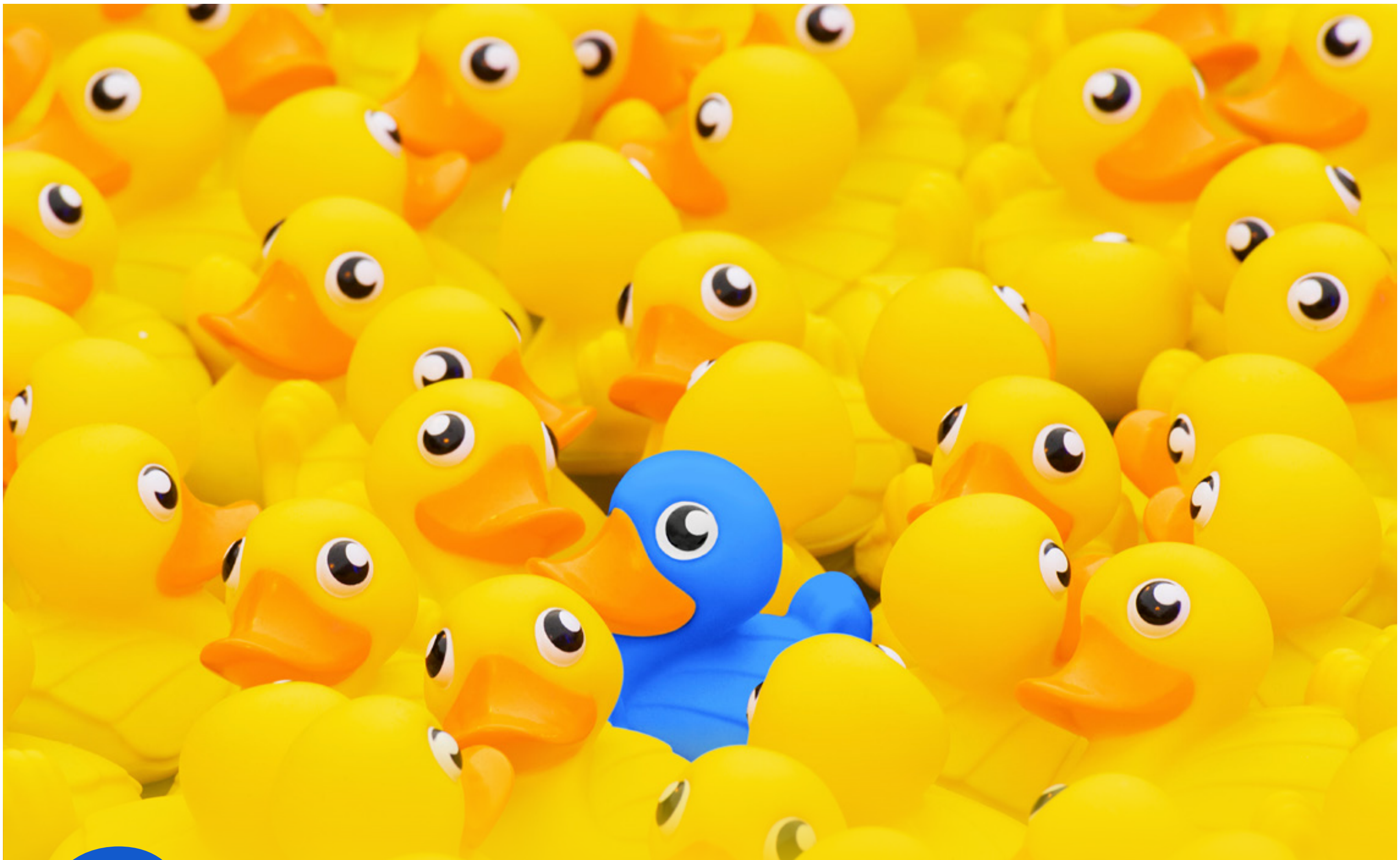
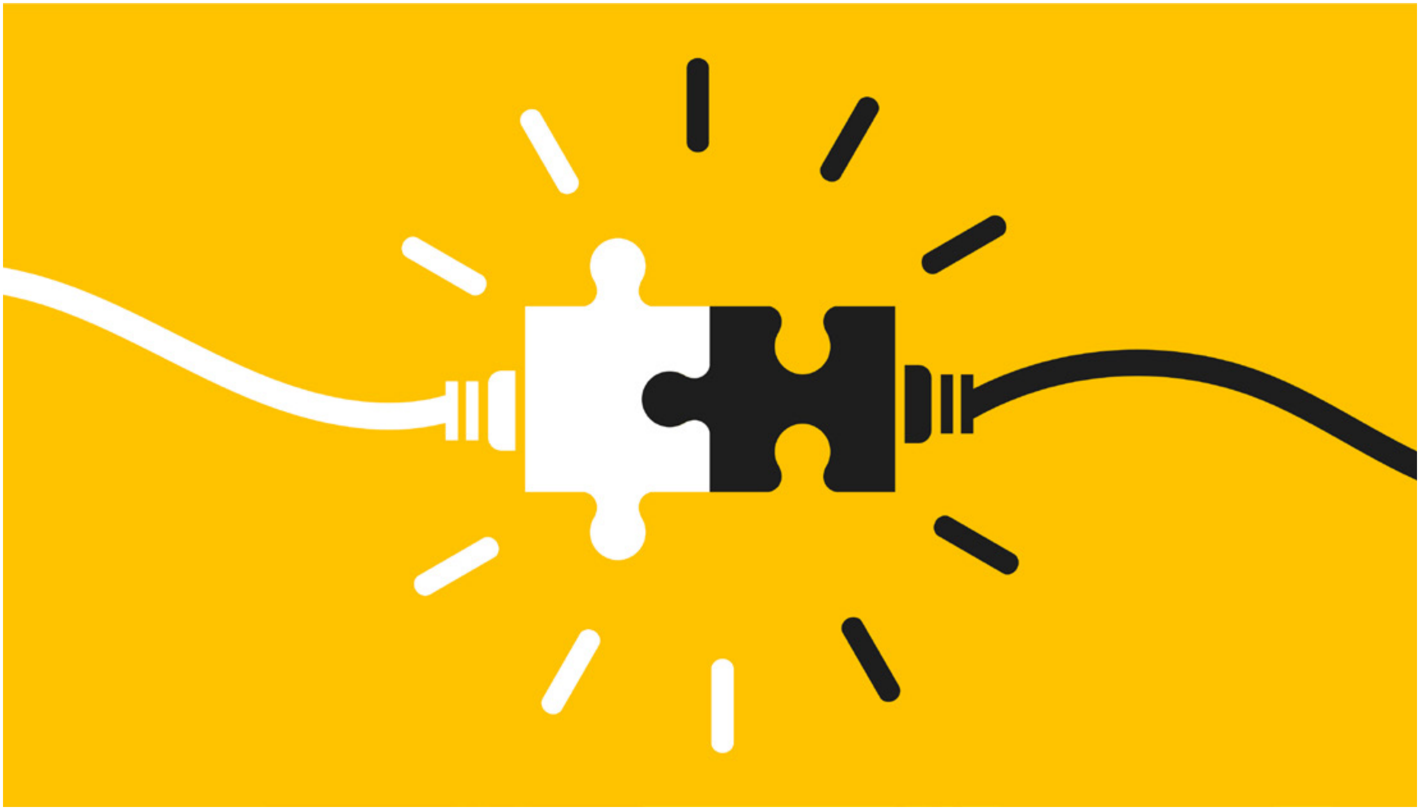
securitiesfinancetimes
The primary source of global securities finance news and analysis
Issue 345 6 February 2024



Challenging the Status Quo

Market participants discuss the importance of peer-to-peer lending, its misconceptions and why firms should be looking at new routes to market



FinOptSys and SwapOne partner on swap solution

FinOptSys and SwapOne have announced the release of a front-to-back solution for swaps trading, offering end-to-end straight-through processing and access to what they describe as a "pioneering" peer-to-peer swaps marketplace.

According to the two companies, this new solution, named Plexus, addresses a wide-range of pain points that users face in swaps trading and lifecycle management. Plexus is designed to bring greater efficiency to transaction negotiation, where the digitisation of counterparty ISDA documentation and credit support annex (CSA) schedules offers streamlined information flow from pre-trade downstream across the transaction lifecycle.

