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A positive outlook

Donato D'Eramo, head of securities finance at RBC Investor & Treasury Services shares his projections for Canada's securities lending market

ICMA releases report on digitising repo market legal documentation

The International Capital Markets Association (ICMA) has published a strategy paper that evaluates steps to promote standardisation of industry-negotiated repo documentation.

The Association notes that the rising need for legal agreement data for downstream systems, including collateral, risk, pricing and capital decisions, is driving market participants to create their own data representations, despite the need for consistent data representation as industry infrastructure expands.

This trend has resulted in multiple house styles for master agreement templates, with firms employing differing formatting and describing common business outcomes in a variety of different ways.

To address this concern, ICMA released a Global Master Repurchase Agreement (GMRA) Clause Taxonomy and Library project in October 2021, delivering a library of model wordings that can be used to draft business outcomes in a standardised way across the industry.

The strategy paper, which has been released in collaboration with D2 Legal Technology, evaluates the work done to date on the GMRA Clause Taxonomy and Library project, outlines the next stages in the project and the role that market participants need to play to make this initiative successful.

ICMA encourages all its members to share their ideas and input to the project to “build on the key role GMRA documentation plays in repo trading. This is the time to embrace the enhanced benefits of a digital documentation approach to the GMRA,” it says.

In September 2021, The International Securities Lending Association (ISLA) announced the launch of the ISLA Clause Taxonomy and Library to guide standardisation of industry-negotiated securities lending transaction documentation, including the Global Master Securities Lending Agreement (GMSLA). This ISLA Clause Taxonomy and Library was also developed in association with technology partners D2 Legal Technology.

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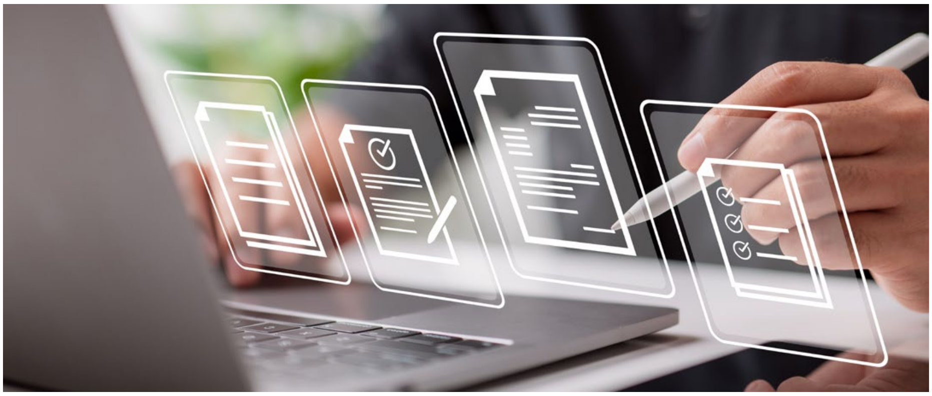

Linklaters and ISLA sign MOU to automate securities lending documentation

Linklaters and the International Securities Lending Association (ISLA) have signed a memorandum of understanding (MOU) to automate securities lending documents. The documents include the Global Master Securities Lending Agreement (GMSLA), the GMSLA Security Interest 2018, the Master Confirmation Annex (MCA) and related documents on the CreateiQ contract automation platform.

The platform, designed by Linklaters, aims to “dramatically reduce” the time to draft and agree documents, while creating and providing real time access to contractual data in structured format.

The announcement comes as the CreateiQ platform experiences a “rapid growth” with more than 200 institutions now using the platform in the financial industry.

The MOU to add ISLA’s documents gives market participants the opportunity to digitise their broader trading documents, including any own account documents, on a single platform.

Speaking on the announcement, CreateiQ board member and Capital Markets Partner at Linklaters Deepak Sitlani says: “We are excited to work with ISLA on this first of its kind automation for securities lending negotiations, which will bring enormous efficiencies to banks and asset managers. “This is a significant step towards our goal of becoming the comprehensive contracting solution in financial markets.”

Andrew Dyson, CEO of ISLA, adds: “We are delighted to work with Linklaters to develop a digital version of the GMSLA and our other related documents on CreateiQ. One of the biggest challenges for our members is negotiating these documents efficiently and at scale and are pleased that they will now be able to benefit from all the functionality the platform has to offer.”

SEC charges US-broker TradeZero with misleading customers over meme stock trading

The Securities and Exchange Commission (SEC) has charged TradeZero America, a US-based broker-dealer, and Daniel Pipitone, the company’s co-founder, with providing false information to customers.

The US securities market regulator alleges that the accused parties misled customers by stating that they did not restrict customer purchases of meme stocks when, in reality, they did restrict purchases in these securities.

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According to the charge statement, the SEC alleges that on 28 January 2021, TradeZero was instructed by its clearing broker not to allow its customers to buy three meme stocks. TradeZero later suspended purchases in these three lines of stock for approximately 10 minutes.

In subsequent statements in a press release, interviews and social media posts, TradeZero attempted to mislead the public by suggesting that it had not restricted trading in these securities. Pipitone said in a Reddit post: “That some trading firms are blocking these symbols is disgusting, unprecedented … Our clearing firm tried to make us block you and we refused.”

TradeZero and Pipitone consented to the entry of the SEC's order that they had committed a breach of Sections 17(a)(2) and (3) of the 1933 Securities Act. They agreed to a cease-and-desist order, to a US$100,000 fine for TradeZero and a US$25,000 fine for Pipitone, but without admitting or denying any of the charges. TradeZero and Pipitone will retain an independent compliance consultant to ensure future compliance with federal securities laws.

Melissa Hodgman, associate director of the SEC’s Division of Enforcement, says: “This case sends a powerful message that participants in our capital markets cannot exploit market turbulence to deceive customers. The SEC has committed to ensuring that our capital markets continue to function in times of uncertainty, and today’s action highlights this commitment.”

Clear Street closes $165m Series B funding round

Clear Street has announced the completion of US$165 million Series B funding round to accelerate the launch of its platform.

This marks Clear Street's first venture capital raise since inception and brings its valuation to US$1.7 billion.

The round was led by growth equity firm Prysm Capital, LLC and included investors NextGen Venture Partners, Walleye Capital, Belvedere, NEAR Foundation, McLaren Strategic Ventures, and Validus Growth Investors.

Angel investors, Illia Polosukhin, Moses Lo and Alastair Trueger were also investors in the funding round.

With this additional capital, Clear Street aims to expand its capabilities to serve fintechs, market makers, and professional traders. It will aid the firm in continuing to grow its team, resources, and form new partnerships to meet its goal of improving access across the capital markets.

Since the beginning of 2021, Clear Street experienced a 220 per cent increase in financing balances, and 510 per cent growth in equity transactional volume. According to the fintech, Clear Street's architecture processes more than US$3 billion in daily trading volume.

Chris Pento, co-founder and chief executive officer at Clear Street comments: "We founded Clear Street to replace the outdated tech infrastructure being used across capital markets.

"It should not take six months to open an account or a year to begin trading a new asset class. Clients are demanding better technology and better service. Our cloud-native platform provides the services and data that investors need to compete in today's markets."

Sachin Kumar, co-founder and chief technology office, adds: "We started with prime brokerage, an area where we had experienced the frustrations caused by operating on outdated technology first-hand.

“As we built out prime services, we realised that 80 per cent to 90 per cent of the infrastructure used to service prime brokerage customers is the same infrastructure used by other market participants, like fintech app developers or market-makers. We have focused heavily on creating platforms that are API-first, such as clearing, settlement and custody, so that we can scale to other parts of the market."

Saxo Bank implements Adenza ControllerView to automate regulatory reporting

Adenza has announced it will provide Basel-driven capital calculations and reporting for Saxo Bank.

