ISLA *Daily* 3

31st Annual Securities Finance and Collateral Management Conference

Thursday, 20 June

Creating liquidity on digital platforms

HQLA^X team discuss the multifaceted approach required for industry wide intraday counterparty credit risk management

Day three agenda inside

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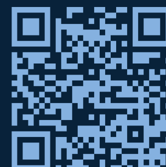

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Industry associations stronger together

Some of the industry's most influential associations were represented at yesterday's 'Industry Associations' Update: Finding Common Ground' panel discussion, which consisted of representatives from the International Capital Market Association (ICMA), the International Swaps and Derivatives Association (ISDA), the Alternative Investment Management Association (AMIA), the Global Peer Financing Association (GPFA) and, of course, the International Securities Lending Association (ISLA).

True to its title, the overall sentiment of the panel was one of solidarity — a collection of individuals and organisations who all have the same overall goal of representing their members and improving the industry.

The importance of this approach was highlighted by Bryan Pascoe, CEO of ICMA, when he said: "When we advocate on a collective basis, it is even more powerful than when you are on your own." He did caveat this with the point that the associations must not duplicate functions and roles unnecessarily.

At the same time, the growing complexity of financial markets inevitably requires different skills and strategic thinking that a 'collective mind' of multiple agencies can achieve.

This role of advocacy was front and foremost for the panel in representing the interests of their members, all noting that working closely with regulators and lawmakers was key.

This takes multiple forms, from one association currently taking the US Securities and Exchange Commission (SEC) to court over the securities lending and short selling rules brought into place in October 2023, to simply "striving to be part of the conversation from the earliest stage", as one speaker put it.

"We are now at a point where people come to us and ask 'if we did this, what do you think?'," he continued.

Basel Endgame, too, was a topic often touched upon during the discussion, though the foundations of this wave of regulatory agendas lies firmly in the 2008 financial crisis, which one panellist described as a "seminal" moment in our industry.

As another speaker describes it, "a big part of what we do since the finance crisis is defending short selling as a good thing".

Short selling bans, he argued, have proved to be ineffective, noting that through the work of associations educating appropriate bodies and regulators, most markets now realise this.

Discussing some of the more immediate potential regulatory changes hitting the industry, one speaker highlighted the importance of ensuring new rules are "risk appropriate, not just higher". Specifically, he said, his association is "fighting aggressively to make sure clearing is not disincentivised".

The need for industry associations can still be seen, the panel noted, citing the rapid growth of the GDFA, which was only founded four years ago.

Looking to the future, the panel were asked what are their priorities in the coming years.

Liquidity, as highlighted a number of the speakers, will be crucial, as well as market resilience, and how industry associations can address these issues.

Regionally, emerging markets were also seen as a key area, with the Middle East — particularly Saudi Arabia — and China both flagged as places to watch. Both the US, and any future EU implementation of T+1, was an area one speaker considered to be "the elephant in the room".

But perhaps a nice bookend to the discussions, one speaker once again emphasised the collaboration between the industry associations represented as a final noteworthy effort in coming years

Global elections dominate the geopolitical landscape

With the growing complexity of global politics, Stephen Fisher, global head of government and public affairs at Deutsche Bank, attempted to bring some clarity in his session entitled 'Shifting Sands: Navigating the New Geopolitical Landscape in 2024', during the conference Tuesday. As he put it, his aim was to "cut through the news and make sense of the world around us". No easy task.

Elections, naturally, took centre stage for much of the discussion. Fisher noted that by the end of the year some 65 countries will have held elections, and with eight out of 10 of the world's most populous countries included in that number, around half of the global population is set to have taken part in some form of election by the end of 2024.

Of all these, the US presidential election in November is not only dominating headlines, but to Fisher's mind, will also be the most consequential.

Starting in Europe however, French

President Emmanuel Macron plays centre stage, both in his position as leader of one of the bloc's stronger and most influential members, and after he called a snap election recently — a move which some, including former President Nicolas Sarkozy, believe could cause problems.

Much of Europe has already seen a political shift to the right, where centrist, moderate incumbents have been ousted by more populist parties. Fisher said, however, that this is not resulting in a new wave of Brexit-style departures from member states, but rather the political right is seeking to influence — or perhaps even undermine — Brussels from within.

That said, Fisher highlighted the fact that these news-generating headlines of the more extreme parties have been taking attention away from the European Commission, where the centre still holds. As Fisher noted: "Europe, after all of this, carries on pretty much as before."

