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Fixed income, growth mindset

Sara Carter and John Edwards of BrokerTec discuss the expansion of credit and mortgage solutions to help clients navigate an evolving fixed income landscape

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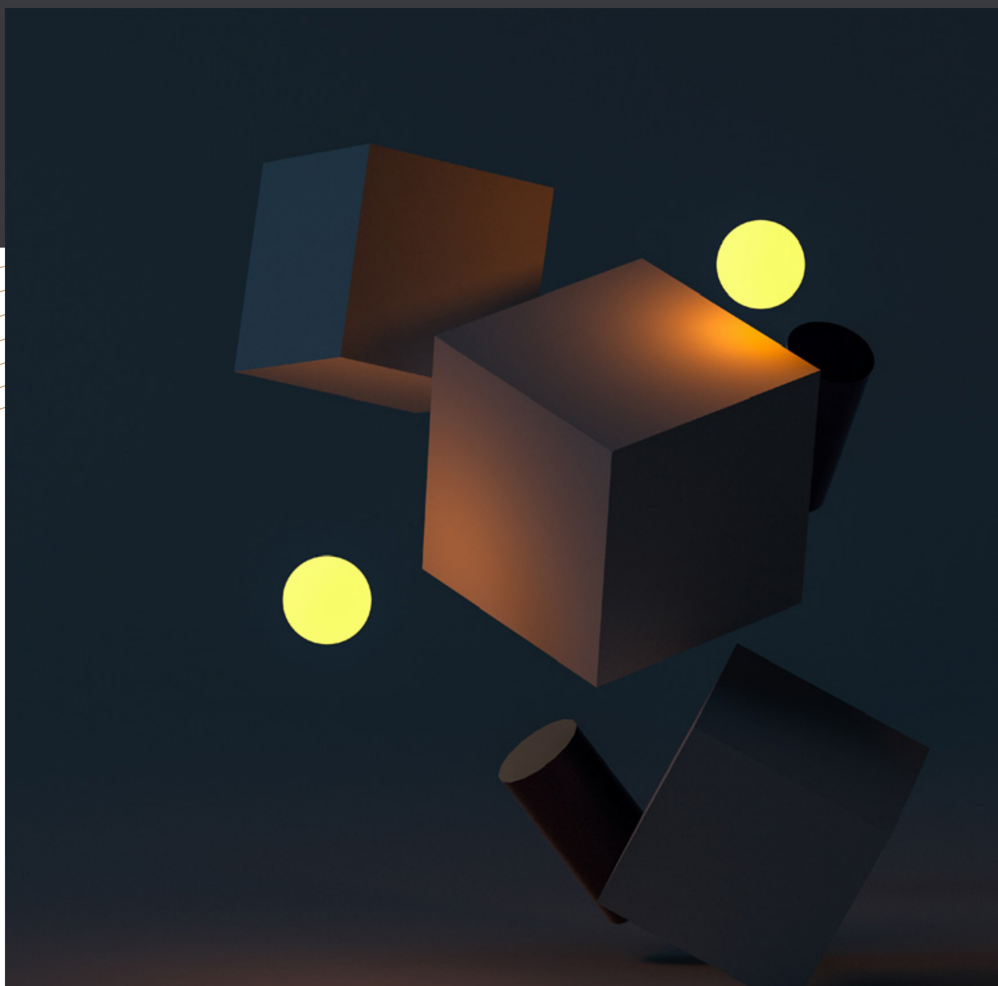


GLMX now recognised market operator in Singapore

GLMX Technologies has been designated as a recognised market operator (RMO) by the Monetary Authority of Singapore (MAS).

The recognition allows GLMX to provide its platform to financial institutions in Singapore, and to expand on its global footprint, the firm says.

Commenting on the news, Glenn Havlicek, CEO and co-founder of GLMX, says: “Becoming a RMO in Singapore is a significant step for GLMX as this reinforces the firm’s commitment to markets throughout Asia.

“Clients are increasingly demanding a single point of access to the global money market and interest from institutions based in Asia to connect to the GLMX platform has intensified over the past 12-18 months.

“We continue to expand our offering to meet the growing demand for access to deep institutional liquidity combined with operational efficiency. We look forward to strengthening our institutional client relationships across Asia.”

Inside this issue

4

Clearstream GSF volumes rise 16% YoY

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.

CME extends repo platform

CME Group has launched repo on corporate bonds and mortgage-backed securities on BrokerTec Quote, its dealer-to-client trading platform.

US corporate bonds began trading on 20 May, with the remaining products going live by the end of June. CME Group's US credit futures will begin trading on 17 June .

The firm says the launch will allow clients to conduct their risk management and fixed income financing needs from one platform.

John Edwards, global head of BrokerTec, says: “We have been actively expanding BrokerTec Quote to cover repo on all major government bond markets in recent years.

“The addition of corporate bonds and MBS is a natural complement to our core offering and follows significant demand from clients."

ICMA ERCC publishes best practices on pair-offs

The International Capital Market 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.

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.

FinTech companies sceptical of SEC’s statement on T+1

A number of FinTech companies have raised potential issues ahead of the implementation of T+1 in North America.

Alex Knight, head of EMEA at Baton Systems, and James Pike, interim CEO of Taskize, have concerns about the pressure a shorter settlement cycle will place on the industry.

Knight argues manual processing will struggle with the increased working hours. He states: “It’s going to be a tough ride with a lot of stressed people working longer hours to meet these new, tighter timeframes. Overall, the market has been relying on post-trade processes that require manual intervention for way too long.

“While far from ideal from a cost and efficiency perspective, that worked when there was plenty of time to fix things, but now that we’re moving to much shorter timelines, the pressure is well and truly on.”

Pike believes the industry is unprepared for T+1. He explains: “I think industry participants are partially ready. They have addressed their technological challenges of moving from operational processes from T+2 to T+1, but have not prepared fully for the increased number of exceptions likely to be generated through the shift, and therefore need to be better prepared around exception processing.”

These comments came prior to the implementation of T+1 in the US on 28 May, after a US Securities and Exchange Commission (SEC) statement welcomed the transition.

In the statement, SEC Chair Gary Gensler said: “For everyday investors who sell their stock on a Monday, shortening the settlement cycle will allow them to get their money on Tuesday.

"Shortening the settlement cycle also will help the markets because time is money and time is risk. It will make our market plumbing more resilient, timely, and orderly. Further, it addresses one of the four areas the staff recommended the Commission address in response to the GameStop stock events of 2021."

In 2017, the SEC successfully shortened the settlement cycle from T+3 to T+2. The agency admits that the movement to T+1 could create "a short-term uptick in settlement fails and challenges to a small segment of market participants."

CACEIS completes integration of RBC IS European entities

Asset servicing banking group CACEIS has completed its integration of the Royal Bank of Canada Investor Services' (RBC IS) European entities.

Less than a year after the acquisition of RBC's European asset servicing activities, all staff in each location have now regrouped under common legal structures, the firm says.

On the client side, the migration project is also underway and is scheduled for completion by the end of 2024.

CACEIS has obtained regulatory authorisations, and in turn has updated its legal structures by combining entities in France, Luxembourg, Belgium, Ireland and Switzerland.

Commenting on the announcement, Jean-Pierre Michalowski, CEO of CACEIS, states: "I am especially proud of the journey our staff have achieved and of the trust shown by our existing and new clients, which allowed for a successful integration of RBC IS activities.

"We are delighted to have achieved this major milestone and now be united under CACEIS. Our group, with more than 7,000 men and women working in 18 countries around the world, is seeing the first positive effects of this acquisition.

"We are now in an even better position to act as a key business partner for our clients, helping them meet their business development objectives."

Stifel to partner Marex

Stifel Financial, a financial services holding company headquartered in St Louis, Missouri,

has entered into a prime brokerage services referral partnership with Marex Group.

The partnership will allow both companies' broker-dealer affiliates to better service their hedge fund and investment management clients, the firms say.

Under the terms of the arrangement, Stifel's institutional sales and trading group will offer Marex's trading and execution capabilities to its institutional client base of hedge funds and investment managers.

These capabilities include multi-asset class custody, financing, securities lending, and capital introduction.

In turn, Marex's institutional clients can receive access to Stifel's research, banking, and corporate access offerings.

Commenting on the news, John Spensieri, co-head of equity trading at Stifel, says: "Marex has a well-established prime brokerage and outsourced trading business, with technology-powered data, that will complement our emphasis on offering differentiated products to meet the evolving needs of our global client base."

Jack Seibald, global co-head of prime brokerage services and outsourced trading at Marex, adds: "This partnership is a key differentiator that will further enhance our capabilities and complement efforts to expand the global reach of both firms."

More flexibility needed for Digital Securities Sandbox, say ICMA

The Digital Securities Sandbox (DSS) needs various alterations, say the International Capital Market Association (ICMA).

The DSS is a regime that will allow firms to use developing technology, like distributed ledger technology (DLT), in the issuance, trading and settlement of securities, such as shares and bonds.

ICMA's response comes as part of the eight-week consultation period conducted by the Bank of England (BoE) and Financial Conduct Authority (FCA) into the application of the DSS.

The two entities are working together to operate the Sandbox, to protect financial stability and facilitate innovation.

As part of the proposals, the BoE will impose limits on the value of securities that can be issued in the DSS. They say that this reflects the fact that the new technologies are untested in important financial markets at significant scale.

ICMA have expressed their principle support of the draft guidance on the operation of the DSS, but have suggested various modifications.

The association recommends adopting a more flexible approach to applying limits for live transactions on a firm-by-firm basis, enabling Sandbox participants to scale on a continuous basis, as well as expanding the scope of securities to non-sterling currencies within the Sandbox.

This is key to ensure commercial viability for Sandbox entrants, ICMA says.

It also suggests that a more tailored approach for Sandbox entrants that are regulated would be beneficial, allowing firms to bypass requirements provided they are already met outside the Sandbox.

Meanwhile, final or "end-state" rules should be reviewed and adjusted depending on learnings from the Sandbox, adds ICMA.

The association's response reflects the views of a subset of its DLT Bonds Working Group, notably issuers, banks, investors, market infrastructures and law firms across the international debt capital markets.

A joint response to feedback from the BoE and the FCA can be expected in Summer 2024.