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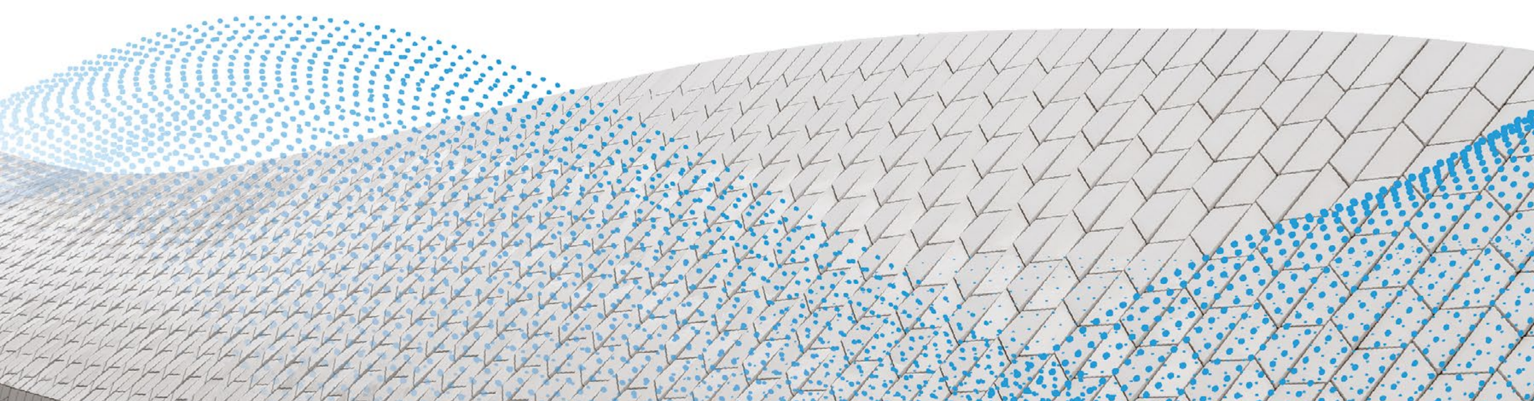

The firm will support the bank's multijurisdictional capital and liquidity reporting requirements throughout Denmark, Switzerland and the UK, with plans to expand into the Netherlands.

Saxo Bank has deployed Adenza ControllerView data integrity and control platform to power its new regulatory platform for financial, risk, capital and liquidity reporting.

ControllerView sets to address Basel-driven capital requirements, European Banking Authority (EBA) liquidity and capital standards, in addition to local financial reporting requirements.

Adenza says the platform draws data from across its operation to streamline the management of reporting obligations and enhance data harmonisation across the organisation.

Speaking on the announcement, Mette Ingeman Pedersen, group chief financial officer a Saxo Bank, says: "As financial sector regulation continues to grow, both in terms of scale and complexity, it was critical that we deploy a risk and regulatory platform that allowed us to harmonise regulatory solutions across our global organisation, while also gaining operational efficiency and flexibility.

"By working with Adenza, we will ensure that our risk and regulatory reporting capabilities are equally advanced and capable of scaling with us globally as we continue to grow."

Imad Abou Haidar, UK, Nordics and CIS regional head of sales at Adenza, adds: "The ControllerView solution is such an ideal fit for Saxo Bank, because it allows the institution to address all of its regulatory reporting needs today and in the future from a single, highly flexible platform.

"By delivering a complete, vertically integrated risk calculation and reporting solution, we have given Saxo Bank a single source of truth that delivers consistency and reliability in a constantly-changing regulatory environment."

Broadridge forms agreement to provide joint connectivity with FIS

Broadridge has announced an agreement to provide joint connectivity with FIS' Securities Lending Processing Platform.

The agreement will allow mutual clients to benefit from straight-through processing (STP) between FIS' platform and the recently launched Broadridge Securities Finance Transaction (SFT) Submission Service.

Clients can access the STP service for new trades and trade lifecycle transactions, which is expected to provide clients with a "light touch, streamlined onboarding process and, therefore, faster time to market".

Broadridge's service will provide submission services for the National Securities Clearing Corporation (NSCC) SFT Clearing Program, which is currently awaiting regulatory approval.

In January 2021, Broadridge partnered with the Depository Trust and Clearing Corporation (DTCC) to become an approved SFT submitter for the NSCC SFT Clearing Program.

The proposed new NSCC service is to support central clearing and settlement services for overnight borrows and loans of equity securities.

Speaking on the recent news, Darren Crowther, general manager of securities finance and collateral management (SFCM) at Broadridge, comments: "We are delighted to be working together with FIS to mutually benefit our clients and simplify the trade submission process using the newly established data sharing arrangement.

"Our clients will benefit greatly from this agreement, and we hope it will help encourage firms to take that step and join the new NSCC service."

J.P. Morgan processes transaction settlement using tokenised MMFs as collateral

J.P. Morgan has settled its first transaction using tokenised money market funds (MMFs) as collateral.

To support this collateralised trade, J.P. Morgan has released a new application on its Onyx Digital Assets blockchain, enabling trading participants to transfer tokenised MMF shares on blockchain as collateral.

Both collateral provider and collateral receiver must be present on this blockchain-based application, which is known as the Tokenised Collateral Network (TCN).

This facility enables participants to transfer ownership of the collateral without the need to transfer the underlying asset (in this case the MMF securities).

A J.P. Morgan spokesperson told SFT that international asset manager BlackRock has been centrally involved in the development of this tokenised collateral initiative since its early stages. However, BlackRock was not a counterparty in this initial transaction, which J.P. Morgan believes to be the first globally to use tokenised MMF shares as collateral in a blockchain-based transaction.

The TCN is now live and participants can transfer tokenised MMFs shares as collateral from today.

Following this successful execution of a collateralised trade using tokenised MMF shares, J.P. Morgan plans to expand this model to enable transfers of tokenised equities, fixed income securities and other assets as collateral.

"Our plan is for this [MMF] transaction, and the development of our tokenised collateral application, to act as a blueprint for the future," says the spokesperson.

The US-based bank has integrated its blockchain technology with traditional transfer agency and collateral systems, enabling institutional investors and asset managers to post a wider range of assets as collateral.

This release follows the development of J.P. Morgan's intraday repo service on Onyx blockchain that completed its first live transaction between its broker-dealer and banking entities in December 2020. This has now processed more than US$300 billion of repo transactions since its release, according to J.P. Morgan.

Onyx, J.P. Morgan's suite of ethereum-based blockchain solutions, was launched in 2020, providing a new business unit to scale and commercialise blockchain innovation. Shortly afterwards, the company launched a new digital asset platform, Onyx Digital Assets, that enables tokenisation of traditional assets and delivery-versus-payment (DvP) or free of payment (FoP) transactions to be conducted with these assets.

The tokenised collateral application was developed jointly between J.P. Morgan's Collateral Services team and Onyx.

Commenting on the project, J.P. Morgan global head of trading services Ben Challice says: "The collateral ecosystem is becoming ever more complicated, and mobilisation of collateral throughout the ecosystem is of critical importance. Across the industry, physically settling assets in order to meet collateral obligations using ageing infrastructure has become intensive from a financial and human capital perspective. We can now offer participants the option to transfer money market fund units as collateral in tokenised form, increasing the liquidity of this asset class.

"This is a big moment for the collateral industry as it demonstrates that the technology works with an asset class that has been hard to transfer historically, and we look forward to expanding the tokenised asset pool rapidly."

Tyrone Lobban, head of blockchain and Onyx Digital Assets (ODA), comments: "The launch of the tokenised money market fund solution is a breakthrough moment for the industry. Not only does it once again highlight the value that blockchain and tokenisation can bring through moving assets at the speed of email, but it shows the flexibility, scale and diversity of the Onyx Digital Assets platform.

"The first application on 'ODA' focused on providing innovative intraday financing solutions through repo agreements. This second application opens up the universe of assets that can be posted as collateral, reduces cost and improves settlement. This is a step-change for dealers, asset managers and the broader collateral market."

J.P. Morgan says that tokenising traditional assets has the potential to substantially reduce settlement fails, to provide near real-time change of ownership, and to release trapped assets to help participants to maximise utilisation across their asset holdings.

Ben Challice talks to Bob Currie about the development horizon for J.P. Morgan securities finance and collateral services in SFT Issue 300.

Donato D'Eramo
Head of securities finance
RBC Investor & Treasury Services

A positive outlook

Donato D'Eramo, head of securities finance at RBC Investor & Treasury Services (RBC I&TS), speaks to SFT about his team's projections for Canada's securities lending market, its commitment to data innovation and CASLA's regulatory focus for the year ahead

How do you assess the current outlook for Canada's securities lending markets?

At RBC I&TS, we expect the positive outlook to continue for securities lending markets overall. This will manifest itself through two main themes: continued new market expansion and developing demand for new routes to market. Both are linked to the current macroeconomic environment and refinements that clients are making to their lending and collateralisation strategies in this context.

New markets will continue to offer incremental revenue opportunities for beneficial owners. We are focused on markets that will deliver higher intrinsic value, as opposed to general collateral (GC) demand. Over the past year, we have entered new markets for clients in Taiwan, Poland, Israel and Czech Republic.

Developing demand drivers may be the more interesting theme for clients and we are noticing a number of ongoing developments that impact client behaviour. As central banks shift to quantitative tightening and a rising interest rate environment, this will translate into stronger demand for the fixed income segment, particularly for high-quality liquid assets (HQLA) and term structures for clients that have the risk appetite and regulatory capabilities to monetise this demand. Alongside term demand, we see growing demand for 'on the run' government issues, which will translate into increased 'specials' activity and returns for clients.

