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Bolstering African liquidity

Gabriele Frediani on the Liquidity and Sustainability Facility and how it supports the liquidity of African sovereign eurobonds

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11 JULY 2024

BNY Mellon and GLMX collaborate to connect the buy side

A collaboration between BNY Mellon and GLMX has created a new integration allowing buy-side clients to direct repo trades at point of execution to the bank's triparty platform.

This integration connects the New York-based bank's US$5.25 trillion triparty liquidity pool with the electronic securities financing trading platform's US$2 trillion network.

It aims to address the increasing market demand for buy-side clients looking for a single ecosystem to manage both their collateral and liquidity requirements.

The firms say the integration was born from a growing demand from clients seeking to expand their BNY Mellon triparty usage from beyond uncleared margin segregation and into repo financing.

Commenting on the collaboration, Ted Leveroni, head of margin services at BNY Mellon, says: "This integration with GLMX re-enforces our commitment to enhance the user experience for our growing buy-side client base on triparty.

"In our 240 years of business, we are proud to utilise our expertise to form relationships that provide innovative solutions and capabilities for our clients."

GLMX CEO Glenn Havlicek adds: "Building interoperability with BNY Mellon creates a seamless workflow from negotiation and execution to settlement for our global clients.

"This step is consistent with GLMX's objective of providing a single access point which connects the global money market to deep liquidity pools, regardless of trade structure, settlement type or trading instrument."

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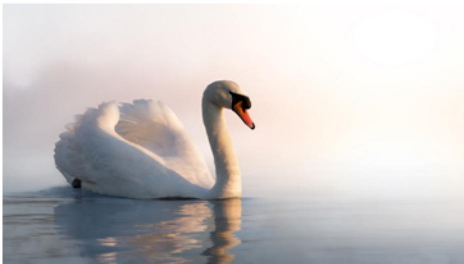

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What does the FOMO rally mean for securities lending flows?

Since mid-February, short loan value as a percentage of market capitalisation has started to increase across European, Asian and Americas equities. As equity markets touch all-time highs, Matthew Chessum, director of securities finance at S&P Global Market Intelligence, predicts further volatility on the horizon and a positive short-term outlook for securities lending markets

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BBH rolls out Pirum's Recalls Manager

Brown Brothers Harriman (BBH) has launched Pirum's automated Recalls Manager solution.

The offering covers the full global post-trade lifecycle from issuance to closure and was adopted in an effort to reduce securities lending fails.

By employing automation and real-time coverage, BBH aims to promote a smooth transition to the shortened T+1 settlement cycle.

Sarah Holmes, global head of securities lending at BBH, says: "Straight-through processing (STP) across the full recall lifecycle is an important risk mitigant prior to North American markets moving to a T+1 settlement cycle in May.

"Expanding our capabilities in this area reduces operational friction with our borrowers and allows us to service our clients by reducing disruption to regular portfolio management activity."

Jacob Koopmans, chief revenue officer at Pirum, adds: "By rolling out Recalls Manager ahead of the incoming regulatory shift, BBH has freed up time and resources, which it can now redeploy to deliver even more value to its clients."

World's largest pension fund to resume foreign stock lending

Japan's Government Pension Investment Fund (GPIF) has confirmed it will resume foreign stock lending after it first suspended the practice in December 2019.

In the future, the fund intends to "promptly proceed" with specific practical measures such as the selection of foreign stock lending agents by asset management organisations. However, GPIF does not intend to carry out lending of domestic stocks.

The fund will resume its activities in foreign stock lending (securities loan management) with a number of foreign stock lending initiatives.

GPIF will look to balance the acquisition of lending revenue and stewardship responsibility, take into account the lending

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ratio, as well as make it possible to respond to the recall of loaned shares.

It will resume its stock lending practices after incorporating new measures, including efforts to avoid empty voting.

In 2022, GPIF conducted research on the impact of its suspension of stock lending on the market. In April 2022, the fund issued a Request for Information (RFI) on quantitative analytical methods relating to the effects of the event in 2019.

GPIF reports that there was no impact on the stock market and stock lending market.

In its statement, GPIF informs that there is a movement to ask entrusted organisations and lending agents to develop an information sharing system. It reports that progress has been made in ensuring transparency, such as the obligation to report transactions to regulators in Europe and the US.

Commenting on the announcement via LinkedIn, the Pan Asia Securities Lending Association (PASLA) says it is “encouraged” by the GPIF’s decision to resume its securities lending activities in non-Japanese securities.

The statement reads: “The outcome of GPIF’s review is a testament to the progress made by the global securities finance industry aligning the enhanced standards in environmental, social and governance (ESG) to address concerns over transparency and stewardship within the investor community.

“GPIF's decision to return to the market will add both liquidity and increased price discovery into the price formation process of these equities. PASLA will continue to support the securities lending industry to integrate ESG factors. We see this as a positive recognition in the market and look forward to building on this with our stakeholders.”

ESMA reports mixed feedback

The European Securities and Markets Authority (ESMA) has published market feedback on its Call for Evidence on shortening the settlement cycle in the EU to T+1.

The report indicates a mixed response, with respondents identifying a wide range of both potential costs and benefits of a shortened cycle, while other respondents supported a thorough impact assessment before deciding.

The feedback provides suggestions around how and when a shorter settlement cycle could be achieved.

Participants highlighted the need for a clear signal from the regulatory front at the start of the work and clear coordination between regulators and the industry.

The report also indicates that stakeholders made clear the need for a proactive approach to adapt their own processes to the transition to T+1 in other jurisdictions.

Some responses warned about potential infringements due to the misalignment of the EU and North America settlement cycles, which ESMA says it is currently assessing.

The association says several questions remain to be further assessed before implementing T+1. This includes greater investigation of the impacts on securities lending and borrowing, as well as benefits resulting from margin reductions for cleared transactions.

ESMA intends to deliver its final assessment to the European Parliament and to the Council before 17 January 2025.

