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Tools to trade

Glenn Havlicek and Sal Giglio speak about their perception of integrated technology, adding value throughout the trading lifecycle, and what to expect next from GLMX

S&P Global Market Intelligence integrates Onboarding Accelerator tool into its securities finance platform

S&P Global Market Intelligence, a division of S&P Global and provider of information services, has introduced the Onboarding Accelerator tool into its securities finance platform.

The automated solution is designed to overcome the inefficiencies of the legacy and manual processes, currently faced by borrowers and lenders when onboarding new lenders and accounts.

The new tool will automate the process, allowing for improved transparency and efficiency, S&P Global Market Intelligence says.

The tool offers several features, including controls and standards, as well as portfolio assessment reports that identifies potential lending revenues and asset qualities in a portfolio.

The Portfolio Assessment Report (PAR), a key feature of the new tool, will allow front-office and business management functions to evaluate portfolios and select accounts for prioritisation.

The PAR tool places S&P Global Market Intelligence's securities finance data into an accessible format, providing key information on a portfolio's composition and potential value.

The Onboarding Accelerator tool will enable users to specify documentation requirements, request additional data, and raise questions, all within the platform.

It will also enable users with the ability to mask any critical account information from specific front-office functions, and backfill historical accounts to acquire one single source copy of all accounts.

Kabin George, global head of securities finance product management at S&P Global Market Intelligence, says: "The legacy onboarding processes tend to rely on spreadsheets, emails, and phone calls with risks of human errors, miscommunication, and delays.

"The new automated onboarding solution will greatly enhance efficiencies and improve client experience by allowing users to exchange, view, and update documents while monitoring the status of the process from initiation through to execution seamlessly."

Inside this issue

BNY Mellon expand collateral management platform

BNY Mellon has expanded its International Collateral Management platform, adding support for Indonesia to its existing network.

The expansion is part of BNY Mellon's planned growth in the APAC region, with solutions to be developed in Malaysia and Taiwan.

Collateral management supports risk management for secured financing transactions, allowing assets to be used for collateral purposes.

The development follows BNY Mellon's launch of its new User Interface earlier this year, which allows clients to view their total collateral sources and uses, while accessing all solutions in a single ecosystem.

Brian Ruane, CEO of BNY Mellon Government Securities Services Corporation and Clearance & Collateral Management, says: "This is an example of BNY Mellon's strategy of connecting to new markets and new central counterparties, allowing our clients to mobilise collateral across our global platform."

HQLA^{X} and Wematch announce collateral collaboration

HQLA^{X} and Wematch have entered into a collaboration agreement to improve collateral mobility in securities finance trading.

This will enable traders using Wematch's trade execution platform, that are also customers of HQLA^{X}, to input securities lending indications of interest (IoIs) on the Wematch platform, with settlement of the securities lending transaction confirmed on HQLA^{X}.

This collaboration is currently in its design stage and is likely to go live in Q1 2023.

Wematch co-founder and head of EMEA David Raccat says: "The unlocking of collateral mobility is the direction of travel of the securities finance industry and the contribution of HQLA^{X} through the delivery-versus-delivery (DvD) model will accelerate this trend.

"The partnership with HQLA^X matches our strong focus on operational risk and frictionless workflows and we are convinced our common clients will benefit from this enhanced connectivity."

Guido Stroemer, co-founder and CEO of HQLA^X, says, "We are proud to collaborate with partners like Wematch to leverage the power of distributed ledger technology (DLT) to accelerate collateral mobility across the global securities finance ecosystem."

This will benefit firms that are currently users of the Wematch execution platform and also customers of HQLA^X, which currently applies to 90 legal entities and roughly 900 traders.

HQLA^X's ownership transfer platform enables users to transfer ownership of securities across multiple collateral pools at precise moments in time using a DLT-based platform.

Wematch's solutions portfolio applies technology advances to traditionally voice-traded securities finance and derivatives markets, optimising matching of IoIs for total return swaps, securities lending and repo transactions, along with equity and interest rate derivatives.

SEC opens consultation on clearing proposals for US treasury markets

The Securities and Exchange Commission (SEC) has proposed rule amendments that would encourage wider clearing of trades involving US treasury securities and reinforce risk management practices for clearing entities servicing US treasury markets.

These proposals will require clearing members to submit certain types of secondary market transaction for clearing, including all repo and reverse repo trades collateralised by US treasuries.

This list will also include all buy and sell trades entered into by a clearing member that is an interdealer broker, and buy and sell trades between a clearing member and specified types of counterparty — specifically a government securities broker, a government securities dealer, a registered broker-dealer, a hedge fund or certain types of leveraged account.