Considering the relationship between the EU and US, Fisher believes there is likely to be protectionism coming no matter who is in the White House. While President Biden will naturally focus domestically, particularly in the election, a second term from President Trump, given his previous inclinations, Fisher believes will potentially see a similar US-first approach.

An exception, Fisher highlighted, is the potential for a Trump White House to foster unilateral agreements with member states — such as it previously did with France — in an effort to circumvent the EU.

Fisher also touched on another topic in US-EU relations that may become prominent under a Trump presidency — the increased requirement for defence spending as the US urges more military independence from the EU, to shoulder the costs.

Looking at the US-China relationship, Fisher suggested both Biden and Trump see the Asian giant as a threat, but perhaps differ in priorities when it comes to handling the situation. The approach to China also looks likely to differ depending on the election results, according to Fisher. He suggests that Biden will look to the EU and other nations to form a strategy. Trump, his past history may suggest, seems likely to act unilaterally.

In such a turbulent environment, it is not perhaps unreasonable to ask the question: how did it come to this?

Fisher believes "Pessimism has crowded out the optimism of the post cold war era", once again noting the global trend of voting out incumbents and replacing them with more anti-globalist, anti-centrist parties. "People are angry and want change."

The issue raised a further question from the audience — are people actually becoming more right wing or just revolting against incumbents?

Fisher believes that right wing views have certainly become normalised over the past 10 years. By their nature, he suggested, they are able to give simple answers to complex questions. Simple answers resonate.

US Treasury clearing mandate: Participants need to get prepared

Upcoming regulation remains a key focus for market participants as firms struggle to solve for Basel III Endgame binding constraints, and as repo markets are set to face the inbound US Treasury clearing mandate.

Industry leaders came together for the 'Leaders' Perspectives & Predictions' session at the International Securities Lending Association's (ISLA) 31st Annual Securities Finance & Collateral Management Conference.

With increasingly complex interdependencies between industry participants across the end-to-end securities finance value chain, coupled with greater capital requirements, scarcity of resources and increasing costs of doing business, market experts shared their insights on the current landscape.

Discussing what is driving lending demand, the panel said that ability to manage binding constraints, both internally and externally, in terms of Basel III Endgame, has become an increasing proportion of their day-to-day, and demand from a prime brokerage perspective.

Broadly speaking, they noted that this has impacted the securities lending business negatively in some ways, with one panellist citing European balances on loan as a notable example.

Considering synthetic versus physical short selling, a shift to the former in Europe was highlighted by the panel. The capital

efficient nature of synthetic shorting was a key consideration, one speaker said, while the way the market is positioned at the moment, traditional financing rates are at all time highs, and so synthetic activity is a real economic way to cover shorts.

According to the speakers, the peer-to-peer model has grown more in the repo space than in the lending space as of late. The repo market was heavily discussed in the session, with upcoming regulation driving the debate.

Mandatory clearing in the US Treasury space is set to impact repo markets. John Templeton, managing director, global head of securities finance sales and relationship management at BNY, said it has been interesting to watch the client engagement around this space. Prior to the mandate, there was already a substantial portion of the market that was cleared.

The final rule on US Treasury clearing was adopted by the US Securities and Exchange Commission (SEC) in December 2023, and is scheduled to come into effect in December 2025 for cash transactions, and June 2026 for repo transactions.

Templeton indicated that while the deadline seems a long time away, he urged everyone to start looking at the document now and get prepared. From a documentation perspective, he highlighted that it takes time for market participants to "get used to the idea" that they will not only need to negotiate their repo agreement, but they will need to abide by and accept the new Fixed Income Clearing Corporation (FICC) rule book.

Coming to a conclusion, the panel provided their final thoughts on "what's next". Solving the issue of binding constraints was key for one market participant, while another highlighted their focus on the Middle East, which could be a significant revenue driver for some firms as the region gains traction across the global market.

ISLA™

The Middle East's growth potential is vast and continues to attract considerable foreign interest and investment.

ISLA aims to support the growth of securities borrowing and lending (SBL) in the Middle East through a phased body of work. Firstly, ISLA will look to publish several country-specific reports for key jurisdictions, providing its members with an overview for how to participate in the current SBL market as well as a detailed view of current regulatory and market frameworks, and an outlook of netting legislation in each respective country. These guides will provide a common interpretation to form the basis of ISLA's future regulatory engagement on behalf of its members in the region, during the second phase.