Fixed income, growth mindset

Sara Carter and John Edwards of BrokerTec speak to Eric Leininger, executive director of financial research and product development, about the expansion of credit and mortgage solutions to help clients navigate an evolving fixed income landscape

In today's dynamic and complex financial landscape, navigating the fixed income markets for mortgages and credit can present unique challenges and potential risks.

With interest rates at two-decade highs, record federal debt levels, economic uncertainty, and evolving regulatory requirements, market participants require sophisticated tools and innovative strategies to manage their exposure in fixed income markets, and to achieve their financial goals.

As a global derivatives marketplace, CME Group has expanded its presence in the fixed income space. This expansion has been driven by a number of factors, including the growing investor demand for risk management tools, the ever-increasing popularity of electronic trading, and the company's desire to further diversify its product offering.

One of the key elements of the fixed income expansion has been the launch of To-Be-Announced (TBA) futures — specifically based on the underlying price of 30-year conforming mortgages. In addition, the firm has also launched T-Bill futures, brought about given the significant amount of short-dated paper that the Treasury is issuing. Recently, CME Group decided it would continue its fixed income expansion by listing credit futures based on Bloomberg's suite of aggregate bond (Agg) indices, including US corporate and high yield futures.

CME Group will now offer solutions for its growing client base by expanding its repo financing business into mortgages and credit with its BrokerTec Quote platform. As a venue for repo transactions, the company has been actively broadening its repo financing offerings in recent years.

The company believes its expansion into fixed income markets is a significant development for the firm, and for the fixed income industry as a whole. CME Group's track record in the derivatives market arguably puts it in a strong position to become a major player in the fixed income financing space.

BrokerTec Quote

BrokerTec Quote's client-centric model is designed to ensure continuous improvement in the user experience. Through a collaborative approach, BrokerTec works to engage with its clients to identify areas for enhancement. This input drives the development of new features and functionalities, which are then delivered directly to production through monthly releases.

The platform's global reach extends across the US, UK, Europe and Asia, catering to a diverse range of clients, offering near-round-the-clock coverage, operating from 11:00 Tokyo time to 17:15 EST.

Operating for 25 years, BrokerTec has built secure and strong relationships with regulatory authorities. As an integral part of CME Group, BrokerTec also benefits from the cyber infrastructure that safeguards CME Group's futures and options trading and data offerings. The offering aims to support daily trading, as well as helping with customer audits and other insights as required. BrokerTec Quote is able to cater for the diverse needs of both buy and sell side market participants.

"With CME Group's expansion into fixed income risk management and financing, the company can offer clients an enhanced experience."

With the growth in cyber and ransomware attacks in recent years, CME Group is prioritising business continuity with a secure platform designed to minimise these kinds of disruptions, ensuring uninterrupted service and access to critical information for clients. Additionally, CME Group maintains an in-house development team dedicated to incorporating client feedback into its solutions. This results in an expedited process for building and rolling out new features and enhancements, allowing for quick adaptation to the evolving needs of the market.

BrokerTec works to offer financing market data on European repo, via its European Repo VWAP file, available on Datamine. Through its European dealer-to-dealer (D2D) platform, it offers sell side and active Quote buy side clients, access to financing levels across sovereign repo.

This transparency is designed to enable clients to make informed decisions and optimise their trading strategies. Additionally, BrokerTec delivers prior day activity via dedicated files the next morning, complete with detailed timestamps, allowing firms to validate their best execution and ensure compliance with regulatory requirements.

Expanding fixed income offerings

BrokerTec offers a wider range of fixed income financing through its Quote platform. Clients will be able to manage more of their fixed income financing needs more easily and securely. By matching the buy side and dealers to finance broad baskets of securities, including credit and mortgage-backed securities, financing and risk management will be easier to execute.

Companies are rushing to issue debt in the US corporate bond market, due to low borrowing costs and investor demand. This surge in issuance is driven by the expectation that interest rates will not fall significantly this year, potentially making it advantageous for companies to secure funding now.

BrokerTec Quote provides a solution to manage the full lifecycle of corporate bonds, including securities lending, risk management, roll manager, axe boards, substitutions, and rerates. By automating these processes, it should eliminate manual intervention and help to reduce the risk of errors, saving time and resources in the management of corporate bond portfolios.

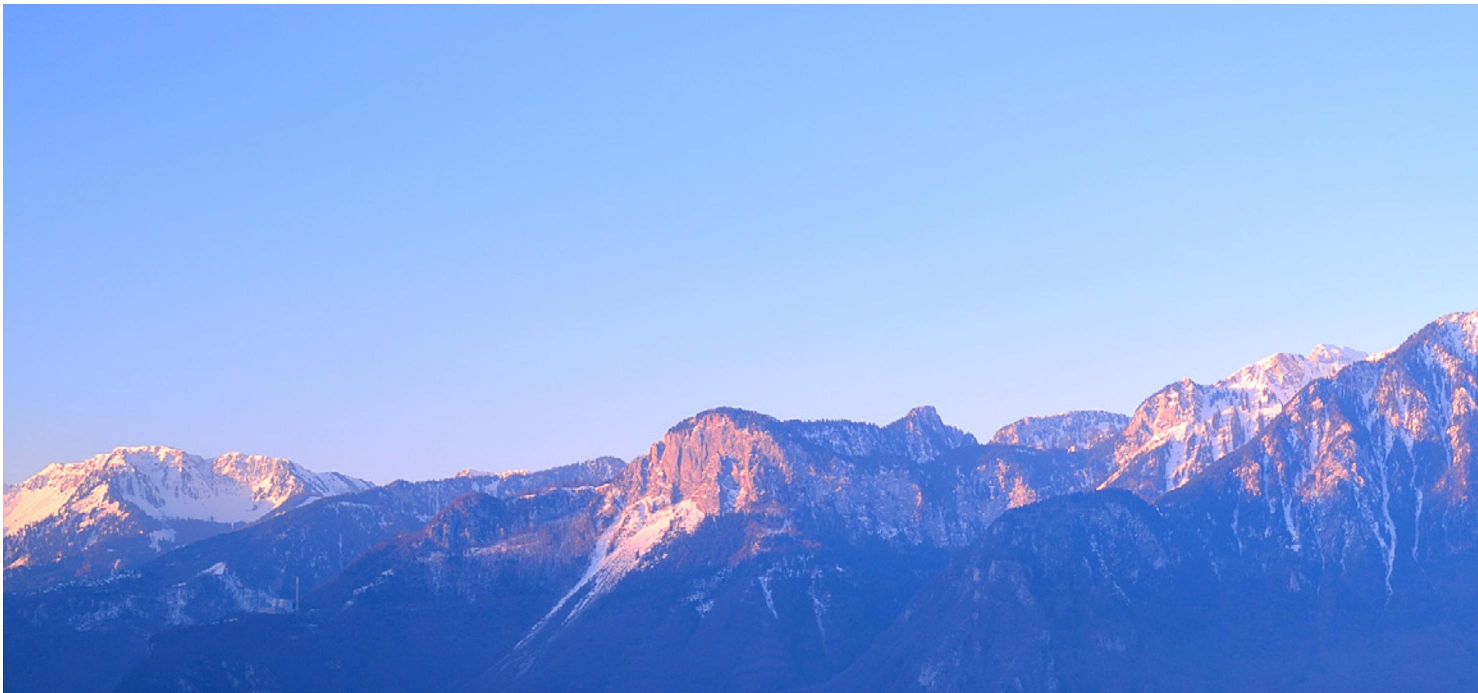
BrokerTec offers its Quote service free of charge for the buy side. This applies across its entire offering, simplifying the process for clients by ensuring standard fee structures. By maintaining consistent pricing across products, it provides transparency and predictability for users.

Getting ready for the next phase

The BrokerTec Quote value proposition continues to grow as it moves into fixed income financing. With CME Group's expansion into fixed income risk management and financing, the company can offer clients an enhanced experience. This integration looks to provide a suite of solutions for managing credit and mortgage exposure, allowing clients to navigate market complexities with confidence.

Sara Carter
Global head of BrokerTec repo
CME Group

John Edwards
Global head of BrokerTec
CME Group



European securities lending panel

Securities finance specialists reflect on market performance in Europe over the past 12 months, and consider the impacts of a potential T+1 implementation in the region, general elections, and how market trends are shaping firms’ development strategies

Panellists

Julien Berge, Head of Fixed Income and Repo, **CACEIS**

Andrew Geggus, Global Head of Agency Lending, Securities Services, **BNP Paribas**

Joseph Gillingwater, Global Head of Fixed Income Securities Finance Trading, **Northern Trust**

Matthew Neville, Managing Director, EMEA Head of Agency Lending Trading, **State Street**

Rickie Smith, Agency Securities Finance Product Management, **J.P. Morgan**

Matthew Trickett, Agency Securities Finance Trading, **J.P. Morgan**

Olivier Zemb, Head of Equity Finance and Collateral Management, **CACEIS**

How do you assess the performance of European securities lending markets over the past 12 months?

Julien Berge: Over the past 12 months, markets have experienced a bumpy ride, with strong returns up to May 2023 followed by a slow but steady decline. This decline has impacted revenues globally, resulting in a 20 per cent year-on-year (YoY) decrease.

The biggest impact can be seen on equities, corporate bonds and convertible bonds, due to low activity on corporate actions. Additionally, the continuous rise of equity indices, stable interest rates, and struggling inflation, have all contributed as well. This situation has led to a scarcity of specials and a decrease in general collateral (GC) balances, as the need for collateral diminishes with the ongoing upward trend of indices.

The increased value of cash collateral has also limited arbitrage opportunities.

On the other hand, ETFs and high-quality liquid asset (HQLA) returns have remained stable and market participants continue to focus on macro hedging and liquidity coverage ratio (LCR) requirements.

Andrew Geggus: The performance for the region has been mixed. We have seen a decrease in lending revenue across European equities driven by a reduction in conviction on the short end, as well as a decrease in general balances as risk-weighted assets (RWA) constraints are forcing prioritisation of capital deployment. On the reverse side we have seen increased flows in euro corporate bonds as demand has increased broadly across the industry and our supply to the market has likewise increased.

Lastly, the HQLA government bond space remained strong, particularly in the structured longer maturity trades. We have seen some spread compression. However, this has been offset by longer duration transactions and widening collateral parameters.