The firms indicate that FinOptSys's patented pre-trade analytics offer "actionable insights" that help clients to drive the intelligent decision-making required to draw maximum value from their trading portfolios, while optimising their use of financial resources.

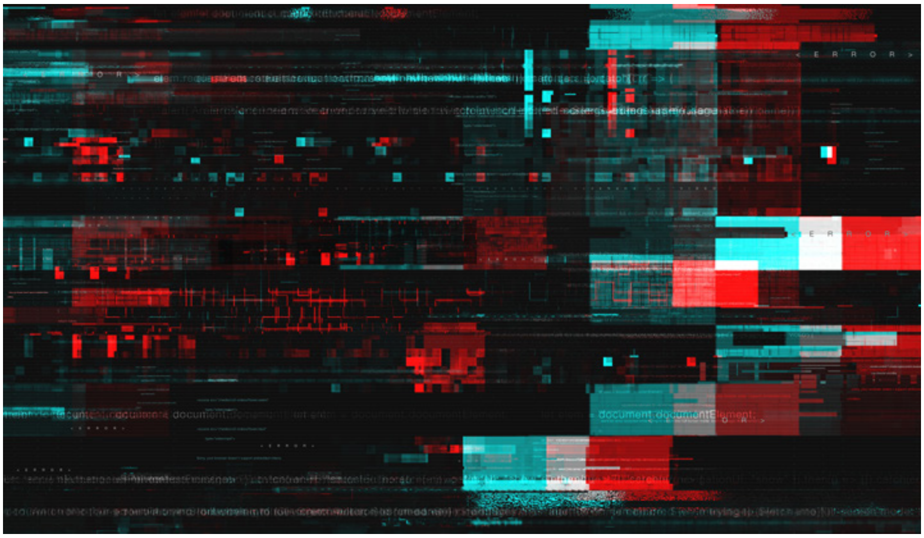
For traders, Plexus brings connectivity to a point-to-point marketplace where they can post indications of interest or request for quotes and ensure efficient negotiation of economic terms of the swap transaction with counterparties, boosting time and cost efficiency while delivering more accurate price discovery and greater liquidity to the market.

In the post-trade space, Plexus draws on the comprehensive suite of back-end tools offered by SwapOne. This includes customisable swap wrappers and automated trade capture, along with detailed management of accruals and cash flows.

"While trade booking errors and differences with counterparties will be greatly reduced by Plexus' point-to-point negotiation capabilities and straight-through processing, it also provides an additional level of oversight through its daily, automated reconciliation of trade details between counterparties," state the two firms. "Gone are the days of discrepancies at deal resets and termination mismatches."

SwapOne is part of S&P Global's PrimeOne, offering a broad spectrum of post-trade lifecycle management tools for swaps.

Inside this issue



EquiLend systems go offline amid cyber attack

Financial technology firm EquiLend has taken steps to secure its systems amid a “cyber security incident” that resulted in parts of the firm going offline.

The technical issue was identified on 22 January which placed portions of its systems offline. These are believed to include NGT and DataLend.

The global financial technology company launched an investigation following the incident which identified an “unauthorised access” to its systems.

An EquiLend spokesperson says: “We are working with external cybersecurity firms and other professional advisers to assist with our investigation and restoration of service. Clients have been advised that this may take several days.”

In recent news, EquiLend announced it will be acquired by Welsh, Carson, Anderson & Stowe (WCAS), which will own a majority stake in the company.

Wematch.live launches service for OTC derivatives

Securities financing solutions provider Wematch.live has launched its Data & Contribution Service to tackle data challenges in the over-the-counter (OTC) derivatives market.

The service is designed to enhance price transparency and standardisation, as well as allow institutions to collaboratively contribute data to create a pool of total return swap (TRS) pricing information.

According to the firm, the new service facilitates regular online sessions where prime finance desks can submit prices on standardised structures.

Quotes are made observable and tradable within the community during sessions, the firm adds. Wematch will then process this data to generate insights for participants including historical pricing midpoints, liquidity metrics, trading analytics and benchmarks.

The Data & Contribution Service aims to enhance risk management and compliance,

reduce valuation uncertainty and promote greater standardisation in this “traditionally opaque” market.

After its initial launch in EMEA, the firm plans to expand the service’s reach to the US and Asia in Q1 2024.

Wematch will also look to expand the data contribution model to other OTC products to help solve pricing and regulatory challenges across the industry.

Clearstream release CSDR settlement efficiency rates

Clearstream has released its annual Central Securities Depositories Regulation (CSDR) efficiency rate for 2023.

The market platform says the rates represent an improvement in both value and volume settlement efficiency. Settlement fail rates decreased by up to 90 per cent compared to 2022.

Clearstream Banking recorded client settlement efficiency to be 95 per cent and 91 per cent by value and volume, respectively.

Meanwhile, Clearstream Banking AG recorded client settlement efficiency to be 95 per cent and 92 per cent by value and volume, respectively.

Swissquote introduce securities lending

Swiss online banking firm, Swissquote, has partnered with Sharegain to introduce securities lending for its private clients.

Users can lend their investment assets to reputable financial institutions for a monthly income via their bank account or app, choosing to lend their full portfolio or to exclude specific securities.

They will continue to receive dividends and retain the right to sell their securities at any time.

Initially, only shares and certain ETFs are eligible for lending, with Swissquote aiming to expand this option to more asset categories in the future.

Clients cannot vote in shareholder meetings during the loan period and may receive cash payments in lieu of regular dividends.

While they are on loan, Swissquote holds a collateral equivalent to 105 per cent of the value of the loaned assets as a guarantee.

Chinese regulators suspend restricted share lending

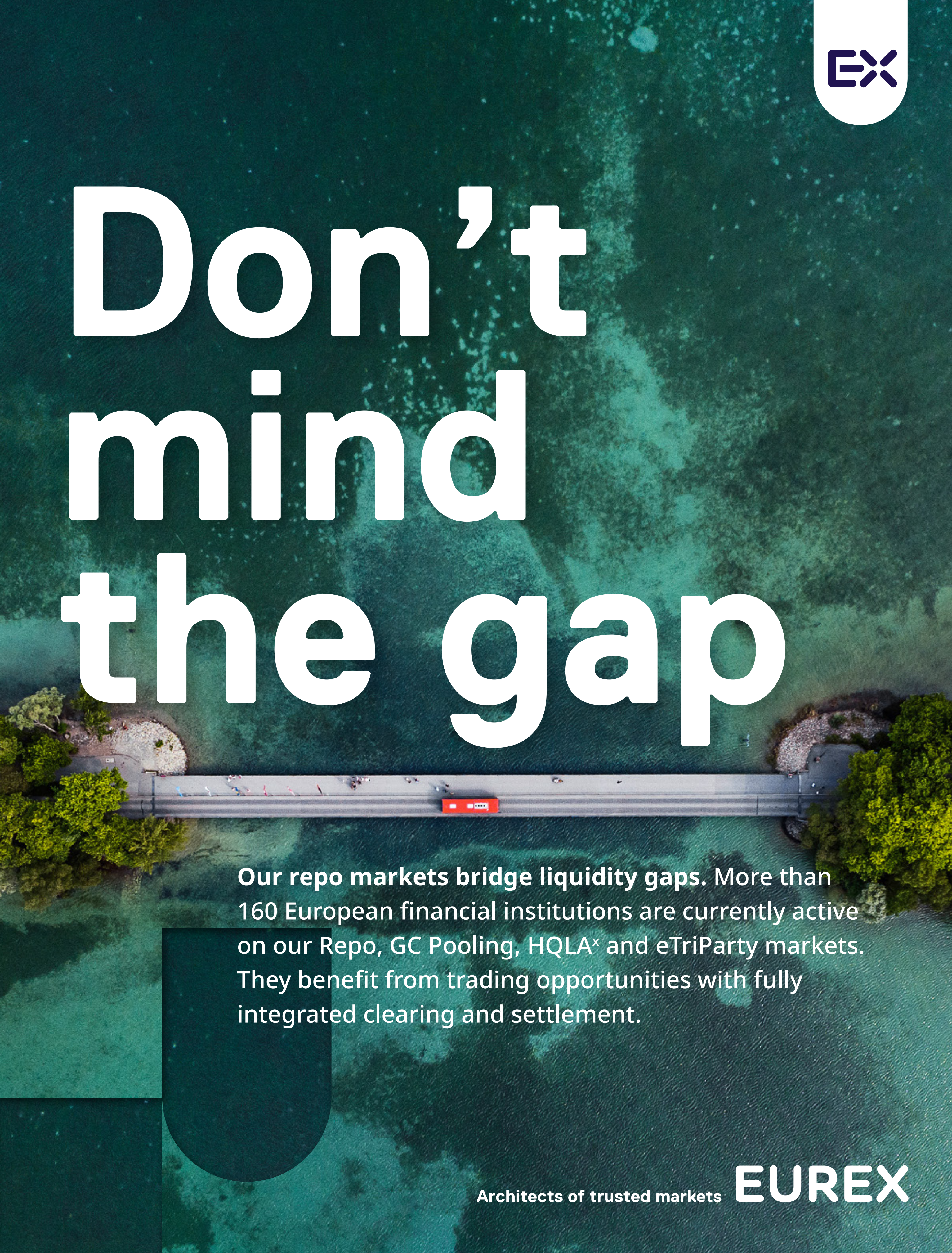
The China Securities Regulatory Commission (CSRC) has suspended the lending of restricted shares.

