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TMX Group's Kevin Sampson and Steve Everett on where the company is heading, reducing collateral fragmentation, and engaging with the community

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QSE oversees first online SBL transaction

Qatar Stock Exchange (QSE) and Edaa Qatar have overseen the first onshore securities lending and borrowing transaction.

HSBC acted as custodian and agent lender for the transaction in Qatar, while QNBFS acted as the borrower.

According to Qatar Stock Exchange, the transaction marks a key milestone for the third Financial Sector Strategic Plan (3FSS) launched by the Qatar Central Bank in November 2023.

3FSS is part of the Qatar National Vision 2030 and aims to increase the size and liquidity of the Qatari market.

Abdulaziz Al Emadi, acting CEO of Qatar Stock Exchange, says: “This marks the beginning of a new era for QSE as this will allow investors and traders to execute sophisticated investment strategies, hedge their portfolios, as well as gain access to securities financing in the local market.

“This unlocks a significant liquidity pool and should help attract new types of investors in the Qatari market.”

Abdulhakim Mustafawi, CEO of HSBC Qatar, adds: “We expect this [transaction] will help attract more investors into the Qatari market and therefore help us connect global clients with opportunities in Qatar and vice versa, as we have for over 70 years.”

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Many market participants are now subject to the initial margin rules for non-cleared derivative transactions. David Beatrix, head of OTC and collateral services at BNP Paribas' Securities Services, provides an update on the latest evolutions of this regulation

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Clearstream introduces new link to South Korea

Clearstream has introduced a new direct link to the South Korean market for the purpose of settling and safekeeping Korean government bonds.

Effective from 1 July, the link will include Korean treasury bonds and monetary stabilisation bonds.

Clearstream Banking will have its own foreign nominee omnibus account opened with the local Korean central securities depository, Korean Securities Depository (KSD). The link will also be operated by KSD as Clearstream Banking's agent.

Clients will be able to access collateral management services, including triparty repo and pledge.

However, securities borrowing and lending will not be available, since the activities are not allowed in Clearstream Banking by the Korean authorities.

Further details, including cash and settlement deadlines, settlement instruction formats, and disclosure requirements, will be made available in due course.

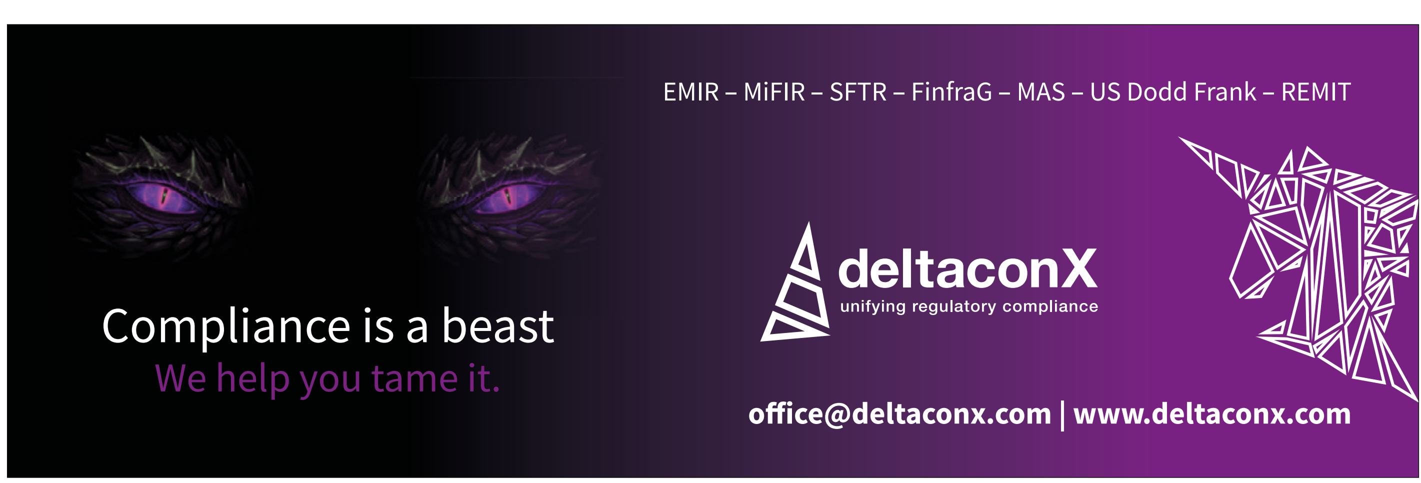
ICMA ERCC publishes best practices on pair-offs and error trades

The International Capital Markets Association's (ICMA) European Repo and Collateral Council (ERCC) has published two sets of proposed best practices for wider market consultation.

The first set provides guidance on ad hoc bilateral netting or "pair-offs", in order to support post-trade efficiency and help reduce settlement fails.

Through this, ICMA aims to standardise the pair-off process to make manual pair-offs more efficient, as well as to facilitate automation. The association says this would make an important contribution to settlement efficiency.

Consequently, the ERCC Operations Group has created a proposed checklist for bilateral pair-off agreements, including guidance on the related workflow and deadlines.



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The second set of best practices revolves around cancellations by automatic trading systems (ATS) of trades that have been executed in error, following initial bilateral discussions with trading platforms.

The consequent ERCC recommendations provide guiding principles which aim to ensure consistency of error cancellation policies across the various platforms.

The ERCC has invited market participants, as well as infrastructure and service providers, to review the proposed recommendations and to provide feedback to the council.

Sri Lanka to shorten settlement cycle

The Colombo Stock Exchange (CSE) of Sri Lanka has announced it will be moving to a T+2 settlement cycle for equity transactions.

The new rule was initially proposed by the CSE on 7 February, and will come into effect on 10 June.

The CSE has highlighted that trades executed on 7 June will be settled on 12 June, based on the T+3 cycle currently in place.

The development comes as the global market moves towards faster settlement.

In March, the Qatari CSD Edaa reduced its settlement period from T+3 to T+2, while the US is preparing to move to T+1 on 28 May. The new rule therefore aligns Sri Lanka with various other financial markets.

J.P. Morgan's Onyx and Broadridge collaborate to offer JPM Coin on DLR

Onyx, J.P. Morgan's blockchain business unit, and Broadridge, have collaborated to offer JPM Coin as a settlement mechanism for the Distributed Ledger Repo (DLR) platform.

JPM Coin aims to complement Broadridge's DLR repo capabilities, which offer intraday repo, as well as the current overnight and term repo functionalities.

This move marks the first instance of JPM Coin providing settlement capabilities to an external digital platform, the firms say.

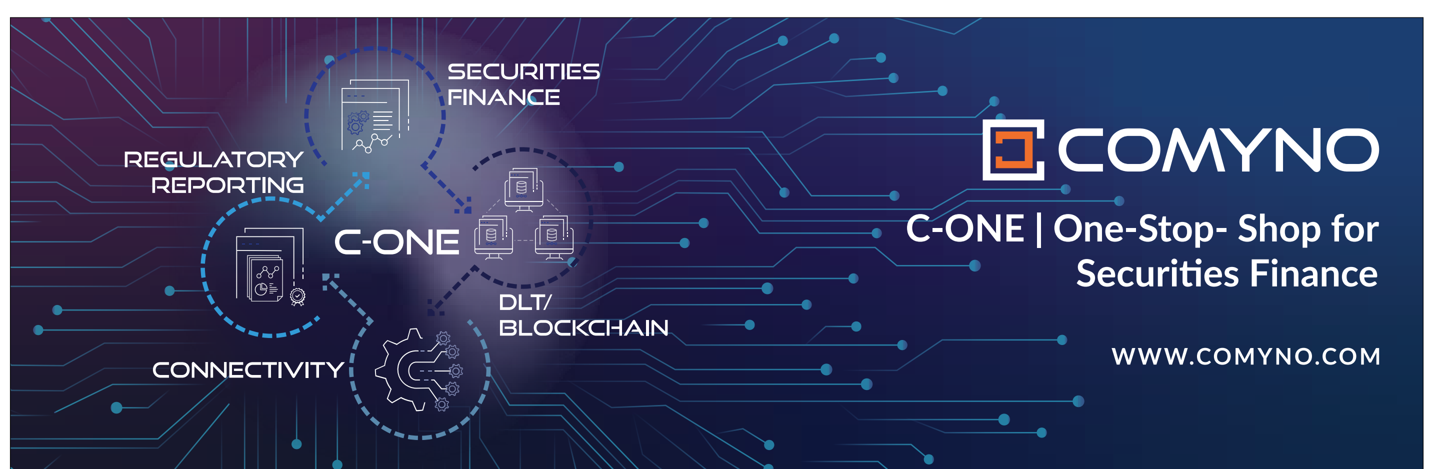
The entities add that the offering "could act as a framework" for other cash settlement solutions for other digital platforms going forward, given the "lack of" cash-on-chain solutions currently available.

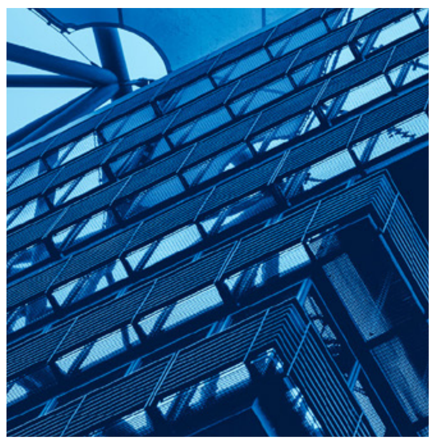
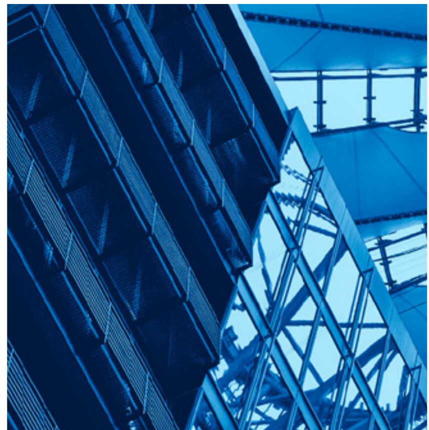
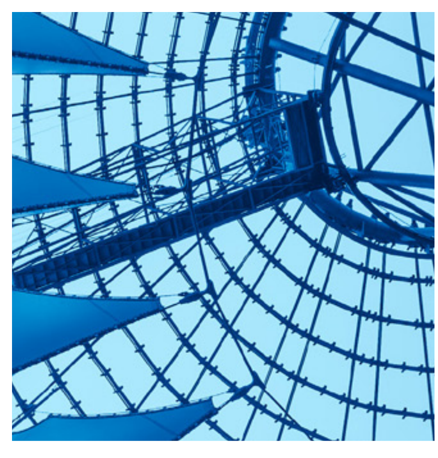
The solution involves synchronised settlement across the two blockchain networks achieving delivery versus payment (DVP) cross-chain, on the basis of "locking" cash and releasing it synchronously with the asset transfers.

J.P. Morgan and Broadridge anticipate that JPM Coin will be available to Broadridge users as a settlement solution by June 2024.

Commenting on the milestone, Nelli Zaltsman, head of platform settlement solutions at Onyx by J.P. Morgan, says: "We are delighted to launch our Synchronized Settlement solution using JPM Coin through our work with Broadridge. At Onyx, we look to be the foremost provider of cash-on-chain solutions to existing and steadily growing digital asset platforms globally. "

Horacio Barakat, head of digital innovation at Broadridge, comments: "DLR continues to drive the transformation of global repo market infrastructure, and this collaboration with JPM Coin represents another step in the digitisation of repo markets.



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"This next innovation will power DLR as the ubiquitous intraday platform, leveraging existing market infrastructure in addition to new digital cash solutions."

Clearstream GSF volumes rise 16%

Clearstream's global securities financing (GSF) business generated a 16 per cent year-over-year (YoY) growth in volumes outstanding to €705.27 billion for April, according to recent monthly figures.

Year-to-date GSF volumes outstanding were up 26 per cent to €719.40 billion for 2024, compared to €569.21 billion for the equivalent period in 2023.

Assets under custody held in Clearstream have risen 8 per cent YoY to €18,601 billion for the month. Year-to-date, assets under custody have grown 7 per cent to €18,331 billion for 2024.

For Clearstream's investment funds services (IFS), securities deposits increased 12 per cent YoY for April to €3,597 billion. The volume of transactions through the funds division was up 43 per cent YoY to 4.69 million.

International business securities deposits through the Clearstream ICSD were up 8 per cent YoY for April to €8,735 billion. The number of transactions through this service have climbed 43 per cent YoY to 7.69 million for the month.