Joseph Gillingwater: The MSCI Europe index recently hit an all-time high, with a hard landing recession seemingly evaded. This has resulted in a decline in securities lending activity, with softer short side conviction limiting activity in EMEA. The long hedge fund bias has increased borrower internalisation levels and created a glut of broker-to-broker financing, with attractive swap pricing for borrowers covering shorts synthetically. Borrowers therefore have more cost-effective, alternative routes to cover shorts versus a physical borrow. New specials remain scarce across all European markets with a lack of broad sectoral themes, corporate events and IPOs.

Robust demand has remained in place for highly-rated sovereign debt, mainly core issuance from Germany, France and the Netherlands. Absent specials activity, and with the recent equity rally, these are typically sought in term upgrade trades, and driven by liquidity ratio and regulatory capital requirements. The specials space has been relatively benign as central banks telegraph economic policy and enact quantitative tightening, subsequently shrinking their bond holdings and pushing assets back into the street.

Matthew Neville: European equity performance has been softer than previous years. Markets have rallied and hedge funds have been largely long positioned, enabling prime brokers to internalise more of their order flow. In addition, the netting benefits of total return swaps (TRS), along with expensive cash financing, have encouraged primes to borrow cheaply synthetically, so in turn demand for agent lender supply has been adversely impacted.

That said, high interest rate pressure on commercial and retail finances has led to good returns for clients lent across the real estate, retail, travel and auto sectors.

Demand for HQLA remains robust, particularly on upgrade and in term. Given the magnitude of central bank targeted longer-term refinancing operations (TLTRO) repayments, we have seen a marked increase in borrowers looking to fund investment grade corporates versus US Treasury and core European government bonds.

European sovereign specials have declined given the ample liquidity issued by central banks and the Debt Management Office (DMO).

Credit has performed notably well given higher financing costs over the past 12 months, and hedge funds have looked beyond the traditional asset classes to generate alpha. Utilities companies, such as Thames Water, have been particularly in demand.

Matthew Trickett: With global stock markets only knowing one direction — record highs — the past 12 months have seen major swings and challenges to the SBL industry. With valuations soaring and muted volatility, the long bias has now manifested itself into every asset class. Even the resilient emerging market debt has seen the volume of specials reduce. All of these factors have contributed to the significant headwinds on our revenue opportunities, especially in Europe compared to the other continents. Short demand has been lacklustre as many companies maintain strong earnings, and we therefore grew accustomed to the idea that inflation has not yet been fully reined in. Prices reaching these records have naturally put significant strain on the balance sheet and so the need to optimise and finance this area has been one of the peaks of our focus.

In which European markets, both by jurisdiction and asset class, do you identify strongest opportunities for growth of your lending business?

Geggus: We see opportunity across all asset classes in Europe. We continue to see the credit space growing in activity, which matches off nicely to our growth in lendable base. But we also see potential for some rebounding in the European equity market as conviction increases on shorts, which in turn can drive some special activity.

For European government bonds, the real opportunity is for clients who are willing to go down the credit curve in terms of collateral, and who are willing to enter longer term transactions, which enable borrowers to benefit from a regulatory capital perspective.

It is worth keeping an eye on the basis swap, as we start to see rate cuts across jurisdictions, we may see an increase in activity in this space.

Neville: State Street's Financing Solutions division in continental Europe is in growth-mode.

Regulatory pressure, sharpening of post-Brexit requirements and the expiry of exemptions are forcing market participants in Europe to review their operations. State Street's EU entity is well positioned to assist firms implement compliant lending programmes.

In addition to our presence in Italy, Germany, the Netherlands and Switzerland, we have become significantly more present in other markets across the EU over the last two years.

We have expanded the team's footprint in Europe under Christian Schuetze, and are having tremendous success converting the pipeline, growing our client base and increasing supply for our trading team.

We are also focused on enabling lending in the Gulf Cooperation Council member states, where securities lending is becoming an important contributor to efficient capital markets.

In terms of specific asset class demand, we envisage a continuation in demand for HQLA upgrades and credit. We hope to see an increase in corporate activity in equities when central banks begin their much anticipated reductions in base rates.

Trickett: Our focus on the Middle East and North Africa (MENA) region will remain a priority as we recognise the significant growth and potential opportunities it offers. We see the region swiftly moving to become an established SBL market, as they mainstream facilitation of short selling and so see trading volumes increase. We expect more M&A activity in the equity space, further announcements of delistings from the London Stock Exchange (LSE) and funds looking for exposure via broader asset classes. We have seen considerable growth within the retail aggregator pools and expect this to continue as the diversification of the lending pools allows the industry to benefit from the expanded depth and breadth of supply.

A key focus in this space is the ETF portfolios entering the lending market. On the collateral side, we think there will be further strides in tokenisation, and the eligibility to use these assets to safeguard a fund's liquidity while enhancing market resilience during turbulent times.

Olivier Zemb: If we still consider the UK as a European market, UK equities scripts are already strong and could further strengthen in the future.

Polish and Greek equities are experiencing growth in the lending market despite less favourable macroeconomic conditions.

In TARGET2-Securities (T2S) markets, where Central Securities Depositories Regulation (CSDR) penalties apply, the need for fail coverage may lead to increased revenues for lenders as penalties could rise significantly.

HQLA investors seeking yields during the low interest rate period, are now considering swapping low grade assets for government bonds on a term basis, creating opportunities for lenders with the right collateral profile.

In the corporate and converts sector, a decrease in interest rates could lead to directional shorts and arbitrage opportunities that will potentially increase volumes and fees for lenders.

What pressures and opportunities have recent regulatory initiatives created for your securities lending business?

Rickie Smith: Differing approaches taken by local regulators in implementing EU directives have proven challenging for the industry as a whole. This is evident through regulations focused on sustainability, whereby a divergence in scope and certain disclosure requirements have caused variations in implementation.

Prudential regulations such as Basel III Endgame pose ongoing challenges, impacting capital requirements and RWAs, potentially elevating operational costs. Generally, compliance costs, spanning technology investments, vendor expenses and operational model enhancements are increasingly evident as observed through the implementation of CSDR and Securities Financing Transactions Regulation (SFTR), all contributing to an increase in the cost of doing business.

Opportunities emerge at both the market and individual firm levels, driven by increased transparency, market standardisation and innovation. From the market level perspective, regulations such as CSDR and SFTR have fostered industry collaboration in setting optimal standards and best practices. At an individual firm level, employing a robust regulatory and oversight framework has empowered our business to offer compliant solutions to our clients in meeting their regulatory obligations.

Zemb: For T+1, the transition has created uncertainty for clients who require asset servicing companies to provide information and assistance. While there may be challenges during the T+1 implementation, internal reallocations will prove to be far more effective than recalls.

Overall, instead of halting US asset lending, beneficial owners should consider expanding their lending programmes to generate additional revenue streams in the long-run.

For Basel III Endgame, there is a focus on reducing pressure on RWAs by exploring optimisation strategies such as pledging, CCP, under-collateralisation issues, and establishing ratings for non-rated entities.

Neville: CSDR enabled the industry to focus on improving pre and post-execution workflows to minimise failed trades and related fines. In general, this led to improved pre-matching and enhancements to vendor solutions, which provided greater visibility for identifying and solving persistent themes, thereby enhancing operational efficiencies.

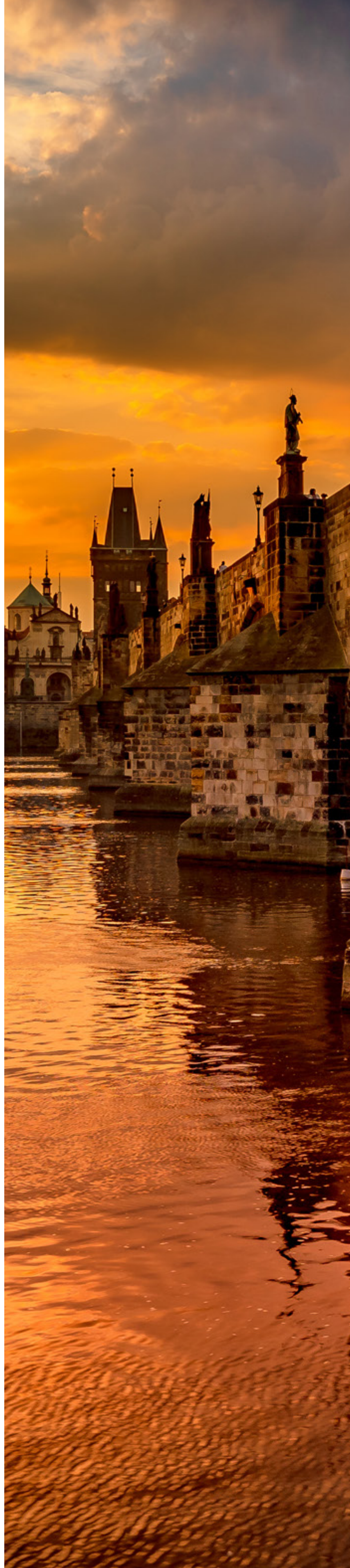
Market participants are now focused on preparing for Basel III Endgame and solutioning to minimise its impact on financial resources.

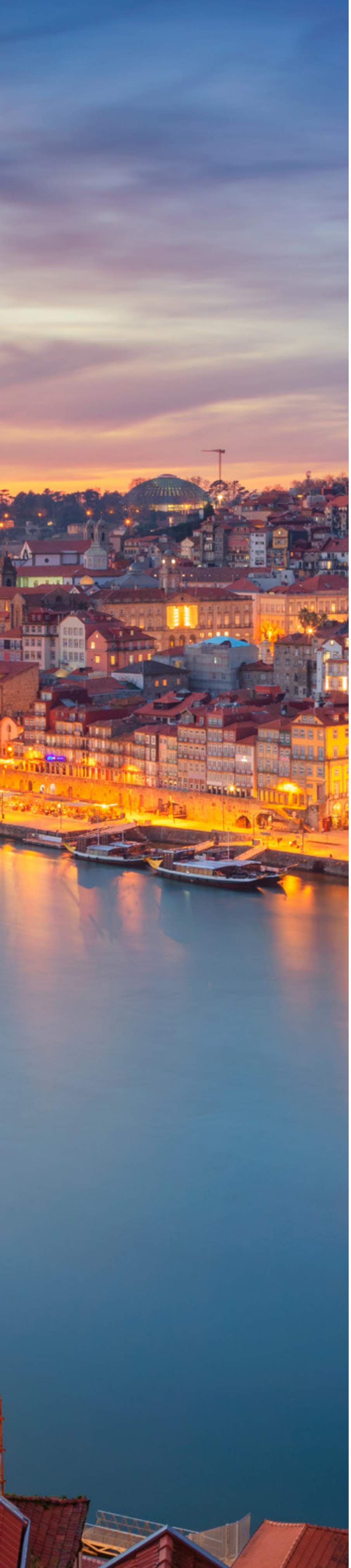
There are strong opportunities for agent lenders and beneficial owners who are able to trade via a broad range of capital efficient structures to meet the differing demands of borrowers. Consequently, we have focused our resources on various clearing and pledge structures which will complement well-established solutions that cater for low risk weight directed demand. We have also been educating eligible clients as to the benefits of clearing and pledge, given the possible impact on utilisation of their inventory as borrowers become more sophisticated in their targeting of supply aimed at minimising the use of capital.