We also see positive sentiment in the equity and corporate bond segments, particularly around opportunities to capture intrinsic value. The corporate bond segment has been a strong performer, along with directional demand in the equity segment. Much of this demand is the result of fundamentals, improving M&A activity overall, and growth in optionality events.

What are the strategic priorities for RBC I&TS agency lending for H2 2022 and into 2023?

One of RBC I&TS' strategic priorities is to ensure that our clients have access to the data and information necessary to evaluate and capture the emerging demand opportunities that I have highlighted. We have a keen focus on providing digital solutions for our clients. One example is the recent roll out of securities lending dashboard analytics for clients. Beneficial owners are increasingly looking for data insights to support their lending strategies, whether this is to support revenue analysis, regulatory oversight or ongoing developments of their ESG direction of travel.

In parallel with this data strategy, we are focused on delivering exemplary standards of client service. This involves high-touch connectivity with clients, enabling the ongoing transfer of market and technical information as opportunities arise. As mentioned, the demand drivers presented by corporate bond and corporate action optionality are an important determinant of programme performance and serve as a differentiator for clients, becoming increasingly important as GC revenue becomes a smaller contributor to overall returns for clients.

These advances in data management and client service are creating greater transparency for our clients, enabling them to make quicker decisions and to extract optimal value from their lending opportunities. This data transparency is also important in supporting clients' appetite for customisation, driven by regulation and other factors.

On balance, we continue to see growth in supply via various routes to market — ranging from specialist to generalist approaches from the client base — and our agency lending product offers the scope to support a wide range of client mandates. As noted, we continue to see growth in mandates focused on intrinsic value for clients that may not want exposure to GC markets. Some client mandates are highly sensitive to meeting liquidity parameters, particularly in the context of recent regulatory changes (for example, the Central Securities Depositories Regulation in the European Union), which are having significant impact on settlement liquidity. In other situations, we are providing guidance to clients on the potential impact of the proposed SEC 10c-1 regulation (relating to the Securities and Exchange Commission's proposed trade reporting regime for securities lending transactions) and the potential transition to T+1 settlement as the proposed next-day settlement regime for US and Canadian markets.

To enable clients to optimise opportunities focused on intrinsic value, we have developed a 'try before you buy' option. In parallel with our data transparency strategy and the provision of high-touch connectivity, our offering provides prospective clients with the ability to engage in one-off securities lending transactional opportunities. This facility has been successful in enabling clients to take ownership of the decision on a transaction-by-transaction basis, without engaging in a full discretionary mandate.

With respect to collateral preferences, we continue to see a growing appetite for non-cash collateral, which currently represents over 60 per cent of the global agency lending market. In this regard, the US remains a significant outlier as a predominantly USD cash collateral market. Given the importance of non-cash collateral, against a background of quantitative tightening and rising interest rates, the appetite for collateral transformation continues to be important for clients with a risk tolerance that allows them to widen their collateral schedules. This trend is particularly important in Canada, which is predominantly non-cash collateral rather than a USD cash collateral market.

More generally, RBC I&TS observes strong lending growth activity in a number of other areas of the securities lending market in Canada. There has been tangible expansion in exchange-traded funds (ETF) lending, driven by a mix of outright directional, spread strategies and hedging strategies. The cannabis sector also continues to attract borrower demand as the legalisation debate progresses in the US.

As a CASLA director, what have been the priorities within the association in managing regulatory change, in promoting digitisation and standardisation initiatives, and in supporting sustainable lending?

At the Canadian Securities Lending Association (CASLA), the Tax & Regulatory committee recently submitted a letter of support to the US SEC backing the submissions of the Risk Management Association (RMA) and the Securities Industry and Financial Markets Association (SIFMA) regarding proposed Rule 10c-1. This was viewed with high importance, given the potentially wide-ranging scope of Rule 10c-1 for CASLA members.

As and when further details of the SEC's proposal are released, CASLA will continue to work with members and relevant industry associations given the significance of this regulatory change in the region. The change to T+1 settlement is of comparable importance. CASLA representatives sit on both the Canadian Capital Markets Association's (CCMA's) Operations Working Group and Communications & Education Working Group as the industry works towards a 2024 implementation of T+1, the same as in the US. Given the rising importance of ESG in securities lending, the Global Alliance of Securities Lending Associations (GASLA) was established in 2021 to address common issues that we face around ESG, including governance models, collateral management and transparency improvements. CASLA was one of the founding members of this global association.

GASLA has already proven to be a productive forum, publishing a best practices guide on proxy voting, for example, and now working to advance the Global Framework for ESG and Securities Lending (GFESL). Given the importance of ESG, GASLA's work to bring standardised models to the industry is essential in supporting sustainable lending practices.

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Canadian securities lending panel: a view from Toronto

Canada-based securities lending specialists speak to SFT about the market outlook, technology, sustainable lending and what will drive their development expenditure moving into 2023

Panellist

Mary Jane Schuessler, director, equity finance, global equity products
BMO

Rob Ferguson, chief capital markets officer
CIBC Mellon

Jack Herron, vice president, equity trader, agency securities finance
J.P. Morgan

George Trapp, senior vice president, head of business management NA, securities finance
Northern Trust

Kyle Kolasingh, director, securities finance
RBC Investor & Treasury Services

Chelsea Grossman, vice president, head of securities finance client management and business development, Canada, State Street Global Markets

How do you assess the performance of the Canadian securities lending market over the past 12 months? What have been the key trends driving loan balances, utilisation and revenues?

Mary Jane Schuessler: The current environment has been challenging, given market fluctuations, the continued impact of the COVID-19 pandemic and the heightened risk environment. At BMO, the focus continues to be on our clients and helping them to navigate through these times. A key element, as we have returned to the office over the past few months, has been on reconnecting with our clients — especially face to face if possible.

As a prime broker, it is important to understand our clients' challenges, as well as their needs, to grow their business. BMO has been building a fully integrated cash and synthetic prime brokerage platform in the United States. This platform will serve as the hub to BMO's global investor franchise and represents a unique opportunity to leverage

BMO Capital Markets' (BMOCM's) existing product offering, while enhancing digital touchpoints with clients via the ongoing expansion of Clearpool execution capabilities.

Jack Herron: The Canadian securities lending market performed well this past year as general collateral and specials activity increased. Demand was strong for securities in the cannabis and electric vehicle sectors. Borrowers are directing trades to lenders that can support a variety of collateral options, have depth of inventory and optimal pricing. Automation remains a key component. Borrowers are keen to receive accurate and highly detailed availability feeds. They require the ability to automatically and efficiently execute trades on the back of these distribution lists. Integration with third-party vendors, to assist with loan and return settlements as well as book management, has been very successful this year.

Chelsea Grossman: As we moved into the second half of 2021, we began to see short-interest pick up in the energy and mining sectors, as well as spikes in demand for companies in the alternative-financing market in anticipation of rising interest rates. This was a shift from the first half of the year, where the focus was on exchange-traded funds (ETFs) and dividend trades in the equity market and government bonds on the fixed income side — although those continued to contribute. While these trends have persisted into 2022, the focus shifted in February to the Russia-Ukraine conflict and the resulting market volatility, which particularly affected Canadian firms with exposure to Russia. This resulted in stronger demand for oil and mining-related firms, specifically gold mining firms.

For Canadian lenders holding global equities, those who owned the IPOs or M&A-related positions that arose from the US — which picked up significantly in H2 2021 — saw a boost in returns. In recent months, borrow interest has also been positively affected in electric vehicles, restaurants, technology and cryptocurrency companies, corresponding to sell-offs owing to poor market performance. Generally, these factors have contributed to a year-over-year increase in earnings throughout our Canadian lending programme for 2022 so far.

Rob Ferguson: The Canadian securities lending market has maintained high standards of risk management and service delivery in 2021, providing an optimistic light at the end of the tunnel. The challenges of adapting to new regulations, evolving technologies and the push for further integration of environmental, social and governance (ESG) principles have been prominent in shaping the market over the past year. Collateral diversification and the ability for an agent lender to pivot between preferred borrower collateral types has also been a recent driver.

In Canada, there has been an uptick in term loans in the programme, including transformation trades, as the Office of the Superintendent of Financial Institutions (OSFI), our federal banking regulator,

"Many signs point to softer times ahead as both the cannabis sector and the SPAC space continue to face headwinds. From a data standpoint, on loan equity balances have remained consistent while fixed income on loan balances are up more than 20 per cent"

***Mary Jane Schuessler**, director, equity finance, global equity products, BMO* required the Canadian chartered banks to start reporting Net Stable Funding Ratio (NSFR) at the end of 2020. Canadian dealers are also solving for Liquidity Coverage Ratio (LCR). These regulatory requirements have resulted in an increased reliance on securities lending activity as a liquidity tool. Furthermore, Large Exposure/ Counterparty Credit Limits (SCCL) have pushed agent lenders to further diversify their borrower base, as well as considering other routes to market such as utilising a CCP. This has also highlighted the cost of indemnification for agent lenders.

