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Innovating in an Evolving Market

Brian Ruane discusses BNY Mellon's US$5 trillion plus collateral management business

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Buy-side associations file opening brief challenging SEC rules

Three buy-side trade associations have filed an opening brief challenging the Securities and Exchange Commission's (SEC's) securities lending and short position reporting rules.

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 their brief, 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 litigation relates to two SEC rules that, they suggest, impose inconsistent requirements for the public disclosure of the same market activity: short sales of securities.

"Although the rules are indisputably interconnected and were finalised on the same day, neither rule considered how the two disclosure requirements interact," says the Associations.

The background to this legal action is detailed in an SFT article published on 13 December 2023, when the three associations announced this legal action.

The joint associations maintain that the SEC failed to evaluate the cumulative economic effect of the two rules on affected parties or the harm to price efficiency, market liquidity, competition, or capital formation.

"Instead, the SEC adopted contradictory disclosure frameworks in the rules without any acknowledgment or explanation," they suggest.

AIMA CEO Jack Inglis comments: "The adoption of these two rules epitomises arbitrary and capricious rulemaking by adopting inconsistent disclosure frameworks for interlinked transactions. These rules will unnecessarily impair market efficiency and price discovery, thereby harming both markets and market participants.

continued on page 6

Inside this issue

14

Innovating in an evolving market

Brian Ruane, senior EVP, global head of Clearance and Collateral Management, discusses BNY Mellon's US$5 trillion plus collateral management business with Justin Lawson

18

PASLA: a roundup of the Asian market

Having attended the PASLA Conference in Singapore earlier this month, Carmella Haswell provides a roundup of major findings from the Association's key industry discussions

24

From bonds to bytes: HSBC's digital innovation

John O'Neill, HSBC'S global head of digital assets strategy, speaks to Sophie Downes about the firm's recent digital endeavours and their significance for the future of the digital market transactions

28

FINRA Rule 4210: managing risks effectively

Matrix Application's Stephen Mellert speaks to Carmella Haswell on the upcoming FINRA Rule 4210 amendments which will come to market in May 2024 and is expected to represent a significant shift in the regulatory landscape for broker-dealers

32

UK Short Selling: a regulatory update

Aniqah Rao, associate, markets regulation at the Alternative Investment Management Association (AIMA), summarises changes to short-selling rules designed to drive growth and competitiveness in the UK financial sector

34

People moves

Pierre Khemoudi has left his position at S&P Global after 11 years with the company

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Matsui Securities selects Broadridge

Japanese securities broker Matsui Securities has selected Broadridge's cloud-based software-as-a-solution (SaaS) post-trade processing product to drive operational efficiency in the stock lending business.

Intelligent Wave, a system integrator, will develop the front office component and system integration, as well as project management and consulting services to Matsui Securities.

Broadridge's solution will allow Matsui Securities to process and settle all stock lending and borrowing transactions, manage the corresponding positions, compute required collateral, as well as calculate fees, rebates and manufactured dividends.

Commenting on the news, Shinichi Uzawa, managing director of the corporate division at Matsui Securities, says: "We have operated an internally developed system for stock lending transactions, but as our business has grown it has become bloated, making system maintenance a significant burden.

"By adopting Broadridge's post-trade processing solution, we expect to reduce our maintenance burden and facilitate a far more stable management with much greater operational efficiency."

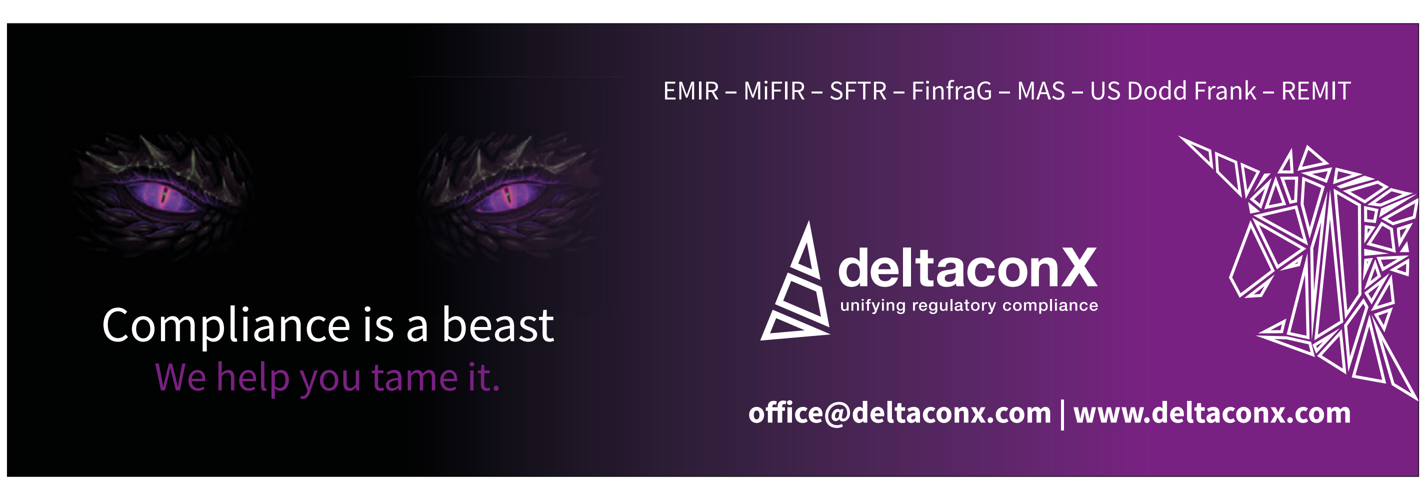
Ian Strudwick, managing director and head of Asia Pacific at Broadridge, adds: "In today's competitive online securities brokerage market, margin compression means that our clients are looking at new revenue growth opportunities and operating efficiencies.

"Our modular platform allows them to achieve these goals, quickly and with ease, and provides the flexibility for future expansion of their services locally and globally at scale."

Buy-side associations file opening brief challenging SEC rules

continued from page 3

"Accordingly, the court should vacate both rules and direct the SEC to adopt consistent reporting and disclosure regimes that take into account the interrelated nature of securities loans and short sales and are



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designed to protect both market efficiency and market participants."

MFA president and CEO Bryan Corbett adds: "The SEC's defective rulemaking process produced two flawed, inconsistent rules that will harm investors and the markets. The rules should be vacated."

"Adopting two rules with contradictory approaches to the disclosure of data regarding short selling on the same day without explanation is arbitrary and capricious. The SEC needs to go back to the drawing board and craft rules with a consistent, coherent approach that will not harm market participants or undermine the US capital markets."

Canton Network completes blockchain pilot

The Canton Network pilot has now been completed by a number of market participants, including financial technology and services firm Digital Asset, Pirum, Commerzbank and BNP Paribas.

The programme demonstrates the interoperability of 22 independent distributed ledger applications in the capital markets domain, achieving the execution of more than 350 simulated transactions.