As we look ahead, the industry has plenty of regulatory-driven initiatives to grapple with. T+1 in the UK and Europe is hot on the heels of implementation in North America, and recent industry vendor outages have brought the Digital Operational Resilience Act (DORA) into the spotlight.

Gillingwater: We continue to observe ongoing changes to the regulatory landscape which impact the securities lending industry. However, these have largely focused on enhancing transparency, agility, and technology, to improve efficiency and resiliency in the industry. For example, the adoption of SEC Rule 10c-1a in the US is aimed at enhancing transparency by increased disclosure requirements, transaction reporting, and compliance oversight, with a requirement for security level transaction reporting.

In terms of opportunities, capital-efficient trade structures remain in focus as Basel III Endgame approaches and counterparties look to optimise RWA consumption. Borrowers may consider 'smart bucketing' clients based on RWA, with the most efficient asset owners benefiting from increased flow. This will be problematic for less efficient clients to distribute their available supply, initiatives such as alternative pledge structures, central clearing, and alternative forms of indemnification are being developed and implemented to help offset these potential challenges.





Geggus: In Europe, we experienced a small break from implementing large scale regulatory reforms. However, there is always something on the horizon. We are waiting to see the impacts of the second phase of CSDR. Overall, settlements appear to have improved in the market, but perhaps not to the level that market participants and regulators were hoping for.

This is important for the industry as settlement efficiency is being used as a key metric by regulators, and with the ambition of shorter settlement cycles, it will be necessary to vastly improve the settlement rates. The pressure is there from the regulators in the form of penalties, but the opportunity for the market is clear to see. If all industry participants can reduce the manual intervention, emails, and escalations on fails, then a greater percentage of time can be focused on business growth and higher value tasks.

The UK government has agreed that the country should move to a T+1 settlement cycle. How is this set to impact the rest of Europe in terms of its infrastructure, and how far behind is the EU in following suit with a shorter settlement cycle?

Neville: The US move to T+1, and the plans for the UK to follow suit, have already expedited action from the EU. The European Securities and Markets Authority (ESMA) has undertaken a public consultation on T+1 and committed to report back by January 2025. While the UK is recommending transition to T+1 by 31 December 2027, ideally the UK would want to coordinate with the EU to avoid any period of misalignment.

The recently published Accelerated Settlement Taskforce (AST) report highlights several challenges and impacts for the rest of Europe, should the UK move to T+1 ahead of the continent. For example, there may be an increase in costs for funds containing both UK and European securities, which may discourage investment in certain funds, while separate liquidity pools may be created where securities are multi-listed.

Geggus: Firstly, the EU will not be far behind, so we can consider T+1 across the UK and the EU in a similar vein. The UK and EU will benefit from the fact that the US has moved to T+1. The US market has larger volumes than the others combined, therefore any previously unidentified consequences will likely be addressed ahead of time. One consideration that is clear, is that the speed of data transfer will be vitally important to ensuring minimal impact to the time we have to get items settled.

There is an issue for securities lending agents that a lot of sales that are executed at market close, but do not feed their lending agents systems till many hours later, or potentially even the following day. There is no need for this to be the case and it should be possible to get sales executed at market close, and feeding through straight-through processing (STP) within a few hours maximum. This will require some changes to the recall process and agreements with borrowers on how this will be managed, but I expect the impact to be limited and the market to adapt in quick order.

Berge: Following the move in the US, it is crucial for all markets, including the UK, to transition to a T+1 settlement cycle sooner rather than later. We are confident that participants have taken the necessary steps to update their systems, processes, and infrastructure to prepare for this change. However, the only potential consequence we anticipate is for lenders who do not engage in bulk transactions and are unable to internally reallocate their positions.

Gillingwater: Any move by one of the major world markets to shorten its settlement cycle will have ripple effects. Markets around the world will no doubt monitor the move by the US to T+1 settlement and choose if and when, over the coming years, to align settlement cycles, out of convenience if nothing else.

Making the move is not straightforward, and there are myriad considerations for regulators, not least of which is creating an implementation pathway that gives asset managers and owners, and everybody else who contributes to the orchestrated ecosystem of a successfully settled trade, sufficient time to adapt.

That said, the UK can make a decision to move unilaterally. The UK has a single currency under a single regulator and a single national framework. The EU is more complicated. Change at EU and European Economic Area (EEA) level needs to consider multiple exchanges in multiple jurisdictions, multiple currencies and timezones (Finland to Portugal to Ireland) and the supranational regulatory versus national frameworks perspective. Given the proven time-to-implementation of past EU regulatory change, the industry might expect T+1 to take some years longer in the EU and EEA.

Smith: In the UK, the establishment of the Accelerated Settlement Taskforce aimed to explore the feasibility of transitioning to a T+1 settlement cycle. In March 2024, the Taskforce chair released a report proposing a transition to T+1 by the end of 2027. Recognising the importance of conducting further analysis across the trade-to-post-trade lifecycle, and learning from the US experience, a technical group was formed to determine the scope, methodology, and timeline for the transition. This technical group is expected to deliver a comprehensive report by the end of 2024.

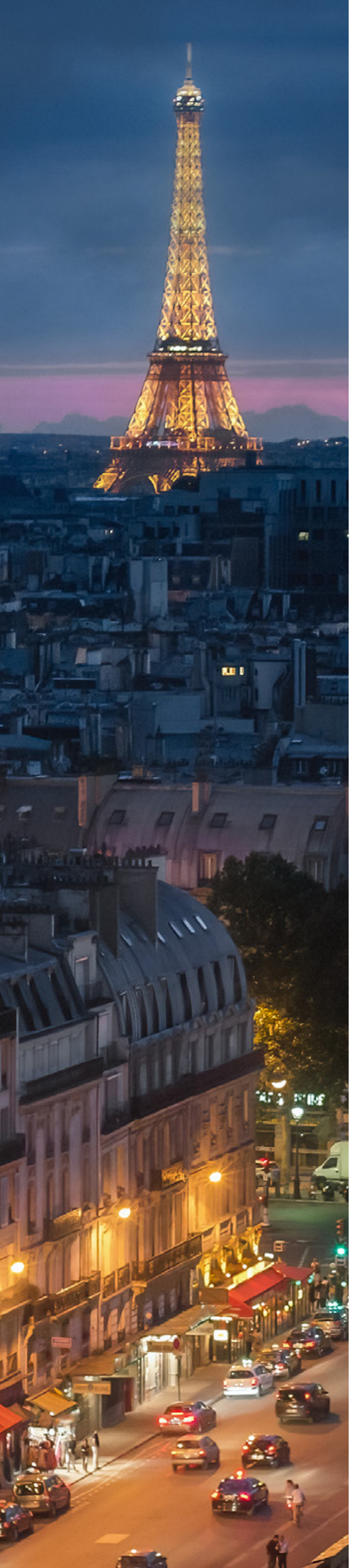
Meanwhile, in the EU, ESMA is analysing the possibility of T+1 and is due to publish a recommendation by the end of the year, which will include a date should a move be proposed. The impact on the EU is more intricate than the UK, as it necessitates coordination across multiple markets, financial market infrastructures and regulatory frameworks. Nonetheless, synchronising plans and timelines with the UK could offer significant benefits to both jurisdictions if achieved.

What investments and adaptations to working practices have you made to sustain and grow your European securities lending activity in this environment?

Geggus: We have invested heavily over the past few years and will continue to do so to help the growth ambitions of our product, not just in Europe, but across the global business. One key area focuses on improving the level of automation and efficiency across the business. We have made a large effort to move to as little manual intervention as possible across the lifecycle of a loan, which in turn will help to ensure the business is well placed for the global move to shorten settlement cycles.

In addition, we have built a new client portal with reporting and functionality, allowing clients to have a more hands-on experience in their securities lending programmes if they so wish. This is being rolled out in 2024 and we expect the functionality to continuously improve each year, adapting to what our clients want to see and do.

Another notable area of investment for BNP Paribas has been in its people — we have bolstered the team globally and have made some impressive additions to the team in the past 12 months. We want to match off utilising technology to enhance automation and efficiency, coupled with the best people to manage our relationships with clients



and borrowers and working to improve BNP Paribas' offering.

Smith: As firms prepare for the forthcoming implementation of Basel III, the anticipated capital pressures have led to a growing demand for trading structures that offer enhanced capital efficiency. Borrowers are increasingly seeking solutions such as pledge, derivative-based financing, title transfer pledge-back, and CCP lending models. It is crucial that our lending product is aligned to meet this demand and continue to support the distribution of our underlying clients' inventory, ensuring we effectively address the evolving needs of our borrowers.

As client behaviour and expectations of a lending agent change, we are seeing an increased focus from buy side firms looking to outsource certain functions to gain operational efficiencies. In response to this, we are enhancing existing financing related services — for example through the expanded coverage of our Cash Investment, Liquidity Generation and Collateral Transport products — and collaborating with other product lines, such as middle office and collateral management, to provide our clients with a comprehensive service offering across the J.P. Morgan franchise.

Neville: State Street continues to invest in our securities finance technology stack across the trading lifecycle.

From a distribution perspective, we recently launched our Venturi agency lending portal, which enables borrowers connectivity to source equity and fixed income securities directly from our lending programme via an API or web-based graphical user interface (GUI).

We are also committed to adding our supply to additional third-party distribution platforms this year to simplify borrower connectivity to client inventory.

