basel III Endgame, especially for participants using advanced risk-weighted asset (RWA) calculation methods.

Finally, costs associated with reporting (10c-1a) and process modernisation (T+1 settlement in the US) may become an additional burden to be borne by market participants. 2024 then looks to be another challenging year — and we are well prepared for it.

Julien Berge, Co-Head of Securities Finance and Repo Trading Desk, CACEIS

The securities finance industry is ever evolving, with the advent of new mechanisms and shifts in regulatory demands. In Europe, we can expect to see the Cleared Securities Finance (Cboe) lending mechanism come into effect during summer 2024. Likewise, the rollout of T+1 in the US will place additional pressure on organisations across their operations and recall areas.

With the Digital Operational Resiliency Act (DORA) on the horizon, banks and brokers will need to implement frameworks that ensure their services remain compliant. As firms seek cost effective solutions, we anticipate additional spending and growth potential across the securities finance industry — particularly for mutualised hosting and run providers.

In recent months, more firms have begun to deploy AI tools to assist with trading and operations decisions. During 2024, we expect to see widespread adoption of AI solutions in the securities finance industry.

Darren Crowther, General Manager, Securities Finance and Collateral Management, Broadridge

Driven by interest rate expectations and investment strategies, the securities finance industry will likely navigate a landscape where market dynamics intersect with stringent regulatory requirements. This intersection will play a critical role in determining securities financing availability, demand and cost, making it a pivotal year for the industry to adapt and respond to these evolving challenges and opportunities.

A key focus will be the buy side's potential leverage in basis trades, particularly concerning government bonds through central counterparties. The introduction of haircuts as a means to limit leverage could have a significant impact as it can affect both liquidity and cost of financing. Another crucial factor is the ongoing emphasis on balance sheet optimisation, driven by the continued implementation of Basel III regulations.

The industry is expected to feel the weight of these regulations, particularly regarding the liquidity coverage ratio (LCR), net stable funding ratio (NSFR), and risk-weighted assets (RWA). These regulatory elements are anticipated to move beyond being mere buzzwords to becoming concrete factors that shape market demand and strategies.

Marton Szigeti, Head of Collateral, Lending and Liquidity Solutions, Clearstream

The implementation of T+1 in May could lead to friction in securities lending, as lenders will have a shorter time frame to identify and recall securities. Custodians and agents may not receive sufficient notice to return them if batch processing limits their access to real-time information and could lead to an uptick in breaks and fails, as well as an increase in penalties. Additionally, firms may be hesitant to extend loans in circumstances where time zone differences could prevent them from making a recall on the US trade date.

In November, the SEC approved the new Rule 10c-1a, which will require certain entities to report information about securities loans to a registered national securities association (RNSA) and require RNSAs to make publicly available certain information that they receive regarding these lending transactions. When anonymised and made public, the resulting data will shed light on the securities lending supply chain for the first time in its history. Rule 10c-1 does not go into effect until 2025, but the industry must begin preparing for the sheer volume of data and reporting requirements.

Finally, the introduction of the Basel III net stable funding ratio has encouraged banks to look at term funding trades up to 12 months, unlocking potential earnings.

Rob Sackett, Head of Prime Financing, Clear Street

As we look ahead to 2024, we expect to see the continuation of traditional finance institutions embracing the digital assets space, whether it be through spot trading, lending, ETFs or derivatives. Tokenisation has a great utility and we at Digital Prime Technologies fully support this movement and are ready and able to deploy our enterprise grade technology to help firms enter the space with best practices and regulation in mind.

Courtney Campbell, Head of Lending Solutions, and James Runnels, Co-founder and CEO, Digital Prime Technologies

Like 2023, we expect deal activity to once again be a significant driver of revenues for beneficial owners. This is complemented by strong cash spreads that could potentially add additional value, particularly in the event of a shift towards an easing interest rate environment which is broadly expected.

The regulatory picture with Basel III Endgame is expected to gain clarity with the finalisation of rules in 2024, which will impact trends in the space. We anticipate collaborating with lenders and borrowers to come up with creative solutions to address the new world realities, as higher capital requirements will likely impact borrowers and large agent banks that rely on their balance sheets for indemnification.

Peter Bassler, Managing Director, Head of Business Development, eSecLending

Many uncertain macroeconomic factors, and the level of short-term interest rates, will all likely play major roles as it relates to the level of income attained in the securities finance market in 2024. Given the limited IPO issuance and deal activity in 2023, there's optimism that those two areas of the market will pick up in 2024, as interest rates stabilise or possibly decline.

