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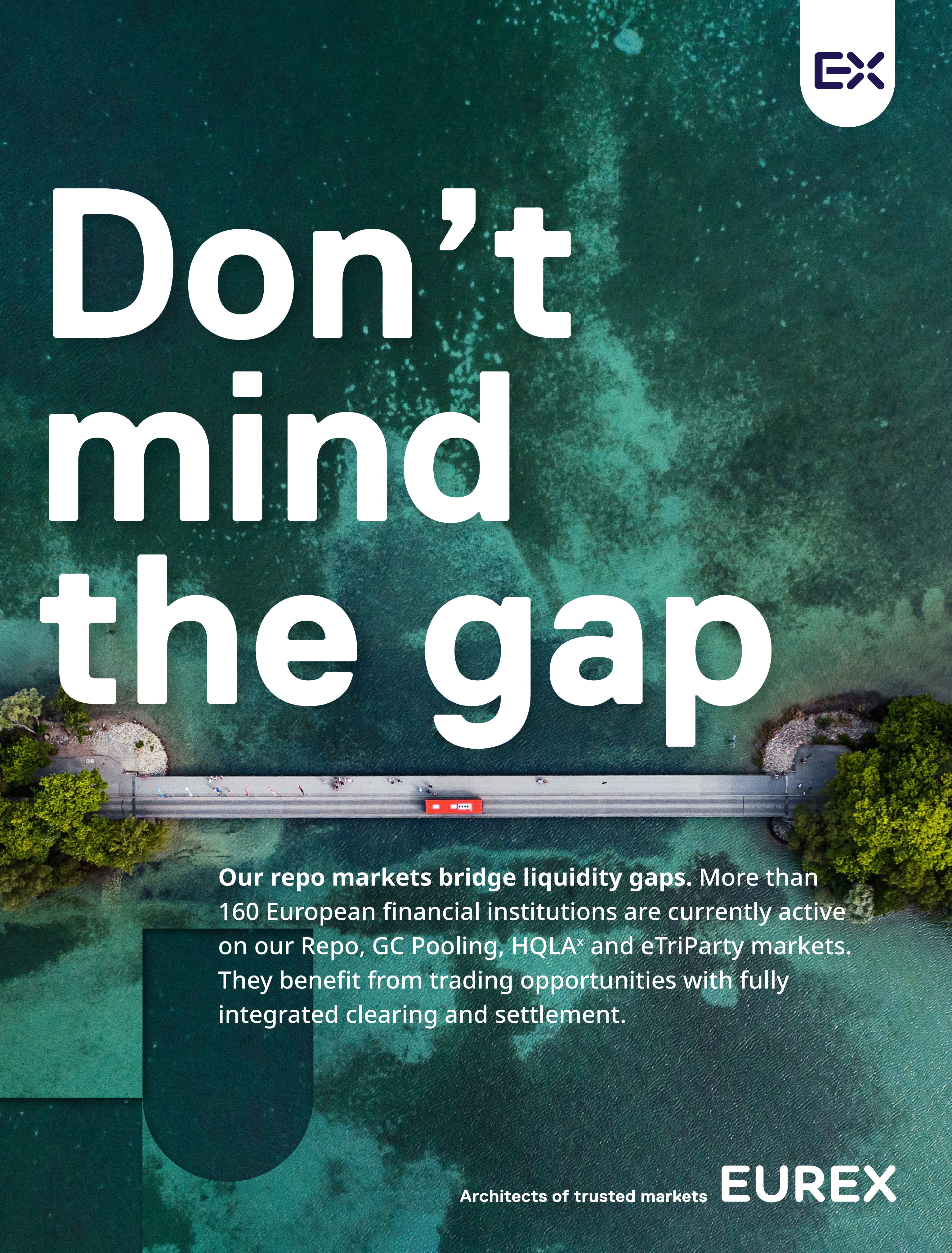
Moving the needle

Carmella Haswell discusses the current priorities facing women in securities finance and lending, from the rise of women's networking events to avoiding the box-ticking trap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S3 Partners launch 13F-2 reporting dashboard

S3 Partners, a technology and data analytics company, has announced the launch of its 13F-2 reporting and filing dashboard.

The launch follows the Securities and Exchange Commission's (SEC's) Proposed Rule under the New Exchange Act Rule 13F-2, which is designed to increase market transparency for short selling.

The SEC is targeting better visibility into the activities of large short sellers, whereby new institutional asset managers will be obliged to report short sales-related data to the SEC on a monthly basis.

Fund management companies will be required to file gross short positions greater than or equal to US$10 million or monthly average gross short positions greater than or equal to 2.5 per cent (as a percentage of shares outstanding).

Funds will also be required to file daily trading activity that affects a manager's reported gross short position for each settlement date during the calendar month reporting period.

Bob Sloan, managing partner and CEO of S3 Partners, says: "This new rule from the SEC represents a massive shift in how buy-side participants will have to monitor and file short positions. The rule introduces a whole new regulatory requirement and risk on asset managers.

"S3 is an innovative force in data analytics and workflow solutions, and our goal was to show how quickly we will help clients and the broader industry. 24 hours after the SEC released details of the 13F-2 rule, we are ready to solve this headache for hedge funds, asset managers and allocators."

Commenting on the announcement, Sat Bhattacharya, chief technology officer of S3, adds: "The end goal of the SEC's new rule is transparency, which is an outcome that will benefit all market participants. However, the reporting requirements to get to this market transparency will be extremely onerous for fund management companies."

S3 is offering the tool on a complimentary basis to help managers better prepare for this shift in reporting. Buy-side market participants can plug their current portfolio holdings into the S3 dashboard to gain transparency and education regarding their exposure to 13F-2 filing requirements.

When the new 13F-2 rule is live, users will also be able to file directly to the SEC's EDGAR system.