We continue to invest heavily in a multi-year programme to upgrade our trading and operations platforms, as well as our post-trade architecture and capital efficient structures, including clearing, reinforcing our commitment to servicing clients in our programme for years to come. Furthermore, investment in real-time processing of recalls to meet the tighter deadlines introduced for T+1 in North America will be extended to all European markets to facilitate timely settlements.

Gillingwater: Segregated collateral schedules continue to be popular and a common theme with regulatory capital or funding efficiency as the main driver. This is largely in the form of agent lenders looking to support capital efficient structures, for example, the Global Master Securities Lending Agreement (GMSLA) pledge for non-US borrowers or low RWA buckets.

Additionally, we continue to actively grow loan volume for those beneficial owners with flexibility and willingness to transact outside the typical indemnity. This is often against a broader collateral profile, for example, convertible and corporate bonds, asset-backed securities (ABSs) and collateralised-loan obligations (CLOs), and lower grade equities, providing borrowers with greater funding flexibility to put idle assets to work, and a significant revenue uplift for our clients.

Zemb: The automation process, particularly for recalls, involves integrating and generalising sales intentions, as well as automatically reallocating and recalling assets.

To optimise RWAs, it is necessary to calculate the cost and revenues for each trade in order to perform a granular analysis of collateral, haircuts, assets lent, and counterparties to calculate the break-even fee. The objective is to open up new markets to maximise clients' revenues.

Increasing communication with clients and the CA department is crucial to obtain intentions for each event and ensure that returns are optimised.

What expectations do your clients have from you as a service provider in supporting their commitment to sustainable lending and borrowing? Have recent market conditions and geopolitical stresses had an impact on demand for ESG-compliant lending solutions?

Zemb: Our clients have been under pressure in recent years due to ESG-related issues, which has even led them to question the usefulness of maintaining or implementing a securities lending programme for their portfolios. As a service provider, we have adapted our offer to ensure that this activity in no way impacts asset owners who are in compliance with the new rules. Current market conditions and geopolitical strain have not been identified as specific catalysts, but rather parameters integrated into the ESG management framework.

Neville: ESG continues to be a focus for many clients in Europe, however, there are wide-ranging opinions as to what ESG means to each of them.

Clients do not generally intend to make structural changes to their lending programmes. Some want to ensure they maintain control of their voting rights, which can be exerted through utilisation of our proxy recall process. Others enquire as to the impact on utilisation should they wish to restrict certain securities from their collateral profiles. However, collateral alignment with ESG principles seems to be less of a concern given collateral is a risk-mitigant and would be liquidated in the event of a default.

We also have clients who would like more transparency into where their securities are lent beyond the first borrower and for what purpose they are borrowed, both of which the industry is unable to offer today.

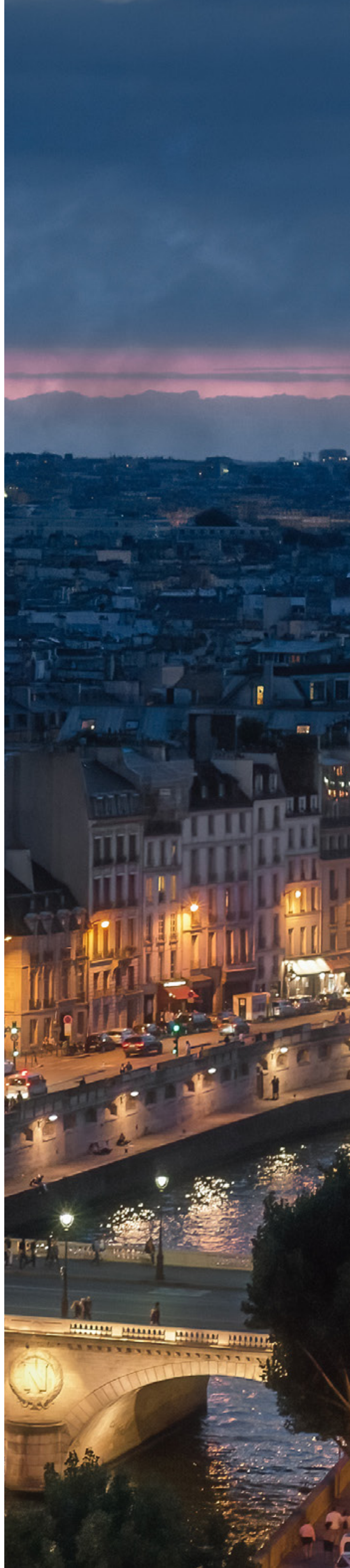
On the whole, we are beginning to see clients more regularly involve representation from their responsible investing teams in securities lending related discussions, and we anticipate this trend to continue.

Geggus: Our approach to ESG and sustainable securities lending solutions is to work with our clients to understand their needs fully and help them achieve these goals. We do not see a one-size-fits-all solution, therefore we are approaching it from more of a customised standpoint across the full investment landscape.

How do you assess the outlook for European securities lending markets for the remainder of 2024 and into 2025?

Gillingwater: Overall demand remains steadfast for European securities lending activity. New opportunities continue to present themselves through name specific trading and general collateral activity. As central banks start to ease monetary policy we should see new opportunities arise, versus both cash investments and in non-cash collateralised loan activity.

With specials activity softer across the globe, Northern Trust continues to seek new initiatives to drive revenue, proactively distributing client supply, optimising term structures and utilising wider collateral buckets where appropriate. More broadly, we expect securities lending will



continue to be a positive revenue generator for our clients throughout 2024 and into next year.

Trickett: In 2024, voting, diversification and technology will take centre stage. A record share of the global population is expected to participate in voting this year. As elections approach, government spending typically rises, and central bank policies often become more accommodative, leading to increased economic uncertainty. This macro focus will shape the remainder of the year.

Additionally, the reliance on technology and the inefficiencies that automation can mask have been brought to the forefront early in Q1 2024. Looking ahead, we anticipate a broader adoption of platforms and a convergence of technology, operational and trading efficiencies.

Berge: The outcome will be influenced by the actions of central banks. We anticipate that the situation will remain relatively stable for the rest of 2024, with high returns expected on HQLA and consistent revenues from other asset classes.

In 2025, there may be a resurgence of volatility and arbitrage opportunities leading to increased revenues.

It will be essential to keep a close eye on a possible spread of T+1 'contagion' to other markets and potentially higher CSDR penalties.

Geggus: Not without challenges, but there are plenty of opportunities out there as well. At BNP Paribas, we are in an exciting growth phase, and where many are pulling back, we are investing. It is an exciting time to be part of the business, and we are seeing a global buoy of activity, including across European securities lending markets.

Neville: As previously highlighted, as we approach Basel III Endgame we expect borrowers to direct more of their demand towards clients who represent a lower drag on capital. This will inevitably mean borrowers evaluating clients based on a range of factors such as entity type, jurisdiction based on netting enforceability, whether they have approved GMSLA Pledge or alternative pledge structures, breadth of collateral and whether they can lend on term. For some clients who are unable to meet certain criteria, approving their agent to lend for them through a CCP may be a solution, and we expect to see equities being lent through a CCP in Europe later this year.

In terms of markets, European equities are hitting new highs, boosted by expectations of interest rate cuts along with bullish earnings forecasts. Hedge funds continue to be long-biassed, with targeted stock picking on the short side, so short balances are likely to remain subdued in the near term. However, as the cost of borrowing decreases, opportunities for corporate activity may begin to unfold, for example BHP's unsolicited approach for Anglo American. Additionally, companies with the greatest distressed debt may well look to refinance through stock offerings.

In fixed income, given a series of rate cuts by the European Central Bank and the Bank of England are priced in from June onwards, we do not expect to see too much of an impact to lending markets other than some more stability a little further along the curve. We still expect to see demand in the short end core countries and caution in the long maturities. TLTRO repayments will continue and finalise in December 2024, so we will continue to see demand for investment grade (IG) upgrades. No real volatility is expected in the GC markets from a TLTRO roll down until excess liquidity in the system gets to around €1.5-2 trillion, which is some way off yet.

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In Vogue: Term and ETF lending

Clearstream's James Cherry, head of business development for Collateral, Lending and Liquidity Solutions, and Banu Apers, head of securities lending and borrowing, discuss two topics currently in focus for beneficial owners and borrowers around the globe

Term lending is an increasingly prominent tool in the toolkit of sophisticated lenders globally. Lending assets on term allows beneficial owners to take advantage of an additional yield uptick on their existing lendable pool and, in addition, increase asset utilisation rates.

At the same time, they continue to benefit from safety and security, perks which are provided by Clearstream's strategic lending programme. From a borrower's perspective (a commercial bank), borrowing positions on term allows the institution to optimise their liquidity position, with respect to the capital regulation they are subject to, such as net stable funding ratio (NSFR) and liquidity coverage ratio (LCR).

Exchange traded funds (ETFs) have gained in popularity among investors over time as the asset class fulfils investor objectives in terms of liquidity, low fees, transparency and portfolio diversification. Clearstream offers solutions for the ETF market which are designed to increase process efficiencies, as well as produce additional revenue generation opportunities benefitting issuers and investors alike.

Currently, the ETF market is estimated to be circa US$12.3 trillion in size and is expected to grow to US$30 trillion by 2033. The demand for ETFs is creating increased liquidity and lending opportunities in the market. With over €716 billion worth of ETFs in safe custody, Clearstream is well positioned to support the evolution of the ETF lending market.

Lenders and borrowers run into challenges

For many institutional investors, current market conditions mean that securities lending revenues have been compressed as volatile markets, high interest rates, inflationary pressures, and geopolitical tensions all take their toll on portfolio returns.

A number of institutions are also struggling to blunt the impact of rising costs, caused not just by inflation but also ongoing investments into technology and re-platforming, and dealing with market changes, such as the Central Securities Depositories Regulation's (CSDR) Settlement Discipline Regime (SDR) and T+1 settlement in North America.

On the borrower side, firms are scrambling to source high-quality liquid assets (HQLA) to meet various regulatory requirements.

"Under Basel III, commercial banks are subject to LCR and NSFR provisions. LCR requires that banks maintain an adequate level of unencumbered HQLA that can be easily converted into cash to meet their liquidity needs for a 30-day stress scenario. NSFR is designed to secure a more stable funding profile in relation to the composition of assets and off-balance sheet activities over a longer-term horizon, typically a one-year timeframe," says James Cherry, head of business development for Collateral, Lending and Liquidity Solutions at Clearstream.