According to the Canton Network, the pilot showcased the potential benefits of using such a network to reduce counterparty and settlement risk, optimise capital and enable intraday margin cycles.

Pilot participants were provided with distributed ledger applications for asset tokenisation, fund registry, digital cash, repo, securities lending and margin management transactions — all with the ability to interoperate via the Canton Network TestNet.

The four-day-long pilot brought together 15 asset managers, 13 banks, four custodians, three exchanges, and one financial market infrastructure provider participating in the simulated transactions or demonstrations.

The Canton Network says the pilot showed the potential of the network to "reduce costs, risks and inefficiencies, while striving to meet regulatory requirements for the issuance, transfer and settlement of tokenised traditional assets".

Institutions with blockchain applications in production, including BNY Mellon, Broadridge, DRW, EquiLend, Goldman Sachs, Oliver Wyman and Paxos, provided market expertise for the working group throughout the programme.

Digital Asset provided the technology and guidance to support the pilot and is one of the technology and infrastructure providers for the Canton Network.

Commenting on the milestone, Yuval Rooz, CEO and co-founder of Digital Asset, says: "The pilot programme marks an important milestone for the Canton Network. Canton allows previously siloed financial systems to connect and synchronise in previously impossible ways while abiding by the current regulatory guardrails.

"We look forward to working with the pilot participants to continue identifying additional use cases where the Canton Network can be leveraged."

The Canton Network launched as the "industry's first" privacy-enabled interoperable blockchain network in May 2023.

DTCC reports 31% growth in FICC clearing volumes

The Depository Trust & Clearing Corporation (DTCC) has recorded a 31 per cent growth in its Fixed Income Clearing Corporation (FICC) treasury clearing volumes, processing a daily average volume of US$7.019 trillion.

The growth comes at a time when firms are assessing the impact of the US Securities and Exchange Commission's (SEC's) new requirements to expand the application of central clearing to certain US Treasury repo and secondary market cash transactions.

FICC's Sponsored Service has also experienced growth in the last year, increasing 74 per cent to a daily average of US$938 billion.

The number of sponsored members participating in FICC also increased 60 per cent to 2,414 firms.

Tradeweb reports 33.8% increase YoY in repo

Repo average daily volume (ADV) traded on the Tradeweb platform climbed 33.8 per cent year-on-year to US$550.3 billion for February.

For rates trades, US government bond ADV was up 44.0 per cent YoY to US$207.8 billion, with European government bond ADV rising 17.9 per cent YoY to US$51.0 billion.

Tradeweb reports that U.S. government bond volumes were supported by growth across all client sectors, leading to record volume on the institutional platform for the second consecutive month.

There was an abundance of new issuance across Europe and the UK in the primary market, along with increased client activity. For swaps and swaptions, ADV has grown 65.1 per cent YoY to US$502.3 billion and total rates derivatives ADV increased by 32.1 per cent YoY to US$789.7 billion.

In credit markets, fully electronic US credit ADV has risen 49.9 per cent YoY to US$7.7 billion. European credit ADV also increased 4.7 per cent YoY to US$2.3 billion.

The global fixed income and repo platform operator indicates that the combination of quantitative tightening, heightened collateral supply, and current rates market activity shifted more balances from the

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Federal Reserve’s reverse repo facility to money markets.

Broadridge releases SaaS-based futures and options trading platform

Broadridge has expanded its derivatives execution services with the release of a software-as-a-service platform for futures and options trading.

The company indicates that this fully hosted F&O platform provides an integrated solution tailored for FCMs and agency brokers, offering pre-trade risk management, order routing and execution management and providing links to a wide range of exchange-traded derivatives markets worldwide.

With trading volumes rising in recent years, Broadridge indicates that sell-side firms have typically provided customised solutions for each workflow. This has resulted in a fragmented and non-standardised user experience for trading parties.

The F&O platform aims to deliver high STP rates across the contract lifecycle and a consistent user experience for buy-side clients, while still enabling the sell-side firm to offer customisation for specific workflow channels.

Broadridge’s president of Trading and Connectivity Solutions Ray Tierney says: “While existing systems often lack the flexibility required, Broadridge’s Futures and Options platform stands out for its modular and flexible deployment capability, addressing industry demands head-on."

Eurex Repo average daily volume rises 7%

Trading volumes on Eurex Repo, the electronic market for secured financing, have increased by 7 per cent year-on-year (YoY) to €346.8 billion for February.

This YoY growth was driven by a 16 per cent YoY increase in GC Pooling average daily

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term-adjusted volume to €129.3 billion and 3 per cent YoY growth in special repo average daily volume to €217.5 billion.

For OTC derivatives clearing, notional outstanding volumes have risen 8 per cent YoY to €33,882 billion.

This growth has been driven by 8 per cent YoY expansion in notional outstanding for interest-rate swaps to €14,450 billion for February. Overnight index swap clearing volumes have risen 35 per cent YoY to €3,511 billion.

Average daily cleared OTC volumes through Eurex Clearing have increased 3 per cent YoY for February to €232 billion.

This features a 19 per cent YoY increase in average daily cleared volume for interest rate swaps to €24 billion, while overnight index swaps average daily cleared volume increased 33 per cent YoY for February to €22 billion.

ESMA's proposals are unfair and excessive

The International Capital Market Association (ICMA) has branded proposals from the European Securities and Markets Authority (ESMA) on CSDR penalties as "disproportionate and unjustified".

The association published the remarks in a briefing note responding to ESMA proposals to increase the penalty rates for settlement fails, as well as introducing "progressive penalties" that increase every day of the fail.

ICMA analysed the Central Securities Depositories Regulation (CSDR) proposals in the context of the causes of settlement fails, the "natural cost" of failing and behavioural incentives for timely settlement.

The briefing argues that, if implemented, the proposed penalty recalibrations would undermine the competitiveness and credibility of the EU as a global financial marketplace.

Furthermore, the extreme distortions that they would bring about may incentivise

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adverse market behaviour, as being failed would become economically more appealing than facilitating settlement.

This would then feed into bid-ask spreads across all bond classes, says ICMA, as well as adversely impairing liquidity.

ICMA points to the US Treasury Markets Practices Group penalty framework as an example of a penalty mechanism that is appropriately designed and calibrated.

It argues that, unlike ESMA, it achieves its purpose of disincentivising poor settlement behaviour in low interest rate environments.

BNP Paribas introduces client e-learning tool for Securities Services business

BNP Paribas' Securities Services has introduced a new client e-learning tool for institutional clients.

The offering aims to provide institutional clients with critical knowledge on the securities services industry and will be rolled out on its main client webportal NeoLink.

The modules will cover essential asset servicing topics, including custody, securities lending, investment funds and depositary services. They are designed to be completed in just 20 minutes and will be available in English, French and Italian.

Annie Blouin, global head of client services and client relationship management, Securities Services, BNP Paribas, comments: "Our goal with this experience is to continue to demonstrate our insight and raise awareness on key asset servicing themes.