The move comes in an attempt to increase stability after recent declines in the stock market.

Market-based application for securities refinancing will be adjusted from real-time availability to next-day availability, with further measures set to be implemented from 18 March.

In its statement, the CSRC indicates that this announcement marks another step in its efforts to exert tighter control over the markets.

In October 2023, the CSRC cancelled the lending of special asset management plans and restricted the range of lending that was permissible in the market.


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

According to the regulator, these measures will mitigate illegal activities within the market, give investors more time to digest market information and create “a fairer marker order”.

In the next step, from 18 March, the CSRC says it will continue to strengthen supervision to “effectively protect the legitimate rights and interests of investors”.

ICMA releases ex-Japan APAC repo market survey

The International Capital Market Association’s (ICMA’s) Global Repo and Collateral Forum (GRCF) has released survey results on the ex-Japan APAC repo market.

Outstanding value of repos and reverse repos on 14 June 2023 on the books of the survey sample was US$269.1 billion. Average daily turnover between 9 June 2022 and 14 June 2023 was US$12 billion.

These numbers are down on the previous year, with 2022 generating US$310.0 billion in outstanding value of repos and reverse repos and US$43 billion in average daily turnover.

The size of the survey in June 2023 was lower than the previous year, which reflected changes in the composition of the survey sample; in particular, the loss of two international banks from the survey sample and changes in regional bank participation.

For the first time, the report includes a snapshot of the onshore repo markets in China and India. These two economies are the second and fourth largest economies in the world and the two most populous countries, says ICMA.

The survey does not measure the size of domestic repo markets in the APAC region, but captures cross-border business involving internationally active banks.

According to the June 2023 survey, there were approximately 231,700 transactions over the year, of which 53.0 per cent were reverse repo.

The survey suggested modest growth in the outstanding value of the ex-Japan APAC repo market but declining turnover, which ICMA says implies more longer-term transactions.

In addition, the report found that triparty and central counterparty (CCP)-clearing repos played a “small and diminishing role” as repos tended to be cleared on a CCP after having been negotiated bilaterally between counterparties.

Cross-border business with APAC and non-European counterparties increased its share of the survey, while there was a shift in the allocation of collateral into Japanese government bonds (JGBs) and other APAC securities.

The US dollar remained the dominant currency in this repo survey, with JPY moving into second place ahead of the AUD. This reflects a corresponding shift in collateral composition, the survey notes.

The survey was conducted alongside Asia Securities Industry and Financial Markets Association's (ASIFMA's) secured funding markets committee.

CME Group and DTCC enhance collaboration

CME Group and the Depository Trust & Clearing Corporation (DTCC) have gone live with their enhanced cross-margining arrangement.

The new feature enables capital efficiencies for clearing members that trade and clear both US Treasury securities and CME Group interest rate futures.

Eligible clearing members of CME Group and the Government Securities Division of DTCC's Fixed Income Clearing Corporation (FICC) can now cross-margin an expanded suite of products.

These products include CME Group SOFR futures, Ultra 10-Year US Treasury Note futures and Ultra US Treasury Bond futures, with FICC-cleared US Treasury notes and bonds.

According to the firms, repo transactions that have Treasury collateral with more than one year remaining to maturity will also be eligible for the cross-margining arrangement.

LCH RepoClear SA launches €GCPlus green basket

LCH RepoClear SA, a London Stock Exchange Group-owned business, has launched its first general collateral triparty green basket.

The sustainable €GCPlus offering comprises EUR denominated investment grade bonds, aligned with the issuer-reported green bond reference data provided by Bloomberg.

According to the Paris-based clearing house, the net proceeds of eligible bonds will be used by the issuer to finance projects or activities that promote environmental-related activities, including climate change mitigation. The basket expands on the firm's existing triparty basket repo offering, following the merger of its two clearing services — €GCPlus liquidity and its €3.3 trillion RepoClear liquidity pool — in July 2023.

LCH SA continues to expand its €GCPlus product offering through the launch of additional baskets, including GovSSA basket (Governments, Supranational, Subnational and Agencies basket) and a basket comprising Italian government bonds.

Olivier Nin, interim head of RepoClear and collateral and liquidity management at LCH SA, says: "We are proud to support our members' sustainability objectives with the launch of the €GCPlus green basket.

"Together with the additional baskets launched through our existing offering, we continue to adapt our products so that our members can benefit from further cross margin netting opportunities across their special and triparty general collateral activity in addition to a wider choice of liquidity pools."

BIS Innovation Hub confirms six new projects

The Bank for International Settlements has confirmed six new development projects for its BIS Innovation Hub, focusing on central

bank digital currencies, green finance, cybersecurity and steps to eliminate financial crime.

This first batch of projects for 2024 builds on a further eight projects that are currently ongoing within the BIS Innovation Hub and 12 that were completed during 2023.

Two projects from the Hong Kong Innovation Centre feature in this new list of research programmes. Project Symbiosis will apply artificial intelligence and big data technology to supply chain adaptation and disclosure. This will use AI to map emissions disclosure from small and mid-sized companies, thereby seeking to improve tracking of Scope 3 emissions.

The second Hong Kong-led project, titled Project Aurum, steps into a new phase where it will model payments privacy for retail CBDC transactions, thereby seeking to extend central bank understanding of privacy factors when designing CBDC architecture.

A project led by the Singapore Innovation Centre, named Project NGFS Data Directory 2.0, will upgrade the data directory platform for Greening the Financial System, making this data directory more effective as a public resource and improving the process for searching through data sources.

Project Promissa, which is a joint initiative conducted with the Swiss National Bank, the World Bank Group and the International Monetary Fund, will provide a feasibility study for tokenising promissory notes.

The London Innovation Centre's Project Hertha will test the application of network analytics for identifying financial crime in payments systems, applying analytical models to map and counter criminal patterns in real-time payments.

Project Leap, led by the Eurosystem Innovation Centre, will move into its second phase, looking to protect payments systems against potential threats from quantum computing.

These six new projects add to the ongoing initiatives across the BIS Innovation Hub, which include Project FuSSE, Gaia, Mandala, mBridge Phase III, Nexus Phase III, Pyxtrial, Rio and Viridis.

Clear Street enters the futures clearing market

Clear Street has received approval from the National Futures Association (NFA) to serve as a Futures Commission Merchant (FCM) in the US market and to offer futures clearing services.

The firm is preparing to release its new full service FCM business, having announced its entry into the futures clearing market with the acquisition of React Consulting Services in July 2023.

React's futures clearing platform, BASIS, is currently being integrated into Clear Street's infrastructure to create "one cohesive" offering.

Speaking to SFT, Clear Street's chief operating officer Andy Volz says the FCM project, led by Chris Smith CEO Clear Street Futures, is a multi-year build and will see the firm create a cohesive prime brokerage and futures offering globally, with elements of this being available to the market this year.

The FCM's exchange memberships will stagger, with the first membership anticipated by Q2 2024.

Following in its aim to go international, Clear Street is finalising an application to the Financial Conduct Authority (FCA) as its first non-US jurisdiction for its futures business.