New regulations will require technological advancements across our industry, enhancing the timeliness and flow of information. Additionally, new capital requirements for institutions have the potential to negatively impact some lending clients, potentially requiring new structures for these customers to generate the same level of revenue in the future.

Justin Aldridge, Senior Vice President, Head of Agency Lending, Fidelity

There are multiple market structure changes on the horizon aiming to speed up and de-risk activity across the cash and financing space. Borrowers need to ensure their technology is up to the challenge and lenders need access to the latest cost-saving services to stay competitive and maintain market share. HQLA^{X}'s DLT-based ownership transfer solution has seen multiple clients onboard through 2023 and this is due to continue in 2024.

The network effect of these clients, and the steady stream of new entrants, means participants that were considering proof of concept work with us as recently as 2022 are now adapting their processes to manage production on chain with us in 2024.

The critical mass of adoption means on-boarding and integration costs are reducing. We expect 2024 to be the first year where securities finance conferences stop talking about the headache of collateral mobility, because the industry will be seeing the benefits from investing in the HQLA^{X} platform as a solution.

Martin O'Connell, Solutions Architect, HQLA^{X}

While much of the focus in 2024 will be on the continued implementation of Basel III and T+1 settlement requirements across agent lenders and brokerages, 2024 will also see the lens widen to look at what these developments mean for the lenders and borrowers at either end of the value chain.

Uncertainty remains as to whether tighter capital restrictions and increased settlement costs will lead to an increase in trade costs, thereby negatively impacting the flow of securities and ultimately decreasing liquidity. However, we could also see an increase in competitiveness within the chain resulting in more efficient trades, lower costs and higher levels of liquidity. What is certain is that ISLA will work with its members and the wider sector to ensure the latter.

Andrew Dyson, CEO, ISLA

Politics is likely to have an impact on the securities finance industry in 2024. With the prospect of elections in the US, UK and across Europe and the potential impacts to US NATO engagement, any combination here could result in further instability and greater global polarisation. Furthermore, contrary to the consensus, we could see further inflation spikes and setbacks to economic recovery and growth from conflict, potentially further exacerbated by any extreme climate related events too.

In spite of potential shocks, quantitative tightening (QT) is likely to continue, with the market having to absorb an increasing potential glut of collateral. The markets and profitability could prove a bright spot in 2024, as the many potential sources of volatility could result in buoyant and profitable trading conditions.

Jonathan Lee, Money Markets Reporting Director, Kaizen

As securities finance remains a variable revenue stream, the largest impacts are always the current 'unknowns' that are very difficult to anticipate but historically shape market conditions for our activity. For example, will the initial public offering (IPO) market for US equities swing back into more aggressive issuance after six lukewarm quarters? The overall market conditions that you plan for are not always the market conditions you get, as clearly evidenced in the last four years. It is also known that securities financing activity is very much a contrarian one in that many times what creates a negative bias in the markets has a positive impact on securities financing returns.

John Fox, Head of US Agency Lending, Securities Services, BNP Paribas

2023: a year like no other?

After a prolonged period of low growth, low interest rates and relative calm, the markets reawakened during 2023 and volatility has returned. Matthew Chessum, director of securities finance at S&P Global Market Intelligence, analyses the factors driving securities lending revenues over the past 12 months and the expectation of another great year during 2024

For securities lending markets, 2023 has been a year like no other. After a prolonged period of low growth, low interest rates and relative calm, the markets reawakened during 2023 and volatility returned. Over the year, interest rates moved to levels not witnessed since before the global financial crisis and bond yields experienced more volatility in the space of a few months than they have seen for several years. Equities also moved significantly higher, following their Q4 2022 dip, and securities lending markets have been thriving once more, generating important incremental returns for asset owners. Given the level of change and opportunity, 2023 proved to be a very busy year for securities finance market participants.

Q1

Q1 2023 was one of the most financially tumultuous quarters since the end of the global financial crisis in 2008. The quarter started with

market participants believing that the end of the interest rate hiking cycle across most major world economies was coming to an end. This was reflected in government bond markets, where positive sentiment led to a decline in bond yields.

Equity markets started to recover from their Q4 2022 lows. This was particularly evident within the tech sector, with mega cap tech stocks leading the charge and recovering the majority of any losses from the previous quarter. Growth stocks did particularly well during Q1 2023, outpacing any recovery seen in value stocks.