"We designed our e-learning platform to be beneficial both for newcomers and seasoned professionals of the financial sector."

BBH updates data platform with Infomediary Data Solutions

Brown Brothers Harriman (BBH) has evolved its data offerings with an expanded suite of solutions combining data management technology and managed services.

Infomediary Data Solutions combines BBH's data management platform and asset servicing expertise to create customised solutions for its clients. The expanded suite aims to normalise, transform, catalogue and quality check data, say BBH.

Keith Haberlin, principal and co-head of Infomediary Data Solutions at BBH, explains: "Data management is a top priority for our clients. They need timely, consistent, and accurate data to power every aspect of their businesses but are challenged with turning disparate data from their own and third-party applications into reliable and consistent data sets."

Lorrie Gordon, the partner responsible for Infomediary Data Solutions at BBH, says: "We create reusable data sets that can solve [our clients'] challenges in their order of priority — whether that's related to client materials, provider oversight or operational processes."

Basel III capital ratios "largely stable" for largest global banks, BIS finds

Basel III Capital ratios for the world's largest banks during H1 2023 were "largely stable" and above their levels prevailing before the Covid pandemic, according to the Bank of International Settlement (BIS).

These assessments, based on the Initial Basel III framework, found that Tier 1 common equity (CET1) for the largest Global Systemically Important Banks (G-SIBs) had contracted from 13.0 per cent on 31 December 2022 to 12.7 per cent on 30 June 2023, with the CET1 ratio for Group 1 banks falling from 13.1 per cent to 12.9 per cent.

The weighted-average Net Stable Funding Ratio (NSFR) fell by 0.3 per cent to 124.1 per cent for the Group 1 banks and by 2.6 per cent to 124.0 per cent for the G-SIBs over this six-month period.

However, liquidity coverage had improved over this timeframe, with the Liquidity Coverage Ratio (LCR) for Group 1 banks rising from 137.3 per cent to 138.6 per cent, and from 134.4 per cent to 137.0 per cent for the G-SIBs.

Significantly, the BIS finds that profit after tax for large internationally active banks rose to a record €279 billion over the period.

With the final Basel III minimum capital requirements coming into play from 1 January 2023, the average impact of the fully phased in final Basel III framework was a rise of 4.9 per cent in Tier 1 minimum required capital (MRC) for Group 1 banks compared with +3.1 per cent for 31 December 2022.

Group 1 banks experienced a total regulatory capital shortfall of €4.0 billion on 30 June 2023, compared with a €3.0 billion shortfall at the end of December 2022, according to the recently released BIS Basel III Monitoring Report, March 2024.

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Brian Ruane
Senior EVP, global head of Clearance and Collateral Management
BNY Mellon

Central clearing for US Treasuries drives demand for collateral management services

Brian Ruane, senior EVP, global head of Clearance and Collateral Management, discusses BNY Mellon's US$5 trillion plus collateral management business with Justin Lawson

2024 is a significant year for BNY Mellon. What is top of mind for you in Clearance and Collateral Management?

As we celebrate our 240-year anniversary, we reflect on our rich history and how we have contributed to the future of finance and strengthened the financial system. Over the years, we have focused on trust, resiliency and innovation to continue this legacy, while evolving to create solutions that enhance the client experience within clearance and collateral management.

We have seen growth in the need for collateral management services, as volatility, banking stresses and regulatory reforms have driven market participants to seek liquidity and efficient collateral management. We have invested to meet this demand, serving a range of clients including banks, broker-dealers, asset managers, central banks, hedge funds and pension funds. The transaction types collateralised on our platform include repurchase agreements, securities lending, secured loans, derivatives margin, public entity deposits and central bank financing. Our collateral platform allows clients to access liquidity and to optimise the use of collateral, expanding the possibilities for utilising their assets to meet critical objectives.

What impact will the SEC's US Treasury central clearing mandate have on the collateral markets?

The collateral markets have grown over the last decade and we believe this growth will continue, especially as the US Securities and Exchange Commission (SEC) US Treasury central clearing rule is implemented over the next two-and-a-half years. This will significantly expand the amount and type of US Treasury market trades that are centrally cleared, perhaps by as much as US$3 trillion in additional cash and repo transactions.

BNY Mellon plays an important role in the treasury market and we have been engaged with our clients and the Fixed Income Clearing Corporation (FICC), currently the only central counterparty for US Treasury market transactions, to fully understand the implications of this mandate. As we look to the future, we will support the efforts to improve the safety and liquidity of the Treasury market by introducing innovations that increase the flexibility, optimisation and mobility of collateral.

The SEC's central clearing mandate will transform the US Treasury market as participants transition to clearing more transactions through a central counterparty. The SEC's final rule, adopted in December 2023, applies to eligible transactions in the cash market, where Treasuries are bought and sold, and in the repo market, where cash is borrowed in exchange for Treasuries as collateral.

Specifically, the rule requires covered clearing agencies in the US Treasury market to adopt policies and procedures that require their members to submit for clearing eligible secondary market transactions. The rule articulates a phased implementation for central clearing, with a deadline of 31 December 2025 for cash market trades and 30 June 2026 for repo market transactions. We believe it could reduce counterparty default risk and may increase balance sheet capacity due to netting effects. On the other hand, the rule is likely to increase transaction costs and widen spreads.

The proposed implementation timeline will require significant preparation from market participants across four distinct areas. First, they must assess their eligible transactions to see which

elements of their activity must be submitted to FICC. Next, they will need to determine how to access FICC, which is either through direct membership or sponsored membership (for non-members). Firms must also change how they manage risk and collateral, because more trades will require margin to be posted and liquidity commitments could grow. Lastly, they will need to execute a change management programme that considers documentation, technology and operational changes. BNY Mellon provided more insight on central clearing and its implications in the recent article 'Treasury Clearing: Reassembly Required'.

What role will triparty play in supporting this transition to central clearing?

As market participants look to comply with the central clearing mandate, we believe this will accelerate the move from bilateral transactions to triparty solutions. BNY Mellon's triparty platform already supports FICC's Sponsored General Collateral (GC) Repo service, which lets market participants conduct repo trades and submit them to FICC for central clearing while benefiting from the liquidity and efficiency provided by triparty collateral management. We believe this service will play an important role in the implementation of central clearing and it should see significant growth as more market participants utilise it for access to FICC.

> **"As market velocity accelerates, financial firms must maintain a wide range of liquidity sources beyond traditional money market repo financing."**

BNY Mellon plays a key role in the US Treasury market, so we have been active in preparing clients to adapt to the new mandate, providing thought leadership through white papers and webinars. We have also long been focused on the resiliency of this important market, which is why we have invested to build out our capabilities in this space with three separate active data centres to support our business and constant testing.

What is BNY Mellon doing to help clients to address recent liquidity stresses?