The firm intends to set up outside of the US for both prime brokerage and futures.

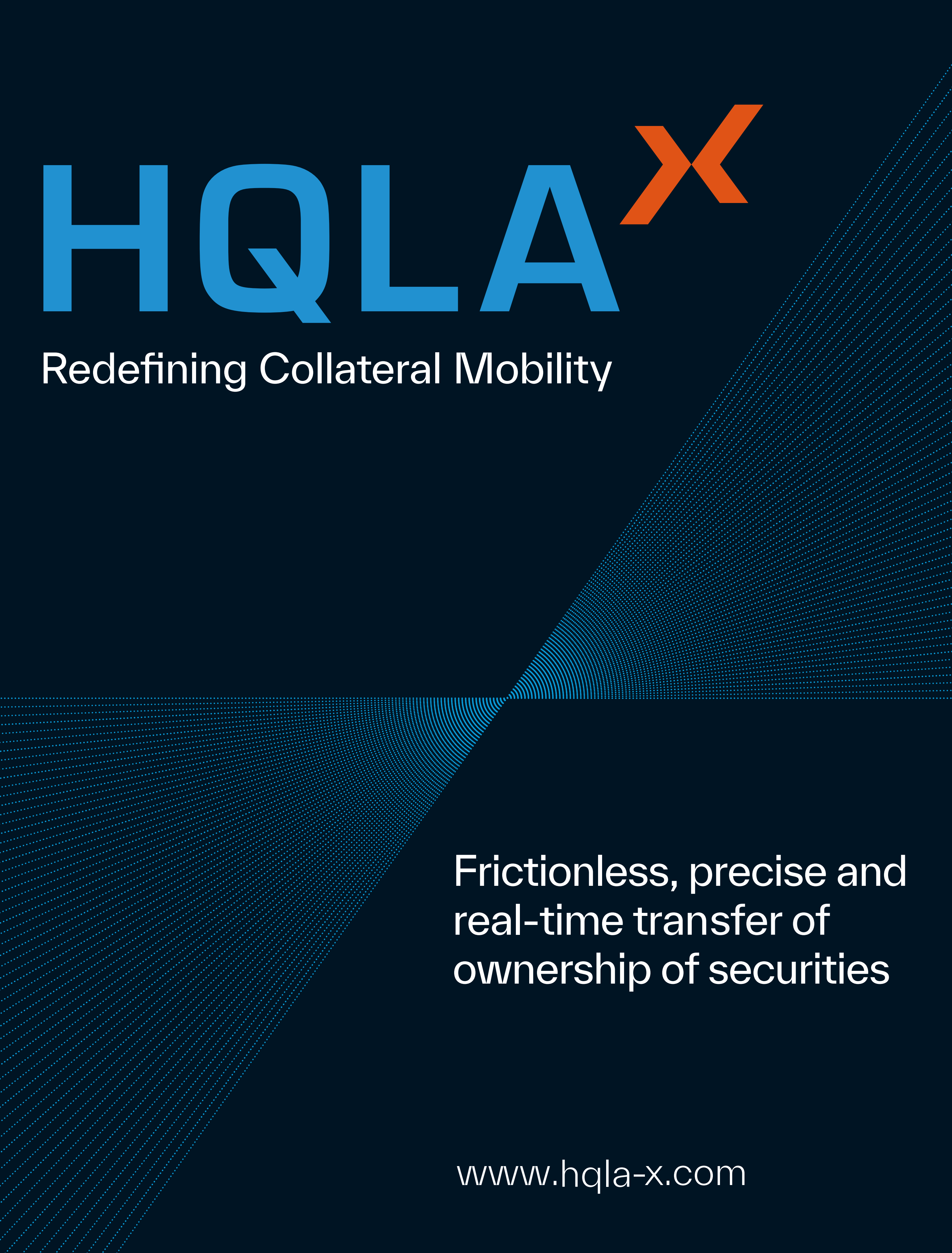
According to Volz, market demand is high for such a business. He explains: "Similar to how there really hasn't been a new scalable prime broker the way Clear Street has scaled over the last five years, there hasn't been a scalable entry into the futures space either.

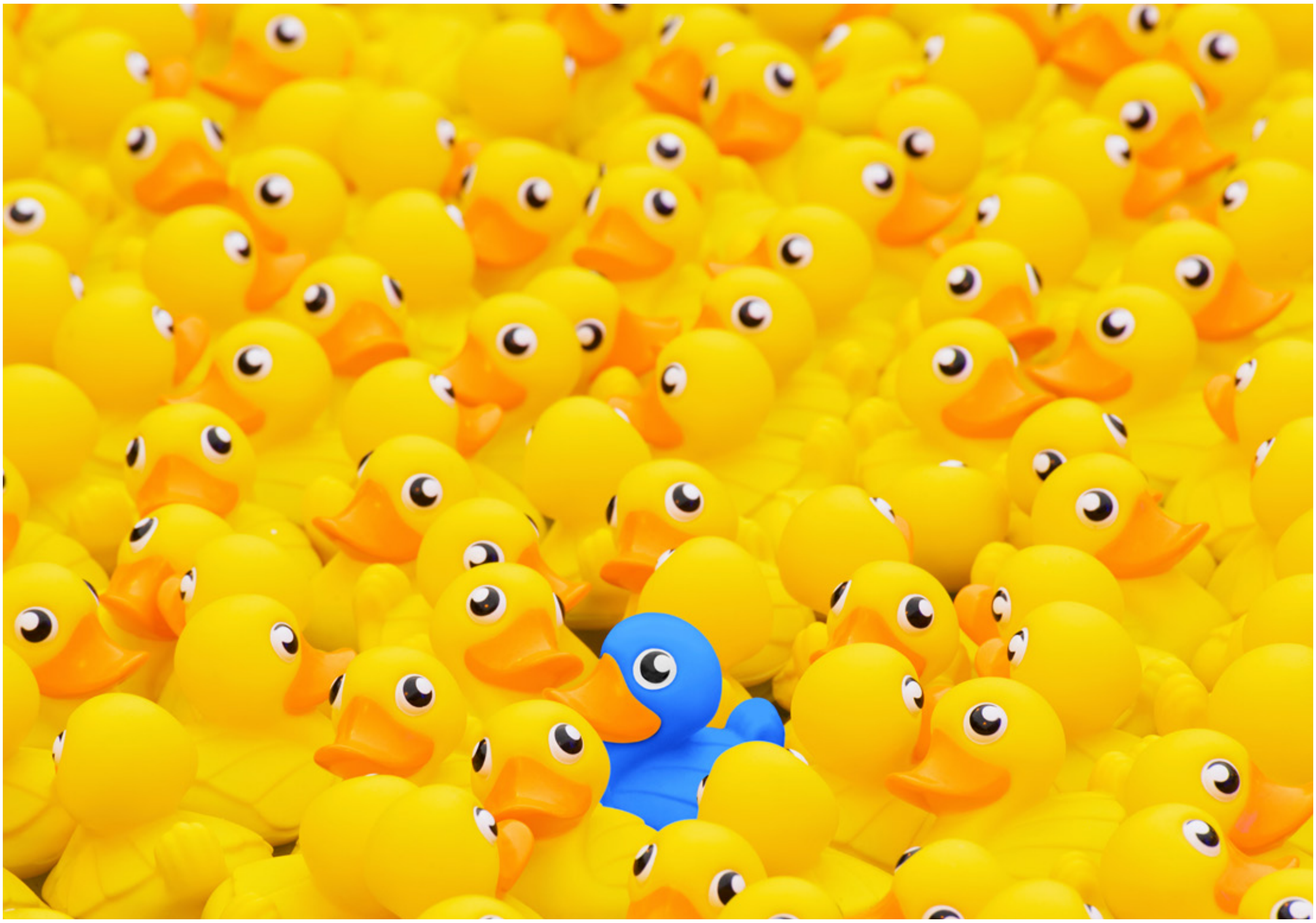
"We are filling a very similar gap in the futures industry that we are filling now in the more traditional institutional prime brokerage industry."

Clear Street is working on an "ambitious growth plan" to provide for every asset class globally, Volz says.

The company aims to expand further into broker-dealer clearing. Volz explains, historically, "we have serviced active traders and traditional institutions" — such as hedge funds, family offices, exchange-traded funds (ETFs) — and are now looking to service broker-dealers and market makers.