Eurex joins Clearstream and VERMEG in collateral partnership

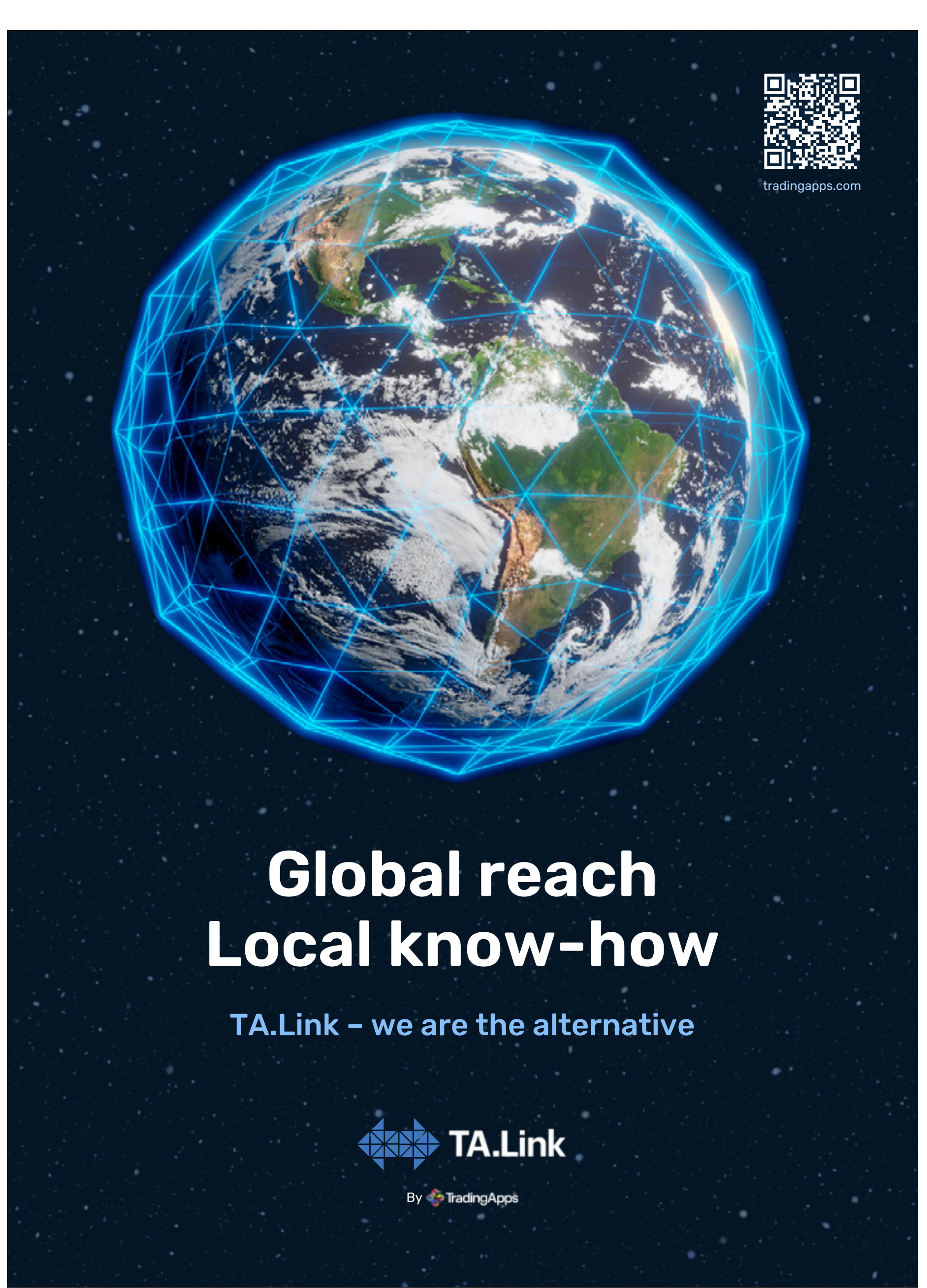
Eurex has partnered with software provider VERMEG to offer clients a collateral management solution.

The new solution will connect the Eurosystem Collateral Management System (ECMS), Clearstream's Triparty services and Eurex's GC Pooling.

Deutsche Borse Group says the partnership will provide new opportunities for collateral optimisation via the re-use of collateral to increase clients' Central Bank Credit Line within the new ECMS.

The ECMS is due to be implemented in November 2024.

Frank Gast, member of the management board of Eurex Repo, says: "A unified



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approach to Eurosystem Collateral Management will standardise collateral management across the Eurozone, advancing liquidity, market reliability and automation potential."

European repo market size grows 5.1% YoY

New figures have revealed 5.1 per cent year-on-year growth in the European repo market, with the total value of repo contracts reaching a record high of €10,899 billion.

The value represents repo contracts outstanding on the books of the 60 entities who contributed to the latest International Capital Market Association (ICMA) European Repo Market survey at close of business on 13 December 2023.

ICMA says the record figure represents a one per cent increase from the June 2023 survey, which previously recorded €10,794 billion in the total value of repo contracts.

According to the survey, the latest result continues the uptrend that began in 2016 by the European Central Bank's (ECB) Enhanced Asset Purchase Programme (EAPP), and the market's assimilation of post-global financial crisis Basel regulations on capital, leverage and liquidity.

Adjusting for changes in the composition of the survey sample — notably the withdrawal of Credit Suisse — reveals "faster underlying growth" of 3.1 per cent in the H2 2023.

While there was no deceleration in the growth of the survey sample since H1 2023, there was a significant "slowing-down" in the rate of growth since 2022.

As part of the survey's findings, triparty repo continued to recover as central banks drained liquidity and reduced the return on official non-monetary deposits.

The triparty market also saw further inflows of covered bonds as the ECB's targeted

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longer-term refinancing operations (TLTRO) facility continued to be unwound.

In addition, the shift in balance sheets appears to have depressed trading in automatic repo trading systems (ATS) in Europe, says ICMA, as these platforms specialise in European government securities.

ATS may have lost volume because of the reduced need of dealers to rebalance collateral as a result of increased issuance of government securities. Consequently, this had a knock-on effect on CCP-clearing, which is intimately linked to automatic trading.

Eurex Repo ADV up 20% YoY for April

Trading volumes on Eurex Repo have grown 20 per cent YoY to €435.7 billion for April, in average daily term-adjusted volume.

This year-on-year growth was driven by a 27 per cent YoY increase in GC Pooling average daily term-adjusted volume to €189.0 billion, and a 16 per cent YoY growth in special repo average daily term-adjusted volume to €246.7 billion.

For OTC derivatives clearing, notional outstanding volumes have risen 3 per cent YoY to €34,264 billion.

This growth has been driven by a 6 per cent YoY expansion in notional outstanding for interest-rate swaps to €114,670 billion for April, of which overnight index swap clearing volumes have risen 22 per cent YoY to €3,560 billion.

Average daily cleared volumes through Eurex Clearing have increased 49 per cent YoY for April to €237 billion.

This features a 22 per cent YoY increase in average daily cleared volume for interest rate swaps to €27 billion, and a 19 per cent YoY rise in overnight index swaps average daily cleared volume to €18 billion.

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First appointed directors announced for ISLA Americas board

The International Securities Lending Association (ISLA) has appointed 11 directors to its ISLA Americas board following its expansion into the US.

Mark Whipple, global head of securities lending at Invesco, will chair the newly created board of directors.

Officers and directors will work with the ISLA Americas' senior management team to deliver the aims and objectives of the affiliate entity.

In addition, the board will work to ensure alignment with the wider association's overall strategy.

The new directors are:

- **Ina Budh-Raja,** BNY Mellon
- **Philip Winter,** Citi
- **Anthony Toscano,** MUFG
- **Jason Strofs,** BlackRock
- **Christel Carroll,** Goldman Sachs Agency Lending
- **Tom Poppey,** Brown Brothers Harriman & Co.
- **Justin Aldridge,** Fidelity Agency Lending
- **Tamela Merriweather,** Northern Trust
- **George Rennick,** JPMorgan Chase
- **Michael McAuley,** BNY Mellon

The new directors were appointed to the board following the recent Extraordinary General Meeting, where ISLA members voted in favour of resolutions to support the expansion of its activities in the US.

In March, the association announced that it will be expanding its coverage and activities to the US with the creation of an affiliate entity in Q2 2024.

The industry trade association is planning a 2024 conference to be held in Florida in October for the securities finance industry.

ISLA aims to serve regional members, including current members operating global businesses. It indicates that it has seen a notable increase in demand to produce "a more cohesive output".

Commenting on the news, Budh-Raja, chair of the ISLA EMEA board, says: "I would like to welcome Mark and the US board members to the broader ISLA universe and congratulate them on their appointment to the inaugural ISLA Americas board of directors.

"This period will shape the work of ISLA across both regions, and the strength of experience within the group will ensure that ISLA Americas' strategy is progressive, and meets the demands of its membership, as well as the market more broadly.

"I am looking forward to working alongside the ISLA Americas Board, to help define one true advocacy voice across both EMEA and the US."

Whipple adds: "I am delighted to have been elected as the first chairman and look forward to working with the new board to form a solid foundation for ISLA Americas for the years to come.

"I would like to thank the ISLA EMEA board for their collaboration and the wider ISLA membership, as well as US market participants, for their support of our vision. As an initial priority, I am looking forward to hosting and welcoming new and familiar faces to the inaugural ISLA Americas conference in October."

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Supporting the functioning of Canada's financial markets

TMX Group's Kevin Sampson, president of the Canadian Depository for Securities, and Steve Everett, head of Post Trade Innovation, speak to Carmella Haswell on where the company is heading, reducing collateral fragmentation, and engaging with the community

Kevin, how have market events and client demand in the past 12 months shaped where TMX is today, and where the firm is heading?

Kevin Sampson: As the industry comes under increased funding pressure, in terms of more diverse demands on collateral, resources and funding, and as our clients continue to diversify and scale,

market participants are looking to market infrastructures to help drive greater efficiencies and optimise their processes and funding as much as possible.

There are a variety of considerations from a central market infrastructure perspective that requires TMX Group to review the capabilities and the expertise that we provide, to understand how we can derive enhanced value for our customers, and to relieve some of those pressures. Depository, clearing, settlement, and asset services may also dovetail with more innovative and customised solutions for the Canadian market, and our clients, in the collateral, funding, and technology space. These pressures facing our clients translate into demand for our services.

Steve, can you tell me about the key features of the CCMS service?

Steve Everett: One of the key tenets of the Canadian Collateral Management Service (CCMS) is that it aims to reduce collateral fragmentation. In other words, it does not separate the worlds of settlement and collateral, but instead views these two as vitally dependent on each other. Solutions like the CCMS can facilitate — through unlimited substitution — the ability to release assets in time to settle obligations in full. The transition to the T+1 settlement cycle, beginning on 27 May 2024, makes this aim a key feature.

Another core aspect of the service is collateral optimisation without fragmentation — the ability to use the resources a firm has to the maximum benefit, across multiple exposures across the market — interoperating between custodians and Canadian Depository for Securities (CDS) participants. The CCMS achieves this through its partnership with Clearstream, in using a well proven service and algorithm internationally and now within the Canadian market.

We started off facilitating repo transitions on the CCMS, which was certainly timely due to the cessation of CDOR and banker's acceptances in the Canadian market. However, it is also important to note that optimisation reaches its full potential when you can add other exposures. Those exposures include securities lending, which will benefit from all of the same features as provided for repo. In the second half of 2024, we aim to enable the entire Canadian ecosystem to take advantage of the same types of features.

How have you seen this initiative develop over the past year, and how will it enable the improvement of Canadian infrastructure in terms of post-trade and collateral mobilisation?

Everett: The fundamental tenet of the initiative has been that it is highly collaborative; it is not something that we are doing in isolation. TMX Group has taken a market driven approach to how we have shaped the CCMS, as well as all of our new products, by listening to the market requirements, meeting those standards, and progressing with market needs. We will continue to do that across every market segment that we participate in.

How is TMX Group working to battle post-trade challenges and inefficiencies within the Canadian market?

Sampson: We are in a unique position in the market, where we are a central hub that supports the fundamental function of Canada's financial markets. By operating a diverse portfolio of businesses in the financial services, TMX Group benefits from having a broad range of capabilities that we can bring to bear within our post-trade business, to be able to better serve the market. Our core mandate is to make our markets better.

The market and our clients are looking for us to not only continue to operate best-in-class technology and post-trade services that are resilient, stable, scalable, and secure — which are table stakes for our core business — they are looking for us to provide downstream value and benefits. This is foundational to what we are doing around our post-trade modernisation initiative, as well as how we look at T+1 operationally and from a solutions perspective. We can serve the broader market, and as a result of that, our clients are looking for us to play a part in their journey to scale and become more efficient, automate, and, ultimately, make our markets better.

What role does the firm's post-trade modernisation project play in improving the post-trade arena in Canada?

Sampson: The post-trade modernisation initiative is fundamentally introducing new technology in a new system that underpins our depository, clearing, settlement, and asset services business. It is a very complex and broad project that is critical to the efficient operation of the Canadian financial markets. We began modernising this critical infrastructure within the market quite a few years ago, and we are on

the one-yard line in introducing this to the street. It provides us with a foundational platform in post-trade, to be able to future proof our services for the market — it is more scalable, flexible and secure. It provides additional and enhanced features in terms of standardised messaging, user interfaces, and transparency around risk. We are looking forward to rolling out the new platform in the near future.

T+1 is right around the corner, from your understanding, how is the Canadian market handling the transition in comparison to its counterparts (US, Mexico)?

Everett: Each jurisdiction has its own challenges, but there are also some common themes. The lost day represents a resiliency challenge to any market, which is where the unexpected comes in. For every market, participants require predictability, and a high level of automation to produce a predictable settlement day — that is the aim of T+1.

The US is a much larger market, there is a more diverse range of players and a greater number of them, so it is often difficult to compare the US with Canada. However, for years there have been a number of fit-for-purpose products within the US market that have helped the T+1 transition.

In Canada, we have started to build quite a few of those types of products, such as the TMX Recalls Hub for securities lending, which is an initiative that TMX Group has collaborated on with the Canadian Securities Lending Association (CASLA). The hub works to automate the recall notifications and plays a key role in the readiness for the move.

There was not that much time to get ready for T+1 — from the time it was announced to the go-live date. There is only so much automation each firm and an industry can actually do. The survey results we have seen across the US and Canada are very similar, in that automation has been adopted where it can be, but there has been far more weight placed on process improvements from where automation was not possible. Residual automation will be done post T+1.

Sampson: Given the interdependencies between the Canadian and the US markets, it is extremely important that we have settlement symmetry between the two jurisdictions. Some of the most liquid and highly traded securities on TMX Exchanges are cross listed in the US. The CDS and the Depository Trust and Clearing Corporation (DTCC) have the most active cross border, post-trade, linkage in the world in terms of allowing for fungibility and efficient position movement cross border between the two jurisdictions.