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Banca March selects Adenza's Calypso Treasury solution

Banca March has selected Adenza's Calypso Treasury solution to provide front-to-back-to-risk management.

The Spanish bank has selected Adenza's CapCloud SaaS for a more streamlined cross-asset solution.

Hector Rico, quantitative analysis and methodology director at Banca March, welcomes the selection: "The Calypso Treasury solution not only unlocks further efficiencies for Banca March but also ensures the required flexibility and scalability as we expand in our corporate advisory and wealth management businesses.

"Managed services free up our resources to focus on business differentiation instead of business-as-usual tasks such as upgrades and configuration."

Banca March will benefit from a cross-asset view of its positions — across securities finance, derivatives, fixed income, foreign exchange and money markets — for holistic liquidity, risk and profit and loss, as well as collateral and cash management in real-time on a single platform.

The implementation will be led by the Madrid-based Nasdaq customer delivery team.

Baader Bank selects Broadridge for regulatory reporting

Baader Bank has chosen Broadridge Financial Solutions for its regulatory trade and transaction reporting.

Broadridge's platform will support the bank to meet the evolving requirements across multiple regulations, including MiFID, FinfraG, EMIR Refit and the Securities Financing Transactions Regulation (SFTR).

The agreement extends Broadridge's relationship with the bank, which uses Broadridge's front and middle office suite of solutions for order management, trading and market connectivity.

Baader Bank offers its clients access to a full spectrum of asset classes including equities, bonds, derivatives and exchange-traded funds (ETFs), as well as primary market transactions.

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Ben Cooling, general manager of Regulatory Transaction Reporting Solutions at Broadridge, says: “We are thrilled to support Baader Bank by providing them access to our platform and expertise to transform its risk and compliance capabilities.

Wematch and Eurex partner

Wematch.live has partnered with Eurex on basket total return futures (BTRF).

The partnership will allow interoperability between Wematch’s TRS module, which automates trade matching and collateral optimisation, and Eurex’s BTRF products.

The collaboration aims to streamline clearing and settlement, as well as increase efficiency and capital optimisation.

It will be rolled out in strategic phases over the coming months, with the full integration across pricing, execution and lifecycle management targeted for a Q3 2024 launch.

David Raccat, co-founder of Wematch.live, says: “Partnering with Eurex creates immense opportunities to optimise an increasingly critical area of the securities finance ecosystem.

“Synthetic products are vital for efficient capital deployment and portfolio utilisation, and BTRFs represent a paradigm-shifting innovation layering exchange benefits onto this model.”

Hazeltree launches updates to treasury and liquidity management platform

Software company Hazeltree has launched version 11, a series of enhancements to its treasury and liquidity management platform.

The upgrade will provide hedge fund and private markets clients with enhanced user experience, increased ease of remote access and more robust security, says the firm.

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Key updates to the platform include secure remote access — the removal of the requirement for IP whitelisting allows clients to access Hazeltree solutions from a laptop or remote work location.

Version 11 also includes a mobile approver app, enabling users to approve or decline transactions, while fund admins can "switch companies" to support multiple clients.

"We are excited to unveil the latest product updates across our alternative asset ecosystem," says Richard Winter, chief technology officer at Hazeltree.

He adds: "Our security revamp serves as the foundation for new capabilities to allow workflows, especially for individuals on the move, solving a particular pain point for clients."

Stephanie Miller, CEO of Hazeltree, comments: "We have extensive plans for continued updates in the year ahead as we continue to scale the business and expand our product suite."

Wematch completes securities lending trade in APAC

Wematch.live has successfully executed its first securities lending trade in the Asia-Pacific region.

The transaction was completed between two global financial institutions in Hong Kong, and took place on 13 March 2024.

The trade marks a significant step in Wematch's expansion into the APAC securities lending market, says the firm.

David Raccat, chief revenue officer and co-founder of Wematch, comments: "This transaction demonstrates the strength of our platform and its ability to connect lenders and borrowers across the globe.

"We look forward to further expanding our presence in the APAC region."

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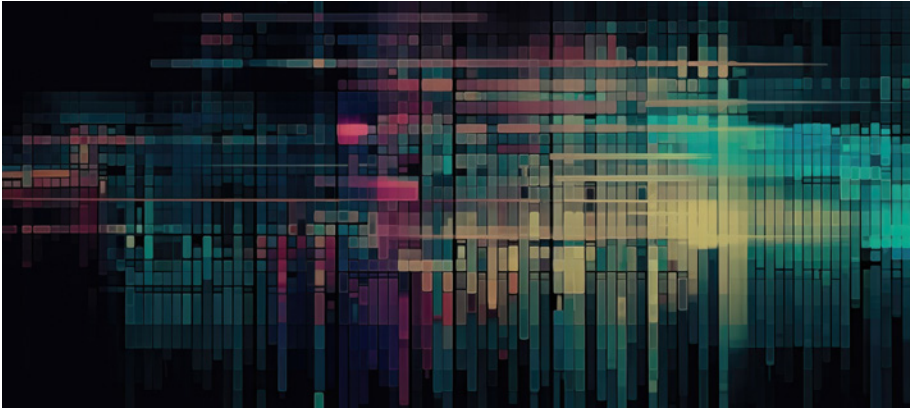

Swift completes second testing phase for its CBDC interlinking solution

Swift has published the results of the second testing phase of its central bank digital currency (CBDC) connectivity solution.

This CBDC sandbox has attracted participation from 38 organisations worldwide, including central and commercial banking institutions and market infrastructure entities.

This testing phase concludes that the Swift CBDC "interlinking solution" offers potential to accelerate and simplify trade flows, to support greater efficiency in foreign exchange settlement and to facilitate the growth of tokenised securities markets.

This connector will enable financial institutions to conduct a wide range of transactions employing CBDCs and other forms of digital tokens, while enabling these firms to make use of their existing trading and payments infrastructure.

Swift indicates that the lack of interoperability between tokenisation platforms has presented an obstacle to the growth of tokenisation. However, results from this second phase of sandbox testing indicated that Swift's solution could link multiple asset and cash networks and facilitate atomic delivery-versus-payment (DvP) settlement across those platforms.