While the firm will aim to service global asset managers outside of the US, going international is likely to be on the roadmap for next year


HQLAX
Redefining Collateral Mobility
Frictionless, precise and real-time transfer of ownership of securities
www.hqla-x.com



Challenging the status quo

Market participants discuss the importance of peer-to-peer lending, its misconceptions and why firms should be looking at new routes to market. Carmella Haswell reports

Peer-to-peer (P2P) lending is going to become a significant part of the business, according to market participants. The structure forms another route to market, providing additional lending and financing optionality to institutions. Firms are encouraging securities lending players to explore all available options outside of the status quo.

P2P securities lending is a process of lending and borrowing that takes place without the use of traditional bank intermediaries. For example, a pension plan will lend its eligible securities directly to a borrower counterparty, often against standardised collateral sets.

From a technology standpoint, Anthony Caserta, director of business development at FinOptSys, says that when thinking of P2P, it “is not just peer-to-peer, but point-to-point” with any combination of buy-side and sell-side interactions. He adds: “There are already a number of structures out there, and as a fintech we work with other technology firms and market participants to come up with solutions.”

FinOptSys has worked with State Street on Venturi, which includes a live P2P repo platform with embedded trade-level indemnification. The firm recently announced Plexus, a swaps P2P platform with front-to-back straight-through processing (STP) and lifecycle management.

From a beneficial owner's standpoint, Christopher Benish, asset and risk allocation portfolio manager at State of Wisconsin Investment Board, says the organisation tries to be flexible in terms of how it thinks about balance sheet and its need for liquidity. The Board has a need to raise cash and deploy cash, as well as a need to fund assets and lend assets.

On both sides of these P2P trades, Benish has seen the market evolve through regulation, different capital treatments and structures that typical intermediaries, such as banks and brokers, are dealing with.

Traditionally, on the distribution side, there has been one route to market, which has been the traditional agency model, says Michael Newallo, former head of collateral optimisation at BMO Wealth Management.

"We are at a point in the evolution of the asset manager's lifecycle to think about different routes to market," Newallo adds. "For P2P, asset managers choose to continue to go through their agent or via alternative arrangements. There are advantages and disadvantages to each and it is incumbent upon the asset managers to explore all of the avenues available to them as opposed to continuing the status quo."

Newallo believes Basel Endgame should cause asset managers to think about how to deploy their resources to optimise the returns and the utilisation of their assets in light of these constraints.

Connecting to opportunities

During a discussion at the IMN's 29th Annual Beneficial Owners' International Securities Finance & Collateral Management Conference in Nashville last week, market participants reflected on new developments in analytics and best execution.

Caserta believes that, with regards to P2P, "it is not just about having counterparties be able to post indications of interest or requests for quotes and negotiate with each other. The real meat of it is having the analytics to support the trading".

Caserta adds: "It is great to have a P2P network, but if you do not know where you sit internally then you are not going to be able to maximise your business needs, such as collateral usage, balance sheet and other key performance indicators (KPIs). Firms need real-time analysis and decision-making tools to be able to truly optimise their business by taking advantage of the optionality that P2P provides."

Newallo notes that P2P technology solutions that help asset managers measure best execution and or facilitate alternative distribution routes are essential. "It is difficult to determine best execution when you only have one supplier, or a single way of doing business — in the absence of comparison or choice. Collateral optimisation programmes and tools are essential for securities lenders relative to the status quo."

He advises that it is incumbent upon an asset manager, as a fiduciary, to look at their securities lending portfolio through a lens of optimisation for the unit holders.

Misconceptions

The Global Peer Financing Association (GPFA) is a non-profit industry association with more than 30 global asset owners. Members of the group are engaged in a variety of securities finance and investment activities and share a goal to promote best practices and knowledge sharing. The Association began from a common opportunity in the market, which was to the education and adoption of P2P trading in the marketplace.

Benish says when it comes to P2P lending, in relation to this Association, a common misconception from market participants is that it is a trading platform, or that firms have to be engaged in P2P transactions in some significant way to participate in the Association. In practice, this is not the case.

He adds: "It is an industry association for knowledge sharing for best practices and learning from others who have solved some of these problems. Everyone has a different problem to solve, and so coming together and having these discussions among ourselves has been beneficial for me."

Newallo says he saw the benefits of being a part of GPFA to learn from peers on how to engage directly with the Street, how they are applying their assets, capabilities and technology to reach the sell side and hedge funds directly.

In conclusion, Caserta comments: "There is no question that P2P is going to be a significant part of this business going forward. A very well-respected industry veteran recently said that if you try to fight P2P, you are eventually going to find yourself on the wrong side of it."

The European cleared triparty repo market: a €500 billion digital bet

Cyril Louchtchay de Fleurian, a consultant on repo markets and SFTs, examines a roadmap for growth and efficiency gains in European repo markets, including a case for the repositioning of GC Pooling and €GCplus solutions

In the European repo market, securities financing operates through two primary channels. The first, special repo, facilitates the financing of a specific security against cash. This segment constitutes about 85 per cent of overall single-counted market volumes, totalling €4,600 billion according to data from the European Repo and Collateral Council dated June 2023.

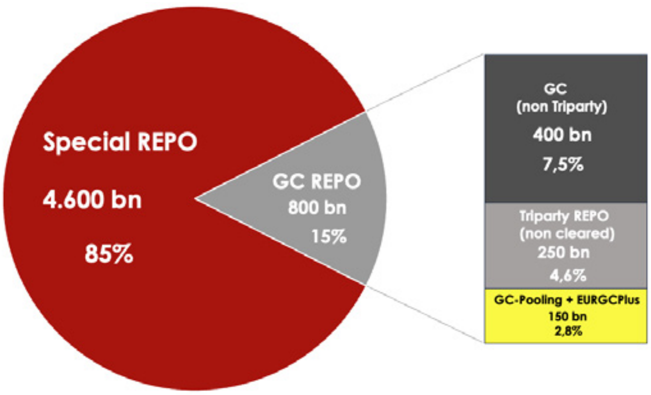
Outstanding amounts in this category have grown in recent years, largely as a result of the impact of quantitative easing. This monetary policy has increased the value of the underlying securities, particularly sovereign securities. To maximise the value derived from these securities, transactions are conducted on an individual ISIN basis. Participants in this market have two options: they can either opt for clearing through a central counterparty or engage in direct face-to-face transactions.

The second avenue is the General Collateral (GC) market. This market segment facilitates the financing of a limited number of homogeneous securities, typically fewer than 10, in a single transaction, constituting approximately seven to eight per cent of the total market volumes, equivalent to €400 billion. Additionally, it accommodates the financing of a larger block of securities, occasionally comprising several hundred lines, grouped within a basket and specified by eligibility criteria. This larger block represents about seven to eight per cent of the overall volumes, totalling around €400 billion according to the ERCC survey cited above.

In the latter case, the large number of underlying lines has led some custodians to offer an outsourced collateral management service, a triparty repo service, encompassing activities including valuation, margin calls and substitution. Similar to the "specific" repo market, the triparty repo market offers the flexibility to trade repo on either a cleared or uncleared basis, with the uncleared segment representing roughly €250 billion. The baskets are both bilateral and specific to each pair of counterparties wishing to transact together.

Regarding the other sub-segment, clearing mechanisms have led the cleared triparty repo service to rely on standardised baskets designed to concentrate liquidity. Among the main baskets, one is "ECB eligible", reflecting monetary policy requirements, and the other is "compatible with LCR criteria", aligned with Basel Committee criteria for the Liquidity Coverage Ratio (LCR). This cleared triparty repo market is represented by two separate offers that are quasi-similar — EuroGCplus (€GCplus) and GCPooling — marketed by private market infrastructures LCH SA and Euroclear in the case of €GCplus, and Eurex Clearing and Clearstream for GC Pooling. To enhance liquidity, these GC products are accessible exclusively through electronic execution platforms. In one case, this is Brokertec and MTS (along with TP Repo to a lesser extent), while in the other it is the Eurex Repo trading platform.