As a result, we share a common purpose with the US in terms of supporting settlement efficiency, the symmetry between the two jurisdictions in that settlement regime, and share that common interest in ensuring that it is successful. We have collaborated with DTCC, and have shared a lot of information and communication to ensure we are in sync.

How do post-trade complexities affect Canada's readiness for the implementation of T+1? How are you working with your clients to prepare for the shorter settlement cycle?

Sampson: We play a significant role in terms of industry readiness. We have conducted industry testing quite thoroughly, and facilitated this for the industry on our systems and our platforms. This was done to provide confidence in the market, from a post-trade, critical infrastructure perspective, so that CDS and the market is T+1 capable and ready. We are actively engaged with the industry on that journey, as we all prepare for the 27 May go-live date in Canada.

We play a dual role in terms of ensuring that the market is functionally and operationally ready to interact with the central securities depository, and there is an education and awareness element to that as well. We are extremely active out in the market with our participants, not only domestically, but also globally, talking about T+1. TMX Group has been discussing what the transition means for the market, what the challenges are, and how we are going to successfully transition. In addition, we have been looking to solve the market challenges that are going to be amplified, or new challenges that will emerge as a result of T+1.

In terms of innovation, how have regulatory changes and an ever-evolving market pushed the development of TMX's portfolio, as well as the Canadian market overall?

Everett: In terms of regulation, and given the market infrastructure role that we play, TMX Group works to reduce risk and improve efficiencies across the industry. We must do this in a collaborative way. We have to take inputs into account and be able to synergise them for the best value

"Regulatory change, market needs, and technology cannot be looked at in isolation; an organisation such as TMX Group must look at these three components together, with a synergistic view across everything."

Steve Everett
Head of Post Trade Innovation
TMX Group

and benefit of the industry. Our approach to this has been multipronged.

TMX Group has become a lot more involved in industry and international forums — more than we have almost ever been as an organisation. We also contribute to the thought leadership fabric and narrative in the industry, providing a useful feedback mechanism for future roadmaps and approaches.

Regulatory change, market needs, and technology cannot be looked at in isolation; an organisation such as TMX Group must look at these three components together, with a synergistic view across everything, and look at how the firm is going to move forward over time. Most changes to post-trade in the market are not quick, and there needs to be a high degree of buy-in from the industry. A clear roadmap, which takes into account important components, including regulation and technology, is very important.

What are the key strategic initiatives for your development strategy in H2 2024 and 2025?

Sampson: From a sequential perspective, T+1 is critical for the industry, and for us, and so priority number one is ensuring a successful transition. We feel very comfortable and confident with where we are right now in terms of readiness for that transition.

With the TMX post-trade modernisation initiative, we are working very closely with the industry and regulators to ensure that we have system and participant readiness, and that we are aligned with the industry for the transition to this modernised platform.

There is certainly a portfolio of innovations and market-driven solutions that we are eager to advance within the market, including the CCMS. We are just at the starting line with the CCMS, and we are appreciative of the interest and support we have had from the industry, enabling us to go-live with this system this past April.

The vision for the CCMS is to scale this quickly and significantly in terms of both the breadth of collateral exposures that the service supports beyond repo, and in terms of the user base that it services — from broker-dealers, banks, pension funds, asset managers, to corporate issuers as well.

Building and scaling this ecosystem will amplify overall benefits for the market as that scaling takes place. Ultimately, our focus will turn from the domestic side of this service to the potential opportunities from a more global perspective. We intend to use our collaboration with Clearstream to create greater cross-jurisdictional collateral mobility efficiencies and automation. From a future roadmap perspective, this is something we will be looking at closely.

Everett: We are going to be releasing equities as collateral for use in baskets in the immediate term. Currently, we have the ability to do title transfer securities lending. We will then expand this into pledge for securities lending later in 2024. For the Canadian securities lending industry, ease and mobility of collateral, and the way that the CCMS can do it, is unique. With the new features that it presents, and the level of standardisation we are getting from industry bodies that we are working alongside, we anticipate that this initiative will be of significant benefit to the securities lending industry.

Also on the roadmap is the TMX Recalls Hub, which is going to be live around the T+1 implementation date. It is an interoperable recalls facility — firms can submit their own formats, send it through to TMX, and it will go to the other counterparty in the format that they require it to be. In addition, we have a dashboard to monitor recalls across the market. Smaller lenders can use the dashboard to book recalls. This will become an extension point for us to innovate with the industry.

The biggest concern for the industry is fail rates. Certainly, part of the innovation roadmap for us is the role we play to facilitate the reduction of fails in the market. TMX Group looks to innovatively expand this platform to facilitate a reduction in fails, where possible.

In terms of the rest of our portfolio, we are investigating a very exciting private markets initiative, which relates to dematerialising the private markets industry in Canada.

We are going to see extensions of every single one of these products. We also have a few potential new products that will require us to collaborate with existing partners and vendors in the industry.

Sampson: The capabilities and experience TMX Group has in post-trade, and the value that it can add to the market, are quite significant. The opportunities for us to drive more efficiencies, reduce risk, and provide greater automation in the market for post-trade businesses, are quite meaningful. We are putting a large focus on engaging with the community and, as a result, we have seen some great progress with advancing our initiatives.

"By operating a diverse portfolio of businesses in the financial services, TMX Group benefits from having a broad range of capabilities that we can bring to bear within our post-trade business, to be able to better serve the market."

Kevin Sampson
President of the Canadian Depository for Securities
TMX Group

Evolution amid diverse change

Participants discuss the current securities lending landscape in the region, the technology evolution born from the move to T+1, and the Bank of Canada's introduction of a settlement fail fee on bond and bill trades

Panellists

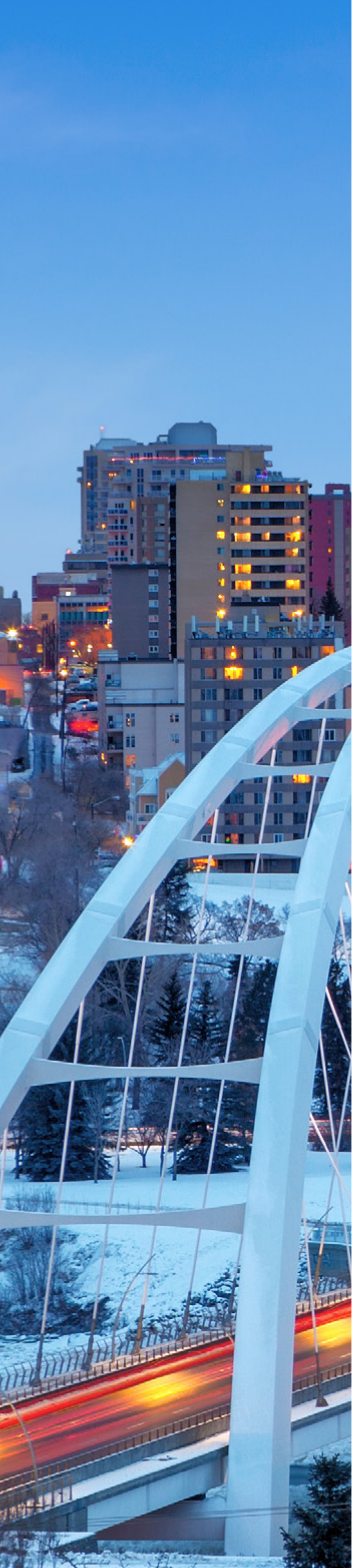
Dave Sedman, Senior Vice President, Banking and Markets group and Head of Canadian Agency Trading, **Northern Trust**

Sagar Patel, Executive Director, Americas Head of Triparty, **J.P. Morgan**

Jack Herron, Vice President, Agency Securities Finance Trading, Americas, **J.P. Morgan**

Kyle Kolasingh, Head of Market Services Solutions, **RBC Investor Services**

Ahmed Shadmann, Vice President, Head of Agency Trading Non-US Equities and Canada, **State Street**



How do you assess the performance of the Canadian securities lending market over the past 12 months?

Kyle Kolasingh: The Canadian securities lending market has continued to show strong revenue accretion and compelling portfolio optimisation opportunities in 2023, and so far in 2024. According to DataLend, revenues were collectively up 15 per cent in 2023, with average fees of 41bps. Approximately 40 per cent of this revenue stemmed from loans garnering more than 500bps. Various sectors, including cannabis, artificial intelligence (AI) and crypto, created attractive lending opportunities. During April 2024, average fees for Canadian equities soared above 90bps — one of the few asset classes to outperform year-over-year (YoY) comparisons, according to S&P Global Market Intelligence.

Meanwhile, in the fixed income space, demand for Canadian sovereign debt remains persistently high, concentrated at the front end of the yield curve. Demand for longer-dated bonds is proving equally attractive, especially in today's high interest rate environment. Term-lending demand, while still relatively high, has recently shown signs of softening as structured trades, particularly in the Canadian provincial bond space, have rolled off as banks became saturated with high quality liquid assets (HQLA). At RBC Investor Services (RBCIS), we continue to see a strong appetite from existing beneficial owners looking to further enhance their lending returns via risk-flexible changes, and from new beneficial owners entering the market in search of complementary revenue streams. The outlook is encouraging.

Jack Herron: Securities lending demand for Canadian equities has been strong for the past 12 months. We have observed a steady flow of general collateral, warm and hard-to-borrow demand from our borrowers. Balances remained elevated throughout the year, and demand for specials increased. Borrower interest focused on the electric vehicles, cannabis, and mining industries. We continue to see additional borrowers reach out for Canadian supply, and beneficial owners add Canadian supply to their lending programme. Collateral flexibility remains critical, as borrowers seek to optimise their balance sheets.

Dave Sedman: In Canada, Northern Trust saw average lending fees, utilisation and overall returns increase across the board YoY. These increases can be attributed to several factors: continued demand for fixed income assets; Dividend Reinvestment Plan (DRIP) trading; and specials demand for individual securities.

Canadian government, provincial, and corporate bond demand, was spread across both the open and term loan space. Whether it was one-month rolling maturity structures or longer-dated fixed and extendible structured trades, borrowers continued to seek ways to better manage their balance sheets. The HQLA collateral upgrade trade was a large driver of revenue for 2023, as borrowers looked to more efficiently manage their balance sheets by pledging a wide array of non-cash collateral, including equities, corporate and convertible bonds. Additionally, there was strong demand centred around the Canadian government bond benchmark issues.

A significant amount of revenue generated from Canadian equities was driven primarily off the back of the DRIP trade and other market-specific seasonal demand. Canadian DRIP names saw healthy utilisation YoY and contributed to returns across the programme. The DRIP trade continues to yield attractive returns as demand remains strong, with

borrowers wanting to participate and compete for supply. Our clients that hold these specific names will see increased earnings around the high demand periods.

While mergers and acquisitions activity remained subdued, Canadian equity demand was largely driven by individual directional issues. The specials tend to be very name-specific and associated with industries where there has been volatility in the underlying share prices. While hedge funds continued to demonstrate their net long bias, the Canadian equity specials market did experience a slight increase in average fees over the previous year, as several equities continued to generate demand among the borrower community. Specific sectors in Canada that drove revenue in the securities lending market included the specialty healthcare and pharmaceutical sectors, as well as raw materials and mining. Soft demand for lower intrinsic value securities has continued.

Ahmed Shadmann: In the Canadian market, the past 12 months have had their ups and downs. The last three quarters in 2023 saw robust demand in the dividend space, particularly within the Dividend Reinvestment Plan initiated by almost all of the big five Canadian banks. However, the DRIP discounts were soon discontinued as the capital and balance sheet positions of the Canadian banks improved in Q1 2024.

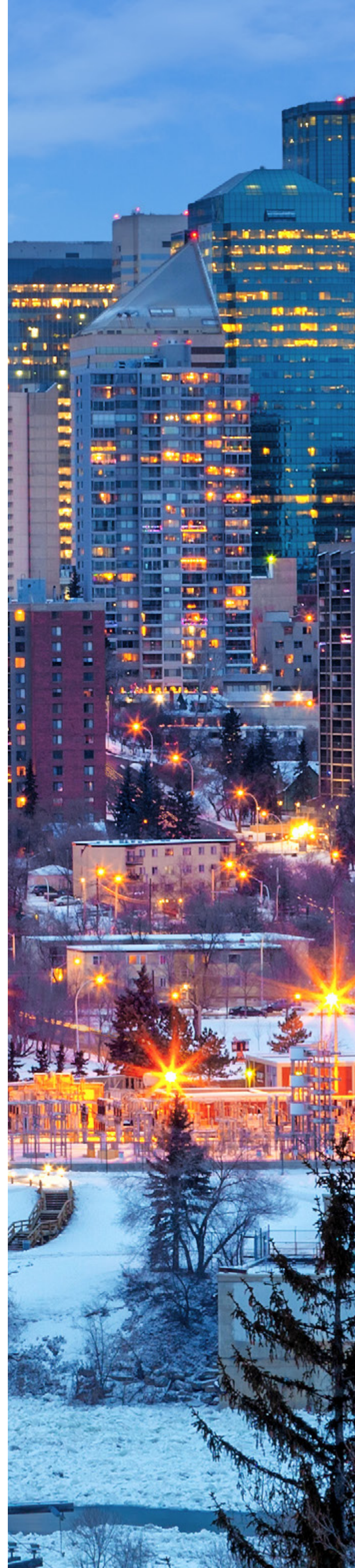
The first quarter of 2024 also saw a pick up in equities, with interest rate cut expectations buoying the market ever higher. In the lending space, borrowing counterparts seem to be in a holding pattern while they await an appropriate point of entry into the market and, in the meantime, are using internal supply to satisfy their financing needs. This is reflected in data as of April 2024, with global securities lending revenue down 20 per cent on a YoY basis, according to DataLend. This is in sharp contrast to Q1 2023 figures, where the market experienced more than a 35 per cent revenue bump on a comparative basis.