Inside this issue

SEC 10c-1 trade reporting update: comment period extended

As an update to an article published in SFT on 28 February, we clarify that the US Securities and Exchange Commission (SEC) has reopened consultation for its securities lending trade reporting proposal until 1 April.

This was confirmed with publication of the announcement in the US Federal Register (FR), the daily journal of the US government.

The SEC declared in a statement on 25 February that it will reopen consultation around its Exchange Act Rule 10c-1 proposal relating to trade reporting for securities loans transactions.

It did so in light of its proposed Exchange Act Rule 13F-2 regarding short sale disclosure. This aims to provide greater visibility around short selling activities, particularly the behaviour of "large short sellers".

On consulting sources in the US market, our understanding was that 10c-1 consultation would reopen until 26 April, or 30 days from the publication of the proposal in the Federal Register, whichever is later.

However, the announcement in the FR confirms that respondents will have until 1 April to file their comments relating to the proposed rule.

Fair Place Finance leverages Broadridge's SRD II solution

Wealthseed, a digital application for investing and personal finance in Poland launched by Fair Place Finance, has announced it will utilise Broadridge's blockchain-based disclosure solution.

The firm will use Broadridge's Shareholder Disclosure Hub, a digital solution that uses API and blockchain-based technologies, to address Shareholder Rights Directive (SRD) II shareholder disclosure requirements.

Michał Antoniak, chief legal and compliance officer of WealthSeed and Fair Place Finance, comments: "SRD II has pushed forward corporate governance standards across Europe, while transforming market transparency through a secure and efficient disclosure process.

"With Broadridge, we have been able to get ahead of the SRD II regulation's mandatory disclosure requirements, safe in the knowledge that we are in line with Europe's data protection legislation."

Demi Derem, general manager of international investor communication solutions

at Broadridge, adds: “We are enabling Wealthseed to simplify and reduce the cost of compliance for their SRD II shareholder disclosure requirements and mitigate the risk of compliance breaches associated with a failure to forward or respond to a request. By taking advantage of our platform, the firm will be able to handle complex disclosure requests quickly and efficiently.”

ISDA enables firms to document derivatives and SFTs under single legal agreement

The International Swaps and Derivatives Association (ISDA) has released new securities finance transaction (SFT) definitions and provisions designed to enable firms to document their derivatives and securities financing trades through a single ISDA master agreement.

The release of the 2022 ISDA Securities Financing Transactions Definitions and SFT Schedule Provisions give practical substance to the recommendations of an ISDA whitepaper, published in October 2020, which identifies opportunities for greater alignment between SFT and derivatives markets.

ISDA will commission updated netting opinions to cover SFTs, with the first of these expected to be available during 2022.

The Association predicts that creating common legal standards, terms and documentation will also help drive new technology innovations by applying terms consistently and at scale across derivatives and SFT markets.

The new SFT documentation was compiled by an ISDA working group with representation from both buy and sell side. Linklaters, the law firm, has worked with ISDA in drafting the definitional booklet and provisions.

Katherine Tew Darras, general counsel at ISDA, says: “The new SFT definitions and related provisions capture the unique features of SFT transactions and allow firms to customise their relationship for SFTs, while also enabling derivatives, repos and stock loans to be captured by a single close-out netting arrangement under an ISDA Master Agreement.

“Our next priorities are to amend our netting opinions to cover SFTs, after which firms will be able to enter into new SFT and derivatives transactions with the confidence of enforceable close-out netting.”

ISDA’s chief executive Scott O’Malia comments: “At a time when financial

institutions are looking at ways to increase efficiency and cut costs, having a single legal agreement for derivatives and SFTs not only reduces duplication but establishes the foundation for greater automation and interoperability across the two markets.

"Once we amend our netting opinions to cover SFTs, we believe there will be a strong rationale for market participants to enter into SFT transactions under the ISDA Master Agreement," he adds.

Global on-loan securities hit record €2.7tn in December, says ISLA market report

The International Securities Lending Association (ISLA) has published its 16th Securities Lending Market Report.

This edition provides HSBC's perspective of the equity and fixed income markets over the past six months, alongside ISLA's commentary on the Securities Financing Transactions Regulation data reported to trade repositories.

Among the market highlights, the report finds that the securities available for loan in global securities lending markets hit a new high of €32 trillion in December 2021, an increase from €28 trillion seen six months prior in June 2021.

Aggregate securities on loan also rose to a record €2.7 trillion in December, up from €2.6 trillion in June.

For equities lending, securities on-loan topped €1.1 trillion, remaining consistent from its June 2021 figure. However, lendable assets reached €24 trillion in December 2021, an increase from €20 trillion in June 2021.

Trends from last year saw equity markets become 'bullish' on central bank policy and emerging markets face turbulence from COVID-19, which created event and directional opportunities for many in the lending market, according to the report.

Adnan Hussain, global head of securities lending at HSBC Markets & Securities Services, says: "As equity markets have risen to all-time highs, it has become easier for banks to fund trades within existing collateral sets, meaning many securities financing participants are now looking to pledge collateral further down the credit curve to facilitate a higher internal benefit."

Hussain notes that collateral providers have turned to American Depositary Receipts, exchange-traded funds, investment-grade and sub-investment grade credit, which have seen high volume and depth of issuance since the pandemic began.

In discussing SFTR data, ISLA states that SFTR is by no means a completed project with new schema and validation rules introduced this year.

As borrowers adjust to the changing prudential capital environment, a further expediential growth in pledge collateral arrangements is expected. In the latest period, both EU and UK trade repositories data suggests that the level of security interest transactions was between 13 per cent and 16 per cent in both markets.

ISLA's triparty member firms have also seen this pattern of growth in pledge collateral arrangements in the last year. Data tracked through the triparty members' own collateral management platforms suggest that security arrangements over collateral account for around 18 per cent, or approaching one in five of all collateral transactions held in their systems.