Key Publications

Kingdom of Saudi Arabia Report published in February 2024

Further reports to be published over coming months for Dubai, Abu Dhabi, Qatar and Kuwait

Download the Kingdom of Saudi Arabia report

Read Andrew Dyson's interview with SFT

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Intraday counterparty credit risk management in capital markets

HQLA^{X} team Charlie Amesbury, Martin O'Connell, Erica De Rosa, and Richard Glen, discuss the firm's strategy to link DvD and DvP transactions for the creation of liquidity on digital platforms, and the multifaceted approach required for industry wide intraday counterparty credit risk management

Robust counterparty credit risk management has long been a key component for sound risk management in capital markets. The Basel Committee on Banking Supervision's latest consultative document, 'Guidelines for Counterparty Credit Risk Management', underscores the importance of managing counterparty credit risk effectively, particularly in light of recent financial crises and market disruptions.

Given the interconnectedness of modern financial systems, the implications of unmanaged intraday counterparty credit exposure are profound, necessitating timely and effective resolution. Optimised management of intraday counterparty credit exposures will also alleviate liquidity drains, and the need to lock up high-quality liquid assets (HQLA) in the form of regulatory capital. The HQLA^{X} platform is a solution that provides robust credit and liquidity risk mitigation tools across securities lending, repo and margin management.

Securities lending delivery-versus-delivery

The HQLA^{X} Securities Lending delivery-versus-delivery (DvD) product solves the market-wide issue of 'give before you get' on free of payment exchange of assets. This problem creates significant intraday credit exposure between market participants on a daily basis.

Participants can settle those same securities lending trades —

exchanging individual loan securities for collateral provisioned in triparty — over the HQLA^{X} digital ledger with the collateral swap occurring simultaneously DvD. This HQLA^{X} innovation eliminates credit risk in the settlement cycle and accelerates deliveries, creating efficiencies on both sides of the trade, which reduce the costs associated with securities finance activity. Our clients experience a reduction in their intraday liquidity spikes, a reduction in fails, an increase in collateral optimisation, and reduced capital costs.

We have leveraged the 'minimum client IT build' approach to create our Securities Lending DvD flows that caters for both collateral transformation and short covering trades. Agent lenders and principal lenders can connect to the platform using their existing technical channels, where our DvD functionality enables clients to only give up ownership of the loaned securities on-ledger in exchange for the collateral they require. This includes releasing a portion of the loan book that matches the delivered collateral value, even if the full required value (RQV) has yet to be collateralised. It automates and accelerates the lenders' loan release processes.

Borrowers not only benefit from reduced capital costs due to the elimination of credit risk, but they also experience a reduction in their intraday liquidity needs, a reduction in fails, and an increase in collateral optimisation. There is no 'locking in' of securities on the HQLA^{X} platform, as securities can be freely moved between participants on the platform and to and from the platform to the clients preferred custodian. The collateral posted by borrowers can be provisioned — via title transfer or pledge — through their preferred triparty agent, removing the need to hop collateral between long-boxes to achieve optimised usage.

The benefits of the digital ledger for credit risk mitigation are best highlighted where collateral is provisioned in one time zone, and loaned securities settle in a different time zone. In today's world, collateralising a US Treasury borrow with Japanese government bond (JGB) securities ties up settlement processes and creates credit exposures over hours and days. On the HQLA^{X} platform, these impacts are mitigated by the DvD capability.

Digital delivery-versus-payment

HQLA^{X} is excited to bring digital delivery-versus-payment (DvP) solutions to the securities finance market in Q4 of this year. Providing DvP functionality will complement the HQLA^{X} suite of products, in that collateral mobilised on the platform will be able to be monetised, resulting in increased liquidity across the platform.

However, the largest benefit is that digital DvP enables the development of new intraday repo markets, as the technology allows participants to agree exact opening times and closing times to the nearest minute. By transacting in intraday repo markets, cash borrowers can manage their intraday liquidity requirements more precisely, resulting in decreased funding costs, balance sheet usage, and capital requirements.

On the other side of the trade, cash lenders can generate incremental revenue as cash traditionally invested overnight can now be incrementally lent intraday. Intraday repo is a win-win for all parties involved, while building out another tool in a bank's arsenal to source liquidity in stress events, to settle securities movements and margin calls.