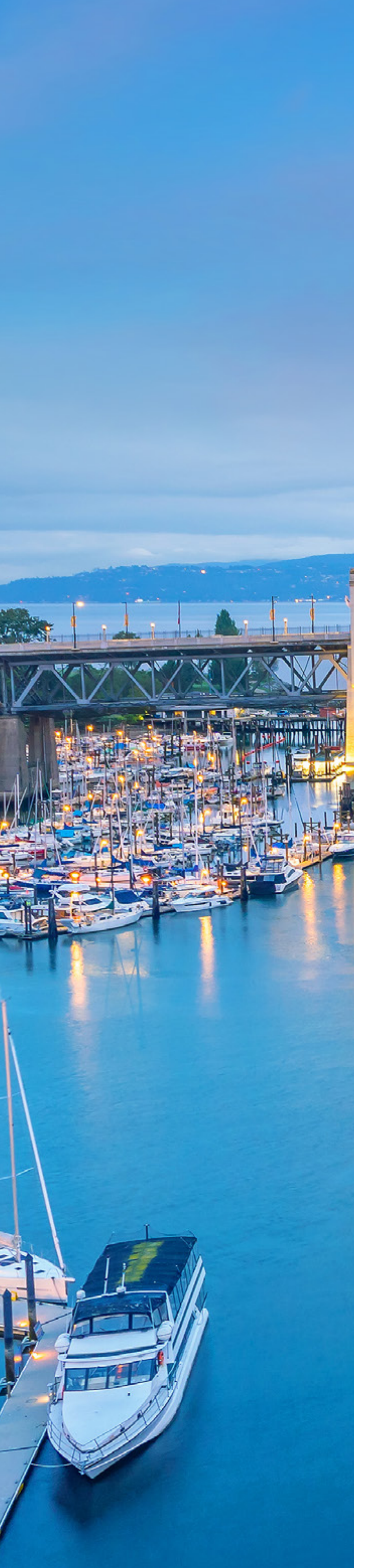
In February, the Canadian Investment Regulatory Organization (CIRO) proposed amendments to rules relating to fully paid securities lending and financing arrangements. How do you see these rules impacting the advancement of the Canadian market?

Sagar Patel: The proposed amendments provide various clarifications and outline the expectations of the firms offering fully paid lending programmes, largely for the benefit and protection of the underlying customers who are loaning out their fully-paid-for securities. Sufficient transparency and clear processes explicitly laid out in the regulations for scenarios, like dealer default, ultimately give the underlying customers adequate information on how fully paid lending programmes operate and their associated risks.

The underlying customers can then move to the next step to determine if consenting to such activity makes sense for them from a risk versus reward perspective. This type of transparency is key for the fully paid lending market to grow in Canada, or any jurisdiction for that matter. In other jurisdictions, such as in the US, fully paid lending programmes have been live for many years with meaningful retail-originated activity in the market.

J.P. Morgan has seen substantial growth in the US fully paid lending programmes we support as a collateral agent. Collateral is held by J.P. Morgan as an independent custodian, coupled with oversight provided by a third-party trustee





on behalf of underlying owners of fully-paid-for securities. This scenario provides confidence that the assets are appropriately segregated and will be protected in the event of a counterparty default or insolvency.

What investments and adaptations to working practices have you made to prepare your Canadian securities lending activity for the T+1 implementation?

Herron: The main theme for our T+1 implementation is automation. We are working very closely with our vendors and internal teams to streamline recalls, returns, and breaks to reduce settlement failures. With a more efficient settlement process, we expect the shortened settlement cycle to be absorbed into our policies and procedures.

Kolasingh: Over the past 12 months, RBCIS's focus has been geared toward automating trade processing flows, and re-socialising timelines and other upcoming changes with our beneficial owners. We have partnered with fintech providers to implement a recall service that automates the sending and receipt of recall notifications between the agent and borrowers.

This streamlined approach is helping to expedite recalls, increase operational efficiency and reduce timelines. Beyond technology, the RBCIS team has been speaking with our clients about the changes they have been making to remove any potential areas of friction within the trade and downstream loan flow processes. Unlike T+2, the T+1 transition requires both behavioural and structural changes, not only to the recall process but also to lenders' trade submission and affirmation processes. To better align with the shorter settlement timeframe, many lenders are moving to more frequent batch processing or intraday communication protocols.

Shadmann: The move to a T+1 settlement cycle has accelerated the need to automate previously manual processes. The shortened settlement cycle has put the focus of technological advances that focus on straight-through processing (STP) and real-time data between internal systems. STP advances will now allow us to issue recalls to borrowers through the use of external vendors' post-trade services module on a real-time basis.

This is a significant shift away from a previous reliance on batch processing, or a manual push list, which have been staples of the industry for decades. State Street also continues to invest heavily in our proprietary IRIS platform. This new platform will replace our entire pre and post-trade legacy trading systems and will allow for greater flexibility in creating and maintaining highly customised client programmes.

Sedman: Northern Trust's focus on the Canadian transition to the T+1 shortened settlement cycle, scheduled for 27 May, has led the firm to streamline its procedure around the handling of trade instruction processing, loan reallocation, and borrower recall communication. These recalls will be issued multiple times throughout the day, either by electronic email notices or direct recalls via the EquiLend platform. In Q3 2024, we expect to utilise the newly developed industry recall hub developed by TMX.

While industry best practice indicates lending agents could issue recalls up to 23:59 ET on trade date (T), the RMA best practice guidelines have modified the time to 19:00 ET on T. Northern Trust will operate within the best practice guidelines, but still recommends that clients submit trades as soon as executed.

Sell-fail protection and contractual settlement practices will remain in place in alignment with published custody deadlines. Northern Trust's efficient operating processes will support clients in meeting their T+1 obligations.

What impact has the preparation for a shorter settlement cycle had on the overall financial market, and where do you predict this milestone move will lead the securities finance industry?

Kolasingh: Overall, the transition to T+1 here in the Americas is likely to serve as a case study for other regions and markets that are seeking to adopt the compressed settlement cycle. Technology implemented across the value chain to facilitate T+1 will undoubtedly benefit future advancements for our industry. Lenders and borrowers have implemented technological solutions to prepare for the changing settlement landscape as they look to optimise recall management processes and minimise operational risk.

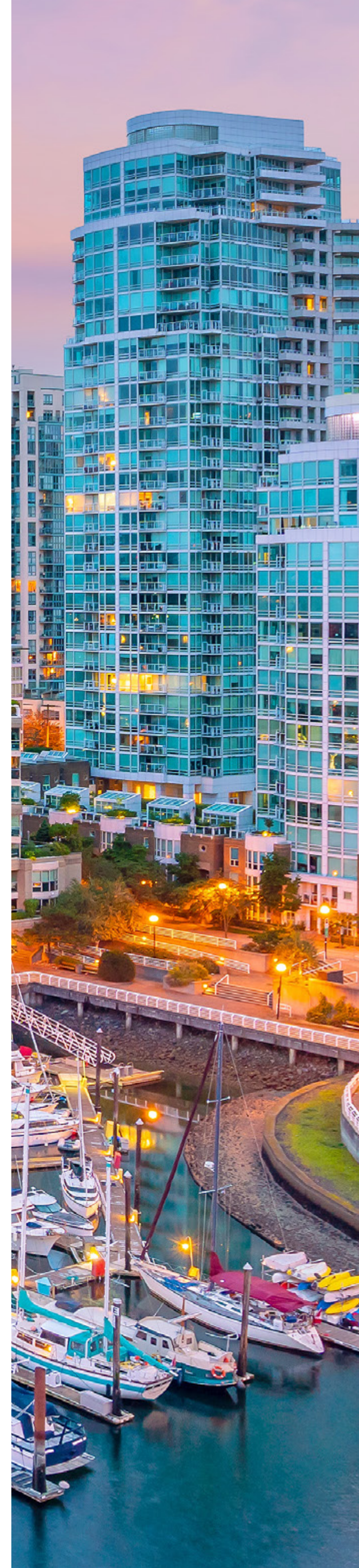
TMX Group launched its Securities Lending Recall Hub to simplify the communication of recall notices for market participants. This facility provides for interoperability between participants and fintech — a welcome enhancement to the financial infrastructure. Any move to T+0 is likely to result in additional technological change, including the potential for distributed ledger technology (DLT) and AI applications designed to assist with anticipating demand and meeting recall needs.

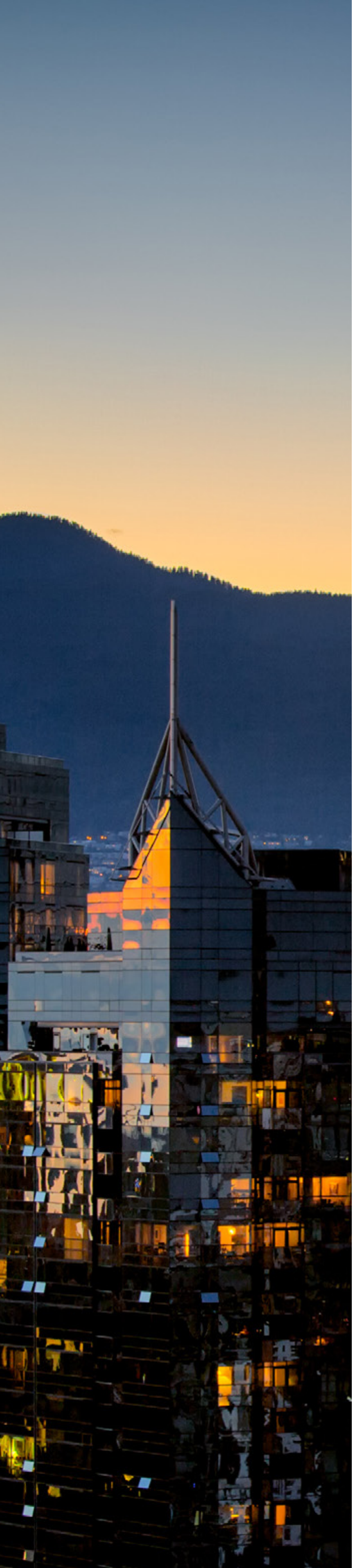
Shadmann: The preparation for a shorter settlement cycle has forced the entire market to focus on efficiency and the reduction of manual workflows. A shorter settlement cycle has led to firms adopting and implementing automated processes, which should lead to a more efficient market overall, allowing sales and trading to focus more on idea generation and higher value trades and strategies. Initially, there is an expectation that as the street implements their T+1 solutions, there will be healthy volatility. However, in the long run, implementation should make for more efficient trading desks, focused on more value-add and higher-spread trades. Further, this focus on a shorter settlement cycle has also started the conversation across the street on the readiness for T+0. Most firms have taken this opportunity to take a long, hard look at their T+0 capabilities, and are using the existing technological budget to make sure T+0 readiness is also part of the equation.

Herron: The T+1 shortened settlement cycle will force all market participants to become more efficient. These efficiencies will lead to more opportunities and additional business, which will be beneficial for all of us.

Which regulatory initiatives will consume most attention for your teams over the coming 12 months? And which initiatives that focus on standardisation, digitisation and technology enhancement?

Sedman: In 2024, we are seeing regulations impacting the securities lending industry that focus on enhancing transparency, agility and technology, to improve efficiency and resiliency in the industry. The Securities and Exchange Commission's (SEC) Rule 10c-1a initiative is aimed at enhancing transparency of the securities lending market by increasing disclosure requirements, transaction reporting, and compliance oversight. Clients participating in the US market will be required to submit security-level transaction reporting.





In addition, capital-efficient trade structures also remain in focus as Basel III Endgame approaches and counterparties look to lessen their risk-weighted asset (RWA) usage. Borrowers may consider 'smart bucketing' clients based on RWA, with the lowest RWA counterparties benefiting from the most flow. This could be challenging for clients with 100 per cent RWA, which may find it more difficult to lend out their available supply of securities. With that in mind, initiatives such as alternative pledge structures, central clearing counterparties, and alternative forms of indemnification are being developed and implemented to offset some of these potential challenges.

Kolasingh: Once the T+1 transition is behind us, local focus will begin to shift to the Bank of Canada's (BoC) planned introduction of a settlement fail fee on government of Canada bond and bill trades, as well as assessing the impact of the SEC Rule 10c-1a. In an approach akin to the implementation of the US Treasury Market Practice Group's fail charges in 2009, the BoC fee aims to incentivise timely and efficient settlement, mitigating systemic risks associated with failed trades.

The proposed regime will help promote optimisation of the borrower settlement process through the introduction of punitive costs, while minimising operational risk. The first trial period, expected to begin in Q4 2024, will include fails tracking, but fail fees will not be exchanged by participants. Meanwhile, Rule 10c-1a is intended to enhance transparency and oversight in governing the securities lending market, bolster investor confidence, and promote more informed decision making. Based on our preliminary assessment of the Financial Industry Regulatory Authority's (FINRA) draft rules, there will be no reporting obligation for beneficial owners using an agency lending model.

In the coming year, RBCIS will continue to focus on modernising our technology and operational flows. This will further enhance trading capabilities, enabling us to optimise client assets and streamline procedures within the compressed settlement infrastructure. In partnership with trusted fintech vendors, our advanced technology and flexible capabilities will future-proof RBCIS's securities lending solution. At the end of the day, our singular focus is on meeting the needs of RBCIS's lending clients in an ever-changing environment, generating yield, controlling risks, and unlocking the full potential of their investment portfolios.