OCC securities lending average daily loan value grows 15% YoY in February

Securities lending average daily loan value through OCC has climbed 15.8 per cent YoY to US$134.1 billion for February, with lending volumes up 53.0 per cent YoY to 176, 043.

Stock loan cleared value through the Chicago-based clearing house is also slightly up month-on-month, rising from 132.1 billion during January.

Total cleared futures and options through OCC have dipped compared with their 2021 equivalent, falling 2.6 per cent YoY to 807.3 million contracts for February.

Breaking these numbers down, total options contracts cleared through OCC have declined 2.6 per cent YoY to 823.4 million in February.

This decline is explained principally by a drop in equity options cleared contracts, down 21.5 per cent YoY to 449.2 million contracts.

In contrast, ETF options cleared through OCC have risen 43.6 per cent YoY to 306.9 million for February and index options have grown by 23.4 per cent YoY to 46.0 million.

OCC cleared futures contracts for February have increased 0.7 per cent YoY to 5.2 million.

Eurex Repo volumes up 11 per cent YoY for February

Trading volumes on Eurex Repo have grown 11 per cent YoY to €190.7 billion for February.

This has been driven by a 25 per cent rise YoY in repo trading volume on the Frankfurt-based platform compared with February 2021. Average monthly term-adjusted volume for repo market trading climbed to €112.3 billion for February, while GC Pooling activity contracted by 4 per cent YoY to €78.4 billion.

Average daily OTC cleared volumes through Eurex Clearing rose by 10 per cent YoY to €144 billion for February.

This includes a 69 per cent YoY rise in average daily cleared volume for interest rate swaps (IRS) to €30 billion for February. For overnight index swaps, cleared ADV rose 148 per cent to €12 billion.

In terms of notional outstanding, IRS notional outstanding volumes grew 39 per cent YoY to €11,908 billion for February, with overnight index swaps up 162 per cent to €1,979 billion.


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Global securities finance revenues rise

Global securities finance revenues have risen by 2 per cent YoY during February to US$825 million, according to recently published figures from IHS Markit.

This YoY increase relative to February 2021 data was driven by growing loan balances, with most major lending asset classes experiencing growth apart from EMEA and American Depositary Receipts (ADRs).

However, month-on-month global securities finance revenues were slightly down from the US$836 million recorded in January.

After a weak January, American equity revenues recovered in February, rising 5 per cent YoY to US$305 million. This was driven by a 22 per cent YoY increase in average loan balances, notwithstanding a 14 per cent contraction in average fees for Americas equity lending and utilisation remaining flat over the period.

APAC equity finance revenues continue to perform strongly, rising 25 per cent YoY to US$155 million for February — following on the back of a 37 per cent YoY rise in January. For the APAC region, average equity loan balances were up 10 per cent to US$230 billion, with the average loan fee rising 13 per cent to 0.88 per cent.

Taiwan and South Korea again recorded powerful YoY growth for February. Taiwan saw equity finance revenues rise 172 per cent to US$45 million, with average loan fees up 72 per cent to 2.53 per cent. In South Korea, equity finance revenues were up 365 per cent YoY to US$30 million, with average loan fees up 81 per cent to 2.33 per cent.

This said, month-on-month, equity finance revenues contracted in both of these markets, with Taiwan down 8 per cent and South Korea down 14 per cent relative to January 2022 figures.

For EMEA, equity finance revenues were down 3 per cent YoY to US$74 million — and down 7.5 per cent on January 2020 revenues. Average loan balances have increased 16 per cent YoY to US$229 billion, but average fee rates have dropped 16 per cent YoY to 0.42 per cent, reflecting the impact of fee compression on revenue generation through the region.

Revenue from lending ADRs contracted 88 per cent YoY and 24 per cent month-on-month to US$16 million for February. IHS Markit indicates that this was the lowest monthly ADR lending revenue recorded since October 2020.

In contrast, IHS Markit notes that use of exchange-traded products in institutional long portfolios and for short hedging has resulted in record highs for lendable assets and loan balances for this asset class. This delivered a record US$70 million in lending revenue, up 78 per cent YoY.

For fixed income lending, fee-spread revenues from global sovereign debt rose 12 per cent YoY to US$128 million for February, although positive fee balances were down 5 per cent month-on-month.

US government bond loans generated US$63 million, characterised by a 7 per cent contraction YoY in positive fee balances and a 7 per cent decline in average fees.

For European government debt, lending revenues rose 35 per cent YoY to US$48.6 million, driven by a 9 per cent YoY rise in average fees and a 24 per cent YoY increase in average balances.

IHS Markit notes that inflationary pressures have impacted demand for US treasuries and this is expected to spill over into the EMEA region in coming months — with the inflationary impact of the Russia-Ukraine crisis also likely to weigh on borrower demand in months ahead.

On a positive note, lending revenues from corporate debt increased 102 per cent YoY to a record US$64 million during February. This high point has been powered by a rise in loan balances (up 37 per cent YoY) and average fee spreads (up 48 per cent YoY to 0.29 per cent).

This average fee trend indicates stronger demand for borrowing high-yield corporate bonds, although these fee rates have not yet reached the levels registered in early 2019.

Moving the needle

Carmella Haswell discusses the current priorities facing women in securities finance and lending, from the rise of women's networking events to avoiding the box-ticking trap. In the first of two articles, industry veterans reflect on their biggest accomplishments and their first steps into the world of finance

While trending environmental, social and governance (ESG) principles are encouraging financial firms to prioritise their diversity agenda, women in securities finance are using their platforms to make strides in supporting other women and challenging the status quo to provide career progression for females in the industry.

According to the Global Principles for Sustainable Securities Lending (Global PSSL), boards need to prioritise their diversity agenda to meet the requirements of investors, who seek an alignment with global ESG standards.The organisation argues that companies with a diverse workforce produce more considered decisions, which lead to better investor outcomes and stronger corporate governance.