With the HQLA^{X} platform focusing on collateral mobility, we interoperate with digital cash ledgers and traditional fiat rails to conduct cash movements to facilitate coordinated DvP transactions. The DvP is achieved by interoperating either through direct connectivity or via a transaction coordinator. Both have their benefits, and this approach ensures that we have the technical know-how and functional capability to connect to any of the payment providers.

Our two leading partners on this product, Fnality and Onyx by J.P. Morgan, showcase the range of solutions in which we interoperate. The former is a digital central bank money solution, where the digital cash ledger interacts with accounts held at a central bank. The latter represents a digital commercial bank money solution, where the digital cash ledger interacts with cash held in commercial bank accounts.

We also support interoperating with legacy fiat cash with projects ongoing in central bank and commercial bank cash, highlighting how we straddle the digital and legacy worlds. The market is embracing all types of cash and interconnectivity, with the acknowledgement that interoperability is key to developing liquid digital markets and a truly digital ecosystem.

Looking towards the future, the ability to link DvD and DvP transactions together will be instrumental in creating liquidity on digital platforms. For example, a securities lending DvD trade may result in a long

position of a government security that is intended to be used as collateral in a repo transaction. These two trades can be linked and scheduled to settle at the same time on the digital ledger, decreasing spikes in liquidity and giving the client more control and certainty about their liquidity position.

In times of stress, the option to link multi-legged trades will increase confidence in the system, keeping the financial markets moving through liquidity-scarce events. The creation of these 'atomic chains' will result in enhanced collateral mobility, increased liquidity, and a decrease in settlement friction, which will maintain certainty in settlement while generating meaningful cost savings for our clients.

Margin management

Effective collateral re-use is a critical requirement that underpins all securities finance activities. If sufficient eligible collateral cannot be mobilised, either at the right time or in the right place, firms may face settlement delays, be called for additional margin or attract financial penalties.

Failure to deliver creates not only credit, liquidity and operational risks, but also has an impact on the reputation of market participants in the face of their clients. For products that are centrally cleared, time is your greatest enemy, as margin calls are required to be covered in full and within tight deadlines. This is where the application of the technology developed by HQLA^{X} can promote market stability and help to facilitate more efficient collateral optimisation.

Diving into the target operating model, clearing houses or central counterparties require that margin calls are satisfied within a prescribed window. If margin calls are not secured in a timely manner with non-cash collateral, cash will be directly debited from a clearing members' account automatically. For segregated client activities, this creates additional credit, as well as liquidity risks for the period until non-cash collateral is mobilised by the client in question.

On paper, the process required to manage the workflow and mitigate these risks is simple: client receives margin call and identifies collateral; client delivers collateral to clearing member; clearing member receives collateral and passes onto the clearing house. When you consider that this process all needs to happen within a window of 30-60 minutes, it is easy to see why a clearing member would be interested in developing a robust and automated solution for its clients to manage the end-to-end process.

This is exactly the solution that HQLA^{X} is designing collaboratively with an exclusive set of innovative market players that will deploy at scale. Our end-state design leverages our proprietary DvD capabilities to manage substitutions at precise moments in time, as well as leveraging our interoperable partnerships to optimise the usage of non-cash collateral versus cash. In addition, the ability to offer real-time margining between market participants means that clients can cover their mark-to-market in an automated fashion intraday. This allows clients to benefit earlier from the liquidity of any in-the-money positions and also to avoid large credit exposure building up when big swings occur intraday. It also considers opportunities to support uncleared as well as cleared product workflow in future.

By decoupling ownership transfer from the movement of assets, HQLA^{X} is able the improve the latency of our clients' margin collateralisation process, reduce cross-custodian movements, and improve operational resilience. By removing the uncertainty around settlement timing, with HQLA^{X}, clients can ensure that failure should never be an option.

The path forward

Effectively, industry wide intraday counterparty credit risk management requires a multifaceted approach. Enhanced regulatory frameworks, consistent global standards, and robust stress testing are critical. Collateral management is a strategic differentiator for firms that do it well, and banks are investing in advanced risk management systems that incorporate real-time data analytics to monitor and manage their exposures.

Platforms such as HQLA^{X} can consume that real-time data and help banks to achieve capital efficiency, enhanced collateral mobility, mitigated risk of fails, and lower operating costs through coupling the benefits of DLT with legacy triparty and custody infrastructure services.