Herron: T+1 will be the main initiative consuming our attention for the next few months. On top of T+1, a large focus will be incorporating AI into our daily activities. AI is a remarkably valuable tool, and implementing it correctly into our business is pivotal.

Shadmann: The implementation of the BoC's proposed penalties regime for failing to settle government of Canada bond and T-bill trades, will be a focus of ours. This initiative, once mature, will be a positive evolution in the Canadian fixed income market, through the introduction of an incentive that will effectively decrease the number of fails and therefore increase the efficiency of the overall market.

Another regulatory initiative that will consume a lot of our attention is the SEC's Rule 10c-1a. This rule is intended to enhance transparency of the securities lending market, which should bring confidence to a wide swath of participants and encourage involvement in the lending space. The end result is hoped to be a more liquid market.

Finally, the move to a T+1 settlement cycle is at the front and centre of regulatory initiatives demanding our attention. As noted previously, a lot of time, effort and investments have been made to enhance our systems to better align with the industry and smoothen pre and post-trade workflows. Once T+1 is live, system enhancements will continue to be worked on to smooth out our system and further enhance STP.

What programmes are ongoing within CASLA, and at industry-level more broadly, to support this agenda?

Kolasingh: Two of CASLA's key objectives are to (i) provide a forum to share and exchange ideas, information, as well as best practices across the industry and (ii) to work closely with regulators and other industry associations to ensure an efficient and secure marketplace. Consistent with these objectives, our work over the past 12 months has been focused on keeping members informed on T+1, providing guidance, as well as commenting on the proposed rule amendments and related guidance pertaining to fully paid securities lending and financing arrangements.

CASLA will continue to work closely with fellow trade associations to share learnings from T+1, as other markets look to align with the shortened settlement period. Much of this work has already begun, stemming from the efforts of our T+1 working group. Finally, as the impact of Basel takes shape, implementation of a new fails regime gets underway and the new SEC Rule comes into effect, CASLA will continue to assist our members, coming together to educate and ultimately ensure the ongoing sustainability of Canada's securities lending market.

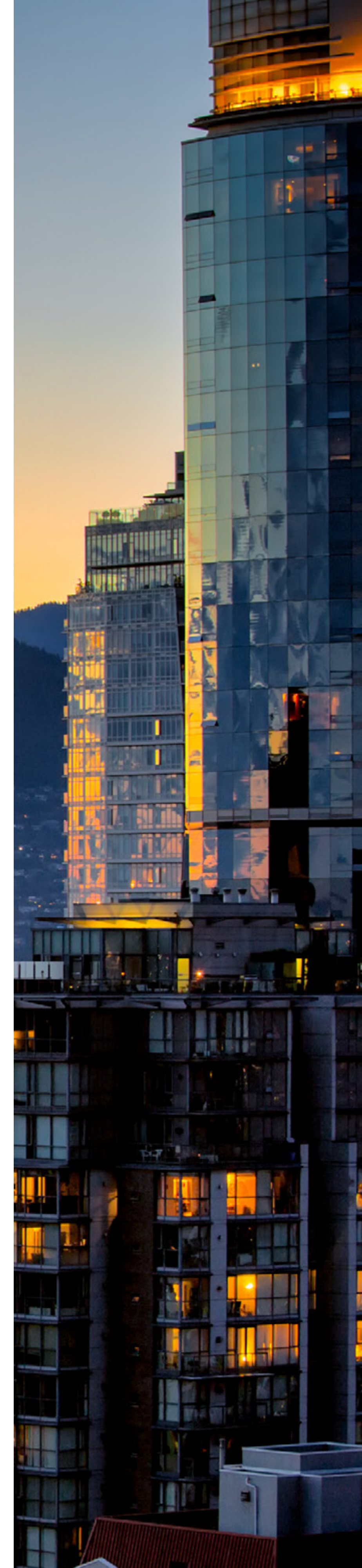
How do you assess the outlook for the Canadian securities lending markets for 2024-5?

Shadmann: The 2024-5 period should be an interesting year for the securities lending market. We are facing a market expectation of rate cuts, the timing of which remains elusive as central banks remain steadfast on cuts being contingent upon favourable data. This hawkish-to-dovish seesaw is causing markets to whipsaw on a daily basis, which does provide some healthy volatility into the market. As such, we expect short-interest themes to continue in sectors driven by market events. Which sectors exactly remain to be seen as the interest rate environment continues to evolve.

Another point of interest will be the adoption of AI across the industry at an asset class level. AI adoption will allow trading desks to consume and process massive amounts of data. This has a potential for immense utility towards predictive pricing and decision suggestions at an individual security level. Factors such as availability, frequency of locates, corporate action events, and general market information could be harnessed and distilled at a much faster pace to come to informed decisions at the trade level.

Herron: The Canadian securities lending industry has a positive outlook for the next 12 months. The business is trending towards further growth in 2024-5. After T+1, we expect to be more efficient, these improvements will lead to additional business opportunities. More market participants and collateral flexibility will also enable further growth.

Sedman: Currently, overall demand remains steady for securities lending in Canada. After a cool down towards the end of the year in 2023, and a slower start in 2024, specifically



with demand for Canadian sovereign assets, demand has steadied and opportunities are presenting themselves through name-specific trading and general collateral trading. We expect that securities lending will continue to be a positive contributor to revenue for our clients throughout the year and into next year.

For the start of 2024, Canadian equity lending volumes continued to soften and remain relatively flat despite the backdrop of global inflation and geopolitical uncertainty. General collateral securities demand has waned somewhat this year, but there are signs it is picking up in certain names and sectors, as the market continues to vacillate. Any pick up in M&A activity could provide a boost to demand as funds look to position themselves ahead of any pending deal. Additionally, the last of the Canadian banks discontinued their discount through the DRIP programme after having achieved a more favourable capital position, this is likely to soften demand going forward for those securities. Our expectation is that dividend reinvestment and seasonal dividend trade demand will continue to provide a steady revenue stream for the remainder of the year, and going forward.

In the fixed income market, overall demand remains strong in Canada, with utilisation and on loan balances continuing to grow significantly. There are still opportunities available in term and collateral upgrade structures, although we have seen some softening in demand and downward pressure on those fees as some trades start to mature. There continues to be demand for the most highly sought after benchmark Government of Canada issues, even in the face of lesser demand overall for Canadian sovereigns. Fixed income revenue for clients will come down to owning specific issues and types of securities as the market stratifies, based on narrow differences in issues.

Collateral expansion, term structures, and emerging markets are a couple of areas that beneficial owners will want to keep an eye on. Borrowers continue to seek out opportunities to pledge a wider array of non-cash collateral, including investment grade corporate bonds, equities (including ETFs), and convertible bonds, as they look to better manage their long portfolios with greater efficiency.

Kolasingh: Time and again, the Canadian securities lending market has proven its ability to evolve amid diverse change — be it market volatility or otherwise. Looking ahead, I expect ongoing change in response to T+1 with some stakeholders continuing to tighten up areas of friction both inside and outside securities lending. With the technical rules on SEC 10c-1a now published by FINRA, market participants will be assessing its impact.

Furthermore, I anticipate that technological improvements to workflows will go beyond recall automation, as various thoughts and ideas that were put on hold over the past 12 months rise to the top of the priority list. Digital asset integration, AI, and DLT used to support a potential T+0 environment, may now begin to germinate in the shadows of T+1 — although we are still some way off. From a market perspective, trading desks across Canada and the globe will be hyper-focused on the geopolitical landscape and global interest rate environment, particularly the upcoming US election. Each of these events has the potential to impact the domestic financing market — be it positively or negatively. The one constant is that the Canadian financing industry will continue to provide not only a source of liquidity to the capital market ecosystem, but also return-enhancing opportunities through risk-adjusted yields for beneficial owners.

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A global business: Securities lending, regulation and T+1

Ahead of the 14th annual CASLA conference, Sophie Downes catches up with its two newest board members about what market participants can expect from this year's event

According to Kyle Kolasingh, RBC's head of market services solutions, the work of the Canadian Securities Lending Association (CASLA) is "about future proofing and continuing to enhance the overall health of the securities lending industry here in Canada". The words are pertinent ahead of the association's 14th annual conference in Toronto. Kolasingh was appointed to the CASLA board at the general meeting

on 4 March. Joining him was Mathilda Yared, managing director of global securities finance at the National Bank of Canada.

Together, the two aim to contribute to the ongoing work and advocacy of the association. Securities Finance Times caught up with both board members to discuss their new positions and to reveal the overarching themes of this year's conference.

A path to CASLA

Yared's "true interest" in finance began after joining the National Bank of Canada in 2007. Here, she spent three years working in internal audit for financial markets — "it was a great way to learn all the business lines, front to back".

The journey to her current role would not have been possible without the positive work culture of National Bank, she acknowledges. "[They] foster a culture that encourages drive, curiosity, and internal mobility, so I took full advantage of the opportunity to learn." The results of this can be seen in the various roles Yared has held within the firm, working in Montreal, New York and Toronto.

As Yared describes it, her appointment to the CASLA board is the logical next step in this evolution. "The Canadian marketplace is an important part of the National Bank strategy," she explains. "Having a voice in an industry association that is paramount to the evolution of securities lending in Canada is important."

Her fellow board member shares a similar career trajectory. Kolasingh started his career as part of the deal management team at RBC Investor Services, which, with humour, he attributes the "blame" for "bringing me into the fold of this dynamic, engaging and increasingly interesting industry".

He details the various paths he has taken throughout his tenure at RBC, having worked in operations, risk and investment analytics, and on a large-scale technology implementation. "Each of these experiences contribute to the work that I do for the Market Services team today," he explains.

"Whether it's drawing on my experiences in corporate actions or the quantitative nature of investment analytics, my path through the organisation has positioned me well in servicing our securities lending clients and providing solutions for their portfolio needs."

Yet, his position at RBC is just one of the titles he bears. Alongside his position of head of market solutions, he is chair of the Diversity, Equity and Inclusion (DEI) Steering Group for the International Securities Lending Association (ISLA), and will retain his role as coordinator for CASLA — a title he has held since 2020 — until a successor is appointed. Is it difficult to balance these various hats?

"When you are passionate about something, it is a lot easier to achieve balance," he declares, citing the support of RBC and industry players as being instrumental in allowing this to happen. His passion pours through into his commitment to social initiatives, a cause which Kolasingh feels particularly strongly about.

At last year's CASLA conference in May 2023, he moderated a panel titled 'The Role of Representation, Advocacy and Education'. Two months later, he began his role as chair of ISLA's DEI Group. For Kolasingh, working towards a goal is integral for achieving balance, providing him "the opportunity to make lasting change within the financial services sector".

T+1

In an industry that is constantly evolving, where can we expect to see the most significant change over the coming year?

An obvious suggestion is the long-awaited move to faster settlement. "The focus right now is on T+1, whether this is in the lead-up (at the time of talking) or following implementation," affirms Kolasingh. Yared is in fervent agreement.

T+1 is not a new focus for the industry. Indeed, it has dominated conferences, panel discussions, and company targets for the past year. And as multiple markets prepare to implement a shortened settlement cycle, both Yared and Kolasingh agree that the topic will not be going away anytime soon.

"Given the lack of automation in recalls, T+1 has been the needed impetus to modernise processes in the Canadian market," details Yared, highlighting the formative impact the move has had on the industry.

She is well versed in this space. As part of CASLA's T+1 working group, Yared worked closely with TMX CDS, various vendors, as well as representatives of US industry associations, to discuss

challenges the securities lending industry would face, as well as potential solutions.

This history will no doubt inform her insights on the 'T+1 in the Rearview' panel — and there is plenty she plans on discussing.

"Given the timing of the CASLA Conference — a mere week and a half after the T+1 go-live — I am hoping to discuss any issues the industry did not anticipate," Yared remarks. She hopes to gauge the insights of other panellists: are they seeing an increase in recalls? Have they noticed a reduction in supply and liquidity? In which ways has the securities lending industry benefitted from the shortened settlement cycle?

She is quick to point out the "key role" CASLA played in clarifying best practices for market participants, as well as ensuring constructive communication with other industry associations.

Kolasingh also recounts the vast amount of time and effort CASLA has invested into T+1 over the past 12 months. Nonetheless, he emphasises that the association's work will continue "well beyond" the 27 May transition date.

Working with the wider financial landscape will be a significant part in this. "The nature of our industry is far more global today than it was just seven years ago when I first joined the business, and the need for ongoing collaboration across regions is imperative," he explains. "As other markets, such as the United Kingdom, look to adopt the shorter settlement timeframe, we will undoubtedly be working closely with fellow trade associations to share our firsthand experiences."

A global business

Besides T+1, a significant point of focus for the conference will be regulation.

"During my tenure on the board, my hope is to continue engaging with key market participants and industry associations, focusing on regulatory topics that have broad ramifications."

Mathilda Yared
Managing director of global securities finance
National Bank of Canada

Conference participants can expect a discussion around the US Basel Endgame proposal and an update on key market infrastructure topics — themes which Yared expects to really "resonate" with the audience.

For the former panel, CASLA has employed a common Croatian expression in its headline to preface its discussion of the US Basel Endgame proposal. Titled 'Regulatory Discussion: Who is Drinking and Who is Paying?', the phrase denotes a confused and disorganised situation, highly apt in light of the regulation's impact on the market.

Indeed, following the vast debate the rule has been subject to, the panel offers a chance for participants to weigh-in and ask questions, promising to "spark an engaging discussion" among those in attendance.

Meanwhile, the final panel of the day, titled 'Navigating Post Trade Challenges and Partnering in Industry Transformation', will explore the revolution of market infrastructure. For both Yared and Kolasingh, these will be key points of focus for CASLA for the remainder of 2024, and even into 2025.