Evaluating the current industry landscape, head of post trade straight-through processing (STP) business development at MarketAxess, Camille McKelvey, says: "I would not say that securities finance has necessarily changed in and of itself, but the whole of the broader industry is starting to change and have a larger focus on gender diversity. It is still male dominated across the broader industry and within securities financing — I do not know what the numbers are — but my gut sense is that female representation is not a high enough percentage."

Similarly, the co-head of global securities lending at BBH Marney McCabe comments: "The general awareness and eagerness to create a more diverse and inclusive industry is where I have seen the biggest change. People are more inclined to educate themselves around the importance of diversity and inclusion. Individuals are recognising the importance of this development and are open to finding ways to effect change."

Corporate culture

Speaking to SFT, senior vice president and head of client relationship management for Europe, the Middle East and Africa (EMEA) at eSecLending, Jacqueline Waller, reflects on the underrepresentation of women in finance and the challenge of spotting the gaps.

"Over the past three decades, I have seen considerable change in the number of women employed across the securities finance industry, with some of this shift predating mainstream D&I and ESG policies." However, she believes much more still needs to be accomplished, particularly in relation to front office roles where representation from women is typically lower compared to men. "Although there may be several reasons why women hold fewer of these positions, a significant factor is that these roles have historically not welcomed flexible working conditions which disproportionately impact women." Waller explains.

With the COVID-19 pandemic providing greater opportunity for remote working, this has provided greater flexibility in working arrangements for both women and men in finance. With this in mind, Waller hopes that such proximity bias does not creep its way back into corporate culture.

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Marney McCabe, co-head of global securities lending
Brown Brothers Harriman

Inline with Waller's comments, McCabe adds: "In comparison to the rest of the financial services industry, global markets and execution businesses in general seem to struggle with attracting diversity, particularly at the more senior levels." This has also been linked to a lack of flexible working, which has acted as a deterrent for those in need of it.

When State Street's head of global markets for Europe, Simona Stoytchkova, first entered the industry in 2001 as one of a small number of diverse candidates, opportunities to enter into front office roles were limited. Stoytchkova says: "The financial services industry as a whole has understood that diversity in teams has a positive effect on performance and the securities finance and lending space is no exception. Currently, we are in a position where demand for diverse talent exceeds supply at all levels. That said, in the securities finance space, this imbalance is significantly lower than the very traditionally male dominant environments like FX trading."

Similarly, when Christine Lowe, head of client coverage at WeMatch, first entered into trading, there were fewer women in her domain. Lowe attributes the early starts and the long hours as some of the aspects of the job which contributed to barriers, particularly owing to family commitments. However, Lowe feels that this is changing with more women becoming more prevalent across trading desks.

Pinpointing the year of the Global Financial Crisis, Lowe argues that a cultural shift began post 2008 that aided the integration of women into the workforce. "The wider investment banking ethos has adapted to a new environment. The banning of proprietary trading and the changes in how we manage risk and capital are examples of a more nuanced and balanced approach to how making money and maintaining a more sustainable work life balance has helped women and men balance family and work responsibilities," Lowe continues.

A trending focus on ESG principles could also be contributing to a shift in attitudes, though the size of its impact is difficult to quantify. However, for State Street ESG plays a vital part in product offering and office culture. According to Stoytchkova, the launch of the firm's Global Inclusion Center of Excellence 13 years ago has pushed State Street to champion opportunities for individuals with diverse backgrounds.

A target number

The journey to improve female representation within financial services, in an effort to change the status quo of a male-dominated industry, has provided both a drive forward for the industry as well as a drawback. The UK's Financial Conduct Authority (FCA) has demonstrated that working towards targets can help to deliver gender diversity. The FCA signed the Government's Women in Finance Charter — an organisation that seeks to increase the representation of women in the financial services sector, particularly at senior levels — in 2016 and has published its level of female representation. On 12 March 2021, Britain's watchdog reported female representation of its senior leadership team (SLT) at 43 per cent, up from 40 per cent in 2020. Despite missing its 45 per

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Simona Stoytchkova, head of global markets for Europe
State Street

cent target for 2020, the FCA achieved a 3 per cent increase. The organisation aims to reach 50 per cent of women in SLT by 2025.

STEM Women, a UK-based group providing inclusion and diversity recruitment resources, also finds that gender diversity in UK financial services has seen improvements in recent years, with women now making up 43 per cent of the workforce. Unfortunately, there is a vast imbalance for women in the top levels of financial services.

The challenge remains to bridge the gap between the percentage of women employed in financial services and those employed in senior roles. Arguably, certain firms may be viewing these targeted attempts to incorporate more women in the industry as just that — a target number. The 'box-ticking' exercise presents a barrier for career progression, with several women interviewed by SFT concerned about the proportion of females in lower paid and lower profile roles, relative to those at executive level. Embracing diversity and acknowledging the value that it brings to industries is essential in changing the mindset of those in financial institutions — so that women can climb the career ladder.

Responding to the 'box-ticking' issue, WeMatch's Lowe says: "As a woman, I feel proud of the industry and how people within it treat both men and women. We have to be realistic and do it in a measured way. I do not believe any woman wants to feel like they are a quota fill. But by the same token, equality of opportunity and a level playing field is really important."

In discussing how women can flourish in the industry and how firms can improve their approach towards women in finance, Waller explains that it is no longer sufficient for firms just to specify the percentage of women in their organisation when fulfilling their D&I reporting. Instead, beneficial owners want to understand the granularity of seniority when it comes to these measures. Here lies a key issue, Waller explains: "Women may now be a larger proportion of the workforce, but they are typically being employed in lesser paid, lower profile roles."

MarketAxess' McKelvey says the challenge now is to go beyond the goals of the 30% Club — a global campaign group acting to increase gender diversity on boards and senior management teams — where there is a heavy focus on representation within the senior and junior ends of organisations. McKelvey notes that there is much work to be done on the middle layer, where there is also a discrepancy in gender diversity.