Kyle Kolasingh: When you look at the performance of the Canadian securities lending market, the past 12 months have been muted compared to 2019 and 2020. However, recent events and evolving market conditions offer signs of improvement. During 2021, the market for Canadian equity specials continued to lag pre-pandemic levels. A number of transient opportunities emerged, but these are not having the same magnitude or persistence as previously seen with the cannabis sector.

In contrast, the market for ETF borrowing generated significant revenue in Canada and the US, albeit due to different drivers. US ETF demand tends to be driven by hedging activity against increasing interest rates, while demand in Canada is typically generated by hedging against broad-based market volatility. This has been particularly noteworthy for Canadian fixed income ETFs, specifically in the high-yield space. Ongoing central bank efforts to quell inflationary pressures via interest rate increases and quantitative tightening have resulted in persistent upticks in the demand for government assets. Since the start of 2021, we have seen demand in this category of Level 1 assets steadily increase, particularly in term structures. This was initially on a 35-day basis, but more recently has extended beyond 95 days.

George Trapp: Demand has continued to be relatively consistent despite the extreme volatility in the market. On the equity side, geopolitical tension created heightened volatility in the markets. As a result, hedge funds looked to de-gross their exposures (cover shorts and sell long positions) resulting in softening borrower demand.

As equity markets declined and hedge funds sold long holdings, borrowers had less access to non-cash collateral financing opportunities. As a result, equity balances versus non-cash collateral dropped as borrowers resorted to using alternative forms of collateral (particularly cash) to source borrows.

Key drivers in generating revenues have been market sectors that have prompted strong borrower demand, including electric vehicles, space infrastructure and fintech. Many of the targeted companies have come to market through Special Purpose Acquisition Companies (SPACs). Additionally, index tracking and high-yield ETFs remained a good source of borrower demand during the year. Dividend record dates, as well as heightened market volatility, also played a large part in driving underlying demand.

On the fixed income front, central bank rhetoric turned hawkish as inflationary concerns took hold, prompting measures to smooth the exit from emergency pandemic support. Central banks have been aggressive in increasing rates and costs to borrow money.

US and CAD treasuries, gilts and European sovereigns remain in demand as central banks taper asset purchase programmes. Corporate bond demand remains robust, given interest rate expectations, while concerns of a slowdown in China, alongside surging energy and commodity prices, are leading to increased activity for emerging market assets. Regulations including the NSFR and Uncleared Margin Rules (UMR) will maintain demand of HQLA, such as CAD and US treasuries and gilts, particularly in term exposures versus equity collateral. Strong demand centred around the Canadian government bond benchmark issues, as well as HQLA collateral upgrade trades in both the term and open space as borrowers continued to focus on more effective balance sheet maintenance.

Clients with greater collateral flexibility will benefit the most as borrowers seek to pledge non-cash collateral, including Japanese government bonds (JGBs), equities, and ETFs.

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

Herron: J.P. Morgan has invested heavily in our Agency Securities Finance proprietary trading, analytics and reporting platform. Our sales team targeted Canadian availability, we added counterparts, increased automation and collateral options. Smart bucketing has been a key theme over the past year. Borrowers are constantly evaluating their book and directing loans to best fit their balance sheet. Smart bucketing has created an option for the lender and targeted borrower to optimise their book using automation. Our increase in collateral options provides flexibility to borrowers, which are able to insert these new schedules into their existing smart bucketing and autoborrow schedules.

Kolasingh: Our primary focus over the past year has been on unlocking new inventory via expanded markets, digitising the client experience and making it easier for counterparties to transact with us — all the while continuing to deliver sustainable value despite a somewhat lacklustre market for Canadian assets. We have opened new markets, including Taiwan, Poland, Israel and the Czech Republic, and ongoing efforts are underway to further expand our market coverage. While the specials market has been suppressed in North America and Europe since early 2020, the Asia-Pacific region, particularly Taiwan, experienced significant revenue growth following the lifting of short-selling bans. We have also completed extensive work to make it easier for counterparties to transact with us, expanding our tri-party agent capabilities and acceptable collateral sets, as well as rolling out the ISLA/GMSLA pledge model arrangements.

Grossman: In terms of clients, ensuring lenders are engaged in their programme has been key, especially as regulatory headwinds persist. Periodic reviews, to ensure our clients are aware of how they can expand their programmes and make themselves more attractive to the borrowing community, have also been important — for example in terms of expanding acceptable collateral. Listening to the evolving needs of our clients, and adjusting our offering based on State Street's interconnected product set, has been successful in demonstrating State Street's ability to solve for their various changes in strategy. For example, the growth of our Direct Access peer-to-peer lending programme and the introduction of Peer Repo have gained traction among Canadian public fund and pension clients, allowing for increased lending rates and additional distribution channels from Direct Access, and as well as additional repo capabilities from Peer Repo.

Trapp: Working specifically with clients on collateral flexibility, and offering specific trade opportunities for term or open activity, is key to helping our clients achieve their goals. With the increased volatility, risk management has been at the top of our list to ensure that all exposures are fully understood by our clients. A good example is with the recent sanctions and restricted trading in Russian securities.

Ferguson: Our global enterprise has seen clients looking for more integrated capabilities across our parent companies – bringing in global data solutions, or local market correspondent banking, for example, and helping clients to access markets.

Technology is being applied more widely to further automate securities financing transactions. Participants are looking for more automation, greater transparency into investment activities, and flexible and timely access to data – all the while respecting and navigating a rapid rise in regulatory and market complexity.

"The next generation of securities lending continues to work toward improved modelling, predictive analysis and implementing artificial intelligence within securities lending programmes"

***Rob Ferguson**, chief capital markets officer, CIBC Mellon*

The impact of greater automation and technological innovation is consistent with the broader themes: more efficient, effective and transparent investment operations, and, ultimately, stronger optimisation outcomes for clients. From the first straight-through processing to today's data-driven investment operations, these themes have been running for decades.

Which regulatory initiatives will consume most attention for your agency lending and collateral management teams over the coming 12 months?

Ferguson: Regulatory requirements continue to drive and shape the demands and needs of the borrowers, with agent lenders adjusting to these ever-changing needs.

The borrowing community is solving for regulatory initiatives including LCR, which is the proportion of HQLA held by financial institutions to ensure their ongoing ability to meet short-term obligations, and NSFR, which is the liquidity standard requiring banks to hold enough stable funding to cover the duration of their long-term assets. As a result of such requirements, we have seen an influx of term loans including Government of Canada bonds, US treasuries, and provincial debt. We have also seen an increase in demand for transformation trades as borrowers look to upgrade lesser forms of collateral such as equities for HQLA.

On the back of the Archegos collapse and the rise in meme stocks, regulators have looked to increase transparency around short sale reporting, short interest reporting and securities lending transaction reporting.

Furthermore, last year the Securities and Exchange Commission (SEC) proposed new securities lending reporting requirements under SEC 10c-1, which would require lenders of securities to provide the material terms of securities lending transactions to a registered national securities association. On 25 February 2022, the Commission proposed Rule 13f-2 which is designed to provide greater transparency through the publication of short sale-related data to investors and other market participants. The Commission briefly reopened the comment period for proposed Rule 10c-1 so that commenters could consider whether there would be any effects of proposed Rule 13f-2 that the Commission should consider in connection with proposed Rule 10c-1.

Trapp: The SEC's proposed 10c-1 rule would require that persons "that loan a security on behalf of itself or another person" disclose the terms of such transactions to a registered national securities association, namely the Financial Industry Regulatory Authority (FINRA). The disclosed information would include information about the security, terms of the transaction and must be provided to FINRA within 15 minutes of the transaction. While the goal of the proposal is to improve transparency and provide clear and timely access to pricing and other material information, the proposal may have some

"Working specifically with clients on collateral flexibility, and offering specific trade opportunities for term or open activity, is key to helping our clients achieve their goals"

***George Trapp**, senior vice president, head of business management NA, securities finance, Northern Trust*

unintended consequences, including reducing lender participation in securities lending trades, increasing use of synthetic trades, and creating potential for increased cybersecurity risk as sensitive data fields are collected in centralised databases. This may result in lower lending revenues for agents, broker-dealers and clients, or the possibility that they withdraw from securities lending activity.

In parallel with these developments, a proposed relaxation of SEC Rule 15c3 could trigger a profound shift in the way US firms look to optimise their non-cash asset base. This rule currently prohibits US banks and broker-dealers from providing equities as collateral against securities finance transactions. Having said that, we have been waiting for this change for over 10 years, so this does not appear to be a priority given the recent introduction of Rule 10c-1.