The testing also confirmed that the connector could play a role in foreign exchange transactions, says the Brussels-based financial messaging network. Working with CLS, the Swift connector was found to be interoperable with the existing market infrastructure, facilitating FX netting and settlement employing CBDCs.

This second testing phase has extended the project coverage to include a more complex set of use cases, employing Swift's solution to connect and support transactions across simulated digital trade, tokenised assets and foreign exchange networks. This involved testing of more than 750 simulated transactions.

The sandbox programme has included financial institutions from around the globe, including central banks and monetary authorities from countries including Australia, the Czech Republic, France, Germany, Singapore, Taiwan and Thailand.

Swift's chief innovation officer Tom Zschach says: "Swift is a community – a convener of and for our industry. [We have] been able to facilitate these critical innovation experiments and show that institutions can continue to use much of their existing infrastructure alongside new, innovative technologies.

"Fragmentation is a challenge for the entire industry and ensuring interoperability between networks is vital to addressing this while also enabling new technologies to scale and reach their full potential."

Lewis Sun, HSBC's global head of domestic and emerging payments, Global Payments Solutions, says: "The ability to interlink emerging and existing market infrastructures is essential to realising the potential benefits brought on by tokenisation and CBDCs.

"HSBC [will] continue the collaboration with Swift and other industry peers to incubate an open, inclusive and technology-agnostic model that allows for more efficient payment-versus-payment, delivery-versus-payment, and trade settlement across different networks."

CLS' global head of public policy Dirk Bullmann adds: "Our collaboration with Swift and other key industry players demonstrates our commitment to exploring innovative technologies that reduce risk and increase efficiency while also meeting high standards of resilience.

"As the leading provider of FX settlement services, CLS' participation in the Swift sandbox allowed us to jointly gain a better understanding of how netting and settlement of cross-currency payments could be designed in a CBDC world."

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Bolstering liquidity of African sovereign eurobonds

Gabriele Frediani, head of development and market infrastructure coverage for Europe at the Liquidity and Sustainability Facility, speaks to Justin Lawson about his new position at the firm and how it operates to support the liquidity of African sovereign eurobonds

Gabriele, tell us about your move to join the Liquidity and Sustainability Facility.

About a year ago, when I met the firm's CEO David Escoffier, my curiosity was piqued as I have always been interested in repo beyond its traditional shores. For most countries in the world, having a functioning repo market, in one shape or another, is key. When I spoke to Escoffier at COP28, I was flattered and excited to join a team of skilled and driven professionals, having already delivered trades for an organisation with a genuine purpose.

Can you provide an overview of LSF and its objectives?

The Liquidity and Sustainability Facility (LSF) is a pioneering initiative established with the support of the United Nations Economic Commission for Africa (UNECA) and Afreximbank. It aims to bolster the liquidity of African sovereign eurobonds while simultaneously incentivising investments aligned with Sustainable Development Goals (SDGs) and green initiatives across the African continent.

By engaging with both African governments and private investors, our primary objective is to enhance liquidity in the market to the level of international standards, thereby fostering debt sustainability for African nations. LSF's objective is to reduce the cost of borrowing by African sovereigns, increase the pool of private capital willing to invest in Africa and mobilise affordable resources for green investments.

How does LSF support the liquidity of African sovereign eurobonds, and what impact does this have on borrowing costs for African nations?

LSF plays a crucial role in improving liquidity premia for African sovereign eurobonds, which historically have faced significant borrowing costs. Through our engagement with various stakeholders, we aim to compress yields by strengthening demand and consequently enhancing the price of eligible sovereign bonds. This, in turn, could potentially save African nations an estimated US$11 billion on borrowing costs over five years. By reducing these costs, we seek to support the debt sustainability of African nations, thereby promoting economic stability and growth.

Could you elaborate on how LSF incentivises green and SDG-related investments in Africa?

LSF is committed to promoting sustainability-linked investments in Africa by utilising its resources to engage with investors, particularly those interested in green and SDG-linked initiatives and providing better terms and conditions for SDG-aligned African sovereign eurobonds. Currently, the share of sustainability-linked (GSS) bonds issued in Africa accounts for less than one per cent of the global total, indicating significant potential for growth. By facilitating investments aligned with SDGs and green objectives, we aim to support the green and sustainable recovery of African countries while simultaneously addressing pressing environmental challenges.

How does LSF plan to contribute to the development of a mature repo market for African sovereign eurobonds, and what benefits would this bring to the continent?

Until now, while a few African nations have pioneered local repo markets, Africa has lacked a mature repo market on par with those of the G7 countries to enhance the liquidity of African government bonds and improve their competitiveness in global markets. LSF, as a professional market participant with strong stakeholder support, seeks to help the African sovereign eurobonds repo market achieve the same level of maturity.

Through our engagement with diverse financial institutions globally and in Africa, we aim to establish a deep and solid repo market for African sovereign eurobonds. A well-developed repo market can contribute to African governments' ability to finance themselves on international financial markets under favourable conditions. For private investors, this means they can conduct repo transactions with African bonds with the same quality standards as in mature economies. Furthermore, our goal is to level the financial playing field for Africa and contribute to changing the perception private investors have of these markets.

"LSF plays a crucial role in improving liquidity premia for African sovereign eurobonds, which historically have faced significant borrowing costs."

LSF engages with various counterparties. What is the criteria for selecting counterparties and the significance of such engagements?

LSF engages with counterparties of the highest quality and reputation, including insurance companies, banks, pension funds, asset management firms, and public and private investment funds. We prioritise counterparties established in recognised jurisdictions to ensure the integrity and reliability of our engagements.

Can you discuss the governance structure of LSF and its commitment to transparency?

LSF operates under high standards of governance and is supervised by a high-quality board composed of directors representing various stakeholders. This ensures adherence to our mission of public good and transparency. We are committed to upholding the highest standards of transparency in all our operations.