Weighing in on the debate, McKelvey has mixed feelings about firms having to meet a quota of women. She now looks at gender diversity across financial services as she does with any other part of the business, where targets are set and efforts and resources are put in place to hit them.

"If we do not at least try to encourage recruiters and ask them to send more diverse CVs, then we will not move the needle. I am not a fan of saying you have to hire a female, because I still feel that the best person for the job should be hired for the job,

"As a woman, I feel proud of the industry and how people within it treat both men and women. We have to be realistic and do it in a measured way"

Christine Lowe, head of client coverage
WeMatch

but having more females in the mix is key. We also need to focus on encouraging women into the industry and, more importantly, making sure that they stay," McKelvey elaborates.

The need for a more diverse workforce has been part of the narrative prior to ESG, according to BBH's McCabe, who says the mandating of equality in the workplace is the real change taking place across the industry. McCabe continues: "We need to make sure that we are setting people and businesses up for success. It cannot only be because you need to meet your year-end quota around diversity." The 'check-the-box' exercise leads to women being forced into roles without the support that they require. Without a proper investment in a firm's employees, creating equal opportunities for everyone, individuals and institutions will be set up to fail, McCabe adds.

The advancement of women is an advancement for the company. Speaking to SFT, State Street's Stoytchkova says: "It has been backed up by statistical quantitative research that companies with diverse teams are more profitable and add value to investors. Diversity for me is like an iceberg — there are factors which are visible, like gender or race, ethnicity, but there are several factors that are not visible, like social background or personal experiences, which all contribute to the diverse intersectionality of a person." Stoytchkova adds that the difficulty lies in overcoming unconscious biases, for example the desire to hire someone that mirrors the hiring manager's background.

Reflecting on the investment required to support women in the workplace, Waller says that women need to feel empowered to embrace opportunities when they come along. Waller is thankful for the benefit of having a senior female mentor early on in her career for guidance. Unfortunately, this is not the case for many women. Waller believes a female mentor can help female employees to tackle challenges that confront them in the workplace, such as a lack of confidence and a pressure to change oneself in order to apply for a particular role.

"This is where networking groups, such as Women in Securities Finance (WISF), are becoming game changers, providing a much-needed support network across the industry. Women most definitely have a voice, but they require the opportunity and the means to express it," explains Waller.

Building a network

The ICMA Women's Network (IWN) began eight years ago, starting with a small group of women across ICMA member firms. The network has now expanded to more than 4,000 people and to 11 different committees across several regions. McKelvey, who represents the UK on the International Steering Committee of the IWN and is one of the founders of the organisation, says the group has focused since its beginnings on helping women at any level of their career. Holding events throughout the year, the IWN has allowed women to build up their networks.

The events, which attract a variety of women from junior analysts and graduates to senior executives, involve either a

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Jacqueline Waller, head of client relationship management for Europe, EMEA
eSecLending

keynote speaker or a panel conversation. This then follows on to speed networking with a committee member and a senior representative from an ICMA member firm. “Network is key, and one of our own board members at MarketAxess, president of Loop Capital Markets Kourtney Gibson, summarised it well when she said ‘Your network is your net worth’," explains McKelvey.

Echoing the sentiment, Waller admits that she had attained her position at eSecLending through the power of networking. “The ability for women to connect in these sorts of forums cannot be underestimated in my mind and I think it speaks volumes that more and more women are continuing to join these organisations. Networking professionally is a discipline that many women I speak to have historically shied away from, yet it is so important in terms of making that next career change or gaining insight and support.”

McCabe is the co-chair of BBH Boston Women’s Network and co-lead for the WISF Boston chapter. She has been actively involved within the groups for the past 10 years and hopes to pay forward the help that she received from such groups.

“There is a core group of senior women here at Brown Brothers, who I have great respect for. They have been instrumental in my success here in terms of having those female colleagues, someone to look up to and acting as an informal mentorship. They have created opportunities for me and helped me navigate the organisation. Navigating an organisation is a very important part of career development. They have been my champion when I’m not in a room,” McCabe explains.

Despite networking events for women being available, the number of women attending annual financial conferences has seemed to dwindle relative to the amount of male attendees. “This type of networking has typically not been regarded as accessible for women. At industry events for example, most attendees are men, maybe because the front office roles which dominate them are not held by women or women are unable to attend for childcare or other domestic reasons.” Waller explains.

The women in this feature have raised a common solution which is to include men in the dialogue and to promote allyship. “It is important that we make any networks inclusive and encourage men to be a part of the conversation by joining the events, being on the panel and in the audience. If we do not do that, we do not get the support from everybody and then these conversations are probably not going to advance. Clearly the majority of people that attend are women, but we have seen a slight shift in the balance and are seeing more men involved,” says McKelvey.

Reinforcing this critical notion, BBH‘s McCabe says men need to buy into the benefits of diversity and be supportive of it. That means men being open to challenging unconscious biases, creating general awareness and not making it a check-the-box exercise. She says: “When we have men in the room, it makes us that much better, that much stronger, that much more powerful. We have to have allyship across the industry.”

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Camille McKelvey, head of post-trade STP business development
MarketAxess

Reaching milestones

MarketAxess' McKelvey reflects on her biggest achievements within an almost two decade long career in finance, beginning with recognition she received at the Markets Media awards last year, where she won the Trailblazer Award. "I have got a platform — thanks to the support of MarketAxess and being involved with the IWN — to be able to speak up and hopefully drive positive change in the industry. To be recognised for that and for the work that I do in the repo markets is great." McKelvey entered the industry in the hope that she could leverage her languages degree in Russian and French, but instead fell in love with repo and has not looked back since.