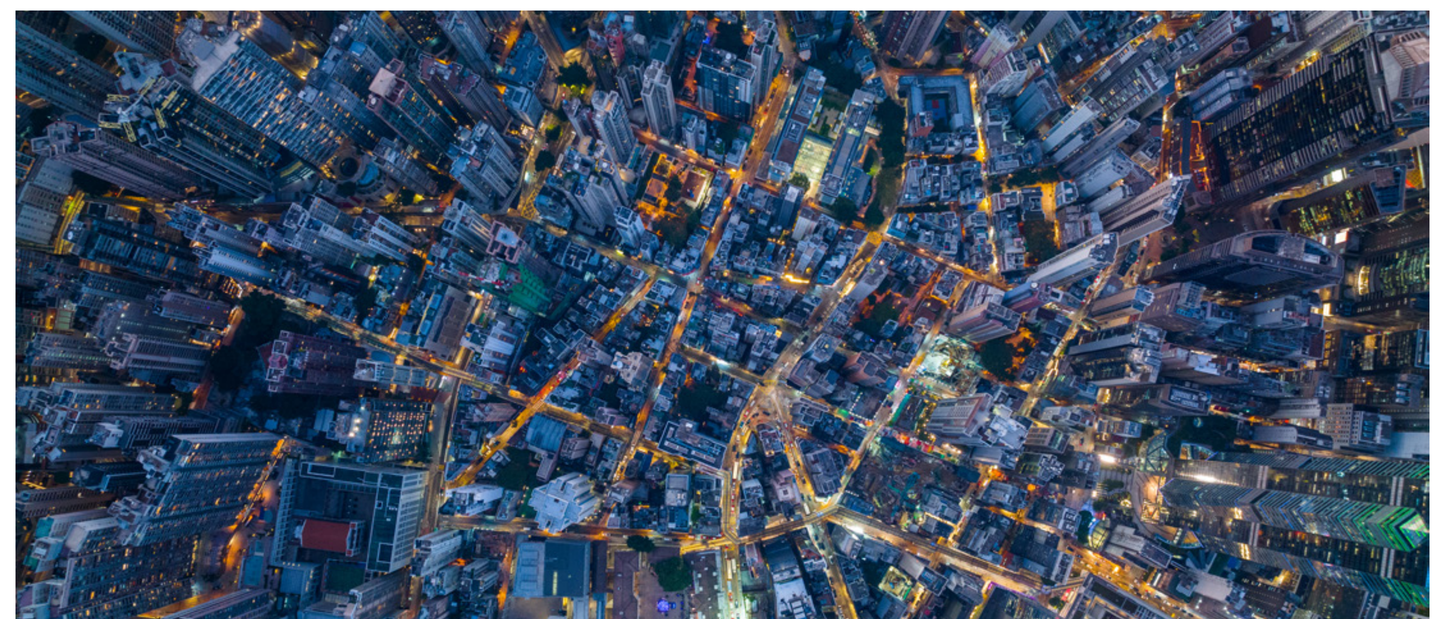
"Securities lending is a global business," says Yared. "Regulation introduced in other jurisdictions will have cross-border impacts that will affect our members.

"During my tenure on the board, my hope is to continue engaging with key market participants and industry associations, focusing on regulatory topics that have broad ramifications."

Kolasingh is equally focused on the future. "Whether it's the Bank of Canada's upcoming introduction of a settlement fail fee, proposed rule amendments in the fully paid lending space, SEC 10c-1a or ongoing advocacy on behalf of our members, there is lots to do!"

"The nature of our industry is far more global today than it was just seven years ago when I first joined the business, and the need for ongoing collaboration across regions is imperative."

Kyle Kolasingh
Head of market services solutions
RBC Investor Services



A bird's-eye view of the market

Lisa Tomada, vice president, global securities lending at CIBC Mellon, explores Canada's securities lending market and the key drivers impacting the further development of the sector

How has the Canadian securities lending market evolved over the last year?

Over the past year, the Canadian securities lending market has seen change consistent with other global markets in terms of trends, market size, and technological advancements. One notable trend is the concentration of specials, with a lack of sector specials leading to larger than normal fluctuations in securities lending revenue.

Beneficial owners holding individual securities in demand have continued to perform well, benefitting from this concentration. Both in the Canadian market and globally, there has been a trend of lower average fees and reduced lending revenue across many asset classes. This shift underscores the importance of collateral flexibility. In the current market environment, where borrower interest is influenced by regulatory and internal capital requirements, those lending clients who exhibit flexibility in their collateral acceptability tend to achieve higher than average utilisation and fee spreads. These clients are better positioned to take advantage of opportunities to participate in loans, as borrower collateral requirements evolve.

What impact do global economic events have on securities lending in Canada?

Global economic events have a significant influence on securities lending in Canada, reflecting broader trends in the global securities lending industry as a whole. Typically, we would expect events such as the timing of interest rate cuts and geopolitical instability in the Middle East to increase volatility, and in turn, some borrowing demand. Instead, the global trend of single security specials has driven lower average balances on loan for the year, while leading to higher average fees on lending activity. This dynamic highlights the interconnectedness of global economic events and the securities lending market in Canada.

What do you see as some of the most prominent challenges and risks associated with securities lending, and how are they managed?

The securities lending industry faces several prominent challenges and risks, including counterparty default, collateral liquidity, and market volatility.

Counterparty default is managed through rigorous credit assessments and the establishment of robust counterparty risk management frameworks. The collateral posted by borrowers, cross-product, and cross-principal netting, all help to mitigate counterparty default risk. This collateral is carefully monitored and adjusted to reflect market values on a daily basis.

Ensuring the liquidity of collateral is crucial. Lenders accept a range of collateral types, prioritising those that can be quickly liquidated if needed, adjusting the collateral levels accordingly.

Market volatility poses a significant challenge by affecting the value of securities on loan and the collateral posted. To manage this risk, lenders employ dynamic risk management strategies, including stress testing and scenario analysis, to anticipate and respond to market fluctuations effectively. By adopting these mitigation strategies, the securities lending industry aims to safeguard against potential risks, while maintaining stability and efficiency in lending operations.

How is today's interest rate environment impacting securities lending activities?

Today's interest rate environment is having a notable impact on securities lending activities. Despite positive results for Canadian banks in the first quarter of 2024, these institutions are setting aside larger provisions for credit losses. This conservative approach has led some banks to eliminate their discounted Dividend Reinvestment Programs (DRIPs). The elimination of discounted DRIP programmes is significant because they currently represent some of the top revenue-generating securities in the Canadian equity space. As a result, their discontinuation will impact Canadian clients more heavily because of the higher volume of holdings of Canadian bank stocks than other global beneficial owners may have. Moreover, the broader interest rate environment influences borrower behaviour, further affecting the dynamics of the securities lending market.

What technological innovations are influencing the Canadian securities lending market? Blockchain, AI, and automation?

With T+1 starting in Canada, the US and Mexico within days, automation and coordination between market participants has been at the forefront of technology and governance around the T+1 implementation. Regardless of all the operational improvements that are being ushered in by the shorter settlement cycle, beneficial owners continue to be an important part of the process: notifications to agent lenders must come earlier and more efficiently as part of these new settlement timelines. The industry continues to use AI in new ways to help with identifying opportunities and increasing operational efficiency.

What are the future trends and predictions for the securities lending market in Canada?

The securities lending market in Canada will see change in the coming years. Beneficial owners will continue to seek incremental revenue from their securities lending programmes. Adapting to market changes that help borrowers and agent lenders manage the increasing capital costs associated with securities lending programmes, will be a dominant theme throughout 2024 and beyond. Canadian beneficial owners are becoming increasingly sophisticated. Those who actively engage with their agent lenders as they make changes can continue to benefit from their lending programmes. This proactive approach allows beneficial owners to stay ahead of market shifts and optimise their lending strategies.

As beneficial owners advance their investment strategies and reporting capabilities, there is a growing desire for meaningful data and enhanced transparency. They are looking for detailed reporting on the status of lent securities and overall programme performance to meet their increasing internal governance requirements.

This trend underscores the need for robust data management and reporting tools within the securities lending industry. The shift of talent among various market participants, and specifically among beneficial owners, presents an opportunity to discuss securities lending programmes in new ways with new faces. From a client service perspective, there is an emphasis on educating new employees or different departments within beneficial owner organisations, to get them up to speed with programme basics. Simultaneously, detailed conversations are being held with organisations where new employees bring their securities lending expertise from other environments, fostering a culture of openness to new ideas and perspectives.

Technology remains a focal point as innovation and increased regulation introduces new players, new risks, and new opportunities. The securities lending market will continue to evolve with advancements in technology, which will drive efficiencies, improve risk management, and create new business opportunities.

The ECB trials: Continuing to drive the digital asset evolution

Clearstream's Thilo Derenbach, head of business development and commercialisation for Digital Securities Services, speaks to Carmella Haswell on the firm's mission to create the digital financial market infrastructure of the future

The digital asset evolution in the financial industry is progressing, especially at the institutional level, among financial intermediaries. With plenty of innovation taking place, and interesting application use cases being applied, Thilo Derenbach, head of business development and commercialisation for Digital Securities Services at Clearstream, believes the upcoming European Central Bank (ECB) trials on wholesale central bank digital currency (CBDC) will drive this accelerated evolution further.

Speaking to Securities Finance Times about this "very exciting development", Derenbach says: "We are one of the first, and so far the only, market infrastructure that participates in the ECB trials. For wave one of the trials, we are participating with all three of our central securities depositories (CSDs) — the German CSD, our ICSD and LuxCSD in Luxembourg — to explore all three payment solutions that are being offered by the ECB."

These payment solutions are the Deutsche Bundesbank's Trigger Solution, the TIPS solution from the Banca d'Italia, and the distributed-ledger technology (DLT) solution of Banque de France. Through this, Clearstream says it is able to give its clients a maximum amount of trial options.

In April, it was announced that Deutsche Börse Group's post-trade business, Clearstream, would join the ECB's trials and experiments. The trials aim to explore the potential of DLT for wholesale central bank money settlement in the light of the development of a digital Euro. The ECB will conduct the trials from May to November 2024 in a productive environment, using real central bank money.

From a Clearstream perspective, the trials' benefits are threefold. First, it allows the firm to experiment with digital cash generally, and digital central bank money specifically. Second, it provides the post-trade business with the possibility to add the cash element to a securities transaction on chain. Derenbach indicates that, so far, the industry has been focused on tokenising a security asset, but not tokenising the cash element, which is required to complete a real delivery-versus-payment transaction on chain, as seen in the traditional world.

Third, in the context of the trials, Derenbach says the firm is now deploying its own blockchain solution. He explains: "D7 is a digitisation engine, and with the trials we have now added DLT capabilities, delivered in collaboration with our partners at Google. From the moment we conduct the first transaction within the trial period, we deploy digitisation as well as tokenisation possibilities for real-world assets."

As Derenbach emphasises the significance of these trials, and its necessary contribution to the wholesale banking market, he predicts that many participants will want to operate on chain only in the future, and for this, digital cash is needed to complement the digital securities transactions.

"As central bank money has extremely high quality, we welcome digital wholesale central bank money. But, as central bank money is not the only money quality used, the market will look to also leverage other forms of digital cash, such as stable coins, but possibly also cryptocurrencies," he interjects.

"Our mission is to create the digital financial market infrastructure of the future, and to progress the financial market to leverage digitisation to improve processes and products."

The verdict is still out there on what will be dominating, but it seems that forms of commercial bank money, and a form of a digital euro, will be available going forward.

Entering the non-security space

Last month, Clearstream announced its plans to invest in Digital Vault Services (DVS), a fintech offering issuance and safekeeping services for digital bank guarantees and sureties in Europe. The mid-term plan will be to integrate DVS's Guarantee Vault with D7, the digital post-trade platform of Deutsche Börse and its post-trade business Clearstream. This aims to allow D7 to expand its digital asset product portfolio for the first time.

"Our mission is to create the digital financial market infrastructure of the future, and to progress the financial market to leverage digitisation to improve processes and products," Derenbach confirms.

By creating this digital ecosystem, the company looks to create efficiencies for the financial industry activity overall. It also provides an opportunity for the D7 platform offering to expand beyond the

securities space and into the non-security financial instrument space in the medium term. The investment in DVS was the "natural extension" of Clearstream's digital ecosystem proposition.

The bank guarantees space is "very much paper-based today", Derenbach explains, with cumbersome processes, emails going back and forth, as it is in many other areas of the financial industry. He continues: "Speed, efficiency, effectiveness, and unit cost savings are equally relevant in the non-securities space as they are in our securities space. DVS delivers exactly these positive effects thanks to its digitisation proposition for these instrument types."

Deutsche Börse Group has invested in a number of companies that foster digitisation and tokenisation, including HQLA^X, FundsDLT, 360X, Crypto Finance, and now DVS.

Complexities facing the market

The digital market space is proving to exhibit interest from market participants, as they continue to incorporate the use of DLT, digital assets and tokenisation within their core processes or platforms. However, much like many pockets of the financial market, it faces a number of complexities.

The largest of which is the lack of interoperability within the overall tokenisation ecosystem. Derenbach highlights that currently, market participants cannot mobilise their assets on chain beyond the ecosystem they have been issued into. To coin a phrase, Derenbach says, 'congratulations, you have a token, but you just created dead wood'.

He goes on to explain: "When a firm creates a token on chain, the value is locked in on chain, remaining immobile. There is lack of mobility, interoperability, and lack of fluidity of assets on chain due to this lock-in effect of island solutions. As long as these basic features used in the traditional world are not available on chain, this will continue to limit the development of DLT solutions."