How does LSF engage with African governments and international organisations to achieve its objectives?

LSF has engaged in extensive collaboration with African governments and international organisations to address the challenges facing African countries. Endorsements from 26 African countries at the CoM2022 conference, organised by the United Nations Economic Commission for Africa, underscore the support for our initiatives. Additionally, we have worked closely with organisations such as the International Monetary Fund (IMF), World Bank Group, G7, G20 and COP teams to garner support and facilitate our operations.

What does LSF have in the pipeline over the coming 12 months?

I will focus on developing partnerships with European institutions, such as CSDs and ICSDs, triparty agents, exchanges, trading platforms and central banks, and more broadly building a solid deal pipeline on the continent.

We are keen to contribute to crowding in more private investors from different horizons wishing to participate in the African sovereign eurobonds market, particularly if they have a focus on African green, social and sustainability eurobonds.

"LSF has engaged in extensive collaboration with African governments and international organisations to address the challenges facing African countries."

Gabriele Frediani
Head of development and market infrastructure coverage for Europe
Liquidity and Sustainability Facility

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Panel topics to include:

T+1
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Sewing the market fabric

Peter Eliades, managing director of electronic trading at Clear Street, speaks to Carmella Haswell about the power of best execution in the prime brokerage market and how regulatory frameworks are shaping this entity for broker-dealers

What are the key considerations in delivering best execution? How have you refined your services to enhance execution services offered to clients?

Although the US Securities and Exchange Commission (SEC) proposed new regulations to help to codify a federal best execution standard in December 2022, interpretation still involves resolving connotations and nuances based on broker type, trading objectives, retail obligations, and related policies and procedures.

The SEC requires the basic tenet that brokers must achieve the "most favourable price" for their clients. Yet, by design, that definition allows some degree of interpretation to ascertain reasonable diligence when accessing the best market and price for a specific security. There is also the mention of specifically avoiding any "conflicted transactions", which includes inter-positioning of affiliate interest, not disclosing payment for order flow arrangements or aspects of proprietary market-making involving retail order flow.

At Clear Street, we adhere to these principles and follow the guidelines established by the SEC and other regulatory agencies such as FINRA.

How are clients refining their routes to market, and applying a wider range of execution venues to meet their trading strategies?

Client liquidity requirements are always top of mind at Clear Street. As

such, we have enhanced our execution stack to accommodate their increasing appetite for new venues and customised solutions.

Several new liquidity sources have come to market recently. Being liquidity-verbose yet agnostic is the most critical factor in allowing our clients to access liquidity as efficiently as possible across fragmented markets.

Therefore, we need a robust ability to handle high-capacity order flow and direct that request to bespoke solutions to fit our clients' needs. This involves placing an extremely competent client gateway layer to acknowledge, refine and deliver concise messages expeditiously to downstream risk and execution systems.

We are days away from completing this integration, which will allow us extraordinary flexibility when routing very specific client requests to execution solutions around our complex.

Fragmentation is a component of our US market structure by design and it is here to stay. It is up to the innovative broker-dealer to invest in technology and sew the “market fabric" efficiently back together for our clients in real-time.

How do you interpret the impact of technology, such as electronic trading, on prime brokerage trade execution?

There is an inextricable relationship between a prime broker and electronic trading — they go hand in hand.

Our primary objective is to align with our clients and coordinate a solution to significant drivers such as funding costs, execution capabilities, or balance sheet optimisation to help differentiate our services.

One critical requirement for a prime brokerage firm is the ability to communicate information to clients efficiently and bilaterally. We must offer best-in-class technology to facilitate this handshake via high-speed, accurate data transfer and position reconciliation so they can compute and digest their own portfolio risk and PnL.

At Clear Street, we use a strategic cloud infrastructure. We have efficiently achieved this data strategy goal via a web-based client portal, where our clients can monitor critical position and funding metrics supplemented by secure file transfer protocol (SFTP) facilities to transfer necessary information every minute of the day.

How does current or impending regulation present a hindrance or opportunity for the use of electronic trading in this space?

Electronic trading helps Clear Street to comply with accessing venues — sometimes more than 20 venues in the same parent order. Often, algos are programmed to return to places that are significant liquidity sources at that very moment.

The SEC proposed a new Best Execution rule in 2022, which bears important distinctions from the current FINRA Best Execution and Interpositioning rule. The FINRA rule requires an evaluation, but is much less prescriptive regarding what needs to be evidenced. This permits a number of factors to be considered, including price improvement opportunities, the likelihood of execution of limit orders and the size of the execution.

In contrast, the first part of the SEC's 2022 rule includes a more detailed set of requirements — including obtaining and assessing reasonably accessible information (price, volume and execution quality), identifying markets that may be reasonably likely to provide the most favourable prices for customer orders, and incorporating material potential liquidity sources into its order handling practices and ensuring that the broker or dealer can access this.

Electronic trading, and the data it can generate, can assist brokers in complying with each rule set. In this regard, looking at algos, assessing MIC codes on fills, and reviewing the FINRA OTC transparency data are all components of a compliance regime. Using transaction cost analysis (TCA) and other analyses will always be a part of this as well, but trading electronically generates the type of audit trail required.

What are the latest developments in prime brokerage trade execution and their implications on the market?

Clear Street has purposefully built its electronic strategy to accommodate a wide range of prime brokerage client personas and their varying needs. That is a tall task when considering the variety of investment theses

across strategies. Client success is defined by tight strategic alignment and coordination across our business lines and engineering teams to ensure we have a complete solution for their needs.

Specifically, it requires that our execution channels integrate alongside risk and margins modules and extend an understanding of how to net and assign positions across entities, accounts and asset classes in real-time. These calculations also need to be transparent for our clients, so they are aware of their own exposures and funding costs.

We solve this balance by harnessing the latest technologies across clearing, risk, position management, market data, financing, margining and proprietary settlement systems. Most importantly, we sew that data fabric back together at the execution phase of the trade and during the transition across corporate actions, dividends, symbol changes and other events that bring challenges when marking to market.