McKelvey's work with the IWN was another significant milestone. She will harness the expertise to help launch the first internal women's network at MarketAxess. McKelvey will co-head the organisation alongside senior marketing and communications manager for EMEA and APAC Erika Bianco, and head of index and ETF solutions Kathryn Sweeney. This aims to help women at MarketAxess to network and grow in their careers.

eSecLending's Waller had a shared dream with McKelvey which was to work in the city of London. She never had the belief that women could not do things, which she attests to former Prime Minister Margaret Thatcher. Waller explains: "Whether you agreed with her politics or not, here was a woman who came not from privilege, but had the determination to succeed no matter what the obstacles."

Waller had always wanted to carve a career in economics and suggests, modestly, that longevity is her greatest accomplishment. After more than 25 years in securities lending, Waller says: "To have longevity in your career, there are times when you may have to take a leap of faith and consider something different for your own personal development. My varied career is testament to the fact that I have been willing to embrace and make those changes even if they seemed daunting at the time."

McCabe was introduced to BBH with little knowledge of the securities lending industry, but quickly got up to speed and was completely intrigued by an industry that was so dynamic, interesting and exciting. "I am really proud of my past 15 years and what I have accomplished at Brown Brothers. I started as an individual contributor and have worked my way through different roles, primarily being client and market facing. My current role is probably one of my proudest moments in my career to date and perhaps one of the most challenging."

Speaking to women entering the industry, McCabe says: "I have two pieces of advice for women – never underestimate the power of your network and always ask questions. Every week, have coffee with someone new, ask for a new introduction, make yourself known. Ask questions with the intent to learn more and provide your perspective."

Adding to this piece of wisdom, WeMatch's Lowe, who joined the financial services sector for the opportunity to achieve diverse career progression, encourages everyone to not be afraid to ask for feedback, as it will help provide clarity on your path.

Speaking on her career, Lowe attributes an intellectual interest in economics, financial markets and politics to drawing her into the market. She adds: "I spent 20 years building a successful career across prime finance at a senior level. I joined a fintech startup as I was drawn to being in an evolving fintech industry, which supports my career aspirations, gives me work life balance, in a senior role as a woman. It feels good to be on the path that I originally set out."

State Street's Stoytchkova was inspired by her parents to follow her passion and to believe in herself. Growing up watching her parents establishing careers, sharing the workload and supporting one another, showed Stoytchkova that it is possible. "I come from a humble background, with limited networks and worked quite hard to persevere in the financial service industry," Stoytchkova explains.

One of Stoytchkova's biggest accomplishments is attaining her current role at State Street and becoming a member of the Executive Management Board of State Street Bank International. She continues: "It is a huge role and very exciting, full of opportunities to grow in EMEA with my colleague and UK lead, Michael Eldridge, and our manager, Martine Bond, whom I continue to learn from daily. It took me 20 years to get here, and I know some of my male peers have had a quicker career progression, but I would not take back any day of my work experience and lessons, which I now pass on to younger generations through mentoring and networking events."

Securities lending and the question of pricing

Martin Walker, Broadridge's head of product, securities finance and collateral management, looks at securities lending price models in the context of SEC proposed rule 10c-1, reflecting on how this will impact market operations and data vendors' business models

While pricing models in most areas of capital markets have grown incredibly sophisticated and transparent, at least superficially, one area with a lot of catching up to do is securities lending. When securities are lent for purposes such as covering short sales or settlement failures, there are two main ways in which the lender receives a return, notably fees and rebates. If the borrower provides cash as collateral for the loan of the stock, profit is made on the difference between the interest received by the borrower on those funds and the interest paid to the borrower (the rebate). If securities are provided as collateral instead, the lender's return comes in the form of a fee paid by the borrower. Fees and rebates vary for different securities depending on market demand. Stocks that are more in demand to facilitate shorting will typically have higher fees, or lower rebates, than securities that are less in demand.

Understanding what the current market price is for borrowing securities is problematic for multiple reasons. There are multiple vendors of pricing data (i.e. rebate and fee rates) for securities lending, but there are a number of potential issues with that data. These issues are very clearly highlighted in the consultation paper issued by the Securities and

Exchange Commission (SEC) in relation to their proposed rules on the reporting of securities lending transactions (Rule 10c/a).

The SEC says: "The securities lending market is characterised by asymmetric information between market participants and a general lack of information on current market conditions, which can lead to inefficient prices for securities loans, including equity lending and fixed income lending."

The SEC explanation for unequal access to market information is based on the current model for collecting and distributing market data, the “Give-to-Get” model. Market participants provide trade data to data vendors who aggregate the data and provide back market prices for all securities. The SEC highlight multiple problems with the model, from the perspective of market efficiency and fairness:

- The pricing data is incomplete because not all participants contribute data
- There are very strong incentives for those that have gained control of a large proportion of the supply of in-demand stocks (“specials”, also known as “hot stocks”) not to submit information
- Not all market participants can access the data, even if they are willing to pay for it
- There are significant time delays in getting the data. While cash equity markets see prices move in fractions of a second, receiving a feed of market prices on the next business day is common in securities lending

If the SEC's proposed Rule 10c-1 goes forward in its current form, US securities lending trades will be reported within 15 minutes and pricing data reported in the following business days — but potentially sooner. This is sure to have a major impact on the operations of the market and the business models of the market data vendors that will need to demonstrate the value of analytics, in addition to the value of basic pricing data. It could also have a truly transformative effect on how trading is done.

However, there is more to achieving transparency in the stock lending market than collecting and aggregating all the data for each security. Different types of collateral and different haircuts also ultimately affect the true price of a loan. A lender demanding higher quality collateral or deeper haircuts on the valuation of collateral is ultimately demanding a higher economic price. The credit rating of each party, as well as the management of collateral (is it delivered to the borrower or to a tri-party agent?), also materially impact the economics of trades.

Another pricing factor arises from the nature of trading securities lending itself. Most securities lending trades are done on an “open” basis. This means there is no fixed term on the duration of the trade. Lenders can request the securities back at any point by issuing a "recall" notice. This, of course, has economic consequences for the borrower. If a borrower has obtained stock to cover a short position and then has to unexpectedly return the stock, they need to find an alternative lender of the stock.