Access to HQLA has become even more critical following post-global financial crisis reforms of off-exchange OTC derivatives markets.

The US Dodd-Frank Act and the European Market Infrastructure Regulation (EMIR) both demand that certain OTC instruments be centrally cleared at a CCP, where they are subject to strict margining obligations. Similarly, uncleared OTCs traded bilaterally must also be fully collateralised under the rules, requiring the posting of initial margins as defined by the regulatory authorities.

As demand for yield and high-quality collateral has increased, so too has the market for securities lending with on loan balances increasing year on year.

Turning to term lending

Lenders (sovereigns) and borrowers (overwhelmingly commercial and investment banks) are embracing term lending, a type of transaction which can be structured in either one of two ways.

"A term loan is effectively a loan entered into between the lender and the borrower whereby both parties agree a future date at which equivalent securities will need to be returned by the borrower to the lender," explains Banu Apers, head of securities lending and borrowing at Clearstream. "The lender will agree to lend the position for 35 days at a fixed fee, at which point the security is then returned by the borrower to the lender."

Alternatively, firms can structure the loan on a so-called evergreen basis. This is defined as a loan entered into between a lender and a borrower with an extendable notice period to terminate the loan and to call for the delivery of equivalent securities.

Supporting lenders and borrowers

For lenders, term loans with higher rates can help them to supplement portfolio return with extra income, potentially mitigating some of the revenue and cost challenges facing them elsewhere.

"In the case of US Treasuries, term lending could help lenders net an additional 3bps — 5bps with higher utilisation — whereas European government bonds will likely accrue anywhere between 2-3bps with higher utilisation. Rates of course depend on the type of underlying assets and currency," adds Apers.

As rates rose in recent years, asset owners benefited from the buyside's positioning, particularly with regard to European government bonds.

According to Cherry: “During the earlier rising interest rate environment, there was a lot of buy side positioning for the basis trade, whereby short activity in European government bonds created volatility and specialness within the securities lending market. This was a driver for strong incremental portfolio yield for beneficial owners holding specials. However, as rates have plateaued and the market moves to financing, this revenue driver is removed. Term lending is a way for beneficial owners to unlock additional value from their portfolio, as borrowers are willing to increase fees for liquidity that helps them to meet their regulatory capital ratios.”

On the bank borrower side, term lending means they can obtain HQLA, allowing them to comply with the LCR and NSFR provisions.

“Basel III capital adequacy requirements — such as LCR and NSFR — force banks to have access to certain types of liquidity over a prescribed period of time, so they need to hold onto HQLAs for a set duration," Cherry highlights.

ETF lending is here to stay

The ETF market is going from strength to strength, and this is creating ample opportunities for ETF lending.

Owing to their liquidity, low fees, portfolio diversification and transparency benefits, ETFs are becoming increasingly popular among investors. In 2023, ETFs saw inflows of nearly US$975 billion, bringing their total assets under management (AUM) up to US$12.45 trillion according to recent analysis.

Despite the soaring AUM, ETFs out on loan accounted for less than 3 per cent of the total value of all ETF outstandings in 2023 — although this is a jump from 2017 when that figure stood closer to 2 per cent. “Given the market’s growth trajectory, we expect ETF lending to increase exponentially moving forward,” states Cherry.

An enabler for lenders and borrowers

As with term lending, ETF lending can provide institutions with an additional incremental source of revenue on top of their existing portfolio returns.

“Lending out ETFs can add further basis points to returns,” according to Apers. “The average loan fees are in the region of 75bps. However, specials can earn lenders many multiples of that. This ultimately benefits the investors."

Through ETF lending, borrowers can access ETF securities for strategic trading and liquidity purposes. Along with facilitating short coverage, the added ETF supply can also support market making activities.

Significantly, ETF lending could help reduce the settlement risk of this asset class.

Settlement fail rates in ETFs as an asset class are much lower relative to other asset classes. Settlement efficiency, however, could be much improved if more ETFs are lent out, enabling firms to side-step any cash penalties for late or failed trades under SDR and meet their T+1 obligations.

“If you want to make a market on an ETF or take a position, this is only possible where securities are available, in the right place at the right time. Positions trapped in investor portfolios are not available to the secondary market and cannot be used to rectify blockages in the settlement chain, trades cannot settle and markets cannot be made until ETFs are available,” Cherry explains.

He continues to say that participants can “go back to the fund itself and create a new unit in the ETF to allow settlement to occur”, but this can be time consuming and costly. A far more efficient, economical option, according to Cherry, is to borrow the security, as is the “long established practice in equity and fixed income markets”.

Equally, ETFs can also be used by borrowers for collateralisation purposes when posting margin on their OTC trades at either CCPs or with bilateral counterparties.

With more borrowers and lenders recognising the benefits of ETF lending, the market is only going to get bigger.

Getting over the hurdles

For many sovereign lenders, access to on loan securities on a timely basis is paramount.

Apers illustrates: “Our lenders are mostly sovereigns, so the assets out on loan from them will either be their foreign reserves or their monetary policy assets. If sovereigns want those assets back, then they want them back quickly.

“We have models to manage this. In other words, we could restrict lending to a certain percentage of a position. We also allow for substitutions across the pool of assets in our programme enabling a borrower to have stable access to liquidity whilst the lender can execute their trading strategy with no impact from securities out on loan.”

Regulation is also creating challenges in the securities lending market.

The ability to recall securities quickly has assumed an even greater importance following the rollout of SDR. With the shortened T+1 settlement cycle now bedded down, trade fail rates are expected to trend upwards, as borrowers and lenders have less time to process recalls. As a result, the cost of fails in securities lending trades is projected to increase.

New transparency obligations, coupled with regulatory reporting requirements, are also adding to the workloads of securities lending participants.

In the EU, the Securities Financing Transactions Regulation (SFTR) requires information about SFTs to be reported to trade repositories approved by the European Securities and Markets Authority (ESMA).

Elsewhere, the US is introducing the Securities and Exchange Commission (SEC) Rule 10c-1a, which stipulates that securities lending transactions data be disclosed to a registered national securities association.

How to maximise potential

Institutions need to think carefully when choosing a service provider to support them with their securities lending and collateral management activities, and the challenges that come with it.

Most critically, institutions should look for providers which are well-capitalised, prudently risk managed, and subject to robust regulatory oversight.

At the same time, institutions need to check that providers use best-in-class technology and that their systems are fully automated.

A customised and bespoke service will be critical if borrowers and lenders are to truly maximise their term lending and ETF lending potential.

James Cherry
Head of business development for Collateral, Lending and Liquidity Solutions
Clearstream

Banu Apers
Head of securities lending and borrowing
Clearstream

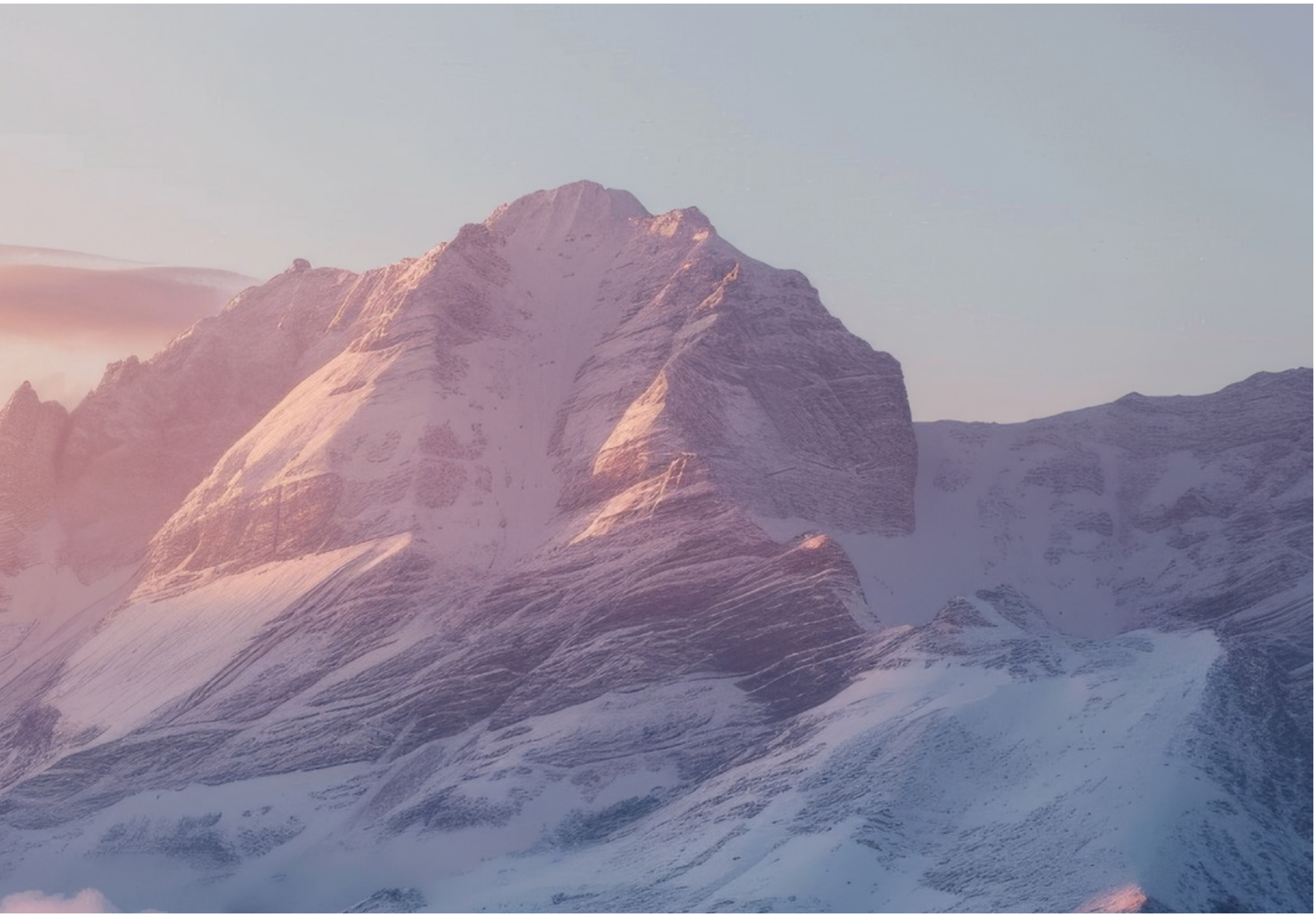
Higher for longer: Macroeconomics driving the global bond market

With fixed income lending on the rise globally, Mike Norwood, head of trading solutions at EquiLend, explores some of the drivers behind global securities finance markets movements

Fixed income volumes saw all-time highs on your NGT platform in recent months. What is driving volatility in the fixed income market and the associated securities finance demand?