We are uniquely positioned to offer these solutions across equities and options in the US, coupled with a highly specialised high-touch desk. We support trading from 04:00 to 08:00 ET in equities, core and extended sessions for options.

Can you share your final thoughts on best execution in the prime brokerage space?

Increased connectivity and fragmentation across our market centres and liquidity destinations require more robust infrastructure and routing capabilities than ever before. As best execution requirements continue to rise, broker-dealers must stay ahead by investing in technology and innovating across their stack. As a technology-first firm, Clear Street can stand up key processes efficiently and effectively, yielding a more complete and cohesive electronic trading solution.

"As best execution requirements continue to rise, broker-dealers must stay ahead by investing in technology and innovating across their stack."

Peter Eliades
Managing director of electronic trading
Clear Street

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Collateral Renaissance: from ugly duckling to market powerhouse

The industry has no choice. It must modernise, automate and optimise its processes or risk falling behind, market experts tell Sophie Downes

Collateral management was once viewed as the "ugly duckling" of the financial services suite, according to Gael Delaunay, global head of collateral management at Clearstream.

And much like Anderson's fairy-tale classic, collateral has morphed into a captivating market player. Penned by Delaunay as "a fully-fledged trading activity driving profit and loss", the service is now a vital aspect of the securities finance ecosystem.

Owing to its growing importance, it also warrants significant discussion. Amid rising interest rates, operational costs and regulatory pressures, a robust collateral framework is more important than ever.

Market evolution

The role of collateral management has undoubtedly evolved over the last two decades, as several leading industry experts highlight.

Adrian Dale, head of regulation and market practice at the International Securities Lending Association (ISLA), describes the humble origins of the service: "When I first started in securities lending, collateralisation of a loan was almost exclusively cash. Bonds were used occasionally, but not preferred, as it required more instructions and manual oversight." Now, the diversification of collateral markets includes corporate bonds, equities and discussions of more glimmering assets such as tokenised gold.

David White, chief commercial officer at CloudMargin, also alludes to a simpler collateral market: "Pre-2008 and the global financial crisis, large chunks of derivatives market trading were uncollateralised, clearing was only in place on a small proportion of interest rate swap trading, and initial margin for bilateral trading did not exist at all."

The impact of the 2008 crisis on collateral management is evident. Originally more of a back-office function, the economic crash prompted stakeholders to realise that they needed to better

secure exposures, driving the initial commercial focus on collateral management. There have been a number of ways firms have adapted their services to accommodate this.

"Since the crisis, one key trend has been market restructuring to reduce systemic risk and improve resiliency," remarks Todd Crowther, head of corporate development and collateral services at Pirum. "The second has been prudential regulations to reduce firm specific default risk, increase their backstops and boost the ability to better deal with stress events."

Globally, the approach by regulators has been to introduce a number of initiatives including accelerated settlement, central clearing of more products and the implementation of margining for non-cleared OTC products. Growing the number of margin locations, products and participants, alongside reducing timeframes, has meant firms have needed to improve efficiency to comply with these heightened standards.

"Undoubtedly, we have a much safer market, and a huge amount of work has been done to get us to this point," contemplates White. "These developments also underscore the incredibly important role that collateral management plays in the global financial landscape."

Common Domain Model

The Common Domain Model (CDM) is one example of the industry associations' attempts to increase standardisation among firms. The model, which provides a standardised way to represent transactions and collateral on DLT platforms, is vital to improving efficiency, Dale argues.

He alludes to multiple studies and developments in recent years regarding the post-trade process, driven by the Central Securities Depositories Regulation (CSDR) Settlement Penalty regime and responses to EU consultations. "We see the same conclusion again and again," Dale divulges. "For the post-trade process to improve, there must be both a widespread adoption of technology and prescriptive standards."

As the brainchild of the various industry associations, the CDM provides a consensus-driven standard that can be used between platforms and entities to standardise legal documentation. It can also apply that documentation to the inception and lifecycle management of both transactions and collateral.

There are multiple positives to adopting standards and technology, such as reduced costs and reconciliation breaks. Dale suggests a common standard could even be used to generate regulatory reporting — the biggest cost to firms according to a 2023 survey by the Value Exchange.

Benefits aside, there are practical, and necessary, reasons for standardising settlement. As Dale explains: "The EU regulatory community has told us, in multiple conferences, that if the market does not improve settlement performance, we will see changes to regulations that impose fines, mandatory buy-ins or other mandated tools."

As regulatory pressures mount, the CDM offers a logical solution.

Regulation and innovation

Regulation and innovation are often portrayed as opposing forces as the industry evolves. I wondered if financial firms often had difficulties positioning themselves between the two.

When questioned on the challenges of balancing regulation and innovation, Clearstream's Delaunay is remarkably measured. Compliance should not be viewed as a hindrance to innovation, he reasons, but rather as an opportunity — "it creates ideas".

He is eager to point out the unique position of Clearstream within this balance: "As a central securities depository (CSD), it is true we are highly regulated. There are strict rules that we need to comply with."

Again, he emphasises: "We do not see this as an issue, but as a way to make our business more robust and the industry safer."

He also highlights the ways in which Clearstream, as a CSD, differentiates itself by offering unique services for clients. "We are the only CSD to offer cleared and uncleared repo for central bank money. This reduces the risk borne by clients on the triparty agent by settling their transactions on T2S," he explains.

It is evident that, rather than stopping the firm from entering new spaces, Clearstream has found ways of operating within regulatory standards.

Cloudmargin demonstrates a similar pragmatism. “Regulation has to come first as regulatory compliance is non-negotiable,” states White. “However, what is important is that you build out and meet that regulatory compliance in the context of your broader overall strategy and vision. Successful regulatory compliance and innovation in collateral management are by no means mutually exclusive.”

Technology

How can firms achieve innovation? Speak to the fintechs.

For Broadridge, technology and artificial intelligence offer the opportunity to address pain points in the settlement process. Darren Crowther details Broadridge’s Securities Finance and Collateral Management (SFCM) platform that the firm has been focusing on for the last two years.