Recent liquidity stresses have underscored the value of flexibility in both sources and uses of funding. As funding markets have grown, clients have expressed their desire to manage their liquidity in smaller time increments that match the peaks of their liquidity needs. To that end, in addition to traditional triparty, we have introduced intraday triparty repo and will be offering an early-morning maturity triparty repo settlement option, two exciting new options that continue to meet the principles outlined by Triparty Reform more than a decade ago.

The intraday repo solution will allow borrowers to access liquidity for as little as one hour during the day, receiving cash only for the period they require it. In turn, investors can put their cash to work during the day, potentially enhancing their returns and improving market liquidity. For overnight triparty repos, we will allow market participants to conduct triparty repo trades that will mature early the next morning in addition to the standard maturity in the afternoon. This will return cash to lenders earlier, which is vital if they must deploy that liquidity throughout the business day.

As market velocity accelerates, financial firms must maintain a wide range of liquidity sources beyond traditional money market repo financing. We saw a need for options stepping to the forefront during the regional bank crisis in 2023. We recognise that flexibility is an important factor in the stability of our markets; accordingly, we are helping market participants to gain access to crucial market facilities. Such facilities include the Federal Reserve's Overnight Reverse Repo Program (ON RRP), which we support via triparty.

We are also helping to provide access to the Standing Repo Facility (SRF) and FICC's sponsored member programmes. To help clients to understand and gain access to these facilities, we have held multiple thought leadership events. These facilities have played an important role in ensuring the liquidity of the repo markets over the past few years.

As clients seek increased flexibility to meet liquidity needs, we have also focused on offering a more efficient trade settlement process. We are leveraging the latest technologies, including AI and machine

learning, and have launched new proprietary services. These include a Fed Fails Indicator and Securities Auto-Borrow Service, which help to reduce fails, and a new Repo Spread Indicator, which helps to anticipate specialness in repo markets. Both services are offered through our Front Office Analytics platform. We are also rolling out our Round Robin Service, which helps reduce counterparty exposures by pairing off failed transactions within a single process. This eliminates the need for manual pair offs in the afternoon by automating the process with no action required by our clients.

What is BNY Mellon doing to help its clients to reach their collateral optimisation goals?

Optimisation is a key focus for investment by clients. Whether they are adapting to a regulatory change or a new market, our clients' activity is becoming increasingly complex, which demands superior collateral management. Collateral optimisation is the process of managing and allocating collateral assets efficiently to meet liquidity needs, reduce costs and enhance returns.

We are leaders in the optimisation space with an established reputation and platform that increase value through a more efficient collateral allocation process. We have developed flexible optimisation solutions that can be tailored to a client's specific needs. Our solutions use multiple algorithms, client-defined inventory data, customised cost models and security reference data to reduce funding costs. In this way, we create key building blocks to construct a truly global and tailored optimisation.

In 2024, we are excited to be launching our ECPOConnect optimisation service. This will allow for the centralisation of collateral management across multiple settlement locations and business lines, including securities lending, repo and derivatives, to help optimise and reduce funding costs. Since we announced this service, we have been working with our clients to develop this solution. Now that it is live, we are able to respond to a key client request: for a turnkey, end-to-end global portfolio optimisation solution for their enterprise.

What is BNY Mellon's approach to increasing collateral mobility?

The mobility of collateral continues to grow in importance, particularly for firms that operate globally. We have helped connect them to new markets and understand that connectivity and increased velocity of collateral are vital to efficiently meet their global funding requirements. Our clients can mobilise collateral from the US to international markets quickly through interoperability.

"Whether they are adapting to a regulatory change or a new market, our clients' activity is becoming increasingly complex, which demands superior collateral management."

We continue to see strong demand for our collateral management services in Canada, Japan and for Euroclear-eligible fixed income collateral. Recent conversations have been focused on expansion of Asian collateral markets, and over the last few years we have rolled out China Stock Connect, South Korea, Indonesia, Malaysia, and we also will be providing access to Taiwan collateral. While these markets have seen moderate growth to date, we believe that these collateral options position our clients to grow in the future as they expand their activity in these regions, and we simultaneously expand our network.

In conclusion, what is your outlook for collateral markets over the next few years?

We believe the next few years will see the global collateral markets continue to grow, with the increased size of the Treasury markets and the growing need for liquidity being key drivers. This growth will be accelerated by US Treasury central clearing and, as we approach its implementation, we believe this rule and other global reforms, such as the move to T+1 settlement, can help to create a more financially resilient market, built on a foundation of safety and liquidity. We acknowledge the important role we play in the market and therefore continue to invest in our resiliency while remaining vigilant for risks. The years 2024 and 2025 will be important for collateral management, as we are driving several key initiatives aimed at improving the flexibility, optimisation and connectivity of collateral.

PASLA: a roundup of the Asian market

Having attended the PASLA Conference in Singapore earlier this month, Carmella Haswell provides a roundup of major findings from the Association's key industry discussions

The Pan Asia Securities Lending Association (PASLA) recently hosted its 18th annual conference in partnership with the Risk Management Association (RMA) on Asian securities lending in Singapore.

Around 385 participants and 133 firms were in attendance at the event, which saw the Association's first ever CEO Stephen Howard and chairman Jason Wells welcome market participants to the three-day conference.

The event aims to provide an opportunity for industry participants to connect with peers and market professionals, gain valuable insights into the latest developments in securities lending in this vibrant region, as well as explore the key themes shaping the industry today.

PASLA serves an essential role in representing its members in communication with regulators and key stakeholders to align to an industry consensus on important issues that affect the viability and

development of the securities finance business in Asia Pacific.

SFT has produced a roundup of the key findings of PASLA's industry panel discussions.

Asia regions to establish securities lending programmes

South Korea, Indonesia and the Philippines look to strengthen access to securities lending and short selling, according to panellists at the PASLA conference.

Market participants discussed key market developments and challenges across the APAC region over the past 12 months in the PASLA APAC Market Updates session.

Over the course of 2024, the PASLA ASEAN working group aims to advance its goal to release a securities lending and short selling programme in the Philippines.

According to Ed Oliver, managing director for product development at eSecLending, the PASLA working group is engaged with the Philippines Stock Exchange to understand rule changes in the region following the introduction of a new regulatory framework on securities lending and short selling at the end of 2023.

In 2015, the ASEAN working group commenced its first workshop with the Philippines Stock Exchange to work through a number of

barriers facing institutions that wanted to lend securities and to introduce short selling.

“There were two hurdles in the region that the Association’s working group had worked on for a long period of time," Oliver said. “The first hurdle was getting the Philippine regulators to accept the internationally regulated Global Masters Securities Lending Agreement (GMSLA). The second barrier was getting the market to accept offshore collateral and being able to lend securities.”

The new rules and regulations introduced last year addressed some of these challenges.

In Indonesia, Oliver said the ASEAN working group had been working alongside central counterparty ID Clear on the expansion of the entity’s securities lending solution.