Fig 1: European repo market



Single-counted outstanding €5,400 millions (doubled-counted €10,800 millions ERCC June 2023)

The value proposition offered by these cleared triparty repo platforms is unique, as their purpose is to serve as a key component of the interbank market, directly linked to monetary policy and European regulations. We are referring here to the secondary market for central bank liquidity and the market for high-quality liquid assets (HQLA) used to manage the LCR buffer. This explains the historical support from public authorities for the liquidity of these offerings, with the Banque de France supporting €GCplus and the German monetary authorities, namely Finanzagentur/KfW, supporting GC Pooling.

Despite this quasi-institutional support, the modest volumes in these two offers raises questions about their respective attractiveness — for European participants seeking financing and for the circulation of the underlying collateral, as well as for the appeal of the European financial space on the international stage. The combined outstanding amount has reached approximately €150 billion, representing about 2.8 per cent of the global repo market, with €GCplus accounting for €10 billion and GC Pooling accounting for €140 billion.

The limited appetite from banks might, on initial scrutiny, indicate specific technical shortcomings in the product offers. More worrisome is that this scenario could also signify a questionable strategic positioning. Given the present operational landscape for the European infrastructure ecosystem, friction may appear insurmountable for participants. Indeed, in the context of a supposedly vast and deep European market, the presence of two competing solutions with the same liquidity objective, based on the same product, raises questions.

In essence, it is possible that these offers, as they are currently presented in the market, could generate friction and, in doing so, impact both liquidity and the transmission of monetary policy. In essence, there is a possibility that these solutions, in their current form, fall short of fully realising the market's potential.

"In the segment we are considering, the European market is proportionally six to seven times narrower than the American one."

Cyril Louchtchay de Fleurian
Consultant

To some extent, the US market can provide comparative insights: it totals US$7.1 trillion in outstanding, with a cleared GC repo market (equivalent to the European GC Pooling and €GCplus perimeter) valued at US$650 billion (approximately nine per cent of the total outstanding), with US$400 billion in agency MBS baskets and US$250 billion in US treasuries, according to figures from the New York Federal Reserve. The management of the US platform is centralised by the Fixed Income Clearing Corporation (FICC), a subsidiary of the Depository Trust and Clearing Corporation. Therefore, in the segment we are considering, the European market is proportionally six to seven times narrower than the American one. Although these two markets are not perfectly comparable, the magnitude of the difference between them is noteworthy.

In evaluating the potential offered by the European market, we will aggregate some market figures and derive a potential volume projection. Let us assume that the cleared triparty repo market relies on the following elements:

- The total single-counted size of the European repo market (€5.4 trillion).
- The size of the interbank cleared bilateral repo market (approximately €1.7 trillion).
- The size of the ECB balance sheet, which is approximately €9 trillion — including around €2.2 trillion for main refinancing operations (MRO) and longer-term refinancing operations (LTRO); and €5 trillion for the Asset Purchase Programme (APP) and Public Sector Purchase Programmes (PSPP).
- Liquidity surplus of €4.2 trillion.
- The total of €3.6 trillion held at the ECB deposit facility on an overnight basis.
- The number of banks in the Eurozone, which is close to 2,400 on a consolidated basis.
- Estimated needs in HQLA securities.
- The number of ISINs included in ECB eligible baskets and LCR-compliant baskets.

Our analysis assumes that the European cleared triparty repo market could potentially reach €500 billion — representing approximately eight to 10 per cent of the overall European repo market — deviating over three standard deviations from the observed market average (i.e. €150 billion). More than the absolute figure, it is once again the magnitude of the deviation from the market reality that is noteworthy.

The narratives for these two platforms diverge significantly, despite having a very similar business model. GC Pooling emerged in the early 2000s and, until 2007, volumes remained at 10-20 billion. It then increased significantly during the 2008-9 crisis, reaching 180 billion in 2014. Despite liquidity injections and interest rate cuts, the freeze in the interbank market and the persistent context of latent European crisis clearly drove volumes upwards. However, from 2014 to 2017, as unconventional monetary policy became the standard practice, interbank tensions eased, GC Pooling volumes plummeted from 180 billion to 40 billion, remaining at these levels until 2021. The rate hikes in 2022 once again boosted the outstanding volumes, which currently total 140 billion.

Several factors contributed to these volumes. From 2007 to 2014, GC Pooling served as a key "anti-crisis" instrument, facilitating the anonymous acquisition of liquidity without counterparty risk as banks faced the clearing house.

From 2015 to 2021, the stable yet modest residual base of 40 billion was primarily fuelled by the demand for HQLA and arbitrage, rather than liquidity requirements. However, despite less accommodative monetary policy and significant collateral needs, the platform appears to encounter a glass ceiling. In essence, the German model has demonstrated an inability to realise its full potential over several years. This limitation stems from a model that is excessively "siloed" and domestic, lacking interoperability and no longer aligning with the demands of a neutral and integrated European ecosystem.

As for €GCplus, the storyline is less vibrant precisely because the platform never truly took off. Launched too late, in 2011, under the name Collateral Basket With Pledge (CBWP) — amid the European chaos of the 2010-12 crisis — the intention was commendable, but the offer did not meet the technical expectations of the banks. It was rebranded as EuroGCplus (€GCplus) in 2014 and relaunched belatedly in 2014-2016, even as the market was flooded with liquidity.

Despite being supported by the Banque de France, which saw this as a way to compete with the liquidity of the German silo, volumes have remained marginal so far. Regarding its strategic positioning, weaknesses are similar to those for GC Pooling, with some additional unresolved functional biases making efficiency, and therefore onboarding of new clients, problematic.

The intention here is not to delve into the technical details of the two offers individually, but rather to highlight more generic issues. As the offers stem from the cross-collaboration of a triparty agent and a clearing house, weaknesses sometimes arise from one, sometimes from the other, and sometimes from an unfortunate synergy of both.

The first point of attention concerns the narrow scope of eligible securities and its daily update. The number of eligible securities varies by twofold between these offers and, at most, covers only 60 to 65 per cent of ECB-eligible securities as a whole.

A second relates to the structure of the baskets of securities; allocation criteria are complex, burdened by unclear concentration criteria.

The third concerns issues with the reuse of securities. These are not systematically reusable in non-cleared triparty repo tools, neither towards the central bank nor towards clearing houses.

A fourth point of concern relates to operational netting, which is not always feasible with individually-allocated sovereign securities in bilateral repo transactions.

A fifth constraint relates to the opening hours of the service — deemed too restrictive — especially for transactions settled on a same-day basis.

While this list is not exhaustive, it does emphasise the range, and often the complexity, of the issues encountered. These challenges disrupt the value chain, serving as obstacles to volume growth. Nonetheless, it is important to note that these issues are essentially technical or commercial in nature and can be addressed, provided that promoters (typically triparty agents and clearing houses) and distributors (typically trading platforms) prioritise and allocate the necessary resources. These factors partially explain the lack of momentum in €GCplus and the subdued dynamics of GC Pooling. However, the crux of the matter likely lies elsewhere.

The analysis reveals that the duality in the market of two very similar offerings ultimately undermines the original value proposition, deviating from the intended purpose. The foundation of this proposition lies in a uniform and neutral access point, referring to shared interests and objectives that benefit the entire financial community in the region. It represents the infrastructure, resources and conditions considered advantageous for the proper functioning and development of monetary policy.

Progress is still needed in this area. Specifically, the original value proposition is based on the neutral and agnostic nature of the central bank's secondary liquidity, the fluidity of collateral movements, and transparency. This nature transcends national and private interests to achieve a unique, balanced solution beneficial to all members of the Eurosystem.

In the first contribution to this three-part article, I have particularly examined synergies in clearing and triparty repo. The second part, in the next issue of SFT, will look more closely at the ecosystem supporting use of general collateral baskets in Europe and potential designs for repositioning GC Pooling and €GCplus.

GFF Summit 2024: between innovation and regulation

The question of technology coincided with a wide range of topics at this year's Global Funding and Financing Summit in Luxembourg. Sophie Downes reports

The question of technology coincided with a wide range of topics at this year's Global Funding and Financing Summit, which combined the expertise of Clearstream, Eurex Clearing and Eurex Repo. Delegates gathered in Luxembourg to discuss the challenges and opportunities presented by technology, regulations and market dynamics, with an emphasis on collaboration and strategic preparation for the future.