Throughout the period, economic data showed that inflation was stickier than anticipated and, as a result, central banks continued their tightening cycle. Benchmark interest rates continued to rise, albeit in smaller increments than previous increases. The Bank of England, Federal Reserve Bank and the European Central Bank all voted to raise rates twice over the quarter, making it clear that reducing inflation down to 2 per cent would be their ultimate goal.

Heading into March, events within the finance sector unfolded at an unprecedented speed with the collapse of Silicon Valley Bank and Signature Bank in the US. Credit Suisse also agreed to a buyout by UBS as a result of financial pressures on its balance sheet. The issues in the banking sector once again focused market participants' minds on credit risk, driving a flight to quality with deposits being drawn out of regional banks in the US and placed into USD money market vehicles.

In the securities lending markets, participants generated a massive US$3.415 billion in revenues, which was 24 per cent higher than during Q1 2022. Broken down by asset class, US$2.6 billion was generated from equities lending and just under US$800 million from fixed income.

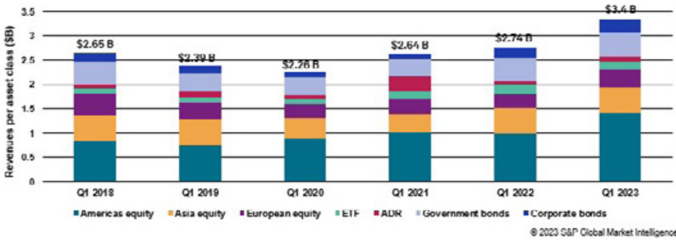
The majority of asset classes experienced double-digit increases when compared with Q1 2022. Securities lending revenues from American equities rose 45 per cent YoY, with EMEA equities up 36 per cent and revenue from lending APAC equity down 4 per cent for Q1 2023 YoY (fig 1). Average fees increased across the board, apart from a very small decrease for APAC equities and a 9 per cent decline across exchange-traded funds (ETFs). Americas equities were the standout asset class, with a 47 per cent increase in average fees when compared with Q1 2022. ADRs had a good quarter, with average fees up 107 per cent to 138bps and revenues up 94 per cent YoY to US$102 million.

"The term 'higher for longer' became popular among market analysts and bond yields surged towards multi-year highs."

Matthew Chessum
Director of securities finance
S&P Global Market Intelligence

Fixed income fees moved higher over the period. The momentum established during 2022 continued to grow, with government bond fees increasing 35 per cent in Q1 2022 and corporate bond fees increasing a massive 60 per cent. Average fees for corporate bonds reached an incredible 46bps during the quarter.

Fig 1: Q1 securities lending revenue by asset class, 2018-2023



Q2

Global economies remained glued to economic data throughout the quarter as central banks continued to fight inflation with higher interest rates. In the US, interest rates finished the quarter at a 16-year high, following the fastest hiking cycle in four decades. The Bank of Canada was one of the first central banks to take a pause in its hiking cycle to digest the economic data, but it concluded that further increases were necessary during June. In Europe, the European Central Bank raised rates to a 22-year high and the Bank of England, despite being one of the first central banks to start hiking, carried on its path to a higher-than-expected terminal rate, as core inflation remained stubbornly high.

There was also evidence of this general tightening cycle in the APAC region, despite inflation being less acute. The only two outliers were the Bank of Japan, which maintained its yield curve controls and loose monetary policy throughout the quarter, and the People's Bank of China, which cut its main policy rate for the first time in 10 months as new data worries heightened concerns about a weakening post-Covid rebound in the country's economy. The second quarter marked a point of divergence for global central banks and the fight against inflation as economies increasingly started to move to local rhythms.

In the US, debt ceiling discussions found their way into the headlines towards the end of the quarter as market participants positioned their portfolios for what seemed likely to be one of the biggest showdowns between Republicans and Democrats to date. Despite an increase in borrowing of T-Bills which expired towards the infamous X-date — a trend which impacted both the repo and securities finance markets — an agreement was reached with little to no effect upon the broader financial sector.