In the worst case, where stock is not available for loan, they may have to buy stock and close out their position prematurely. Recalls are typically considered a relationship issue. Firms that excessively recall borrowers or recall too soon after the start of the trade are likely to damage relations and risk future business. Fundamentally, though, there is a value that can be put on the likelihood of being recalled. Doing a trade on an open basis in many ways is equivalent to giving the borrower a free option, but one where the value of the option is seldom explicitly calculated let alone charged for.

The other peculiarity of stock lending in the US and other markets, though one reflected in common master agreements, is the willingness of participants to allow trades to be cancelled or have key economic attributes changed up to the settlement of the initial leg of the trade (i.e. when loaned stock and collateral are exchanged). These cancellations and amendments have economic consequences, but in the American market they are not charged for.

A more transparent and liquid market for securities lending in the US is sure to increase the pressure on participants to raise the accuracy and efficiency of their pricing models simply to compete. Given that non-US stocks are lent in the US and US stock is lent outside the US, the pressure for better pricing data and better pricing tools is likely to be felt in all the major markets. ■

Applying technology to legal data

Akber Datoo, CEO of D2 Legal Technology, talks to SFT about the complexity of managing legal data and outlines solutions that can help clients to manage counterparty-type and netting determinations

Over the past 18 months, several financial institutions have failed to meet regulatory expectations due to deficiencies in regulatory capital calculation, specifically when determining if counterparty exposure can be treated on a net versus gross basis. These issues are particularly prevalent in agency lending, owing to the additional complexity introduced by the principal-agent relationship.

The Basel Accord framework outlines steps that financial institutions can undertake to reduce credit exposure through their trading agreements and contracts and through a review of market and legal risk in the case of a counterparty default. When these steps are taken and a favourable determination is reached, a counterparty's trading exposure can be measured on a net versus a gross basis. This "close-out netting" treatment has a direct bearing on the amount of regulatory capital that must be assigned to a firm's trading positions with a particular counterparty — and, for the largest financial institutions, the regulatory capital impact can run into billions of dollars.

> *"This "close-out netting" treatment has a direct bearing on the amount of regulatory capital that must be assigned to a firm's trading positions with a particular counterparty"*

In the US, broker-dealers are required to perform regulatory capital calculations, as prescribed by the Securities and Exchange Commission (SEC) rule 15c3-1, Net Capital Requirements for Brokers and Dealers, at the principal level rather than the agent lender level.

The legal analysis involved in reviewing the enforceability and validity of close-out netting provisions under the Global Master Securities Lending Agreement (GMSLA), MSLA and other securities lending master agreements is admittedly not straightforward, with a level of technical insolvency law analysis that results in legal opinions than can run into hundreds of pages for some jurisdictions. However, issues tend to arise far earlier in the process – for example, just who is your counterparty? For financial institutions to benefit and accurately calculate their exposures on a net rather than gross basis, regulations require that a reasoned and up-to-date independent legal opinion be obtained which confirms that close-out netting of transactions concluded under the relevant master agreement type, and with the relevant counterparty type, is valid in the jurisdiction of their counterparty.

Operational challenges

This is where the challenge comes…

The required legal opinions in this area are generally complex and dense, often running into many hundreds of pages. Correct interpretation and application of the legal opinion requires careful reading, cross-referencing and may require multiple checks related to the counterparty.

The level of granularity a legal opinion can often go into regarding which counterparties are covered in scope — and which are not — is not easy to establish. The nuances — regarding how this counterparty typing is defined in a legal opinion — are unique to this area and client onboarding teams are simply not equipped for this. For example, a definition of a term may cross reference one or more other definitions. Given how the details are often buried within an abundance of definitions and footnotes within these dense legal opinions, it is dependent on specialist lawyers, with years of familiarity with close-out netting opinions, to provide the necessary expertise regarding how to identify and classify counterparties for this purpose.

Many organisations have tried to operationalise this analysis by over-simplifying the analysis, often shifting the work to the client-onboarding task rather than a legal team. This is the crux of the issue. Client onboarding does not have the appropriate skills and expertise to conduct the required analysis. Conversely, researching counterparties, checking registration databases for factual details of a counterparty, is a suboptimal task for a skilled and experienced capital markets lawyer.

Agency lending specific challenges

Instinctively, one might think there would at least be some alignment across legal opinions provided for other agreement types, such as repo lending under the Global Master Repurchase Agreement (GMRA) or derivatives trading under an ISDA considering close-out netting and collateral enforceability. However, sadly this is not the case, with the counterparty scope and definition sometimes varying, often due to different counsel selection for the same jurisdiction, or even where the same counsel is selected for other more esoteric reasons such as the historic scope of a particular opinion. One such example is the most recent joint ICMA GMRA and ISLA GMSLA legal opinion for Japan, under which labour credit associations are only covered in respect of the GMSLA.

All this is exacerbated in agency lending by a range of factors. Lenders are in many cases niche entity types — for example pension funds of fire departments of a particular US state — which are not commonly covered in the industry netting opinions. The agent lender has typically done some due diligence, but it will not generally consider that it is responsible for assessing the netting determination. Rather, it will work on the basis that this is for the borrowing bank to manage. The borrowing bank may therefore have to commission, review and pay for a number of legal opinions.

Also, to protect commercial interests, there will often be detailed confidentiality agreements in place that will typically restrict the ability for the borrowing bank to share the identity of the lend=---=-er inside its organisation. This has been documented by the Securities Industry and Financial Markets Association (SIFMA) Agent Lender Disclosure Taskforce (2006), which outlines a detailed client information sharing model among market participants. In an agency arrangement, this model restricts sharing of principal details between trading desks, but does provide the necessary exceptions for compliance, legal and credit departments to obtain the required details on a need-to-know basis. Accordingly, agreements, when uploaded into legal agreement systems, may not refer to the end lender by name but may instead utilise a short name or code. Consequently, an already difficult process — to establish its type — becomes that much harder.