In one panel, Andreas Bohn, partner at McKinsey & Company, observed that financial institutions need to be prepared for volatility in 2024. In a discussion on liquidity management considerations for 2024, the speakers emphasised the need for risk mitigation strategies due to geopolitical and economic uncertainties.

Federico Becerra, director and head of treasury at Clearstream, aims to apply this by ensuring that exposures are fully collateralised. “We need to ensure that we have enough sources of liquidity to fulfil our payment obligations in a timely manner,” he claimed.

Becerra views the upcoming banking regulations and market discipline through the Central Securities Depositories Regulation (CSDR) as an effective means of achieving this.

“The aim of the regulations is mainly to provide safety efficiency in the settlement and custody space,” he argued. “We do not see this as a burden, but more as a confirmation that what we are doing is in line with what we are supposed to do.”

Diversifying funding sources and managing asset allocation of liquidity reserves is crucial for banks to maintain stability, asserted Tom Chater-Duchesne, treasury manager at Revolut.

“Digitisation and the speed with which your cash can move around means we need to be very nimble,” he explained. “Whenever we are considering the monetisation value of our bond portfolio, we will always look at that true monetisation value, rather than any book or redemption value that may be in the future.”

Meanwhile, infrastructure providers, such as clearing houses, face unique challenges in managing fluctuating balances and demonstrating liquidity, revealed Thomas Kurian, head of treasury and banking at ICE Clear.

Kurian believes that careful portfolio structuring and coordination is essential for mitigating these challenges, viewing stress testing as a critical practice for businesses: “We engage in a continuous process of contingency planning, default management testing and liquidity exercises. This way, we are prepared and have run through the rapid exposure drills and the default runbook steps multiple times.”

ICE Clear is particularly focused on the SEC mandatory clearing rules, which come into effect in December 2025 and will affect the US treasury market.

Kurian added: “The market community will have to figure out all of the operational legal and infrastructural aspects to make sure we are ready. Even though it sounds like it is a long way away, it is important that we make a head start.”

Technology to the rescue

Another panel developed this further, arguing that intraday liquidity management is a large and growing problem for banks, and one that must be attenuated with the use of technology.

Issues include settlement and payment fragmentation across time zones, creating liquidity drain and credit risks, and high costs associated with maintaining large buffers to cover intraday liquidity needs.

"We need to get past the buzzwords and just have a regular conversation."

For one panellist, “these problems will persist unless technology can be used to solve them”. As self professed “big believers in a digital future”, the panel emphasised how distributed ledger technology (DLT) and digital currencies could help to overcome these issues.

Erica De Rosa, solutions architect at HQLA^X, discussed the various uses of automation. “When we started developing these solutions, new technology was really used to improve the existing problems that we had.” Now, she argued, DLT can enable new markets, posing the idea that transactions could be intraday and instantaneous.

However, there are hurdles to this being achieved. For De Rosa, “it is about proving the resilience and stability of these platforms and demonstrating their benefits and necessity in the markets. We need to get past the buzzwords and just have a regular conversation when discussing the merits of the technology.”

Brian Nolan, co-founder and CEO of Finteum, continued: “Adoption by more and more participants is going to be important. With banks like UBS, NatWest and Commerzbank getting involved in digital repo and intraday, there is a great business case for it for all market participants.”

Pivotally, Nolan is optimistic for the future: “I believe that 2024 is going to be a year where more and more participants come in and start realising those benefits.”

However, another panellist was more hesitant about the uptake of automation: “Put simply, the buy side is not there yet.” Instead, he argued, the focus should be on building infrastructure and technology that will allow the buy-side community quick finality of settlement.

In summary, he contends that if this can be achieved “it will open up the global landscape”.

"If adopted gradually, DLT and tokenisation have the potential to significantly improve collateral mobility, liquidity and efficiency."

The question of technology fringed every discussion at the GFF Summit, and a panel exploring over-the-counter (OTC) collateral management was no different.

The speakers agreed that the use of automation could be beneficial, but posited that collaboration between industry and regulators is needed to develop solutions that work within existing rules and protections.

The panel opened with the discussion of the increasingly important, yet complex, role of collateral management in financial markets.

One panellist, representing a Dutch pension fund, discussed the difficulties faced by pension funds in efficiently managing collateral across different markets.

Given changing regulations over the last five years, for example the exemption for pension funds from posting cash collateral at central clearing parties, she asserted “that the collateral has been of more importance than ever”.

Digital transition

Grant Davies, founder at Blended Markets, highlighted the potential of DLT to address challenges in efficiently moving collateral through the derivatives clearing process.

Davies argued that, if adopted gradually, DLT and tokenisation have the potential to significantly improve collateral mobility, liquidity and efficiency.

Adrian Dale, head of regulation and market practice at the International Securities Lending Association (ISLA), advocated for the use of standardisation initiatives such as the common domain model (CDM) to realise these benefits and address current pain points and inefficiencies in the post-trade process.

However, the panel agreed that this will require collaboration between industry and regulators to develop solutions that work within existing rules and protections.

Another panellist observed that “some of the biggest hurdles are not technology based”. Leveraging technology will require collaboration from a variety of participants.

“There's multiple stakeholders in the group,” he observed. “All of those different factors are going to impact the speed of adoption.”

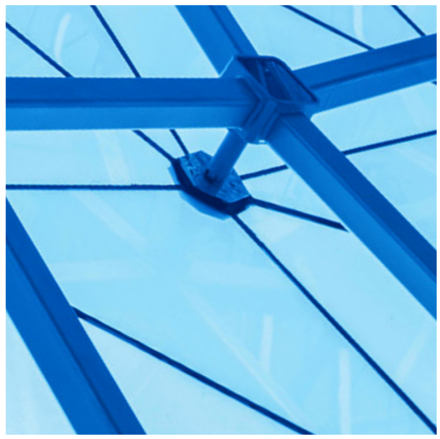
Altogether, the summit envisioned an optimistic outlook for the financial markets in 2024, with the use of technology posing benefits to operational efficiency, liquidity and collateral mobility.

However, successful adoption of automation will depend on collaboration between industry and regulators, and preparation on an individual business level for upcoming regulatory and infrastructural changes.

Beyond that, as one panellist posed, “we just need to have the determination to succeed”.







Bitcoin ETFs: spotlight on a new asset class

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, evaluates the first week of trading and lending in Bitcoin ETFs, following recent approval by the Securities and Exchange Commission

On 10 January 2024, the SEC approved 11 US-listed exchange traded funds (ETFs) that invest in Bitcoin. This has opened up a new asset class for many investors, as the move has simplified the process of gaining direct exposure to the cryptocurrency. The ease of investing in Bitcoin through an ETF structure will not only increase the popularity of this asset class, but is also likely to catapult it into the financial mainstream. One week after these new ETFs started trading, and following US$1.15 billion of net flows, S&P Global Market intelligence ETF data reveals the emergence of some interesting trends.

The iShares Bitcoin Trust (IBIT, US$1.2 billion) and the Fidelity Wise Origin Bitcoin Fund (FBTC, US$1 billion) experienced the largest inflows across all newly formed ETFs during the first week of trading. Blackrock and Fidelity have proven popular among investors, receiving a combined 68 per cent of all week one inflows (with BITI accounting for 37 per cent of these inflows, and FBTC 31 per cent).

The iShares Bitcoin Trust (IBIT) was the first of the group to amass more than US$1 billion in assets, accumulating the largest inflows during the week and boasting an AUM of US$1.17 billion on 18 January. The value of combined inflows into these two ETFs (US$2.2 billion) was equal to the value of the outflows seen across the Grayscale Bitcoin Trust (GBTC) during the period.

The Grayscale Bitcoin Trust (GBTC) experienced US$2,216.3 billion of outflows during the week. This ETF was the only fund to experience daily outflows during its first week of trading. The meteoric rise in the price of Bitcoin, which pushed ever higher as investors anticipated the approval of these new funds, appears to have led to profit taking by existing investors in the former closed-end fund. Now converted, existing units can be traded freely on exchange, which lowers the bid-offer spread for investors that would previously have had to trade over the counter, often at a substantial discount to the Bitcoin price.