He describes the collateral utility they have created, which allows for a streamlined workflow, simplified UX and a single dashboard view of all margin call types across derivatives and securities finance collateral management. “Our flexible workflow approach has allowed for integration into the vendor ecosystems, providing a large degree of automation and reducing manual effort,” he comments.

Yet, Crowther is decidedly balanced in his appraisal of automation. Providing positive news to anyone still concerned about AI taking their jobs, he adds: “It is important not to lose sight of the basics of data quality. Poor quality data leads to weak decision making, and poor connectivity leads to low STP rates.”

Indeed, while technology is often used as a buzzword to connote modernisation, efficiency and success, multiple participants make a distinction between the promise of tech, and practical, working systems that actually deliver results. “You can have the best technology and the most sophisticated tools,” begins CloudMargin’s White, “but if they take years to implement, cost a fortune to run and cannot be modified without tremendous time delays and expense, it is pointless.”

He contemplates the vast amount of time and investment that CloudMargin poured into its cloud-based platform to make it flexible and cost-effective. “I believe if all vendors had this mindset, we would see a more efficient market,” he postulates. “Legacy technology that requires patching and upgrading has to be a nightmare we all consign to the past.”

Pirum’s Crowther offers a similar approach to the topic of technology within collateral management. One particular challenge the firm has found is encouraging market participants to adopt new solutions. “As with any driver for change, the decision is grounded in the return of investment where the payoff, cost, timeframe and risk must be compelling,” he remarks.

Yet the results speak for themselves. “Given the material cost and benefits of collateral optimisation, the widening impacts between efficiency and inefficiency is driving firms to embrace transformational change in the collateral space,” Todd Crowther explains.

Digitalisation

As regulatory standards develop, and technology improves, what can we expect in the future of collateral management?

“Trends wise: more regulation, more CCP flows and more consolidation or connectivity between the players,” says Delaunay. “It is an interesting time, especially in digital.”

Indeed, when questioned about the future of the collateral sphere, all of my interview participants alluded to one topic: digitalisation.

Todd Crowther states Pirum will be “leading from the front” in terms of speeding the adoption of new technologies such as DLT, AI, blockchain and tokenisation. He highlights the firm’s focus on marrying new solutions with the existing market infrastructure.

Broadridge’s Darren Crowther discusses the important role of the CDM in allowing AI tools to manage more of the remaining exceptions, which in turn “will further reduce operational risk and allow teams to add value back to the business in other ways”. For ISLA’s Dale, collateral management is only going to grow as an offering, with the rise of digital assets and advancing technology paving the way for new asset classes.

The choice is clear: adapt or fall behind.

“The industry has no choice,” warns White. “It must modernise, automate and optimise its processes — firms’ margins and effective risk management depend on it.”

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J.P. Morgan's Cathy Duan and Emily Li, APAC collateral service product managers for Securities Services, explore the firm's new Collateral Transport 2.0 solution as the market faces UMR challenges

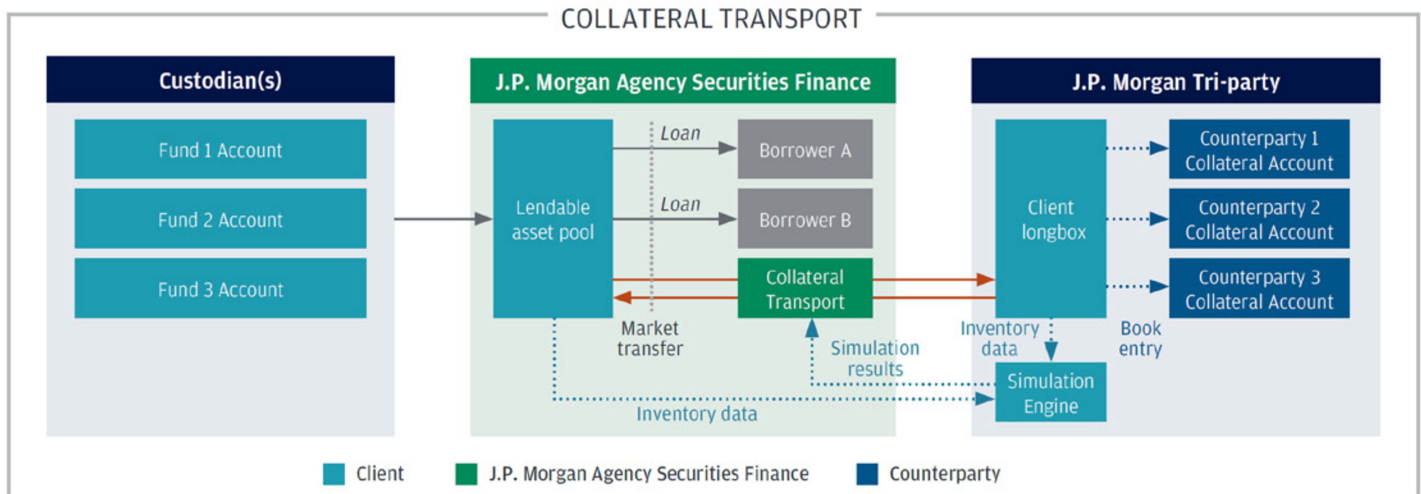
In navigating the terrain of financial regulations, an increasing number of buy-side firms are confronted with the challenges of uncleared margin rules (UMR), necessitating a responsive vehicle for dynamic collateral mobilisation. J.P. Morgan's Collateral Transport, an end-to-end asset inventory management solution, not only addresses margin obligations but also preserves trading and lending opportunities with minimum operational efforts.

By combining J.P. Morgan's Agency Securities Finance (ASF) and Collateral Services capabilities, Collateral Transport serves as a strategic tool, facilitating the mobilisation, deployment and servicing of assets between custodians and triparty collateral agents.

Optimising asset utilisation

Collateral Transport maximises the financial benefits of unencumbered assets by mobilising the assets from their custodian to a triparty collateral agent to cover margin obligations with counterparties.