He added: “We hope we are able to provide more opportunities in 2024 for institutions to lend securities for the first time. The final hurdle in achieving this is getting the region’s regulator’s to accept offshore collateral.

“As a working group we have explained how offshore collateral works and how triparty engagement plays a role in this. Currently, we are facing stepping stones, but we are getting closer to an end solution for Indonesia.”

In South Korea, a short selling ban marked an “intense period of engagement” between market participants and onshore agencies, according to Jeff Coyle, PASLA board member and head of Hong Kong agency trading, securities finance at Northern Trust.

During Q4 2022 and Q1 2023, there were a number of positive announcements on developments and the strengthening of the capital markets in South Korea.

This included the reduction of the securities transaction tax, the removal of tax on treasury bonds, as well as the removal of the “cumbersome” investor registration scheme. Coyle said this “fed into the optimism” in South Korea around the securities lending landscape.

However, in 2023, the region faced further regulatory scrutiny and regulatory punishments over short sell violations.

Coyle indicated that this led to an outright ban on short selling on 6 November 2023, which is due to remain in place until the end of June 2024. Coyle said regulators were working to improve rules and systems.

SFTR 2.0 coming to Europe

The Securities Financing Transactions Regulation (SFTR) 2.0 is coming to Europe for non-banking intermediaries and could face a number of changes in the pipeline for SFT reporting, according to Farrah Mahmood, director of regulatory affairs at ISLA.

SFTR 2.0 is likely to be rolled out when there is a new mandate from the European Commission in 2025.

An SFTR consultation, which is likely to commence before the end of Q2 2024, was announced as part of the European Commission’s report on a macro prudential framework for non-bank financial intermediaries in January.

Industry participants discussed the latest updates on Basel III Endgame and considered the key regulatory requirements facing the market, including 10c-1a and SFTR, as well as regional APAC regulatory developments at the conference.

According to Mahmood, the updated regulation could incorporate a tax element, following tax abuse scandals across Europe.

In addition, she anticipated that an environmental, social and governance (ESG) element could take root in the revised rules, with other regulatory initiatives such as MiFID also expected to incorporate sustainability preferences.

The International Securities Lending Association (ISLA) believes that principle-based rules may be included in the regime as part of the review.

SFTR came into effect in 2016 with the objective to increase transparency of securities financing transactions (SFTs) — particularly between non-banks and banks — to aid identification of potential risks and to understand if SFTs contributed to a build-up of leverage in the financial system.

It is one of the largest reporting frameworks with more than 150 data

fields. Mahmood anticipated that additional reporting fields are likely to be introduced during a future review of the regulation.

This engages with an ongoing focus on data quality, and the type of data that is being collected, to ensure that reporting is accurate and meets with the regulation's objective to promote transparency and effective risk monitoring of securities financing transactions.

In her conclusion, Mahmood highlighted five key themes for market participants to focus on over the next two years.

The first theme is capital requirements. Mahmood indicated that conversations are being had around incorporating ESG risk into capital requirements and how digital assets exposures should be treated under Basel regulation.

Mahmood says ESG is "making a comeback" with the continual creation of green taxonomies in Europe and in the APAC region.

A second theme is the digital agenda; ISLA is working to produce an annex to facilitate the borrowing and lending of digital assets.

Operational resilience and cyber security are also key themes: "there is a huge focus from regulators on the threat of cyber security on the stability of the financial system", Mahmood added. This will be kept top of mind for evolving legislation.

The Association indicates that market participants should be aware of consumer protection and regulation for the retail space. Mahmood explained: "At ISLA, we are looking to engage more with the retail aggregator side of the market, as they are increasingly becoming involved in running securities lending programmes."

Finally, there will be discussions on increased cross-border regulatory convergence at an international level.

Interoperation is key for DLT success

"As we build out the ecosystem of DLT platforms, we do not want to re-create the fragmentation of legacy securities settlement infrastructure. Interoperation across DLT platforms is paramount for the overall success of the global DLT ecosystem," explained Guido Stroemer, HQLA^{X} CEO.

At the event, panellists highlighted the different definitions of tokenisation that distributed ledger technology (DLT) platforms employ.

DLT platforms can represent books and records, or a registry-to-record ownership of legacy securities, fixed income and equity securities. Another form of tokenisation is the creation of a stable coin or a financial instrument that represents an actual security.

For Stroemer, synchronising ownership transfers for common clients across ledgers is key for the successful application of DLT platforms in global securities finance and repo industry.

DLT platforms are being used by global banks to drive tangible results in terms of client and shareholder value creation. Stroemer pinpointed a “real interoperability use case” that is currently in the works across HQLA^{X}, J.P. Morgan’s Onyx platform, Wematch and Ownera.

An intraday repo market is being created to facilitate ownership transfers of securities on HQLA^{X} ledger, synchronised with ownership transfers of deposit tokens on the Onyx ledger.

Through this collaboration, the four firms aim to develop a novel solution that will enable the execution of repurchase transactions executed on the Wematch platform with delivery-versus-payment (DvP) settlement across two different distributed ledgers.

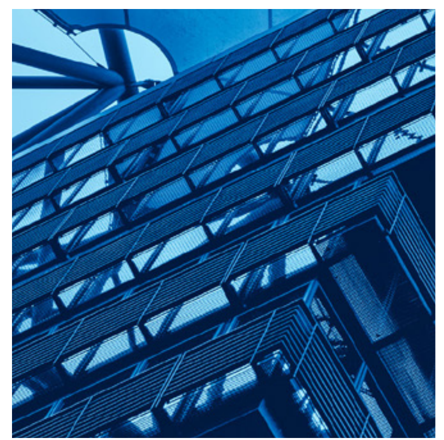
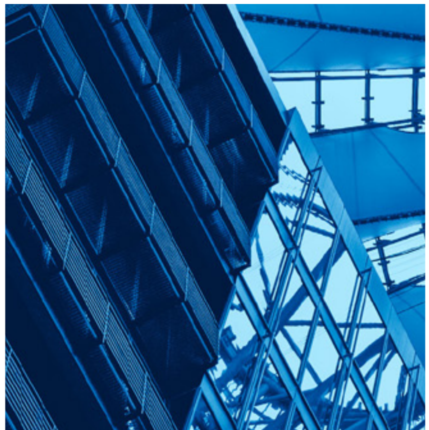
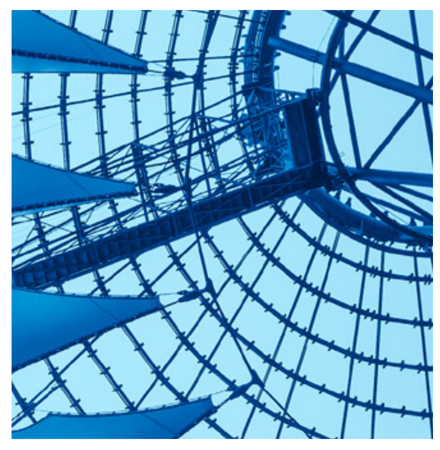
He said DLT platforms can help drive bottom line results by addressing specific pain points.