Kolasingh: With much of the heavy-lifting of the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR) behind us, focus has shifted to the SEC's proposed new Rule 10c-1 on transparency and the upcoming Canadian and US market infrastructure change to T+1 settlement in 2024. SEC 10c-1 is of particular interest, given that it is a significant reporting regime for the region and, together with the proposed Rule 13f-2 on short-selling disclosures, is likely to have a significant impact on Canadian beneficial owners and the Canadian lending market. However, it is too early to make a definitive impact assessment as the industry awaits finalisation of the proposed rules.

In addition, T+1 will be at the forefront of many initiatives well into 2023 based on its direct effect on securities finance — similar to the switch from T+3 to T+2 in 2017. Canada's move to T+1 is being led by the Canadian Capital Markets Association (CCMA) and aligns with the US T+1 implementation plan, given the significant market interconnectivity.

And which initiatives focused on standardisation, digitisation and technology enhancement?

Grossman: Technological advances year-after-year continue to be key to our growth strategy. Further automation of internal operational processes — for instance those focused on addressing sell settlements in light of CSDR implementation — have been crucial in creating trading efficiencies and reinforcing the focus on strategy and trade optimisation. We have invested significantly in our platforms over the past few years which, on top of improving connectivity internally, has enabled us to offer greater flexibility in creating and maintaining highly customised client programs.

Ferguson: As an industry, we are continuously looking to improve the efficiency and resilience of our markets. Standardisation, digitisation and governance will remain key focus areas.

Canadian and US market stakeholders, including US and Canadian central depositories, CCMA and industry participants such as CIBC Mellon, have begun work designed to shorten the settlement cycle

"We have opened new markets, including Taiwan, Poland, Israel and the Czech Republic, and ongoing efforts are underway to further expand our market coverage"

***Kyle Kolasingh**, director, securities finance, RBC Investor & Treasury Services* in Canada from T+2 to T+1. CIBC Mellon is playing an active role in consultations that are taking place across the industry in the lead up to implementation.

We anticipate more pressure is in the warm and hard-to-borrow space. Often, the agent lender will receive the sale notification either late in the day or even on the following day, resulting in the recall being processed a day late. Under T+1, this would result in the recall being sent out on a T+0 basis without giving the borrower time to source additional supply elsewhere or to buy back the position.

Agent lenders may have to hold back larger buffers to accommodate late sales in less liquid names, thereby reducing maximum revenue generation on the total position. The industry as a whole may need to look to modify deadlines for accepting and processing recalls, which may need to be extended into the evening. Beneficial owners will be required to explore ways to provide notifications more efficiently to their agent lender, whether that is through automation or some sort of improved batch facility.

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

Schuessler: During the past two years, CASLA has launched several committees to foster deeper collaboration amongst its member firms. These committees are Tax & Regulatory, Engagement and Conference/Events. In February 2022, CASLA kicked off the first educational session with Steve Everett (head of business strategy and innovation at CDS, the Canadian CSD) and Nick Short of HQLA^{X}, discussing the application of distributed ledger technology, the mobility of assets in a future technology driven ecosystem and its bearing on the securities lending industry. The tax and regulatory committee has been involved in supporting industry comments on SEC's proposed Rule 10c-1 and an active participant in T+1 discussions led by CCMA and the Bank of Canada fails regime.

In November 2021, CASLA also joined a newly formed Global Alliance of Securities Lending Association (GASLA) to provide a single voice across global securities lending markets advocating for transparent and standardised practices, with ESG as a key tenant.

Kolasingh: In 2020, CASLA established a number of committees to foster increased collaboration among members. The Engagement Committee was set up to expand our membership base and industry touch points — locally and internationally. As noted, CASLA was also a founding member of the Global Alliance of Securities Lending Associations (GASLA). One of GASLA's key objectives is to assist with the adoption of standardised ESG practices that safeguard the long-term sustainability of our industry and ensure that beneficial owners are able to exercise their ESG mandates. To date, a voting best practices guide has been published and we are working towards publishing a refreshed Global Framework for ESG and Securities Lending (GFESL). CASLA recently launched a dedicated ESG section within our website, including links to the voting guide and numerous other resources.

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

Kolasingh: Data accessibility is top of mind for our beneficial owner clients as they set out to implement their ESG policies. Ensuring that securities lending activities align with lenders' ESG policies is key, and access to quality data forms the crux of any informed strategy and policy execution. To this end, RBC I&TS has been focused on digitising our end-user capabilities, including the launch of "SL Analytics," our comprehensive data visualisation tool that provides a one-stop view of beneficial owners' securities lending activities — including inventory, lending activity, collateral and revenue attribution. Valuable data is readily available to assist beneficial owners in making informed decisions pertaining to their invested assets, including ESG.

Following recent geopolitical stresses, the focus of programme parameter changes was less about ESG compliance and more to do with government and regulatory investment requirements, as well as the incorporation of new risk management considerations into lending programmes. As the move towards a sustainable economy continues, there is certainly room for beneficial owners to adopt similar parameter changes under an ESG lens in the future — if they are not already doing so — rather than being prompted by risk or regulatory governance considerations.

Herron: Client satisfaction is a top priority for our Agency Securities Finance team and we offer full customisation for our customers. With this in mind, we identify greater opportunities to partner with clients to deliver thought leadership and to tailor a lending programme to their needs. For example, clients need to be able to restrict specific assets or asset types for a defined period of time — and, when recalls are issued, loans must be returned in a timely manner. Clients are also very aware of their sales settling on time. Sale volumes have increased as a result of the global sell-off caused by the Russia-Ukraine war, global inflation, supply chain constraints, and the COVID-19 pandemic. Trade settlements have been a challenge throughout the industry. We have responded by increasing oversight tools, proactively working with borrowers, altering trading behaviour when appropriate, and increasing staff in certain operational areas.

Additionally, our Agency Securities Finance business has a dedicated quantitative research team that constructs analytics, pricing and models. Under the sustainable lending focus, we have leveraged their abilities to provide detailed analysis to clients to dispel the notion that securities lending "feeds the shorts". Internally, our trading team can utilise their analysis to highlight patterns, opportunities and inefficiencies. In short, the combination of our people and technology remain focused on the client experience inclusive of their demand for ESG-compliant lending solutions.

Ferguson: According to new and forthcoming research from CIBC Mellon, ESG is the one of the most important factors impacting asset owners in Canada in the years ahead. We expect the rising focus from beneficial owners on these material non-financial factors will continue to drive change in behaviour and demand as those organisations apply their ESG strategies across their investment activities, including securities finance. We are continuing to stay close to our clients as we continue to evolve our programmes, technology and service offerings to meet their changing needs.

Trapp: Sustainability is a core element of ESG investing, and securities lending is important as it brings liquidity to capital markets generally, and enhanced returns to investors who lend. As such, it is important for all parties to understand how firms can integrate their lending programmes and their approach to ESG.

Recent industry surveys, including "RMA Survey Finds ESG Investing and Securities Lending Can Coexist" (Oct 2020), have shown that "ESG principles and securities lending can co-exist and be complimentary, not conflicting." Typically, governance is reflected in policies on proxy voting that align with the corporations' goals. Proxy voting on behalf of the beneficial owner, with the ability to recall ahead of meetings, is key.

Collateral has also come into focus, both on the cash and non-cash collateral side. Collateral can be customised within guidelines to meet specific ESG needs. However, there is a balance between collateral restrictions and what the borrower community is willing to actively manage or pledge. Northern Trust works with clients and borrowers to explain the balance and help the client achieve their best outcome based on their priorities.

"Smart bucketing has been a key theme over the past year. Borrowers are constantly evaluating their book and directing loans to best fit their balance sheet. Smart bucketing has created an option for the lender and targeted borrower to optimise their book using automation"

***Jack Herron**, vice president, equity trader, agency securities finance, J.P. Morgan*

Schuessler: We are in a time of heightened uncertainty, as well as in an inflationary period we have not seen in over 30 years! Given the securities lending market looked quite different 30 years ago, it is very hard to say just what the coming year(s) will bring.

Many signs point to softer times ahead as both the cannabis sector and the SPAC space continue to face headwinds — both of which were strong drivers of securities lending revenue in the past few years. From a data standpoint, on loan equity balances have remained consistent while fixed income on loan balances are up more than 20 per cent.

There are also opportunities in Canada as we see more interest in the crypto space and additional players in Fully Paid Lending programmes adding supply.