By integrating with J.P. Morgan triparty's collateral simulation engine, Collateral Transport can minimise asset movements by generating recommendations based on the simulation results. The simulation takes into account available inventory across the client's triparty longbox and lendable asset pool in custody. This ensures optimal asset delivery or recall before any physical transfer of assets.



Efficiency in day-to-day trading

A key strength of Collateral Transport lies in its minimal impact on daily trading and lending activities. The ASF platform facilitates asset delivery to a triparty collateral agent and the return of assets for lending or sales opportunities. Currently, securities lending traders monitor outstanding collateral transport margins, recall and substitute assets when lending demand or sale opportunities arise.

By Q3 2024, Collateral Transport will be able to assess how clients can use their assets optimally by incorporating supply and demand, bid-offer levels, and portfolio activity in the lending space. Assets in high demand will be automatically recalled and substituted from triparty collateral agents to maximise lending returns.

Preserving standard processes

Collateral Transport ensures minimal disruption to the client's asset servicing activities as assets can be substituted and returned to its custodian ahead of the income or corporate action events.
To further reduce clients' operational burden by Q2 2024, clients will have the option to delegate instruction generation to Collateral Transport. The platform will automatically generate free-of-payment trade instructions on clients' behalf to move assets between triparty collateral agents and custodians — whether to top up collateral accounts, satisfy sale trades, corporate actions or lending opportunities, removing the operational burden associated with instructing Collateral Transport.

As Collateral Transport evolves with these new functionalities, it not only meets current industry challenges but helps to facilitate increasing collateral convergence across lending, financing and derivatives.

What does the FOMO rally mean for securities lending flows?

Since mid-February, short loan value as a percentage of market capitalisation has started to increase across European, Asian and Americas equities. As equity markets touch all-time highs, Matthew Chessum, director of securities finance at S&P Global Market Intelligence, predicts further volatility on the horizon and a positive short-term outlook for securities lending markets

FOMO, the fear of missing out, continues to be one of the major driving forces behind the recent stock market rally. Strong earnings and the continued downward trend seen in inflation have helped many global equity markets surge to highs that investors do not want to miss out on. Over the past few weeks, Japan's benchmark Nikkei Stock Average crossed the 40,000 mark for the first time in 34 years and hit an all-time high.

In the US, the Nasdaq closed at a record high for the first time since 2021 and the S&P 500, after breaking consecutive highs, is approximately 5 per cent away from the most-bullish year-end forecasts. Across Europe, the Euro Stoxx 600 continues to climb after reaching an all-time high in February, topping its previous peak reached during January 2022 with European tech stocks leading the increase.

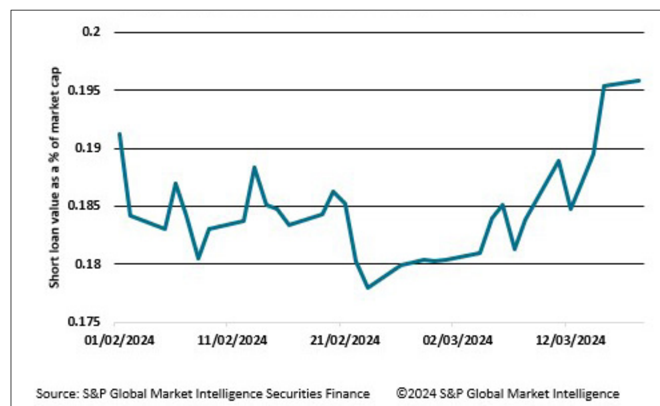
The recent rise of artificial intelligence has left investors, and speculators, desperately searching for new tech stocks that can help them share in Wall Street's recent meteoric gains. Nvidia (NVDA) has been the main focus of the AI revolution and has now replaced Tesla as Wall Street's most-traded stock. Nvidia's historic 2024 rally continues to break records. The chip maker has recently experienced its longest and most sustained winning streak, rising for 10 consecutive weeks. The company controls a reported 80 per cent of the high-end AI chip market and serves customers such as ChatGPT, Microsoft, Alphabet and Meta Platforms.

The stock gained over 80 per cent during the period and serves as a perfect example of how investors continue to buy stock as demand for microchips grows. The rise of the magnificent seven — Apple (AAPL), Alphabet (GOOG and GOOGL), Amazon (AMZN), Microsoft (MSFT), Meta Platforms (META), Nvidia (NVDA) and Tesla (TSLA), is well documented and they all continue to trade on higher-than-average forward earnings multiples as demand strengthens.

Although investors may be rejoicing over the recent surge in valuations worldwide, it is crucial to acknowledge and evaluate significant risks that persist. One such risk is the ongoing dominance of a select group of stocks driving market returns across major markets. In the US, this group, often referred to as the "Magnificent Seven," remains prominent. Similarly, in Europe, companies like ASML, L'Oréal, LVMH and Novo Nordisk stand out as primary contributors to index gains in their respective regions. Many of the other constituents in these indices remain nowhere near previous highs, or have remained relatively unchanged from a price perspective over the last few months.

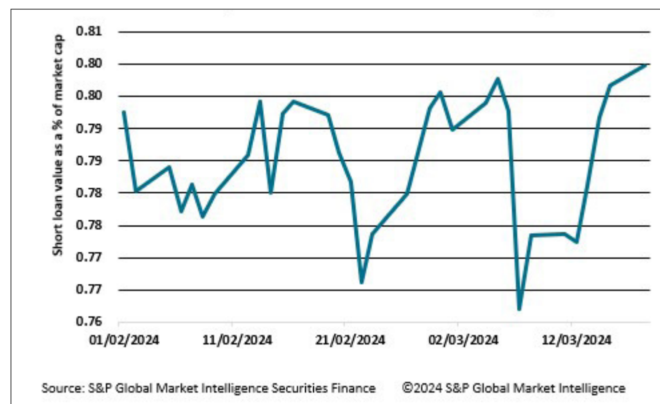
The second main risk on the horizon is the slow deterioration in the economic data. The most recent S&P Global Market intelligence Purchasing Managers Index (PMI) was underwhelming. Inflation, while falling, remains above the 2 per cent target across most major markets and several other leading economic indicators remain weak.