Once this is resolved, Derenbach believes the market will see increased liquidity, a mass migration from traditional to digital or blockchain solutions, as well as real value being created on chain.

The D7 platform allows Clearstream to digitise the first step in the lifecycle of a security — issuance — everything else remains traditional for the time being. Clearstream has taken this approach with the incentive to not disrupt the market. The digitisation process still allows the participant to "reap the benefits of a digital smart object", without having to change their entire technology stack.

So how exactly does the firm intend on taking the next step to rectify these challenges and advance the digital space?

Clearstream, Euroclear, the Depository Trust and Clearing Corporation (DTCC) are issuing a white paper, in collaboration with Boston Consulting Group. It proposes principles for the use and necessities around DLT and emphasises that more alignment among all market players is needed to jointly develop standards that will support the resolution of the hurdles mentioned previously. On the basis of such standards, the market will ensure interoperability between platforms.

As for the next year or so, Derenbach says the market can expect the firm to build out the capabilities of digitisation and tokenisation solutions, expanding geographically, as well as expanding the asset scope that can be processed on the D7 platform, also beyond the securities space.

Derenbach concludes: "We are adding the cash element that we mentioned earlier, and are completing the solution offerings to a level that we know from the traditional world."

Thilo Derenbach
Head of business development and commercialisation for Digital Securities Services
Clearstream

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Initial margin for non-cleared derivatives: The end of the journey?

Many market participants are now subject to the initial margin rules for non-cleared derivative transactions. David Beatrix, head of OTC and collateral services at BNP Paribas' Securities Services, provides an update on the latest evolutions of this regulation

From 1 September 2016 until September 2022, the initial margin (IM) rules for non–cleared derivative transactions have been phased in, and an increasing number of market participants have been subject to the requirements every year.

However, many firms are still not affected by the IM rules for non-cleared derivative transactions, does this mean that those firms are done with IM concerns?

IM rules reminder

Before the enforcement of the initial margin rules, exchanging "Independent Amounts" on non-cleared derivatives was not a common practice. It was mainly a means for risk departments to mitigate the low creditworthiness of a counterparty, or the risk implied by the synthetic leverage of their clients (in the hedge funds space for example), via a one-way delivery of collateral (usually from the buy side client to the sell side bank), either outright or with segregation arrangements. Exchanging initial margin (IM) on non-cleared derivative trades has become an established practice since the implementation of the IM rules (ie the Uncleared Margin Rules (UMR)). Today, all firms with an aggregate average notional amount (AANA) of non-centrally cleared derivatives at consolidated group level above €8 billion are subject to these rules. All OTC derivative positions (even those exempted from IM requirements such as physically settled forex forward and forex swap transactions) count for the purpose of calculating the AANA.

Most financial counterparties trading non-cleared derivatives are in-scope of the rules and exemptions are very limited. As of today, the rules have been transposed in a number of jurisdictions — the EU, USA, Japan, Australia, Hong Kong and Singapore — and they embed a significant extraterritorial effect. Therefore, most cross-border transactions involving third-country entities have been brought in-scope of the IM obligations.

The scope of non-cleared derivative instruments subject to the rules is generally consistent across the main jurisdictions in Europe, Asia-Pacific, and in the USA. Physically settled forex forwards and swaps are excluded across all jurisdictions, as well as the exchange of principal on cross-currency swaps. However, some jurisdictions may have specific exemptions, either on a permanent basis — for example, equity options and forwards are out of scope in the USA — or on a temporary basis — such as equity options for which the exemption in the EU is extended for two years to January 2026, as proposed by the European Supervisory Authorities.

IM can be calculated either by using a table-based model, also called 'Grid', or a regulator-approved internal model, such as the Standard Initial Margin Model (SIMM) developed by the International Securities and Derivatives Association (ISDA).

These two methods coexist, however, industry participants are encouraging the adoption of a unique calculation framework to facilitate regulatory approval and minimise margin disputes between participants. They are subject to a two-ways exchange principle, where each party posts and receives at the same time, a bankruptcy-remote obligation from a safekeeping perspective (implying custodial segregation), and among other things, a possible relief if margins stay under a €50 million threshold.

The compliance process is complex, involves many parties and resources (eg trading, risk, legal, middle and back offices, IT, custodians and market platforms) and can take from six to nine months on average. To face these requirements, firms have different options to comply, such as implementing the rules by their own means, or appointing a service provider, like BNP Paribas, who can propose an end-to-end solution.

Staying alert

Although the final phase has passed, vigilance must endure.

For firms already live, solid controls must be maintained to ensure the process runs properly as the volume of IM exchanges is growing.

Meanwhile, some firms have not yet been impacted but could be in the future, and they must monitor their AANA. For the EU, the next AANA calculation period is between March and May 2024, with a compliance date of 1 January 2025 and with the application of several calculation methods, depending on the regulation. Getting close to the €8 billion AANA should instantly trigger an implementation project to avoid a compliance breach.

Grid vs SIMM

The Grid method has the beauty of simplicity, but does not consider the netting of risks inside a portfolio.

Meanwhile, SIMM is more complex to implement, maintain, and produces more complex analysis when disputes arise. However, it allows netting of market risks for positions executed with the same counterparty — for example, payer versus receiver swap — and reflects a better picture for risk-neutral portfolios.

Despite a massive adoption of SIMM, the Grid method remains an option in some relationships between banks and buy side firms, with some agreements combining the two methodologies (SIMM and Grid) depending on instrument types.

There are multiple reasons for this:

- Implementing SIMM can take more time for certain types of instruments, Grid can be an alternative to comply quickly with the rules.
- The regulator may prescribe to use the Grid method for certain instruments where they estimate that a specific risk is not sufficiently considered by SIMM.
- Grid can lead to lower IM amounts in specific cases, and as the costs of financing posted collateral come into play, especially when collateral received cannot be reused — this is an important criterion.

For example, for a six-month bond forward with an underlying bond maturity above 10 years, the difference between Grid and SIMM can be significant — such as for a 40-years underlying bond maturity, where the difference is about 13 per cent of the notional. Under SIMM, a longer time-to-maturity implies higher rate sensitivities, therefore a higher SIMM amount, whereas Grid is capped after a certain time-to-maturity.

As a result, directional rate portfolios with long maturities — typical of insurance or pension portfolios — may in some cases exhibit lower IM amounts with Grid compared to SIMM.
When the regulation does not prescribe the use of a method, a firm can opt for the different methods listed in the Credit Support Annex (CSA) signed with its counterparty.

Figure 1: Initial margin (In scope instruments by jurisdiction)

	EUROPE	USA	AUSTRALIA	HONG KONG	JAPAN	SINGAPORE
INTEREST RATES DERIVATIVES	✓	✓	✓	✓	✓	✓
CREDIT DERIVATIVES	✓	✓	✓	✓	✓	✓
FOREIGN EXCHANGE (« FX ») DERIVATIVES, EXCEPT:	✓	✓	✓	✓	✓	✓
PHYSICALLY SETTLED FORWARDS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
PHYSICALLY SETTLED SWAPS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
PRINCIPAL PAYMENTS ON CROSS-CURRENCY SWAPS	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
EQUITY DERIVATIVES, EXCEPT:	✓	✓	✓	✓	✓	✓
EQUITY SWAPS	✓	✓	✓	✓	✓	✓
EQUITY OPTIONS	Further exempted until January 2026	Exempt	✓	✓	✓	Exempt
EQUITY FORWARDS	✓	Exempt	✓	✓	✓	✓
COMMODITY DERIVATIVES, EXCEPT:	✓	✓	✓	Yes under conditions	✓	Yes, only for trades not for commercial purpose
PHYSICALLY SETTLED FORWARDS	Yes under conditions	Exempt	✓	Exempt	Exempt	Yes, only for trades not for commercial purpose
PHYSICALLY SETTLED OPTIONS	Yes under conditions	✓	✓	Exempt	✓	Yes, only for trades not for commercial purpose
OTHERS (e.g weather derivatives)	Yes, if instrument defined as derivatives under Mifid	Yes under CFTC No under SEC	Yes if instrument defined as OTC derivative under local rules			

Buying more time

A relief mechanism has been put in place to take into consideration the complexity of implementation for firms with a low trading activity.

In April 2020, the Basel Committee on Banking Supervision (BCBS) stated: “The requirements could impose some unnecessary operational costs on smaller entities that pose no significant systemic risk to the system and would not be expected to be bound by the initial margin requirements, in particular, in light of the provided threshold amount of €50 million.”

As always, the devil is in the details. This €50 million threshold is the maximum a firm can set with another trading relationship — both firms should consider this amount at a consolidated group level.

Therefore, for institutions with multiple entities, themselves in trading relationships with several branches or subsidiaries of a bank, a significant part of the preparatory work (and maintenance thereafter) is to map and allocate the appropriate threshold amount to each relationship, function of the expected trading activity post-compliance date, and the risk profile of the transactions. Finally, for a same relationship, it could also happen that these thresholds are set in an asymmetric way between the pledger and pledgee directions.

In light of that, if, for a given trading relationship, the uncleared OTC derivatives portfolio in-scope — ie having all of its trades executed after compliance date — has its IM amounts under the threshold, it is then exempt of IM postings until it reaches this threshold. Firms under the threshold are not expected to have the specific documentation in place, custodial or operational processes related to IM.

However, this is only supposed to grant more time for firms and custodians to prepare for full IM compliance. Once this threshold is exceeded, firms are expected to start posting and collecting, and so firms should have all required documentation and processes in place and running. Consequently, a precise monitoring of the thresholds is crucial.

Latest evolutions

Since its introduction, most industry participants have adopted the SIMM model. However, there remain areas for strengthening IM models. Regulators, such as the Prudential Regulation Authority (PRA), have highlighted some concerns regarding the proper implementation and use of the SIMM model, and therefore the ability to identify and correct model malfunctions in a stressed market.

In 2023, significant changes were published with the revision of the Governance Framework in early March, including the modification of the recalibration frequency from annual to biannual, to adjust the SIMM model shortfalls more dynamically.

On top of that, the ISDA SIMM Remediation defined a €25 million threshold, where back testing and reporting must be in place, regardless of whether the portfolio exposure is above or below the €50 million margin exchange threshold. This means, even if they do not exchange margin, certain entities will be subject to the back-testing obligation for the first time, and will have to monitor where they stand against this €25 million threshold.

On 3 July 2023, the European Banking Authority (EBA) published the final draft of the Regulatory Technical Standard on the Initial Margin Model Validation as an answer to the risk mitigation for non-cleared OTC derivatives, in accordance with Article 11(15) of the European Market Infrastructure Regulation (EMIR 648/2012). It defines obligations for market participants around their internal compliance policies on the IM framework (governance and back testing methodology), and harmonises the supervisory review for validation of the internal model.

Those requirements of IM validation will be phased-in and will apply to the largest firms first, as per the AANA calculation criteria.
In the first phase (date not yet published at the time of writing), the firms above €750 billion gross notional of uncleared OTC derivatives will follow the ‘standard’ approach as defined in the Regulatory Technical Standard (RTS), which includes several procedure and documentation requirements compared to the current framework of internal model approval.

To simplify the validation for firms below €750 billion, these will be subject to the ‘simplified’ approach, two years after the first phase.

However, in parallel to the final draft of the RTS, the EBA published an opinion letter in which they recommend facilitating the coordination with the industry by centralising the validation exercise. The EBA also proposes to review the scope of firms impacted by the RTS requirements, by restricting the submission only to the largest one.

The rules may still evolve over time. As we observe reviews for other major regulations, some consultations have happened recently in Europe, the latest one being issued by the BCBS and the International Organization of Securities Commissions on the IM model validation framework.

At BNP Paribas, we remain committed to accompany our clients in the complex regulatory and market evolutions surrounding IM, in an integrated manner within our wider set of OTC and collateral services, and develop new solutions to facilitate their compliance processes.

David Beatrix
Head of OTC and collateral services
BNP Paribas’ Securities Services

Navigating the future of digital money

Industry experts talk to Sophie Downes about why we need digital currency and what work needs to be done by the industry to implement it

If the shift from credit cards to smart wallets and cryptocurrency tells us anything, it is that digital forms of money are changing.

Digital currencies are not a wholly new concept; as consumers, we pay with digital money all the time. If we forget our credit card, we also have the option of our Apple watches, or smart wallets — transactions that relegate cash to something rather antiquated and awkward.

"This generation doesn't interact or pay like our parents. They don't transact like our parents. So why would they want to make the payments that our parents used?" poses Jovi Overo, director at BaaS, Unlimit.

Yet, the impetus in the finance industry is to move beyond this even further. The new orders of the day are stablecoins, central bank digital currencies (CBDCs), and the possibility of a central bank-backed digital Euro, offering further possibilities for both the retail and wholesale sides of the financial ecosystem.

Amid the buzzwords and excitement, it is important to ask the question: why do we need these digital currencies, and what work has to be done within the industry to adopt them?

Possibilities

An obvious benefit to digital currency is its efficiency.

“We are in a global world that is very fast moving,” says Overo. “That also extends the need to make quicker payments, to have instant settlements, and to increase speed efficiencies. That is a huge advantage right now for any organisation that can deliver it.”

He is well positioned to comment on this space. Unlimit’s BaaS solution — Overo’s self-proclaimed pride and joy — enables any business or brand to offer financial services to their consumers.

Overo’s role is multifaceted, spanning business development, products and marketing. “It's a challenge,” Overo admits, “and I enjoy that”. His enthusiasm even extends to the t-shirt he wears, on which ‘Borderless Possibilities' is emblazoned.

The word ‘possibility’ reverberates within this discussion, reflecting an industry that is still investigating what forms digital currencies might take.