The second half of the quarter experienced an explosion of interest in artificial intelligence. The arrival of Chat GPT and other similar large language models prompted a desire to understand more about the impact that generative AI could bring to company profits and workflows. Consequently, technology companies — including microchip and semiconductor manufacturers and information technology firms — saw their share prices rally. The NASDAQ experienced its best opening six months of the year ever. Likewise, the S&P 500 gained approximately 13 per cent during H1, helping it recoup any losses incurred since the Fed started to raise interest rates during March 2022. The index moved into bull market territory following a 20 per cent increase from its most recent low point on 12 October 2022.

A similar story has been replicated across the globe. The Nikkei in Japan reached a 33-year high as the country felt the benefits of continuing divestment from China and recent changes to its corporate governance policy. Across Europe, many stock markets marched higher and the German DAX reached an all-time high. In the securities lending markets, this led to short covering and a reduction in balances.

Securities finance markets generated revenues of US$3.605 billion over the quarter, driven by US$2.8 billion from equities lending and US$800 million from fixed income. This represents the best Q2 period since 2008.

Over the first half of the year, US$7.02 billion in securities lending revenues were generated globally, representing a 16 per cent increase on a near-record year during 2022. Q2 revenues were some of the highest observed in recent history, second only to those witnessed in 2008 when US$8.4 billion was generated during the first half of the year.

The majority of asset classes experienced strong lending revenues when compared with Q2 2022. Equity revenues were up 5 per cent YoY globally, with American equities rising 13 per cent, EMEA equities up 3 per cent and APAC equity rising 4 per cent. Fixed income assets also continued their impressive run, with revenues for government bonds increasing 9 per cent YoY to US$484 million and corporate

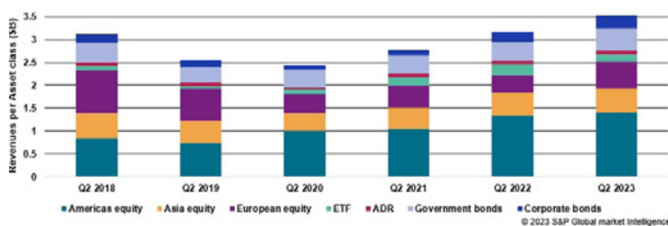
bond revenues rising an incredible 28 per cent YoY to US$296 million. When compared quarter-on-quarter, revenues across Americas equities (-1 per cent), exchange-traded products (ETPs) (-4 per cent) and corporate bonds (-1 per cent) all slightly decreased, with all other asset classes experiencing gains.

Average fees continued to increase across the board, with the exception of ETPs. Comparatively high average fees were one of the most important contributors to revenue growth throughout the quarter. Balances continued to decline across all asset classes, apart from Asian equities, and utilisation fell across the board.

The boost to returns during the quarter was attributable to the ongoing strength seen across average fees. This was particularly true for fixed income assets, which experienced some of the largest improvement in average fees YoY. In comparison to Q1 2023, fees for both corporate and government bonds remained flat, but this was contrary to what had been seen during previous quarters.

Borrowing activity continued to decline across ETPs over the quarter. Average fees fell 22 per cent YoY, utilisation was down 17 per cent YoY and balances also fell by 17 per cent YoY. This had a negative impact on revenues, which contracted 35 per cent to US$155 million over the quarter.

Fig 2: Q2 securities lending revenue by asset class, 2018-2023



Q3

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 quarter. Across most developed markets, inflation moderated and investor focus moved to peak rates and the end of tightening policy.

Interest rates continued to rise throughout the quarter across all the major economies. However, the pace of increases slowed and, towards the end of the quarter, the majority of central banks chose to pause — rather than to persist with further increases — as economic data started to reflect the impact of the most recent rate rises.

The US was stripped of its top-tier sovereign credit grade by Fitch Ratings during the quarter, 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.

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 until mid-to-late 2024 started to impact equity markets. The term "higher for longer" became popular among market analysts and bond yields surged towards multi-year highs. Prices in both equities and fixed income assets fell in tandem, even across those AI-inspired tech stocks that had driven most of the market rally experienced during the year.

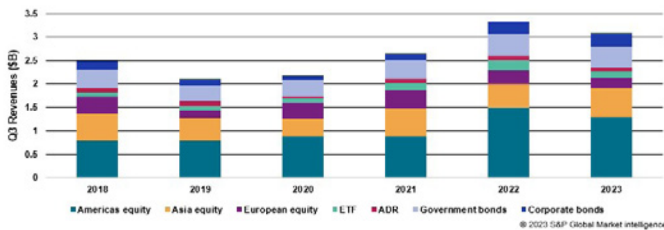
In the securities finance markets, revenues started to slow. Q3 produced US$3.131 billion in revenues. This represented a 7 per cent decrease YoY, but it is important to remember that Q3 2022 was the highest revenue generating quarter of 2022.