The phrase 'higher for longer' is being used widely this season and is thematic of the fixed income trends seen globally in late Q1 and early Q2. High-yield debt trade count was up 20 per cent, with notional up 25 per cent from March. We saw from NGT data an all-time daily trade count high with 46,284 trades printed on 3 April 2024. The previous high was 42,526 traded on 18 December 2023.

Behind this are several factors — the primary being inflation. US inflation is tapering slightly, but remains well above the target zone of Powell's Fed, dampening hopes of any rate cuts in the near term, fuelling fixed income 'fires'. This is also the case for



European markets, with the European Central Bank (ECB) and the Bank of England (BoE), holding their cards close to their chests on rate decisions. High interest rates have generally led to increased demand for fixed income instruments and locking in higher yield. Meanwhile supply is capitalising, with new issues up 30 per cent year-on-year (YoY), per the Securities Industry and Financial Markets Association (SIFMA), and net inflows have been seen in bond funds.

Outside of the economic factors, there is a greater uptake of electronification in the fixed income space and more trades are happening digitally on platforms like NGT, driving up volumes. Market regulations, such as the Central Securities Depositories Regulation (CSDR) and the Securities Financing Transactions Regulation (SFTR), can certainly be attributed to driving this increase in electronification as they disincentivise the operational risk associated with manual trade bookings. Due to differing technology stacks, we have historically seen fixed income desks lag behind equity in straight-through processing (STP) rates, but have observed fixed income electronic trading on NGT grow YoY since 2019, with 30 per cent growth over that time horizon and with a resounding 62 per cent increase in fixed income trading on NGT for April 2024, against the same month last year. The gap is closing, and there is significant demand by fixed income organisations to implement STP to add scale and keep up with heightened activity.

Regarding the highs in fixed income trading on NGT this year, were there any big surprises in your data?

The 62 per cent increase in YoY volumes from April 2023 to April 2024 really stands out. Our fixed income volumes have been driven by corporate debt demand. Given it trades in a manner more similar to equities, it has been a natural fit for NGT flows. In April, we saw

"More and more of us are being expected to create efficiencies, to add scale and to do more with less."

Mike Norwood
Head of trading solutions
EquiLend

that while investment-grade corporates are still the bulk of activity, sovereign debt activity grew in the Americas and EMEA, with US Treasury activity up 50 per cent. From March to May, we saw yields blown out by 75bps, recently reining in and stabilising with 10-year rates sitting at 4.5 per cent as of the end of May.

The biggest surprise was from Asia Pacific markets. Japan has seen rates hold at near-zero levels thanks to yield curve control measures for the last two decades, but also experienced a fixed income escalation. Japanese government bonds (JGBs) 10-year sit 63bps higher YoY. This is a very large move in a Zero Interest Rate Policy (ZIRP) environment. New indexes which include Japan have also opened new trading flows in the Japanese market, all of which can be traded on NGT.

What is the broader global market story? Are there non-economic drivers at play in these fixed income highs?

We have seen upward momentum in corporate bond issuance, up 27.9 per cent from 2023 levels, and half-year issuance is up 74 per cent YoY.

Emerging market debt has seen a 16 per cent increase in issuance, driven largely by Chinese issuers, with a lot of focus on a convertible bond resurgence, with two major players issuing more than US$3 billion of issuance alone in recent weeks. This story is true across the board, which is unusual in a world where rarely does one economy 'catch the other's cold'. Japan also reflected 26.9 per cent growth in domestic corporate bond issuance and European bonds were up 21.5 per cent in the first four months of 2024.

Global volatility plays into this positive picture for the lending market as investors look to bonds — traditional safe havens. Further, more and more of us are being expected to create efficiencies, to add scale and to 'do more with less'. This pressure, along with discretionary budgets having been eroded by the need to divert investment to address the evolving regulatory climate as well as accelerated settlement, has meant a renewed focus on STP.

We are seeing increased fixed income activity on the whole, but we are also seeing more of that total activity happening electronically. Traders, management and compliance departments definitely see the benefit of a global, regulated, digital platform like NGT in achieving their internal goals.

The dawn of a new era

Market specialists discuss the recent decision by Greece to remove stamp duty on the full notional value of stock loans, which looks to provide a promising future for onshore and offshore participants. Carmella Haswell reports

Known as the cradle of Western civilisation, Greece has taken a leap to open up its markets and provide further opportunities for the securities finance industry, through the removal of stamp duty on securities lending transactions.

Until now, the region's securities lending market has remained relatively underdeveloped compared to other European countries. According to Tim Fox, head of demand generation at Sharegain, years of being burdened by a 20bps tax on the full notional value of stock loans has resulted in the country's stymied participation in the capital markets.

Fox implies that this has caused an "unnatural market equilibrium" that drove up borrowing costs, even for the most commonly available Greek equities.

Furthering this point, Fani Koutsou, head of institutional derivatives sales and SBL trading at Eurobank Equities, indicates that, in reference to high borrowing costs, the borrowing rates in the OTC market were trading consistently at a minimum of 1000bps, or sometimes at even higher levels.

"The 20bps stamp duty on the notional value of the trade was charged [as a] one off at the initiation of the transaction, whereas the annualised lending interest is accrued on a daily basis," Koutsou explains. "Keeping in mind that a big part of the Greek stock loans is conducted on a rather short term, it is understood that this tax was weighing a lot on the overall cost of the trade."

This was perceived as a lack of stock loan market efficiency by certain categories of international investors, whose trading strategies required them to borrow high quantities, and it was "seriously affecting" their participation. In addition, the resulting lower liquidity affected market participants.

In April, the Greek government removed this stamp duty on stock loans, a move that has been received positively by the market. Industry participants anticipate that the change will bring about increased liquidity, improved price discovery, and emerging opportunities.

A new opportunity

The alleviation of stamp duty on stock loans appears to be the right decision for the market, as participants express a promising future for Greece following this news. The decision could gradually lead to a "well-functioning securities lending market for Greece" says Koutsou, while Fox believes it levels the playing field and "enhances Greece's appeal as a competitive market" for international securities lending.

There remain two separate markets for Greek securities lending. One trades domestically as a listed product in the Athens Exchange, where participants are locals, and the other is the OTC securities lending market, where participants are institutional investors.

Aside from using the borrowing rates of the local market as an indication to the OTC lending transactions, when the latter lacks liquidity or accurate data, the two markets do not interact. Although the local market is only a small fraction of the OTC market, both are currently "far from reaching their potential", says Koutsou.

S&P Global Market Intelligence data reveals that annual revenues in Greece have been in decline over the last few years, with revenues reaching US$6.5 million in 2020 and falling to US$4.6 million in 2023. Average fees during 2023 increased by four per cent year-on-year (YoY) despite lendable increasing 35 per cent — the new supply did not dilute fees which is positive, says the firm's Matthew Chessum, director of securities finance.

Chessum suggests that the country still suffers from a "lack of demand". Utilisation for 2023 stood at 0.8 per cent, down 46 per cent on 2022. He adds: "Before the global financial crisis, there was growing interest in Greece, but the country's sovereign debt issues cooled demand significantly, lenders pulled supply and the size of the securities lending market contracted."

Any changes to the Greek stamp duty tax are "likely to be supportive of further growth in activity in this market", Chessum comments. "Given the lack of other opportunities across EMEA at the moment, it may give lenders and borrowers an opportunity to concentrate on a new opportunity."

According to Nikos Porfyris, chief operating officer of the Athens Exchange Group, the "stamp duty has originally been linked to OTC loans" and the legislators at that time did not necessarily have in mind capital markets use. He explains that the recent exemption for OTC stock lending indicates that tax authorities "understand its use and the effective increase in secondary market liquidity and spreads narrowing" that it can have.

Previously, Greek securities lending has been fragmented and extremely expensive, says Porfyris. He understands that the abolishment of stamp duty, and the reduction of the stock sales tax to 10bps in January, will help to decrease the cost for covering fail trades with same day settlement. It will allow on-exchange markets and the OTC market to interact for the benefit of both lenders and borrowers. In addition, he expects it will enhance the use of long, short, and neutral strategies, outperformance generation strategies, as well as arbitrage.

"Before the global financial crisis, there was growing interest in Greece, but the country's sovereign debt issues cooled demand significantly."

Furthermore, in terms of onshore and offshore participation, the now nonexistent stamp duty on stock loans looks to attract investors from a variety of different types of investment vehicles, say market specialists. Porfyris indicates that the decision will create a larger pool of securities lending and will link onshore and offshore participation.

"The existence of a more efficient securities lending market is a strong requirement for all market participants to trade," comments Koutsou. "The better this market works, the more comfortable the investors feel to participate in both cash and derivatives markets. It is the safety net that is necessary for local market makers to offer more competitive prices and for international investors to unlock further trading strategies."

Fox boasts a number of advantages for the market, not only in Greece but internationally. While the decision enables fresh avenues for growth and investment, he highlights, it will bring new participants such as private and retail investors in Greece to this market. He continues to state the change on stamp duty will foster a more dynamic and fluid market environment, enhancing market liquidity, and provide improvements to transparency and fairness in pricing within the Greek securities market.

Anticipating an increase in volatility, Fox believes that this will drive demand to borrow Greek securities, and therefore unlock a wealth of Greek specials.

Final thoughts

For Sharegain, the news pertaining to the removal of stamp duty is "great" for its clients in Greece, as the firm predicts it will see more demand from borrowers, enabling Sharegain to expand its offerings. The "significant pivot" will revitalise and strengthen Greece's position in the international securities lending landscape and for Sharegain, he adds.

Koutsou states: "The stamp duty alleviation is a most welcome decision that signifies indeed, a bright, full of potential, new era for Greek securities lending.