Collaboration between financial institutions, regulators, and technology providers will be key to developing resilient solutions that can withstand market shocks. By implementing global regulatory standards, advancing risk management practices, and applying those through robust technology, the market can mitigate these risks and ensure a more stable financial environment.

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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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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

Last 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.

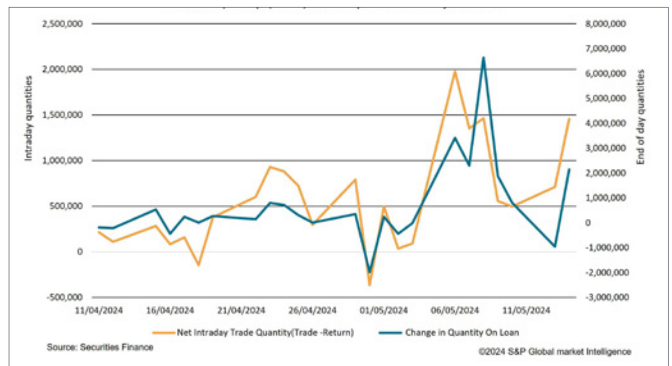
In May 2024, some market participants may have felt as if they had jumped into their DeLorean's and taken a trip back to the future, as 'Roaring Kitty's' reemergence on social media caused meme-stock traders to pile into meme stocks once again. The share prices of both GME and AMC Entertainment Holdings (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



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. ■

Day Three

09:30 - 09:45

Welcome Remarks & Recap

Harpreet Bains Managing Director, Global Head of Trading Services Digital and Agency Securities Finance Product, J.P. Morgan

09:45 - 10:45

Tokenisation & Adoption: Is Reality Matching Expectations?

In April 2023, ISLA published a Digital Assets in Technology paper entitled, 'Commercial Opportunities & Practical Considerations for Tokenisation for the Securities Financing Market'. A year on and drawing upon some of the themes of the digital discussion stream, this year's technology panel will focus on adoption – the true litmus test of whether firms and the broader industry are aligned on the wider benefits and value proposition. Amongst other things, the session will look at the current landscape – investment, who is actively involved, current volumes, and opportunities – the motivations that are driving this move, including unlocking marooned assets and improving collateral mobility.

Moderator

Mathew McDermott Managing Director, Global Head of Digital Assets, Goldman Sachs

Speakers

Gareth Allen Global Head of Investment and Execution, UBS

Andreas Biewald Managing Director, Senior Advisor Cash and Collateral, Treasury Department, Commerzbank

Kara Kennedy Head of Digital Product, Securities Services, J.P. Morgan

Guido Stroemer CEO, HQLA^{X}

10:45 - 11:15

The New Hiring Paradigm: What Will a Securities Finance Business of the Future Look Like?

This session will consider this from the perspective of hiring, and the skill sets which will be critical to the success of the business as we look to the future. Amongst other things, the panellists will consider the impact of technology and the increased use of platforms and Artificial Intelligence (AI), as well as the adoption of distributed ledger technology (DLT) and digital assets. For a business that has been traditionally driven by relationships – will those skills be less relevant in the future, or do those human skills become more sought after than ever in the age of AI?

Moderator

Anna de Winton Vice President, Product Manager, Securities Lending, BNP Paribas

Speakers

David Raccat Co-founder & Chief Revenue Officer, Wematch.live

Vasileios Moschovitis Vice President, Equity Finance Trader, Barclays

Georgia Williams Agency Securities Lending Client Management, Deutsche Bank

Philip Winter Head of EMEA Securities Lending, Citi

11:45 -12:45

Developing Markets & New Liquidity Pools

Developing jurisdictions and the emergence of new liquidity pools, such as retail aggregators, are changing the face of traditional supply within our markets. What does this mean for market participants today, how accessible are they in terms of their development, and what are the new regulatory considerations around these opportunities?

Moderator

Gavin Callan EMEA Product Head, Securities Financing, Citi

Speakers

Patrick Archenhold Morgan Stanley Prime Financing, EMEA Head of Inventory Supply, Morgan Stanley

Ingrid Garin Head of Markets, European Bank, BNY Mellon

Adnan Hussain Global Head of Agency Lending and Liquidity Solutions, Securities Services, HSBC

Boaz Yaari CEO & Founder, Sharegain

12:45 - 12.55

Closing Remarks by the ISLA Vice-Chair

Alessandro Cozzani Head of Asset Optimization Group EMEA & APAC & Vice-Chair, Bank of America

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