Grossman: As clients determine the ESG criteria they want to adhere to more broadly across their firms, there is an increasing expectation that their securities lending programmes will be able to align with those mandates. With that, we have been working to increase our flexibility on all sides of the lending trade regarding recalls for proxy voting, creating ESG-friendly collateral sets and having cash-reinvestment funds with ESG considerations. It is important to our clients that lending and ESG can co-exist. Consequently, prioritising the topic within our programme provides a level of comfort to clients that we understand their concerns and are willing to work with them to meet their needs. While recent market conditions and geopolitical events have brought conscious investing further into the spotlight, and have generated further inquiries around how lending programmes can be adapted for ESG, we find that the majority of clients are still getting a handle on which components they deem material enough to change.

How do you assess the outlook for the Canadian securities lending markets for the remainder of 2022 and into 2023?

Grossman: Based on experience from the past few years, we are cautiously optimistic about the near future of the Canadian securities lending market. We have seen that extreme market events, such as the COVID-19 pandemic and the Russia-Ukraine conflict, can certainly pose challenges to generating revenues. However, there have also been positive themes throughout this period as the market continues to adjust to its surroundings. For our Canadian lenders, lendable assets have increased 13 per cent year-over-year from April 2021 to April 2022.

Apart from market value appreciation, clients continue to add funds and we have seen a strengthening of our pipeline, both signifying continued interest in the programme. We are also hopeful that short-interest themes will continue in sectors impacted by the constantly evolving market events, as our clients continue to turn to their securities lending programmes for a positive revenue stream to their funds.

Trapp: Northern Trust remains cautiously optimistic as we approach

"In recent months, borrow interest has also been positively affected in electric vehicles, restaurants, technology and cryptocurrency companies, corresponding to sell-offs owing to poor market performance. Generally, these factors have contributed to a year-over-year increase in earnings "

***Chelsea Grossman**, vice president, head of securities finance client management and business development, Canada, State Street Global Markets* the second half of the year. Securities lending remains an integral part of the capital markets business. The trend we find most notable is the level of sophistication and engagement we have seen from our clients as they look to generate incremental revenue from their portfolios. Northern Trust believes that securities lending will continue to be a positive contributor to revenue, both for the bank and for clients in our securities lending programme.

Currently, overall demand remains moderately strong for securities lending in Canada, with utilisation and on loan balances continuing to grow significantly. Fixed income balances account for most of that increase. Demand has waned somewhat for sourcing general collateral securities. We expect continued volatility in global commodity prices, furthering directional short interest across the oil and mining sectors. We expect also to see dividend yield enhancement and dividend reinvestment trades continue to provide a steady revenue stream throughout the remainder of the year.

A few areas that beneficial owners will want to keep an eye on are collateral expansion, term structures and emerging markets. While we have discussed collateral and term above, emerging markets continue to be an important source of securities lending revenue for beneficial owners. Northern Trust, through our global network of borrowers and trading desks, provides market expertise and access to securities lending in both the developed and emerging markets.

Kolasingh: We maintain a positive view of the Canadian securities lending market. Although intrinsic value in Canada's equity market has been relatively muted year-over-year, signs of a pick-up are on the horizon. Increased market volatility so far in 2022, and the corresponding rise in oil prices, have primed the energy sector for potential value in the specials space. Additionally, early H1 activity in the cannabis sector could carry forward and potentially increase with further moves toward legalisation in the US. This sector could once again provide valuable incremental opportunities for beneficial owners in the coming year, but perhaps not to the same extent as the pre-pandemic period.

Fixed income bears a slightly different track, but a similar outlook. As mentioned, we have experienced a fairly steady increase in demand for HQLA over the past 12 months, with particular emphasis on duration-based collateral optimisation trades. In addition, we expect continued demand for specials in the government bond space as quantitative tightening takes shape. We will be monitoring corporate bonds closely as the cost of borrowing rises and the corresponding impact on high-yield and near-high-yield securities intensifies. There is potential for value in this space, but it may require an increased risk appetite for some.

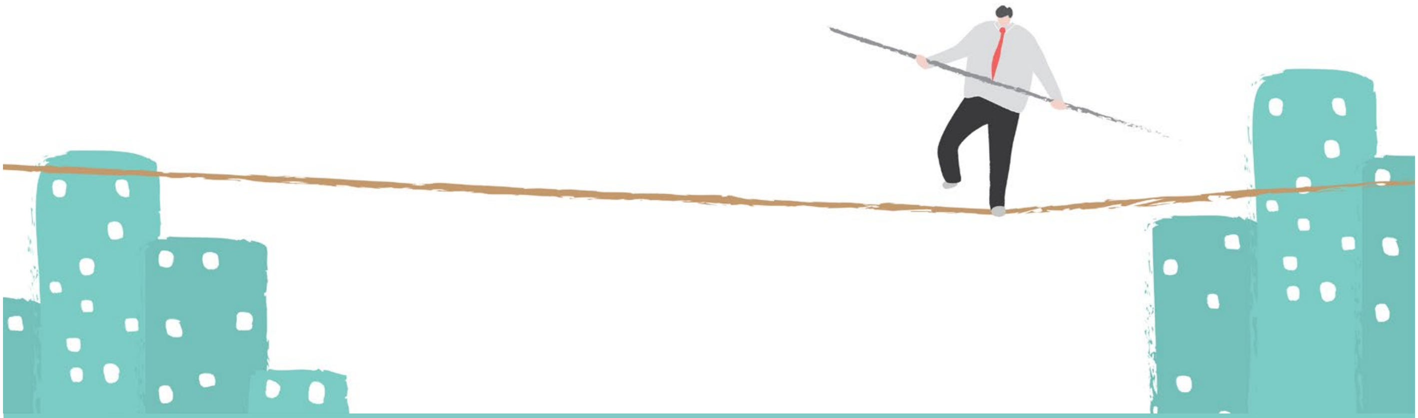
Herron: The outlook is positive for the remainder of the year and into 2023. Securities lending will have to adjust to a higher interest rate environment and continue to deal with the various ongoing geopolitical issues. However, as we have been dealing with these issues in 2022, and balances and demand increased throughout the year, we would expect to continue down this positive path. We continue to see new participants join the programme on the client and borrower side. Demand has also improved from our existing counterparts. As automation and borrowing options are expected to increase, we are forecasting a positive outlook going forward.

Ferguson: Market stakeholders will be watching central bank actions carefully around rates, quantitative easing and more. Collateral flexibility will remain a key focus. We also expect borrowers and lenders to continue to become more sophisticated, taking interest in data and reporting.

Canada is next to the world's largest, most liquid market and as a result we continue to place a premium on innovation, technology and resilience. Canada has earned many global market firsts – the first ETF, the first cannabis securities, the first psychedelics ETF, first publicly traded cryptocurrency funds, and more.

The next generation of securities lending continues to work toward improved modelling, predictive analysis and implementing artificial intelligence within securities lending programmes. Automation and efficiencies will continue to be prominent drivers in the foreseeable future as well.

Canada is blessed with large reserves of natural resources, a highly educated population and an engaged regulatory environment that works collaboratively with participants to help us achieve the highest standards for investors. Increasingly, Canada's diversity, burgeoning status as a technology hub and openness to immigration have helped our country rise as a destination for technology investment, digital talent and global capital seeking opportunity. The features that set Canada apart are also positive for our securities lending and finance markets. We expect that the same attributes that have driven our success will continue in the year ahead.



Cutting out the middleman

State Street's John McGuire, Goldman Sachs' Michael Slomienski and Hurricane Capital's Christopher Napoli discuss the integral relationships between prime brokers and hedge funds and how internalised borrowing is driving demand in agency lender programmes. Carmella Haswell reports

The IMN Beneficial Owners' International Securities Finance and Collateral Management conference took place in Arizona and hosted a stream of panels that discussed the biggest issues and latest trends impacting the securities finance industry. From an increasing demand for automation to the integral role central counterparty clearing (CCP) plays in the securities finance ecosystem, the annual conference also discussed the driving demands for prime brokers and hedge funds.

In the panel titled "A View of Demand: Prime Broker and Hedge Fund Perspectives", experts from Hurricane Capital, State Street and Goldman Sachs provide insights into what is driving demand in the sector, how peer-to-peer (P2P) lending is aiding the growth of prime brokers, hedge funds and beneficial owners, and what is expected from firms to enhance the relationships between these market participants.

Internalised borrowing

To advance the relationship between prime brokers and hedge funds, some firms are cutting out the middleman in terms of borrowing. This solution is driving more demand into agency lender programmes, benefiting all parties involved.

John McGuire, managing director and global head of business development at State Street, notes that the launch of the firm's Direct Access platform has allowed hedge fund clients to borrow directly from State Street's agent lenders. This tactic is beneficial to the prime broker side of the business as it allows "a great deal" of balance sheet flexibility.

According to Michael Slomienski, managing director of US securities lending at Goldman Sachs, prime broker internalised borrowing is what clients and prime brokers are continuing to focus on throughout 2022, as a way of operating more efficiently "in the face of many constraints". "The actual levels of internalisation achieved across dealers has been more correlated with actual leverage changes among clients and product mix," Slomienski continues.