European equities - Short loan value as a % of market cap



Asian equities - Short loan value as a % of market cap

Americas equities - Short loan value as a % of market cap



The third major risk is geopolitical uncertainty. Tensions continue to grow as wars in the Middle East and Ukraine persist. As the year proceeds, focus will move onto the US Presidential elections, with voters facing a choice between two very different candidates which offer different perspectives on the future of the global economy. In short, it is increasingly becoming a stock pickers' market, which is positive news for the securities lending landscape.

Since mid-February, short loan value as a percentage of market capitalisation has started to increase across European, Asian and Americas equities as we noted in the March edition of the S&P Global Market Intelligence long-short report. This metric tracks the percentage of the market capitalisation of securities which are out on loan, removing financing, dividend and pay to hold trades from the total. This increase is taking place against a backdrop of equity markets reaching all-time highs. Some of the sectors which are experiencing these higher moves include financial services, consumer services, capital goods, transport and materials.

In addition, a recent S&P Global Market Intelligence Capital Market flows report showed that institutional investors maintained a trend of selling throughout February, with reduced buying in index accounts when compared with the previous month. The report also highlighted that "retail investors and hedge funds, while aggressive buyers, displayed a degree of scepticism about the sustainability of the rally, focusing their inflows on defensive sectors like utilities and materials, while also offloading shares in communication services and information technology".

When looking at these reports in conjunction, it does appear to suggest that there may be more volatility on the horizon. While a prolonged period of growth in stock valuations does benefit lenders through higher revenues, lending fees tend to fall as volatility declines. With the possibility of an increase in volatility, any correctional period offers to end-users the opportunity to execute trading strategies at more favourable levels and take advantage of pricing discrepancies or temporary dislocations. This often drives borrowing demand higher and increases average fees.

The perfect scenario of increased levels of periodic volatility paired with an overall increase in market valuations is the textbook recipe for securities lending revenues to thrive. A decline in interest rates — triggered by worsening economic indicators or the recognition of a necessity to maintain higher rates for an extended period — could both instigate heightened volatility in financial markets. As investors start to reposition their investment portfolios based on either FOMO or JOMO (Joy of missing out), the reality is that activity within the securities lending market is likely to increase in the coming months. That is my prediction anyway because let's face it, YOLO.

Lim departs RBC IS

Joey Lim has departed from RBC Investor Services as manager of securities lending after eight years at the firm.

Based in Malaysia, she held a number of positions at RBC Investor Services, including supervisor of collateral management for TMS middle office and senior administrator of Trade Capture.

She joined the firm from a trainee position at KPMG, which she held between September and December 2015.

Lim leaves her securities lending role to take on a position within client invoicing.

Commenting on her departure via LinkedIn, Lim says: "After eight years, the time has come for me to bid farewell to RBC — my second home. It has been a fruitful journey here as RBC has provided me with plenty of opportunities to grow and learn."

Biran joins DTCC

DTCC has appointed Sharon Biran as managing director and chief client officer.

In this role, she will oversee DTCC's client management and engagement strategy, including sales, relationship management, marketing and communications. She will also lead the DTCC Consulting Services business.

She will replace Timothy Keady, who is due to leave the New York-based market infrastructure company at the end of March.

Biran joins DTCC from Accenture, where she has worked since 2017 as managing director and global account leader.

She brings more than 25 years of industry experience to the position, including oversight of strategic client relationships, managing global transformation programmes and leading change initiatives targeting operational resilience and organisational efficiency.

Natixis appoints Leung

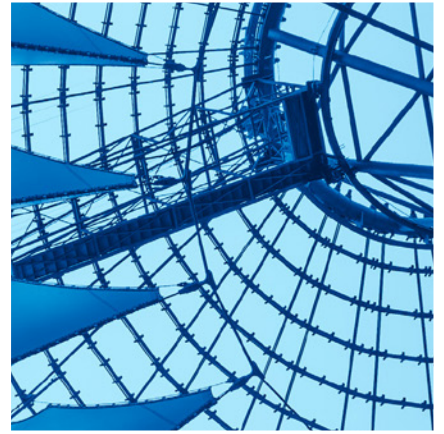
Brian Leung has joined Natixis Investment and Banking as a director of global market sales.

Based in Hong Kong, he will be responsible for covering international banks treasury, prime brokers, agent lenders and other asset managers.

Leung holds extensive experience in the investment banking industry.

Prior to Natixis, he worked in the bank resource management arm of Morgan Stanley, which he joined in 2021.

Before this, he spent eight years at Deutsche Bank, focusing on securities lending across the Asia Pacific region.



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Kech new CEO

The Global Legal Entity Identifier Foundation (GLEIF) has appointed Alexandre Kech to the position of CEO. He will officially join as CEO-elect on 1 May and will take over as CEO from 26 June 2024

Kech will succeed the not-for-profit organisation's current CEO Stephan Wolf, who has served in his position since the firm's inception in 2014.

Previously, Kech was executive board member and business head of digital securities at SDX, a SIX company. In this role, Kech was instrumental in driving growth and implementing initiatives that enhanced business performance.

Prior to this, he specialised in finance at BNY Mellon. Kech focused on payments and securities infrastructure, as well as standards, at SWIFT. He also worked on blockchain and digital assets at Onchain Custodian (ONC) and at Citi Ventures.

As co-founder and CEO of ONC, Kech led a team that built a custody and prime brokerage service for crypto and other digital assets.

Provable hires Parker

Provable Markets have hired Jordana Parker as director of business development.

Parker holds more than 12 years' experience in equity finance, cash management and accounting.

Before joining Provable Markets, she was director of finance and operations at Brazen Branding.

Earlier in her career, she was vice president of the equity finance department for investment management firm Millennium.

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