For example, Stroemer outlined a use case that is “near and dear to the audience at PASLA”, a securities lending use case to help reduce settlement lags in the popular US Treasury (UST) / Japanese government bonds (JGB) collateral swap.

A final point raised by Stroemer highlighted that DLT platforms could provide the global regulatory community with “a bird’s eye view over collateral chains” in the global securities finance and repo markets.

He indicated that this could potentially be a more cost effective and efficient industry solution “compared to current market practice for securities finance transaction reporting to trade repositories”.

The panel concluded that the road to market adoption is to convert pain points into solutions.

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From bonds to bytes: HSBC's digital innovation

John O'Neill, HSBC'S global head of digital assets strategy, speaks to Sophie Downes about the firm's recent digital endeavours and their significance for the future of the digital market transactions

"Repo is one of the cornerstones of a liquid bond market," according to John O'Neill. "As digital asset markets develop, Hong Kong is leading the way."

February 2024 did indeed mark a period of vast endeavour for HSBC, and also a moment of personal pride for O'Neill, as the company's global head of digital assets strategy.

The start of the month saw the completion of the bank's multi-currency digital bond offering. This success laid the foundation for a HKD repo transaction on 27 February, in which digital bonds were used as collateral.

As one of the world's largest financial institutions, with global roots stretching far beyond their Hong Kong base, innovation is imperative to the work HSBC are doing.

HSBC Orion

The completion of the bond issuance encapsulates the growing power of digital platforms and technology in the industry.

In this particular case, the developments were facilitated by HSBC Orion, a platform launched by the bank in 2022, which enables financial institutions to issue blockchain-based versions of financial assets.

HSBC Orion is operated through the Hong Kong Monetary Authority's (HKMA) Central Moneymarkets Unit (CMU), enabling digitally native bond issuance via the CMU system. This means that conventional bonds are not issued into the CMU and tokenised on a separate blockchain platform, but are directly issued onto HSBC Orion's private permissioned blockchain.

Tokenisation is the process of issuing a unique, digital representation of a real product. Tokens can represent physical assets such as real estate or art, financial assets including equities or bonds and intangible assets like intellectual property. While HSBC Orion facilitated the issuance of bonds in this case, there is potential expansion into other digital and tokenised assets in the future.

O'Neill explains how integrating the Orion platform into the CMU enables the transaction to benefit from longstanding CMU linkages with international central securities depositories (ICSDs). "The landmark transaction has opened up an unparalleled range of investor access options, which is key to driving liquidity in digital bonds," he adds.

These digital bonds were issued through the Orion platform as part of a HKD 6 billion (US$760 million) equivalent digital native green bonds issuance. Not only did this represent the largest digital bond issuance to be completed globally, it was also the first multicurrency digital bond issue, across HKD, CNH, USD and EUR currencies. This permitted HSBC to conduct a HKD repo transaction with the Bank of East Asia on 27 February, using digital bonds as collateral.

Tradition and tokenisation

Introducing a digital bond is not done overnight.

In February 2023, Hong Kong issued its first tokenised green bond, a HKD 800 million issuance using the Goldman Sachs Digital Asset Platform (GS DAP). While the HKMA affirmed their support for tokenisation in its Bond Tokenization in Hong Kong report in August 2023, they argued greater interoperability was needed for future tokenised bonds.

"The landmark transaction has opened up an unparalleled range of investor access options, which is key to driving liquidity in digital bonds."

O'Neill describes how the team began working on the project from the mandate in the summer of 2023. It becomes apparent that this was no easy task, predominantly due to the challenges of placing a natively digital platform in Hong Kong. "We went for what we regarded as the ideal situation, so that investors find digital bonds as easy to access as conventional bonds — they do not have to use new accounts, they do not have to create wallets or tokens," he explains.

Fortunately, these efforts proved fruitful. O'Neill details how HSBC initially employed the account structure of Hong Kong's CMU, before incorporating linkages to ICSDs , including Euroclear and Clearstream. "When it came to pricing these bonds, there was a

lot of demand, it was as easy to access as a conventional Hong Kong bond, and we have seen secondary liquidity and repo since," recounts O'Neill.

A gold standard?

Eugene Ng, managing director at HSBC's Hong Kong office, stated the transaction would establish "a new benchmark for future digital bond issuances, setting the gold standard in the industry".

So why is this bond issuance so significant, and what does it mean for future digital bond issuances?

"This repo transaction marks a significant milestone in building liquidity for digital bonds, while reinforcing our bank's support for the development of HKD capital markets."

A significant impact is the opportunities it creates for investors. HSBC reports, in insights published on the company website, that it has seen "unprecedented investor demand to-date for a digital bond with over 50 global investors".

Meanwhile, the repo transaction with the Bank of East Asia highlights how digital bonds can now be used for short-term financing purposes — another sign that the market is maturing. Bryan Wong, general manager and head of the treasury markets division of the Bank of East Asia, spoke of the 'smooth' process of transacting repo trades using bonds as collateral: "This repo transaction marks a significant milestone in building liquidity for digital bonds, while reinforcing our bank's support for the development of Hong Kong dollar capital markets."

Another advantage of digital repo is the speed and ease of the transaction. A shorter settlement cycle reduces both market and liquidity risk in the length of exposure to trading counterparties as well as lowering the margin requirements for clearing members. HSBC notes that the settlement period for conventional bond issuance in Hong Kong is T+5. However, this digital bond issue settled on T+1, illustrating the benefits of digitalisation of bond issuance and settlement.

Indeed, perhaps the greatest significance of the bond issuance is the fact that it is an actioned, settled transaction within a topic that is surrounded by discussion and buzzwords.

"This is not a model," O'Neill emphasises. "This infrastructure is suitable to be used by other issuers, and there is already strong interest in using it, because issuers and investors have seen the liquidity that can result."

In short – it works.

Forging ahead

On the tails of the team's success, O'Neill remains firmly focused on the next project. The immediate next step, he shares, is working to facilitate more digital bond issuances on the Orion platform.

The team is focused on building strong capabilities across the bank within digital assets and blockchain technologies. Specifically, it is looking to expand the range of digital assets it can tokenise. In December 2023, HSBC Holding introduced tokenised physical gold trading on its single-dealer platform, an offering which O'Neill suggests he wants to explore further.

2024 will also witness the launch of HSBC's digital asset custody service for institutional clients that invest in tokenised securities. Once up and running, they hope it will complement HSBC Orion to form a complete digital assets offering for institutional clients.

The completion of the bond issuance evidently warrants optimism, both for HSBC as it makes strides in the digital ecosystem, but also for an industry confronted with increasing discussion of digitalisation. We are witnessing, in real time, the beginning of an industry wide transformation.