Fund flows have been affected by the decision of some Bitcoin ETF issuers to charge 0 per cent fees for a limited amount of time, with the agreement to raise them when a defined AUM is reached. The majority of the funds are expected to charge between 0.2 per cent and 0.4 per cent in the future. The Grayscale Bitcoin Trust ETF (GBTC) continues to charge 1.5 per cent, highlighting its track record as its differentiating competitive factor. When looking outside the fee, the Grayscale ETF had the lowest average trading spread across the group during the week and experienced the highest trading volumes and values (fig 1). This suggests that liquidity and price remain important factors for a substantial proportion of the investor base.

In the securities lending markets, ETFs generated US$635 million in revenues during 2023, which was a decline of 25 per cent YoY. The asset class has focused upon a handful of high revenue producing stocks such as iShares IBOXX High Yield Bond ETF (HYG), iShares IBOXX Investment Grade Bond ETF (LQD) and Invesco Senior Loan ETF (BKLN) over the last few years, as the change in the interest rate environment has created a number of opportunities for investors looking to take advantage of the change in the yield environment.

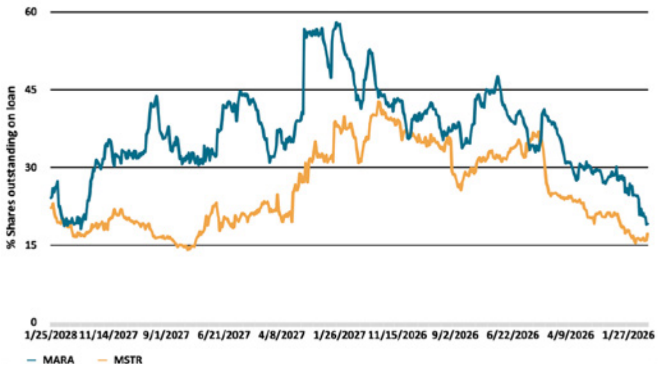
With the emergence of the new Bitcoin ETFs, a new driver of revenues for 2024 may be in the making. Given the level of investor demand and the fact that the asset class does not provide a yield — as returns are based solely upon pricing speculation — these most recently approved ETFs are likely to represent the start of a growing trend of investment strategies designed to generate returns across this increasingly popular asset.

At the time of writing in mid-January, average short interest across all 11 newly approved ETFs stands at 1.7 per cent of their free float. When looking at the percentage of shares outstanding on loan, the Fidelity Wise Origin Bitcoin Fund (FBTC) is the most popular among borrowers with 6.5 per cent of its outstanding shares currently being borrowed. This is followed by the iShares Bitcoin Trust (IBIT), with 2.6 per cent of outstanding shares on loan, and the Invesco Galaxy Bitcoin ETF (BTCO) at 1.8 per cent.

While these numbers remain relatively low, the average volume weighted average fee across all 11 Bitcoin ETFs currently exceeds 38 per cent. The fee is expected to fall over time as supply builds, with the addition of new ETFs based on other crypto currencies and associated strategies. Consequently, crypto currency ETFs may be the product to watch in 2024.

The value of Bitcoin has declined around 20 per cent since the new ETFs started trading. A number of factors may explain this. One is the outflows seen in the Greyscale Bitcoin Trust (GBTC), as investors can now transact in a more efficient manner. Another is that speculators are becoming more cautious about the potential impact of the product on their investment portfolios. The macro environment continues to play a large role in the valuation of Bitcoin and, as rates have been rallying and the USD has started to strengthen, a more bearish sentiment has started to prevail.

Fig 1: % shares outstanding on loan, MARA and MSTR



The price of Bitcoin has a knock-on effect upon the valuation and the level of short interest seen across a range of companies and sectors. This was particularly evident during Q4 2022 with the collapse of the crypto exchange FTX. Microstrategy Inc (MSTR) and Marathon Digital Holdings Inc (MARA) were two stocks that have experienced sustained borrowing activity throughout 2022. Both are linked to the crypto currency market. Microstrategy Inc (MSTR) is a company that has recently pivoted to blockchain technology and owns a substantial number of Bitcoins. Marathon Digital Holdings Inc (MARA) is a Bitcoin mining company. During 2023, these two companies generated a combined US$114 million in revenues for lenders.

The arrival of Bitcoin ETFs was highly anticipated and marks a significant step in turning crypto currencies into a mainstream investment vehicle. Despite the significance of the move, the realisation that the bitcoin bull run is not going to materialise — or at least not as quickly as some presumed — is likely to mean that these assets will be a mainstay of the securities lending market for some time to come. Given their implicit volatility, and their elevated lending fees, they have the potential to become some of the strongest revenue earners across the ETF asset class for securities lenders during 2024.

Oleron joins Société Générale

Société Générale Corporate and Investment Banking (SGCIB) has appointed Christophe Oleron as managing director and head of delta one trading, APAC.

After a career break, Oleron has joined the firm's Hong Kong office. Previously, he was managing director, global head of index, exchange-traded funds and synthetic prime trading at HSBC.

He spent six years with the bank before departing to spend more time with family.

Oleron originally joined the bank in 2016 as head of delta one and index trading for Asia-Pacific.

Prior to this, he held a nine-year tenure with J.P. Morgan Chase where he was most recently executive director and head of delta one for developed markets across APAC.

Oleron previously spent time at SGCIB in 2005, where he acted as a trading assistant for basket trading and delta one over a 16-month period.

Yeazel steps down

Brian Yeazel has announced his retirement from financial services company Northwestern Mutual.

Yeazel was managing director of Northwestern Mutual for nearly 30 years.

Based in Milwaukee, Yeazel worked across a variety of roles including head of fixed income trading and manager of all government and short-term portfolios.

He also led securities lending for the company and was head of macroeconomic strategy.

Commenting via LinkedIn, Yeazel says: "I want to thank all the friends and colleagues who mentored and counselled me over the years.

"It was truly an honour to learn from and work with so many talented and dedicated people throughout my career there."

Marquis joins MUFG

MUFG Securities Americas has appointed Richard Marquis as product manager.

Marquis has more than 20 years of industry experience, and joins the firm from BNY Mellon. He spent more than a decade with the company, most recently as head of Borrow DIRECT — principal and peer-to-peer borrowing and lending.

Prior to this, he was head of cross-product trading strategy and digital execution for the firm's securities finance division.

Earlier in his career, Marquis was head of the international hedge fund trading desk at J.P. Morgan and an executive director for UBS.

Eldridge promoted

State Street Corporation has appointed Michael Eldridge as UK country head and branch manager.

Reporting to executive vice president Cuan Coulter, Eldridge will oversee all aspects of State Street's business in the UK.

He will also supervise the execution of the firm's strategy across product deployment, client relationships, risk and compliance, employee development and community engagement.

Eldridge has more than 30 years' experience in the financial services industry, with a strong background in custody operations, global markets and investment banking.

Since joining State Street in 2016, Eldridge has led multiple projects in senior roles, including the establishment of new operating teams in the UK, Germany and India.

Zekraus departs from Pirum

Pirum chief operating officer and head of the Americas, Robert Zekraus, has left Pirum.

Zekraus joined the London and New York-based securities finance specialist in May 2021, having previously served at Scotiabank for more than six years, rising to managing director for global banking, markets and prime services.

Before Scotiabank, Zekraus worked for more than 15 years at Barclays Investment Bank, in both New York and London. During this period, Zekraus was head of US securities lending and worked in the equity finance funding and financing sales division.

Speaking to SFT, Pirum chief executive Philip Morgan indicated that his team is grateful for everything that Zekraus has done for the company over the past three years, during which Pirum has expanded its client coverage, grown its US footprint and accelerated its service offer across all products.

Publisher: Justin Lawson
justinlawson@securitiesfinancetimes.com
020 3667 3244

Group editor: Bob Currie
bobcurrie@securitiesfinancetimes.com
020 3617 1722

Senior reporter: Carmella Haswell
carmellahaswell@securitiesfinancetimes.com
020 3617 1722

Reporter: Sophie Downes
sophiedownes@securitiesfinancetimes.com
020 3617 1722

Reporter: Lucy Carter
lucycarter@blackknightmedialtd.com
020 3617 1722

Accounts: Chelsea Bowles
accounts@securitiesfinancetimes.com
020 3667 3979

Designer: James Hickman
jameshickman@blackknightmedialtd.com
020 3372 5997

Studio director: Steven Lafferty
design@securitiesfinancetimes.com

Published by Black Knight Media Ltd