An agent lender may be acting for a few hundred borrowers or, in some cases, many thousands. Accordingly, umbrella agreements are often employed, where a GMSLA or MSLA is deemed to be in place, based on the terms of the main agreement with the agent lender. This effectively replicates the base agreement, but possibly changes the relevant terms so that these are appropriate for the relevant lenders, while also amending the terms to take account of the borrower's requirements.

This, again, presents a number of issues. Legal agreement data systems struggle with the template agreement that will be replicated and how to differentiate this against each of the many cloned agreements. Maybe not all of the end principals have been cleared from a "know-your-client" perspective, since trading is not due to begin immediately with all of the end principals and these KYC requirements have been deferred until trading is imminent.

Moreover, catastrophically, it has been too easy to mistakenly conduct the netting determination on the manager rather than the end lender – as a number of regulatory breaches will illustrate.

Also, we cannot overlook the challenge that the volume and scale of agency lending creates, potentially dumping a few thousand borrower entities, to be assessed for netting determination purposes, within a single umbrella agreement.

The answer must be a more scalable solution that is operationalised. This is just a question of counterparty and client data that requires a more efficient and better thought out industry solution.

Accordingly, D2LT launched a counterparty type determination service in 2021, providing this counterparty type information for netting determination purposes — in fact linking the counterparty's legal entity identifier (LEI) to the relevant legal opinions. This is not something firms need to struggle through individually. It is simply client data that one should be able to look up whenever it is needed.

Akber Datoo
CEO
D2 Legal Technology

Latest industry appointments at Natixis, VERMEG and Matrix Applications

Christy McKibbin has departed from Citi after almost a decade with the firm, formerly as vice president.

Based in Belfast, McKibbin joined Citi in 2012 as associate vice president of prime finance after spending three years at BNY Mellon as supervisor.

In an online statement, McKibbin says: "I have loved it, the people, the laughs, the forever friends I have made and, of course, what I learnt along the way and the wonderful people who helped me get to where I am."

McKibbin leaves Citi to focus on family commitments.

The International Securities Lending Association (ISLA) has announced the appointment of Chris Rayner, who joins the organisation as a senior associate for market infrastructure and technology within the Regulation, Digital and Market Practice group.

Rayner joins ISLA to further bolster a number of digital and standardisation efforts across Europe with its members, fellow trade associations and industry stakeholders.

He will report to David Shone, director of market infrastructure and technology.

Based in the UK, Rayner will be responsible for supporting the Association's development of securities lending products within the Common Domain Model (CDM).

The CDM is a standard codified representation of transactions, events, agreements and processes, and is a key initiative to digitally transform the industry, says ISLA.

Rayner will also chair the CDM Working Group, which was formed from a subset of the ISLA Digital Steering Group.

Prior to joining ISLA, Rayner was a software engineering specialist at FIS and has more than 25 years of experience in the financial services industry.

Ian Beattie leaves Natixis

Ian Beattie has left his position at Natixis after 16 years with the French corporate and investment bank.

Beattie held several senior positions within the company, most recently as head of client development, global securities financing for Europe, which he began in 2014.

Prior to this, Beattie was based in Tokyo at Natixis Japan Securities, where he took on the role of head of equity finance Delta One, Asia in 2011.

He first joined Natixis' Paris headquarters back in 2006 as head of sales and marketing, equity finance.

Earlier in his career, Beattie spent six years at Société Générale as an equity finance trader.

Beattie has left Natixis to pursue personal projects and aims to seek other opportunities in due course.

VERMEG for Banking and Insurance Software, has appointed Hanne Jepsen as sales executive.

Based in London, Jepsen will report to UK regional sales director Jay Mistry and will be covering client activity in the UK and Sub-Saharan Africa.

Jepsen joins the specialised software house after 18 years at the Depository Trust and Clearing Corporation (DTCC), where she was most recently relationship manager.

At DTCC, she was responsible for revenue growth and protection, building and maintaining strategic senior-level relationships to expand the use of DTCC solutions across all applicable business segments.

Additionally, Jepsen was responsible for helping clients navigate and address the regulatory landscape.

Commenting on the announcement, Jepsen says: “I am excited to join VERMEG as they continue to address ongoing regulatory and market-driven changes. VERMEG is a provider to a wide range of financial institutions across regulatory reporting, collateral management (COLLINE) and digital transformation. What attracted me to join its ranks is the positive energetic culture and simple effective solutions to complicated challenges.”

Capital markets consultancy First Derivative has appointed Christopher Owers as global head of regulatory solutions.

Based in London, Owers will be responsible for overseeing the regulatory solutions workforce, enabling the company’s growth and managing existing engagements and developments.

Owers has more than 16 years’ experience working within banking operations, nine of which have been spent in the regulatory reporting space.

Prior to First Derivative, Owers served at UBS for seven years, most recently as executive director, head of UK regulatory transaction reporting.

Before UBS, Owers was vice president of European Market Infrastructure Regulation/ Dodd Frank change management at the Royal Bank of Scotland.

Owers has also held senior roles at Goldman Sachs and State Street.

Matrix Applications has announced the hire of Kalpesh Patel.

Based in New York, Patel will join the firm's product development and product support team.

Bringing more than 18 years of experience in application development, Patel was previously a consultant at a number of firms including Citi Group, BNP Paribas, Bank of America and Goldman Sachs.

Patel has worked on trading and regulatory applications for fixed income and equities products. He was responsible for building, deploying and maintaining various applications.

He has experience in database design, agile methodologies, software development and requirements analysis.

Commenting on his new position, Patel says: “At Matrix, everyone works together not because they have to, but because they want to. I am so happy I joined the team because I feel valued here.”

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