ICMA European Repo & Collateral Council

Reception followed by dinner
25 April 2024 | 18:30 | Plaisterers' Hall, London

The ERCC was established in 1999 and is today firmly established as the main representative body for the cross border repo and collateral market in Europe. It has also played a crucial role in the development of the repo market globally. The ERCC is a perfect example of how industry participants can come together and collaborate for the benefit of the overall market.

The 25th year anniversary dinner is an opportunity to reflect on past and future challenges, to celebrate the progress made and the achievements of the ERCC but most of all to thank the numerous individuals who are and have been involved, who have contributed and continue to contribute to the ERCC's success and the growth of the global repo markets.

Tables of ten, as well as half tables, are available for sponsorship. To discuss sponsorship opportunities, please contact our Head of Business Development & Events Sponsorship, sanaa.clausse@icmagroup.org. A limited number of individual tickets are also available for purchase.

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FINRA Rule 4210: managing risks effectively

Matrix Application's Stephen Mellert speaks to Carmella Haswell on the upcoming FINRA Rule 4210 amendments which will come to market in May 2024 and is expected to represent a significant shift in the regulatory landscape for broker-dealers

After a seven-year extension, the US Securities and Exchange Commission (SEC) has approved the implementation of margin requirement rules relating to Covered Agency Transactions under the Financial Industry Regulatory Authority (FINRA) Rule 4210. Firms are now racing to prepare for the 22 May 2024 compliance deadline. Speaking to SFT, Stephen Mellert, head of business development at Matrix Applications, anticipates that the implementation of this rule will represent a significant shift in the regulatory landscape for broker-

dealers. The amendments aim to mitigate systemic risk and enhance the financial stability of the capital markets.

"For broker-dealers, it means adapting to a more stringent regulatory framework that requires careful management of credit exposures and liquidity planning. Overall, the impact on the wider market should be positive, promoting greater transparency and stability in the securities financing sector," he adds.

Covered Agency Transactions are defined as to be announced (TBA) transactions, inclusive of adjustable rate mortgage (ARM) transactions and specified pool transactions, where the difference between the trade date and contractual settlement date is greater than one business day.

Thirdly, the term Covered Agency Transactions includes transactions in collateralised mortgage obligations, issues in conformity with a programme of an agency or government-sponsored enterprise. Here, the trade date and contractual settlement date is greater than three business days.

The FINRA Rule 4210 amendments present three main changes.

Maintenance margin requirements

From 22 May 2024, the two per cent maintenance margin requirement will be eliminated. Originally, the rule applied to covered agency transactions by non-exempt accounts. According to the Authority, this new rule removes the need for members to distinguish exempt account customers from other customers for the purpose of covered agency transaction margin.

FINRA indicates: "As such, without regard to a counterparty's exempt or non-exempt account status, under the amendments members will collect margin for each counterparty's excess mark to market loss… unless otherwise provided by the rule."

The move to eliminate this margin requirement will provide more flexibility for broker-dealers in managing their margin lending practices, says Mellert. It can reduce the operational burden on firms and lower the cost of financing for clients. Mellert adds: "By focusing margin requirements more directly on the specific risks associated with Covered Agency Transactions, this amendment could lead to more efficient use of capital and liquidity across the market."

Capital charge

The second amendment to the Rule 4210 involves permit members. Subject to specified conditions and limitations, these members will take a capital charge in lieu of collecting margin for excess net mark-to-market losses on Covered Agency Transactions.

The conditions and limitations are designed to protect the financial stability of members that opt to take capital charges, while restricting the ability of the larger members to use their capital in lieu of collecting margin to compete "unfairly" with smaller members.

"The move to eliminate this margin requirement will provide more flexibility for broker-dealers in managing their margin lending."

Matrix Applications — a wholly-owned subsidiary of South Street Securities Holdings that provides collateral management, margining and clearing systems for fixed income trading and equities securities lending — believes this change provides an "innovative approach" that enables flexibility in how firms manage their risk.

Mellert explains: "This option can be particularly beneficial for firms with strong capital positions, offering a way to comply with the rule's intent while optimising their capital management strategies. It reflects a recognition of the diverse nature of market participants and their varying capacities to manage risk."

Streamline, consolidate and clarify

The third alteration in the amended rules are designed to streamline,

consolidate and clarify the Covered Agency Transactions rule language. In particular, the rule revisions preserve and clarify key exceptions including the US$250,000 de minimis transfer exception and the US$10 million gross open position exception established by the original rulemaking.

"Overall, the impact on the wider market should be positive, promoting greater transparency and stability in the securities financing sector."

With respect to the US$10 million gross open position exception, the amendments revise paragraph (e)(2)(H)(ii)a of the rule. Under this paragraph, counterparties exempt from the rule's margin requirements include a "small cash counterparty". A small cash counterparty is defined under four terms, including if the "absolute dollar value" of all of such counterparty's open Covered Agency Transactions with, or guaranteed by, the member is US$10 million or less in the aggregate.

This accounts for "when computed net of any settled position of the counterparty held at the member that is deliverable under such open Covered Agency Transactions and which the counterparty intends to deliver".

A risk worth taking?

FINRA's amendments to Rule 4210 were first proposed to address several concerns relating to the potential impact of the rulemaking. The amendments permit broker-dealers, subject to specified conditions and limitations, to take a capital charge in lieu of collecting margin for excess net mark-to-market losses on Covered Agency Transactions. This provides flexibility for broker-dealers in managing their capital. However, Mellert indicates that it may also present increased risk.

By allowing broker-dealers to take a capital charge in lieu of collecting margin, Mellert explains that "there could be an increased risk if the broker-dealer's net capital deductions for all accounts combined exceed US$25 million". The changes may also present operational challenges, he adds, as firms will need to adjust their systems and procedures to comply with the new rules.

With two months to go until its implementation, Matrix Applications has been monitoring the developments of the FINRA Rule 4210 and has prepared its MarginCalculator platform to ensure compliance. The platform acts as a "straightforward solution" to assist clients in navigating these complexities.

"Our platform simplifies the process of calculating margin requirements for Covered Agency Transactions, ensuring that broker-dealers can meet their regulatory obligations efficiently," says Mellert. MarginCalculator is live and provides margin calculation as well as margin tracking — components the firm says is crucial for compliance and risk management.

Mellert believes the platform differentiates itself from other competing platforms by "being the only solution in the market that focuses solely on covered agency transactions". The system augments dealer's existing trade processing systems that lack the particular requirements of Rule 4210. It is designed to offer a "highly intuitive and user-friendly interface", combined with computational capabilities that ensure accuracy and compliance with the rule.

"Our commitment to client support ensures that users of MarginCalculator have access to expert guidance and assistance, making it not just a tool, but a comprehensive solution for managing compliance and risk associated with Covered Agency Transactions," Mellert adds.

Aside from forming this platform, Matrix Applications has been engaging with its clients through training sessions and direct consultations to help them understand the implications of Rule 4210 and prepare their operations accordingly.