In the equity markets, revenues declined pretty much across the board. APAC equities were the standout asset class, offering a 20 per cent increase in revenues YoY as well as increases in balances and average fees. Americas equities were affected by a fall in specials revenues throughout the month of September and EMEA equities performed poorly during both August and September. Over the quarter, there was also a significant decline of 27 per cent in EMEA equity balances.

ETPs continued to experience a fall in both revenues and borrowing demand, following a banner year during 2022. ADRs suffered a strong decline in both average fees and revenues.

In the fixed income markets, the changing interest rate environment continued to enhance the performance of both government and corporate bonds. Government bonds saw a 2 per cent decrease in revenues YoY to US$464 million, but benefited from a 9 per cent increase in average fees which helped to offset the 10 per cent decline in balances. Corporate bonds continued to offer double-digit increases in revenues. Balances remained flat, but average fees increased 13 per cent YoY to 42bps.

Fig 3: Q3 securities lending revenue by asset class, 2018-2023



Q4

At the start of Q4, market participants were suggesting that the Fed would probably need to raise interest rates once more during 2023 and then hold them at higher levels for some time. Other central banks moved from a pause to a hold in their hiking cycles as economic data started to point to a marked slowdown in inflationary pressures.

Central bankers reinforced their message of "higher for longer", however, which sent bond prices falling once again. The US 10-year Treasury reached a 5 per cent yield for the first time since 2007 as traders braced themselves for an extended period of elevated rates. This was replicated around the globe, with German 10-year yields reaching their highest levels since 2011 as investors started to demand greater compensation for holding long-dated debt.

Geopolitical risk increased throughout the quarter, fuelled by renewed tensions in the Middle East and US plans to tighten measures restricting China's access to advanced semiconductor and chipmaking gear. This proved to be an ongoing theme throughout the year.

Across Asia, pressure on the central bank of Japan continued to grow as the JPY continued to weaken against the USD. As the BoJ maintained its stance of negative interest rates — in spite of a prolonged period of inflation — the widening interest rate gap between the JPY, EUR and USD continued to intensify.

Despite the tightening conditions within the bond market, spreads across US investment grade and high yield bonds remained below their 20-year averages.

Heading into the second half of the quarter, an extension to the interest rate pauses by the Bank of England, the European Central Bank and the US Federal Reserve, coupled with continued disinflationary momentum in Europe and the US, sent bond yields tumbling. This came as traders started to price in multiple rate cuts for 2024 — despite warnings by central bankers. This led to a further surge in growth stocks, with the "magnificent seven" coming close to topping 100 per cent return for the year.

Across Asia, South Korea implemented a short selling ban, stating that big banks had been breaking naked short selling rules. In contrast, the Philippines introduced short selling in a bid to attract international capital flows. Across Japan, the Nikkei reached a new year high, as corporate governance reforms, a weaker yen, disinvestment from China and strong earnings continued to push the index higher.

At the time of writing, securities lending revenues were continuing to decline, with November posting the lowest monthly revenues of the year. Revenues from US equities contracted further with the drop off in specials activity. Revenues and average fees continued to fall across the fixed income markets, with both corporate bond and government bonds generating less revenue month-on-month, quarter-on-quarter and year-on-year. APAC equities continued their resurgence, which started towards the end of the Spring, but revenues slowed as balances started to decline across both Japan and South Korea. Activity across European equities remained subdued, with monthly revenues reaching lows not seen for many years.

Despite the general slowdown in revenues, a decline in balances and an acceleration in the decline of average fees, revenues remained on track to surpass those of 2022. To the end of November, market revenues reached 95 per cent of the total achieved during 2022 having already surpassed those generated during 2021 and 2020. Over the last few years, revenues during December typically increased when compared to those during November and, if this remains the case, market revenues are set to surpass those of 2022.

As this quick run through of the year shows, 2023 has been defined by both geopolitical and macro-economic themes. Despite another year of near record revenues, low dispersion across both equity markets and securities lending specials activity has meant that not all investors have felt the benefit of these revenues to the same degree. One clear example of this can be seen in the Americas specials market which contributed over US$3 billion in revenues alone, US$650 million of which came from lending one stock, AMC.