"In our Direct Access platform, when we lend, beneficial owners are receiving better pricing, and, more importantly, better margin, which lessens the capital impact the lender incurs on the transaction."

McGuire explains. “The extra collateral that you are getting from a peer transaction really helps your agent lender deuce their capital requirements. So I look at peer-to-peer lending as a win-win for all parties involved.”

P2P lending serves incredibly well for the entire ecosystem, adds McGuire. Beneficial owners are getting more utilisation of their securities, prime brokers are receiving greater flexibility, and agent lenders are getting reduced capital. As for hedge funds, they continue to be more flexible, they are able to get better pricing in a peer transaction, because it eliminates a balance sheet in the middle.

Evidently, hedge funds are also seeing a level of internalisation, according to Christopher Napoli, COO of Hurricane Capital. He says: “At the same time, when you start to see markets act the way they have now, you start to say ‘markets are getting oversold, are those opportunities now deeper and wider than they have been?’” Napoli says these are usually indicators that end users are going to begin to increase the use of leverage.

According to Goldman Sachs’ Slomienski, prime brokers are facing several constraints in the market, which include risk-weighted assets (RWA), global systemically important banks (GSIBs) and balance sheets. Slomienski explains that there are ways that the beneficial owner community can partner with prime brokers to be nimble as capital constraints become pressing.

“We have recently launched a P2P lending platform where the prime broker removes itself as a principal in the transaction and the beneficial owner lends directly to the hedge funds,” Slomienski says. “This can be advantageous to the beneficial owner as there is an opportunity to increase portfolio utilisation and increase cash collateralised borrows. It is also beneficial to the hedge fund as their returns can be optimised without paying additional hard dollars.”

Enhancing partnerships

Enhancing the relationships between fellow market participants in the securities lending sector is a core focus for a number of firms. These partnerships have sparked new innovative technology, solutions to regulatory reporting requirements and improved services. The panel discussed how the market can better connect and what is expected from the community to help businesses thrive.

Goldman Sachs’ Slomienski strongly suggests that beneficial owners listen to their agent lenders and custodians in order to enhance their partnerships with prime brokers. He says: “You pay for their discretion, experience and their thought leadership. Listen to what they have to offer in the cash reinvest space and their ideas around collateral transformation.”

In terms of what is expected from the financing community to help businesses thrive in the sector, Hurricane Capital’s Napoli highlights that the route forward is through responsiveness and transparent dialogue with custodians and prime brokers. He says: “The more clear, concise and transparent you are with your prime brokers, the better they can service you.”

As a beneficial owner, State Street’s McGuire believes there are two key instruments at play when it comes to enhancing services to benefit broker dealers and end clients. The first is collateral flexibility, where different collateral types are treated differently under Basel from a capital perspective. Being flexible is important for your prime broker counterparty from a capital perspective. McGuire adds: “What you can do, when you take it, is very important. It is not controlled by beneficial owners, but your counterparty risk weight under Basel is important as well.”

The second key is indemnification. McGuire questions if indemnification is needed and if hybrid indemnification would afford more income and a better fee split. He adds: “From both our standpoints, if you are a beneficial owner, do you really need that identification against certain lending transactions? The agency lenders are all educated on this, and work with them. They have a strong desire for you to be flexible, but they want to get as many of your securities on loan as possible at the best price and act in your best interests.”

Discussing derivatives as a trend to find new sources of inventory, McGuire explains: “It is another flexible option that is available in the market, you are definitely going to want to explore it. At State Street, derivatives do solve some problems, they do not solve all problems. The more arrows you have in your quiver, the better you are going to be.” ■

Behind the technology curve

A drive in transformation and innovation is required to get ahead of the technology curve, where the securities finance sector is seemingly lagging behind. With a greater focus on tokensiation and native digital assets, pressure mounds on the sector to tackle data and automation issues. Carmella Haswell reports

As the securities finance industry travels down a clear path toward automation and standardisation, it is falling behind the technology curve in comparison to some other product areas. Technology has been key in catapulting the industry forward, but predictions estimate a turnaround within five years for the industry to catch up with the rest of the financial sector.

According to a "FutureTech" panel at the recent Securities Finance Technology Symposium, securities finance needs to move away from its traditional sentiment and allow new players to enter this "relationship business" and welcome new technologies.

David Shone, director of market infrastructure and technology at the International Securities Lending Association (ISLA), notes: "By becoming more efficient, embracing technology, and becoming smarter, quicker, and more cost effective, you will improve upon these relationships."

Currently, Shone is seeing sub-groups of people within ISLA's membership form use-case collaboration groups to look into specific issues. For instance, the Association has a trading working group which focuses on how to standardise and automate the process flow for evergreen and extendables. "Despite those products being around for a while, we did not have a standard legal agreement until just before Christmas, with the launch of the ISLA Master Confirmation Annex," explains Shone. "Once you put those standards in then you can start to automate."

Additionally, there is an increase in collaboration around the table. Taking a look at distributed ledger technology (DLT), Shone explains that groups of peers within the industry have begun to talk about what to do with DLT, digital assets and tokenisation, and how these technologies can aid the industry.

Similarly, Wassel Dammak, head of collateral solutions strategy at VERMEG, suggests that there is room to explore how technologies can help the industry cope with regulations such as the Central Securities Depository Regulation (CSDR) penalties, which have already impacted the current technology being seen on the market.

He says: "If we want to push it further and talk about T+1 and T+0, we also heard real-time settlement, instant settlement which we are beginning to see on the cash side for different ledgers. DLT and other technologies can assist this process, the technology will help to comply with those kinds of regulations in a quicker manner and will simplify the settlement and processes a lot."

Comparing the sector to other areas of capital markets — from how businesses transact to how the technology works — Martin Walker, head of product management, securities finance and collateral management at Broadridge, says securities finance is on the right track. However, areas including foreign-exchange and cash equities have been moving along in this direction for several years already.

"This ties in with familiar themes of electronic trading, standardisation of booking models and data, and using data a lot more intensively and, to an extent, replacing people in a lot of the decision making processes," Walker explains. "We are travelling along that path but we have been slower at moving along it than a lot of other asset classes. It is inevitable that we follow the direction of that path."

With regard to the vision that Broadridge has set its sights on, the firm has been focusing on how to automate the recalls process and convert it to be fundamentally more data driven.

EquiLend has made substantial investments in cloud and artificial intelligence, machine learning, big data capabilities — these are now in the past — now EquiLend is looking ahead to DLT and blockchain.

Chief information officer at EquiLend Ken DeGiglio comments: "The industry has done a lot and firms like EquiLend have helped a lot to make continuous improvement and incremental change. What is clear is that we need to drive transformation and innovation. It is not just technology — we need to adopt new work flows and paradigms.

"We do not know what the future of technology in securities finance is, but we can all agree that it is not going to stay the way it is today, because it cannot. Data is growing at an unyielding pace, the regulatory pressures are not dissipating, we are all forced by our stakeholders to bend the risk curve and cost curve down. Transparency is not going to be an option anymore; it is going to be a mandate. The desire for real-time quality data is going to be an imperative."

A measurement of success

VERMEG's Dammak explores collateral management as an operational area which has seen improvement over the past decade — predominantly driven by regulation. "We have seen increased automation of the various parts of the collateral lifecycle and good collaboration across the industry to improve efficiency." Dammak says.

Despite the discrepancies between the different asset classes and the fact that certain processes are in need of improvement in terms of automation, Dammak indicates that technology developments such as software-as-a-service and cloud open architecture with native APIs have been key to transform the collateral infrastructure and streamline the connectivity within the collateral ecosystem.

While the industry does not remain stagnant in its technology journey, when will the sector attain success in this domain and how can success be measured?

According to ISLA's Shone, "the measure of success from an industry body point of view is that there remains an industry to represent, a healthy competitive one". He adds: "If in three years' time we are still talking about trading being done on spreadsheets, or collateral management still being done on spreadsheets, and telephone calls as the norm, then we have not solved our automation problems, and have not yet moved into the future."

For Broadridge's Walker, success is measured through the success of the company's clients. "This is a capital markets business, so fundamentally people are interested in P&L generation, efficiency and risk management. If you end up with systems that allow you to generate more P&L in a more controlled way, these are the fundamental measures of success."

EquiLend's DeGiglio notes the industry is "all in this together". He suggests: "I think we are going to see more volume. I do not think we have any control over the volume as we unlock more collateral to the world. My definition of success, a simple litmus test would be if we are on this panel two years out and we asked the question 'are we behind?', everybody has a unanimous "no" rather than a unanimous "yes"."