Mellert concludes: "Our aim is to ensure that our clients are not just compliant, but well-positioned to manage their risks effectively under the new regulatory framework."

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CLEARANCE AND COLLATERAL MANAGEMENT

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UK Short Selling: a regulatory update

Aniqah Rao, associate, markets regulation at the Alternative Investment Management Association (AIMA), summarises changes to short-selling rules designed to drive growth and competitiveness in the UK financial sector

HM Treasury (HMT) has been engaged in a comprehensive review of the UK's onshored financial services legislation. In December 2022, as part of the Government's "Edinburgh Reforms" — a package of 30 reforms designed to take advantage of Brexit freedoms and improve the UK's financial services regulatory framework — HMT published a Call for Evidence on the Short Selling Regulation to explore how the UK should reform the regulation of short selling.

The EU's Short Selling Regulation (EU SSR), onshored in the UK post-Brexit, was introduced in 2012 following concerns about a lack of transparency on whether, and how, short selling was impacting prices and increasing risks to financial stability. The EU SSR established rules on notification of short positions to regulators, as well as public disclosure of larger short positions. It also granted powers to regulators to impose short selling restrictions on any financial instrument in "exceptional circumstances".

HMT is now taking steps to liberalise short selling rules and to drive growth and competitiveness in the UK's financial sector. This has entailed evaluating the nature of reporting and disclosure requirements, the impact of short selling bans and specific provisions relating to sovereign debt and credit default swaps (CDS).

The Alternative Investment Management Association (AIMA) has

engaged actively with HMT and the UK's Financial Conduct Authority (FCA) throughout the review, highlighting the healthy role that short selling plays in the proper functioning of financial markets by supporting price formation and acting as a check on corporate wrongdoing.

We called, in particular, for a removal of the public disclosure requirement — given this disincentivises short positions due to the risk of copycat trading — and improvements to the burdensome supervisory notification requirements. We also pushed for the replacement of the existing 'Exempt List' of shares subject to short selling disclosures with an 'positive' in-scope list of shares to support compliance with the regime.

In July 2023, HMT announced a number of significant and welcome amendments to the UK SSR — as AIMA had advocated. These included replacing the individual public disclosure regime with an aggregated net short position disclosure regime; increasing the supervisory notification threshold from 0.1 per cent of issued share capital to 0.2 per cent; and requiring the FCA to publish a 'positive' list of in-scope shares to which certain rules apply. These also removed restrictions on uncovered short positions in UK sovereign debt and credit default swaps (CDS) and abolished requirements to report sovereign debt and CDS positions to the FCA.

In February 2024, the first of the changes, an increase of the notification threshold for net short position reporting to the FCA, came into force via a statutory instrument. The remaining reforms will be implemented through a second statutory instrument, The Short Selling Regulations 2024, and subsequent FCA rulemaking.

The draft statutory instrument is undergoing finalisation and will be laid before Parliament this year. The FCA will then consult on the details of the changes, such as how firms should report net short positions to the regulator, the FCA's approach to using emergency intervention powers and the criteria for a list of reportable shares. While this process will take time, we hope new rules might be finalised in the course of 2025 — to the ultimate benefit of the UK's financial market.

"AIMA has engaged with HM Treasury and the FCA throughout the review, highlighting the role that short selling plays in the proper functioning of financial markets."

Aniqah Rao
Associate, markets regulation
Alternative Investment Management Association

Khemdoudi exits S&P Global

Pierre Khemoudi has left his position at S&P Global after 11 years with the company.

He has served as senior vice president for network and regulatory solutions in S&P Global's London office since March 2022, working within a team that has built a global regulatory reporting solution that now supports more than 500 financial and non-financial institutions worldwide.

Previously Khemdoudi was a partner and managing director at IHS Markit, serving as global head of data, analytics and reporting prior to the merger with S&P Global that was completed in February 2022.

Earlier in his career, Khemdoudi worked for more than a decade at BNP Paribas, serving as head of London securities finance trading and head of Japanese securities finance for the bank's office in Tokyo.

Drawing on his multidisciplinary expertise, he also worked as a research assistant at the Center for Space Power and NASA commercial space center in Texas in the early years of the millennium.

Bodley joins Pirum

Pirum Systems, an automated post-trade services vendor, has hired Andy Bodley as a key account director.

Based at the firm's London headquarters, Bodley will focus on growing the global fintech's existing client accounts and refining the company's high-touch client service model.

He brings more than 21 years of client-facing experience to the role. In addition, he has further experience in account leadership, which includes managing large and complex pre-trade, trade and post-trade accounts.

Bodley joins Pirum from the London Stock Exchange Group (LSEG) where he was most recently director of group strategic relationships. In this position, he oversaw large European-based accounts globally.

Previously, Bodley developed key accounts at Refinitiv, Thomson Reuters and Reuters. He has also held positions at Barclays Capital and ABN Amro.

Daniels departs Aon

Tom Daniels has left global consulting firm Aon Consulting to seek new opportunities.

After joining the firm in 2021, Daniels became practice leader for securities lending and asset manager consulting in Aon's custody advisory services group.

The securities segment of the financial risk-mitigation firm provides corporate finance advisory services, capital markets solutions and strategic advice, among other services.

At Aon, he was responsible for leading the build of the firm's securities lending oversight practice.

He worked with global asset owners and asset managers to advise and oversee their securities lending and finance programmes for performance enhancement and risk mitigation opportunities.

Daniels joined Aon from BNY Mellon, where he served for more than two decades. Most recently, he was head of securities lending business development for the Americas.

SECURITIES FINANCE SYMPOSIUM

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New CEO at Deutsche Börse

The Supervisory Board of Deutsche Börse has appointed Stephan Leithner as the company's new CEO.

He will begin his new position on 1 October and initially lead Deutsche Börse as a co-CEO together with Theodor Weimer until the end of the year.

Leithner has been a member of the executive board of Deutsche Börse AG since 2018, where he was responsible for pre and post-trading.

His current areas of responsibility include the investment management solutions segment with ISS STOXX and SimCorp as well as the Group's post-trading business with Clearstream.

Previously, Leithner was with Deutsche Bank AG from 2000 to 2015. Initially he was responsible for building up the capital markets and M&A business, and in 2012 he became a member of the executive board.

WISF appoints Fleming

Women in Securities Finance (WISF) has appointed Erika Fleming to lead its Chicago chapter.

Fleming will join current Chicago chapter lead, Lori Paris, who is currently head of securities finance client management at Northern Trust and has been leading the chapter since 2019.

Fleming holds extensive experience in securities finance and leadership. Currently, she is a business architect at Schwab, where she is responsible for coordinating the various in-house and vendor applications used by the securities lending department.

Prior to Schawb, she served at FIS, Citadel and Wachovia capital markets.

Fleming's appointment coincides with the Chicago division's transition into a virtual chapter, a development that aims to adapt to membership demands and provide opportunities for members who reside in areas outside of Chicago.

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