Heading into 2024, volatility and uncertainty remain key factors for securities finance markets. Despite a slowdown in revenues, a higher interest rate environment, volatility in yields and robust equity markets are all likely to help to produce a fertile ground for another great year during 2024.

INDUSTRY EVENTS

Beneficial Owner Securities Finance & Collateral Management Conference

30-31 January

Nashville, TN

Deutsche Boerse Global Funding and Financing Summit

30-01 January

Luxembourg

PASLA | RMA Conference on Asian Securities Lending

5-8 March

Singapore

Securities Finance Symposium USA

7 May

Boston

Fechter exits Deutsche Börse

Tilman Fechter has departed from Clearstream and Deutsche Börse after 17 years with the group.

Based in Switzerland, Fechter was head of strategy fund services at Deutsche Börse and was a member of the management board at Clearstream.

Throughout his tenure, Fechter held numerous senior positions across Clearstream, including executive director of sales and relationship management for Investment Funds Services, and head of banking, funding and financing.

Prior to this, Fechter was a strategic consultant at management and technology company Capco.

Commenting on his move, Fetcher says: "(I am) excited to now move to a long desired chapter of my life — setting up my own company, which will support individuals to make better and more informed financial decisions."

Citi hires Robinson

Citi has appointed Pitts Robinson as global head of securities financing product.

Based in London, Robinson will report to David Martocci, Citi's global head of securities finance.

Robinson joins the investment bank and financial services firm from a 10-year tenure at J.P. Morgan, where he was most recently global head of foreign exchange (FX) services.

During his career with J.P. Morgan, Robinson held a range of senior FX roles in the US between 1994 and 2011.

He brings 25 years of experience in leadership across the FX business from front to back office, across the UK and US.

Shkolnicova joins KPMG

Jane Shkolnicova has been appointed director of KPMG's US division.

Based in New York, Shkolnicova will apply her experience in financial markets across KPMG's treasury, liquidity, resolution and risk management operations.

Previously, Shkolnicova held a four-year tenure as director of BNY Mellon, where she led client strategy and client solution design.

Prior to this, she held financial market utility roles for Credit Suisse and Deutsche Bank.

Commenting via LinkedIn, Shkolnicova says: "I look forward to not only bringing my skills and experience to the table, but also learning from the collective expertise that KPMG proudly boasts."

Commenting on the appointment, a KPMG spokesperson says: "Jane's hiring is part of the firm's ongoing effort to bring world-class talent and perspective to help our clients navigate the challenges and opportunities in today's business environment."

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

Pirum hires Hamid

Securities finance services provider Pirum has appointed Sarah Hamid as key account director.

Based in London, Hamid will work to accelerate the global adoption of the firm's suite of post-trade services across securities lending, repo and futures.

She will focus on combining Pirum's client service with her knowledge of how enterprises can use multi-product tech suites to further their strategy, reduce outgoings and gain a competitive edge.

Hamid brings more than 16 years of experience in managing accounts, sales and business development at fintech and financial services firms in the UK, Germany and France.

She joins Pirum from data analytics technology provider ActiveViam, where she was most recently senior global account manager.

She began her financial markets career in 2007 as a fixed income broker on interest rates futures and options, first at JB Drax and then at Tradition Securities and Futures.

ISLA appoints Sethi

The International Securities Lending Association (ISLA) has appointed Rishi Sethi as director of content and marketing.

Based in London, Sethi will provide support to the Association's marketing and corporate communications efforts.

He will ensure that the Association's regulatory and advocacy work is showcased to members, regulators and market participants across a range of channels.

He brings more than 13 years of financial services experience to the role, joining the Association from Rabobank, where he held a number of positions across sustainability, communications and marketing.

ISLA's Sejal Amin, head of events, marketing and communications, says: "As part of our continued expansion in several key areas, I am delighted to welcome Rishi to the team.

"His specialist content and communications experience will be invaluable as we continue to expand our messaging to members, regulators, policymakers and industry stakeholders."

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Published by Black Knight Media Ltd

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Hosted in Cape Town
22 February 2024

SASLA is very excited to be hosting South Africa's foremost securities finance and collateral management conference in person once again in 2024.
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With expert keynote speakers, interactive panel discussions led by industry peers, and networking opportunities, we will be tackling some of the more pertinent topics impacting the securities lending market in South Africa.

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Please note: This will be a CPD accredited event and will earn you around 6hours (CPD Hours will be confirmed in due course)