Such thought is central to the work of the Digital Pound Foundation, a trade association working with banks, non-member firms and other trade associations, to develop an ecosystem and community around digital money.

“There's a perception that money and payments are digital — but what they aren't is digitally native,” explains Jannah Patchay, policy and strategic lead at the Digital Pound Foundation.

Like Overo, she places a significant focus on the possibilities that digital currency brings to the industry, particularly in overcoming the current inefficiencies that traditional financial systems may operate with.

She adds: “It gives us the opportunity to tear up all of the assumptions that we currently have around constraints on money and payments, and look at the requirements of what we need in terms of settlements now, and in the future.”

Stablecoins and CBDCs

As highlighted by Securities Finance Times coverage of the Digital Assets Forum in April 2024, the various forms of digital currency are subject to much debate and scrutiny.

The forum covered the various use cases of digital money across retail and wholesale centres, as well as highlighting inherent challenges in adoption. What quickly became evident was the vast amount of work needed across the industry to actually make these changes happen.

As a participant at one such panel, Overo provoked discussion by advocating for the use of stablecoins over CBDCs. Admitting to being in the minority, he expands upon his point in our call: “For me, stablecoins are not just a preference, but a strategic choice.”

He describes how CBDCs are still fundamentally tied to traditional infrastructures and regulatory challenges, while stablecoins provide flexibility and rapid deployments. As the name suggests, they also pose a more stable alternative. Since they can be pegged to a currency like the US dollar, or to the price of a commodity such as gold, they offer more anchored options, particularly compared to volatile crypto markets.

Ultimately, however, Overo is strategic. “When you look at the option of CBDCs versus stable coins, it's all about using the right tool for the right job — with scalability and adaptability in mind.”

In contrast, Patchay describes the Digital Pound Foundation as “very neutral” in this debate.

“We see both CBDCs and private issuances such as stablecoin coexisting in the future, along with tokenised deposits; all of them will have a role to play in a future ecosystem of digital money,” she comments.

Elaborating on the varied opinions of market players, she touches on the politics of digital currency within the financial sphere: “I think that

a lot of the arguments are driven by — on all sides — preconceptions, and inherent beliefs about the others."

She explains the potential dynamics at play between market players: stablecoins and CBDCs facing potential scepticism from banks; stablecoin issuers perceiving banks as adding levels of intermediation and obfuscation; on the retail side, Patchay highlights the genuine concerns consumers hold around privacy and control.

"On the wholesale side, there are much stronger and clearer arguments for introducing a CBDC," Patchay argues, predicting it might happen in the near to medium term. But, as for the differences in opinions, "it just depends on who you talk to".

Post-trade

Writing for a securities finance magazine, I was curious to see Patchay's opinion on the impact of digital currencies on the post-trade process.

Her take — it will be profound.

She discusses the impact on various places in the settlement cycle, using the example of a bank's treasury function. "If your business model or function is predicated on sourcing liquidity, and taking advantage of gaps in the settlement cycle to meet your liquidity needs, instantaneous settlements create significant challenges to that," she explains. "They will need to have the assets available in order to trade and settle in real time."

This can be expanded into securities finance in particular. With repo and securities lending currently operating within a T+2 settlement cycle in Europe, there is a two day gap where lenders can find liquidity.

"When you have that instant settlement, there is a question of what will happen to those markets?" observes Patchay.

The question of digital technologies on settlement is not a new discussion. In a talk titled 'Innovation in post-trade services' at the AFME conference in 2022, Sir Jon Cunliffe, former governor at the Bank of England, highlighted the benefits of new technologies. These included fewer fees, due to the smaller number of intermediaries, and a shorter and simplified chain structure.

Nonetheless, the focus on regulation was paramount. "Given the range of policy questions — regulatory, supervisory and legal — that these developments raise, market infrastructure regulators will need to step up their engagement," he stated.

Two years on, the industry has seen developments in DLT and blockchain, notably with the Digital Securities Sandbox and the Innovation Hub's Project Meridian. However, stablecoins and CBDCs remain debated.

However, as Cunliffe somewhat aptly pointed out: "We should not classify new ways of doing things as dangerous simply because they are different."

Timeline

When can we expect these currencies to be realised? The answer lies in the process.

Patchay advocates for a meticulous and unhurried process of adoption. Comically highlighting the historical challenges the UK has faced in delivering large infrastructure projects, she emphasises the need for diligence: "when you do it, you want to get it right."

"The benefit is not about primarily displacing existing payments and infrastructure," she continues. "It's about providing a platform for innovation in the future, and the future foundations of financial market infrastructure. This isn't something you want to rush into, as a central bank, but is this something that you want to be actively exploring."

To achieve this, Overo agrees, preparation is paramount. "It needs to be interoperable, and there needs to be a very vast advance in regulatory clarity, as well as education." He details the fine balance between regulation and innovation, and highlights the need to provide a clear legal framework for operations in order for implementation to be possible.

However, it is education that he sees as the fundamental driver of these currencies. "Educating users about the benefits and the operations of digital money is absolutely key to accelerate adoption," he remarks.

"It's going to be a team effort — and we'll all play a part."

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Back to the future: Sudden shifts in market dynamics

The financial industry faced a blast from the past earlier this month when recent events in the equities markets showcased similarities with the GameStop saga. Matthew Chessum, director of securities finance at S&P Global Market Intelligence, explores the complexities of the retail investor

Earlier this month, the equity markets were sent back in time to a period when nothing was as it should be. As Covid-19 gripped the planet, countries were in lockdown; governments were in crisis mode and office blocks were empty as employees were sanctioned to work from home. During this period, with bars and restaurants shut, with more money in their pockets, retail investors started to look for ways to invest their spare cash.

To do this, many turned to social media platforms such as Reddit to share their thoughts, analysis, and opinions on a wide range of investments. Certain individual investors attracted huge followings because of their dynamic online personas and alternative opinions gaining them an impressive level of influence among millions of retail investors. One of the biggest online followings was attracted by 'Roaring Kitty', the alias of financial analyst and investor Keith Gill, who shared his investment insights and analysis on YouTube, and Reddit, under the username 'DeepF***ingValue'.

Using social media, 'Roaring Kitty' shared detailed analysis on stocks that he believed were deeply undervalued. Gill's posts and videos were used to emphasise his conviction that certain stocks could experience substantial price increases. The most famous was GameStop (GME). Following a massive wave of interest from retail investors, Gill's posts often sent share prices 'to the moon' — rising substantially, potentially with no limits.

Following this practice, the term 'meme stock' entered into the vocabulary of Wall Street. Meme stocks were often considered to be a battleground between retail investors and hedge funds. While hedge funds often decried the lack of business fundamentals and

performance in a stock price, retail investors believed that, given enough support from investors, a climbing stock price can often lead to a stronger business — a rebounding share price provides the ability to raise additional cash reserves through the capital markets.

In 2020, this is exactly what happened with GameStop, as Gill's bullish stance on the company galvanised a massive wave of retail investor interest in the stock. This subsequently led to a short squeeze, as heavy and rapid buying activity from retail investors forced short covering by hedge funds. This was reported as a main street versus Wall Street situation, and as such attracted significant media attention. The use of social media and the dynamic behind the swift nature of the retail purchases also attracted scrutiny by regulatory authorities.

In May 2024, some market participants may have felt as if they had jumped into their DeLorean's and taken a trip back to the future, as 'Roaring Kitty's' reemergence on social media caused meme-stock traders to pile into meme stocks once again. The share prices of both GME and AMC Entertainment Holdings (AMC) increased significantly as a revival of the retail-trading frenzy that rocked markets during the pandemic took hold once more. The market valuation of GME increased by more than US$11 billion in just a few days, while AMC gained US$1.2 billion. Option volumes also surged in both stocks to their highest levels since July 2022.

In the securities lending markets, despite the increased interest seen in both stocks in the cash and options markets, activity remained a long way from some of the highs that were seen previously. At its peak, on 20 January 2020, 87 per cent of GameStop's outstanding shares were on loan compared to just 29.46 per cent on 10 May 2024. For AMC, shares on loan spiked during August 2023, as the conversion of AMC preference shares (APE) into AMC standard line shares created an arbitrage opportunity, pushing the percentage of shares on loan to 43 per cent. This compares to just 26.81 per cent during May 2024. When looking at the volume-weighted average fees (VWAF) on offer across both stocks, a similar situation was seen, with GameStop peaking at 681bps on 14 May 2024 versus 8,169bps on 7 May 2020, and 493bps on 15 May 2024 versus 73,643bps on 24 April 2023 for AMC.

However, what changed this time was the ability of investors to foresee the impact of any moves in sentiment ahead of the crowd, through the analysis and usage of multiple data points. Taking GameStop as an example, when looking across a range of datasets available at S&P Global Market Intelligence, it was clear to see that sentiment was changing in advance of any significant moves in share price.

Retail flows are a significant component of meme stock trading, and clear spikes could be seen in retail purchases from 2 May onwards — growing from purchases of very low, single-digit millions of dollars per day, to over US$1,200 million on 13 May. The profit and loss per share on open short positions also started to become increasingly negative from 2 May onwards, growing to over US$15 loss per share on 14 May, as the share price started to increase rapidly.

A clear move in the short squeeze score was therefore seen, as most of the short positions quickly moved out of the money. Hedge fund positional data also showed that the long gross ratio of hedge funds stood at three to four per cent at the time, suggesting that most of the contributed positions were shorts. As the share price increased, shares became more expensive to borrow. The intraday dataset showed that indicative fees were rapidly rising, with intraday indicative fees climbing almost 100 per cent when compared to the one-day indicative end of day fee, giving investors a warning that the market was starting to move.

Figure 1: Gamestop Corp (GME) intraday vs end of day volumes

Source: Securities Finance
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As was seen during the US regional banking crisis last year, and the most recent shift in sentiment across these meme stocks, significant market movements are now materialising at a much quicker pace than ever before. The rise of retail investors, who now account for nearly 20 per cent of daily trading volumes in the US, is having a sizable impact on market behaviour, as larger and faster swings in both prices and sentiment are taking hold.

Timely data remains essential to navigating these sudden shifts in market dynamics. Not only do investors need to understand the fundamental side of their investments, but Gamestop has shown us that they also need to be tapped into multiple data sources to ensure they capture the growing importance and complexities of the retail investor.

Kayenta recruits Daniels

Kayenta has appointed Jason Daniels as a client relationship manager.

Daniels brings more than 20 years of experience in the financial markets to his new role.

Based in New York, he will report to Mark Toone, chief commercial officer at Kayenta.

Previously, he was senior relationship manager of alternatives at BNY Mellon for more than a year.

Most notably, Daniels held a 17-year tenure at UBS where he held a number of positions, including as executive director and senior client relationship manager.

Earlier in his career, he was operations manager at ING Furman Selz Asset Management during his five-year term with the company.

Overy joins Marex

John Overy has joined Marex Financial as head of EMEA securities finance.

Reporting to Paolo Tonucci, CEO of Capital Markets, he will be responsible for the implementation and execution of the firm's international securities financing capabilities, across securities lending, repo and derivatives.

Prior to Marex, Overy held a five-year tenure at TD Cowen, where he was managing director of global securities finance.

Before this, he held multiple roles across financial services firm Macquarie Group, having joined in 2011.

The news follows Marex's recent acquisition of the TD Cowen prime business and recent listing in the US.

Wells Fargo hires Campbell

Wells Fargo has selected Courtney Campbell as managing director and head of securities lending demand trading.

Based in New York, she will report to Eamon McCooey, head of equity finance and FCM, and will be responsible for leading the firm's securities lending activities with prime brokerage clients.

Campbell joins the financial services firm from Digital Prime Technologies, where she was head of lending solutions. In this role, she was responsible for the build, design and launch of the firm's lending platform, Tokenet.

Previously, she was managing director of international equity finance at Credit Suisse. Campbell held two stints with the company, spanning a total of six years.

Before this, Campbell held an 11-year term at Bank of America Merrill Lynch, where she held a number of senior roles including as managing director of equity synthetics and securities lending.

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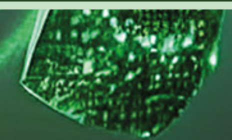

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Morgan Stanley departure

Gerard Murphy has departed from his role of co-head EMEA client financing sales and trading at Morgan Stanley.

Murphy held a 15-year tenure with the firm, where he held roles in risk management and secured funding.

Prior to joining Morgan Stanley, he was an analyst at Bear Stearns & Co, after joining in 2006.

Commenting via LinkedIn, Murphy says: "What began as an analyst role in the summer of 08, ended up being quite the journey personally and professionally. I feel very lucky and extremely privileged to have worked in such an outstanding organisation."

Murphy will be relocating to Ireland to begin his new role, which is as of yet undisclosed.

DC onboards Girao-Tavares

Capital markets consulting and technology provider, Delta Capita, has appointed Liliana Girao-Tavares as its new US head of Client Lifecycle Management (CLM).

Based in New York, Girao-Tavares will be responsible for leading the CLM business in the region, working closely with local and global teams to support the firm's North American clients.

She brings more than 20 years of experience in banking and financial services to the role.

Most recently, Girao-Tavares was the CLM global head of regulatory due diligence at Credit Suisse — now a part of UBS Group.

Previously, she held positions at Goldman Sachs and Citigroup. During her career, Girao-Tavares has led global strategic organisational change, improved and spearheaded technical solutions to drive scale and efficiency.

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

Group editor: Karl Loomes
karlloomes@blackknightmedialtd.com
020 3617 1722

Deputy editor: Carmella Haswell
carmellahaswell@securitiesfinancetimes.com
020 3617 1722

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

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

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

Studio director: Steven Lafferty
design@securitiesfinancetimes.com

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