DeGiglio believes it is not about the success of any one technology provider; the entire securities finance industry is either going to be successful or not. "I do think there is going to be a lot more interoperability and a lot more collaboration and coopetition." Furthermore, DeGiglio finds that there are numerous factors at play that will determine how long it will take to reach the curve. On the technology side, explains DeGiglio, there is "no silver bullet". "Transformation is not easy and it is a journey. It will be a lot quicker than I would have answered a couple of years ago. This is due to the evolution of some of the technologies that have been out there and some of the work companies like EquiLend have done to embrace those technologies."

Whereas on the non-technology side, there are people issues, budget constraints and resource issues.

The panel unanimously agreed on a less than five year term for the securities lending sector to catch up with other service areas. However, it was said that if everyone can get onboard and move forward correctly it could easily be a two to three year term. In the process, the industry could see incremental improvements and some real step functions.

However, Broadridge's Walker advises that it will take more than just a reliance on technology. "It is the combination of people's desire to change and commit the required investment to these business cases, combined with the external pressures which come with regulation and changes in the market." Walker notes.

Reflecting back to the aftermath of 2008, where the securities finance market received a raft of regulation, ISLA's Shone explains that people built solutions based on these regulations without necessarily considering how firms can utilise this regulation to the benefit of the business.

"Why did this happen in the first place?" Shone questions. "The regulators came to the industry and wanted information, and we could not deliver it to them in a standardised consistent fashion, nor give them the information that they wanted. If we do not get this next step in technology right — if we do not get tokenisation and native digital assets right, and if we still have data issues, lack of automation, and manual amends — and the regulators come to us again and find us in the same position, then we have failed."

Shone volunteers that as an industry, participants should be approaching the regulators with "our ducks in order", ready to give over the correct information and avoid having regulators "impose upon us rules that we must interpret, as everyone interprets differently". He interjects: "We need to regain control of the industry in that sense and not be in a position where we get an additional layer of regulation, which adds to the cost of trading and operations and requires firms to buy another solution." ■

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- Margin offset
- Automation and streamlined operations

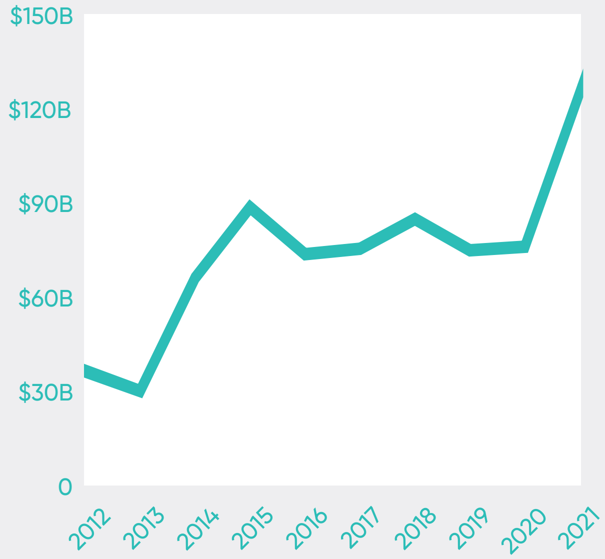
79

HEDGE LOAN PROGRAM MEMBERS

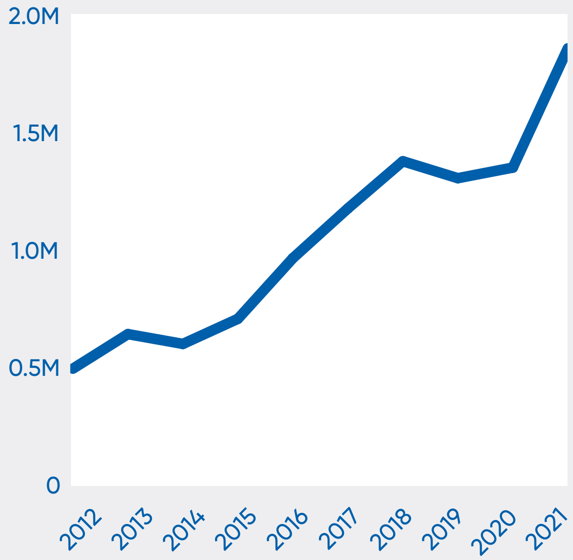
125B

AVERAGE DAILY LOAN VALUE AT YEAR END 2021

Annual Notional Value of Loans



Annual New Loan Transactions



For more information about OCC Stock Loan Programs, visit theocc.com

Latest industry appointments at OSTTRA, Gresham Technologies and S&P Global

Wematch has announced the appointment of Craig Walker to the firm's securities financing team.

As senior sales executive, Walker will report to Shane Martin, head of Europe, the Middle East and Africa sales.

Walker brings more than 20 years of experience in the finance industry to the role, where he was previously director at Credit Suisse during his 10 year term with the company.

He was a sales trader on the Hedge Fund Equity Finance desk, covering some of the bank's largest hedge fund clients.

Additionally, Walker held senior positions at a number of firms including RBS Global Banking and Markets, Goldman Sachs, Barclays Capital and Merrill Lynch.

Speaking on the announcement, Martin comments: "I am ecstatic that Craig is joining our growing team.

"The expansion of our business over the last twelve months has been amazing and having the ability to bring in someone of Craig's expertise and calibre shows our commitment to continue the development and growth of our successful securities financing franchise."

Mauer joins S&P Global

S&P Global has appointed William Mauer as director of sales business development within the firm's New York headquarters.

Mauer has more than 27 years of experience in securities processing, client management, sales in custody, securities lending and technology.

In his new position, Mauer will aid IHS Markit's clients with enhancing efficiency and decreasing risks associated with corporate actions processing.

Prior to joining S&P Global, Mauer was managing director, Americas at PeerNova. He has also held roles within SmartStream Technologies, BNP Paribas, SunGard, BNY Mellon and Morgan Stanley.

Mauer will report to Darren Brown, sales and account manager.

OSTTRA, a post-trade solutions company, has appointed Neil Taylor as director of repo business development.

Based in London, Taylor will report to Peter Altero, head of rates business development at OSTTRA. Taylor has a wide understanding of the repo lifecycle and will head the firm's repo business development team.

He joins the company from Morgan Stanley, where he was vice president of business unit risk management between 2019 and 2022.

Taylor previously spent 11 years with the firm, taking on several senior roles including director of business process re-engineering and automation, and vice president of transaction reporting for the Securities Financing Transactions Regulation.

Altero says: "We are excited to have Neil join our team, his previous experience and understanding of the front-to-back processes involved in the repo market will be extremely valuable. He will play an important role in shaping the development of OSTTRA's new

repo service which we see as being a driver of growth going forward."

Christian Schuetze is to leave his position at Societe Generale Corporate and Investment Banking (SGCIB) after eight years.

He joined the French bank's Frankfurt office in 2014, where he took on the role of head of cross-asset secured financing sales for Germany and Austria.

In an online statement, Schuetze says: "It has been a great eight and a half years in a great place with lots of outstanding individuals and characters, a steep learning curve in various aspects and a ton of new friendships.

"Long story short. I am sad to leave my friends at Societe Generale and looking forward to the new challenge."

SFT understands that Schuetze has a future position in the pipeline and after a period of gardening leave, the industry expects to see him back within the securities finance industry.

Gresham Technologies has announced the hire of Robert McGowen as senior sales executive in North America, as part of the firm's continued expansion in the US and Canada.

McGowen brings more than 20 years of fintech experience to the New York-based role, including expertise in areas of reference data and reconciliation transaction reporting, alongside corporate actions, treasury confirmations, cash management and intra-day liquidity.

He joins the global fintech firm from Duco, where he was previously positioned as senior sales executive.

Prior to this, McGowen held sales roles at SmartStream Technologies and RegTek Solutions, which have developed his understanding of complex middle-to-back-office problems, allowing him to help clients tackle the pain points currently facing the industry.

McGowan comments: "From complying with FINRA's Consolidated Audit Trail demands to imminent Dodd-Frank reforms, the regulatory burden US financial institutions now face is consuming significant levels of cost and effort.

"Helping firms address these challenges in response to the ever-rising industry standards is at the heart of my role. The firm's well-executed acquisition strategy and market-leading platform were key factors behind my decision to join."

Rob Cohen, head of sales North America at Gresham Technologies, adds: "Gresham's acquisition of Electra Information Systems last year provided a launchpad for growth in North America and securing a senior sales executive of Rob's calibre has already expedited introductions across the industry.

"We know from conversations with our extensive regional client base that a complex and demanding regulatory environment is putting data and processes under more pressure than ever. Rob's appointment enables us to work with even more firms to transform their operations with the goal of meeting the high standards set by regulators, and we are excited to have him as part of our team."

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