"The prospect of creating new sources of revenues for our clients has always been a challenging and exciting task for us, while meeting the trading requirements of a wider range of investors and further advancing our service. The best is yet to come for this market."

Fox concludes that while the degree of impact remains uncertain, "one thing is clear" — the 2024 securities lending stage belongs to Greece. He insists that it is a new era for the country "as it re-establishes itself as a European market full of opportunity".

MUFG Investor Services expands in Japan

Having recently expanded its agency securities lending services for the Japanese market, Tim Smollen, EVP and global head of the GSLS team, speaks with Karl Loomes about the new offering and the significance of the move

How would you describe the current securities lending landscape in Japan, and how would you say it compares to its counterpart in Europe, the US, and APAC?

This launch is a significant achievement, as Japanese investment trusts have only used securities lending in a very limited capacity, and we are of course very excited to be able to provide a fully fledged global agency securities lending service for them.

When compared to Europe, the US and APAC, it is fair to say that Japanese clients have traditionally been extremely risk averse. For example, in the past they would only accept limited types of collateral, but that is changing now. Clients are interested in a broader range and type of collateral, exploring different trade types and are showing a willingness to expand their approved counterpart list and also have a keen interest in indemnification. I see a real trend of Japanese clients becoming engaged with their providers, which is always a good thing.

From a lending or financing perspective, it is also important to note that many Japanese clients have been in similar programmes for decades, using financial instruments including repo and collateral swaps as important sources of financing. The concept is not necessarily new, especially for some of the larger banks and insurance companies.

What prompted the decision to make this move, and does it fit in with a broader strategy for MUFG?

We have been working on this for several years. In 2020, MUFG Investor Services decided to enhance our global securities lending capabilities by assembling a new team and investing in new technology. We have been actively involved in securities lending for more than two decades, but primarily focused on regional programmes. Recognising a growing need in our industry, the Global Securities Lending Solutions Group (GSLS) team completely recast our offering by introducing more capabilities for clients, including diverse trade types, collateral options, and indemnification.

After enhancing our capabilities, our team met with many clients, and SBI Asset Management in Japan expressed great interest in our new securities lending opportunities. We will serve as a lending agent for SBI where we will lend their assets wherever the demand exists in the world.

What impact do you see this offering having for your clients?

We believe this is a very significant tool. It empowers asset management firms that cannot provide their own securities lending services, and gives them the opportunity to generate additional revenue for funds and investors. In many ways, this service levels the playing field in Japan by giving those asset managers the same options as other investors who have long participated in securities lending. We are very pleased to have developed a service that can help our clients generate new revenue, and we intend to expand the service to other Japan-domiciled investment trust funds in the future.

What were some of the factors that have hindered investment trusts from participating in securities lending in the past?

Historically, it has been very difficult for Japanese investment trusts to do securities lending. It required significant technology upgrades, as well as additional resources to operate a programme. Japanese investment trusts did not use agent lenders because there are many regulatory points to consider when hiring an external lender. Our GSLS team worked with our clients, along with legal and regulatory experts, to clear those hurdles and create this opportunity.

What does this new offering mean for MUFG Investor Services?

This is another important step in the evolution of MUFG Investor Services. During the past decade, we have invested significantly to expand our global suite of services. MUFG Investor Services recently topped more than US$1 trillion in assets under administration. Because we are a division of MUFG Bank, one of the world’s largest, we offer clients access to a a broad suite of products, including banking, fund finance, FX overlay, custody, and now securities lending. This means we have the ability to support our clients across the entire investment value chain.

Korean horizons: Discover the potential of the newest asset class on the Collateral Highway

Euroclear has forged a partnership with Korea Securities Depository, introducing Korean treasury bonds and monetary stabilisation bonds to its Collateral Highway. Marije Verhelst, head of business development, collateral management and securities lending provides insights into this development

Can you elaborate on the collaboration between Euroclear and KSD that led to the inclusion of Korean bonds on the Collateral Highway?

Following a clear demand from our clients, Euroclear has closely collaborated with the Korea Securities Depository (KSD) and the Ministry of Finance and Economy in South Korea. This partnership aimed to overcome several barriers, making Korean government bonds Euroclearable and eligible on our triparty platform. Recent legislative changes in South Korea, particularly the tax exemptions for foreign investors, have been instrumental in this process. Additionally, these changes have allowed international central securities depositories (ICSDs) to open omnibus accounts at KSD.

How do these legislative changes impact foreign investor participation in the Korean debt market?

The tax exemption for foreign investors has paved the way for increased participation in the Korean debt market. It enhances the attractiveness of Korean government bonds to global investors by reducing tax-related barriers. This move aligns with our objective to support clients in executing their APAC collateral strategies, thereby broadening the investment opportunities available on our platform.

Can you explain how Euroclear's Collateral Highway supports the integration of Korean securities?

Euroclear's Collateral Highway is designed to offer efficient, reliable, and easy collateral management. We ensured that from day one of our new link with the KSD our clients could integrate Korean securities with their existing collateral assets in our triparty service. This integration is essential for facilitating various collateral transaction types, including repo transactions and securities lending, using KTBs and monetary stabilisation bonds (MSBs) against all Euroclear-eligible currencies except the Korean won (KRW).

What potential do you see in Korean securities, and how does it compare to other APAC assets?

We have observed strong interest from our global offshore clients in leveraging the potential of Korean assets. In recent years, Japanese government bonds have emerged as one of the fastest growing asset classes on the Collateral Highway. We believe Korean securities hold similar potential due to their growing market liquidity and attractiveness to international investors.

What steps has Euroclear taken to support collateral players in meeting regulatory requirements?

We have partnered with KSD to significantly reduce the compliance burden inherent to the requirements of a beneficial owner market. Non-Korean resident collateral takers in Euroclear's Collateral Highway are exempt from specific certification or reporting requirements, simplifying the process. Euroclear has obtained QFI approval, taking on the burden of beneficial owner reporting for our collateral givers posting collateral from an account with a single beneficial owner. This ensures compliance and eases the integration of Korean assets into clients' collateral management strategies.

How does Euroclear ensure the validity and security of pledges involving Korean assets?

Euroclear has received comfort regarding the validity of such pledges under South Korean law, allowing clients to pledge their Korean assets through Euroclear.

Besides triparty collateral management services, what other services will Euroclear offer for Korean assets?

In addition to triparty collateral management, we will support bilateral business such as repo as well as normal trading activity between foreign entities, settling against any currency, except for KRW. This service follows standard settlement requirements, which allows clients to utilise Korean assets effectively across different transaction types and structures.

How do you envision the future of Korean bonds on Euroclear's platform?

We are optimistic about the future of Korean bonds on our platform. The collaboration with KSD and the favourable regulatory environment position Korean securities as a valuable addition to our Collateral Highway. As we continue to support the market's growth, we aim to provide a seamless, efficient, and secure infrastructure for international investors to access and utilise Korean government bonds.

The strategic collaboration between Euroclear and KSD, along with supportive regulatory changes, mark a significant milestone in expanding the global reach and attractiveness of Korean securities. This partnership not only enhances market liquidity but also opens new horizons for investors on Euroclear's Collateral Highway.

Parascandolo joins Wematch

Joseph Parascandolo has joined Wematch. live as director of securities lending sales and coverage for North America.

Based in New York, Parascandolo brings more than two decades of experience in securities lending.

Most recently, he spent five years as an associate director at EquiLend. He has also held roles at J.P. Morgan, UBS Investment Bank and Morgan Stanley.

Parascandolo's appointment follows several recent hires at Wematch, including Grant Davies as head of EMEA equities sales.

Commenting on his appointment, Parascadonolo says: "I am excited to join Wematch and contribute to the company's growth and success in North America. Wematch's dedication to transforming the securities lending industry resonate[s] strongly with my own values and aspirations."

Siglain promoted

State Street has selected Taryn Siglain as global head of Financing Solutions.

In this role, Siglain will lead State Street's Agency Lending, Prime Services, and Secured (Repo) Financing businesses.

She will be responsible for business strategy, execution and ways to drive growth. Siglain will report to Tony Bisegna, head of Global Markets.

Siglain succeeds Gino Timperio, who will retire from State Street at the end of June after 35 years at the company.

Having joined State Street in early 2023, Siglian takes a step up from her previous role as global head of Prime Services.

Previously, she spent 15 years at Morgan Stanley, where she was most recently head of Americas secured funding trading and collateral optimisation.

NBC recruits Murphy

NBC Global Finance, an indirect wholly-owned subsidiary of National Bank of Canada, has recruited Gerard Murphy as a managing director.

Based at the firm's headquarters in Dublin, Murphy will focus on expanding the counterparty footprint and coverage for NBC Global Finance.

He joins the firm from a 16-year tenure at Morgan Stanley, where he held a number of positions across sales and trading, secured funding and risk management.

NBC Global Finance was established in 2013 and has been authorised as an investment firm since 2015.

The main strategic purpose of NBC Global Finance is to enable the NBC Group to grow and diversify its presence in Europe, while allowing for the development of its existing business relationships and the establishment of new ones in the European markets.


Don't mind the gap
Our repo markets bridge liquidity gaps. More than 160 European financial institutions are currently active on our Repo, GC Pooling, HQLA^{x} and eTriParty markets. They benefit from trading opportunities with fully integrated clearing and settlement.
Architects of trusted markets
EUREX

MacDonald departs State Street

Eric MacDonald has departed from State Street Bank and Trust, where he was most recently managing director and head of client management for North America within Prime Services.

MacDonald has held a 33-year-long career with the company, where he has taken on various leadership positions.

In 2007, he was part of the team that created State Street's Enhanced Custody business, now recognised as Prime Services.

Previously, MacDonald managed the US equity trading desk in agency lending from 1996 to 2007.

He assumed responsibility for overseeing the US equity trading desk for North America, before transitioning to his role in client management in 1999.

Daniels takes on new role

Tom Daniels has joined Advanced Securities Consulting as head of strategic initiatives.

Based in Pittsburgh, he will report directly to Ed Blount, founder and CEO of the firm.

Previously, Daniels spent two years at Aon Consulting, where he led the build of their securities lending oversight efforts and was the practice lead for securities lending and asset manager consulting.

Prior to Aon, Daniels held a 22-year tenure at BNY Mellon, where he worked across client management and business development.

At the bank, he was head of securities lending business development for the Americas, a position he held for 14 years.

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