Commenting on these amendments, SEC chair Gary Gensler, says: "The SEC plays a critical role in how the Treasury market functions, including to help ensure that these markets stay

efficient, competitive, and resilient. One aspect of that role is our oversight of clearinghouses for Treasury securities."

While the SEC believes that central clearing plays an important role in risk reduction, it notes that in 2017, only 13 per cent of Treasury cash transactions were centrally cleared.

"I think there is more work to be done with respect to the amount of Treasury activity that is centrally cleared," says Gensler. "I think that these rules would reduce risk across a vital part of our markets in both normal and stress times."

With respect to customer margin, the proposals would permit broker-dealers to include margin on deposit at a clearing agency in the US Treasury market as a debit in the customer reserve formula, subject to specified conditions.

The proposals would also require clearing entities supporting the UST market to collect and calculate margin separately for proprietary (ie "house") and customer transactions.

Further, clearing agencies would also be required to demonstrate that they are taking steps to facilitate access to clearing services, including through sponsored clearing channels for indirect participants.

The SEC has published its proposals for public consultation, requesting that respondents post their feedback on the proposed rules within a 60-day consultation period.

GPFA welcomes IMCO as new member

The Global Peer Financing Association (GPFA) has announced that the Investment Management Corporation of Ontario (IMCO) has become the 29th member of the global beneficial owner association.

GPFA's community now includes 10 Canadian pension plans, which manage more than 70 per cent of the US$2 trillion total pension assets in Canada. IMCO, which manages US$79 billion of assets on behalf of its clients, will become the

group's 11th Canadian-based asset owner.

In a LinkedIn post, Robert Goobie, chair of the Board of Directors at GPFA, says: "This collaboration of like-minded peers provides a unique opportunity to share knowledge and invaluable insight, creating a positive impact on our pension promise.

"Collectively, through further engagement across multiple disciplines, we will strive to innovate and help develop efficient markets that will generate savings to be passed on to our pensioners."

Tradeweb becomes ISLA member

The International Securities Lending Association (ISLA) has welcomed fixed income, derivatives and ETF electronic trading platform Tradeweb as the newest member of the association.

ISLA has accumulated more than 180 members across 22 countries, representing all facets of the securities lending market including institutional investors, banks and broker-dealers.

Commenting on the news, Nicola Danese, head of European fixed income at Tradeweb, says: "We look forward to working closely with ISLA and its members on strengthening market practices and increasing awareness around key issues impacting the securities lending space."

The industry association has also announced the addition of ADE Tax as a new member. ADE Tax provides tax advice in connection with securities lending and capital markets transitions across multiple jurisdictions.

ESMA withdraws SFTR registration of UnaVista

The European Securities and Markets Authority (ESMA) has withdrawn the trade repository registration of UnaVista TRADEcho B.V. (UnaVista) under the Securities Financing Transactions Regulation (SFTR).

UnaVista announced the closure of its SFTR trade repository in July 2021 and ceased to

offer SFTR regulatory reporting, and associated services from its rules engine, on 31 January 2022. UnaVista has been registered as a trade repository under SFTR since 7 May 2020.

According to UnaVista, this move would allow it to reallocate resources towards its core Markets in Financial Instruments Regulation (MIFIR), European Market Infrastructure Regulation (EMIR) and G20 services, including preparatory work for the EMIR Refit.

All UnaVista clients have already been transferred to a trade repository of their choice. The withdrawal decision follows the official notification to ESMA by UnaVista of its intention to renounce its trade repository registration under the conditions set out in Article 10(1)(a) of SFTR.

Dubai Attorney General appeals against court extradition decision

Dubai's Attorney General has appealed against a ruling by the Dubai Court of Appeal which refuses Denmark's request to extradite hedge fund trader Sanjay Shah under charges of tax fraud and money laundering connected with cum-ex trading.

In a public statement, the Attorney General, Chancellor Essam Issa Al Humaidan, indicated that he has appealed the ruling of the Court of Appeal refusing the extradition request, with the case to be referred to the Dubai Court of Cessation.

In a separate development, UAE media agencies report that Sanjay Shah and several others linked to the hedge fund trader have been ordered to repay more than US$1.1 billion (8 billion krone) to the Danish tax authorities.

The UAE and Denmark signed an extradition treaty on 15 March, with the Danish state seeking to recover more than US$1.5 billion in losses sustained in what it termed a "well designed and organised fraud scheme" where Shah and his associates submitted more than 3000 applications to unlawfully receive dividend tax refunds from the Danish exchequer.

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79
HEDGE LOAN PROGRAM MEMBERS

125B
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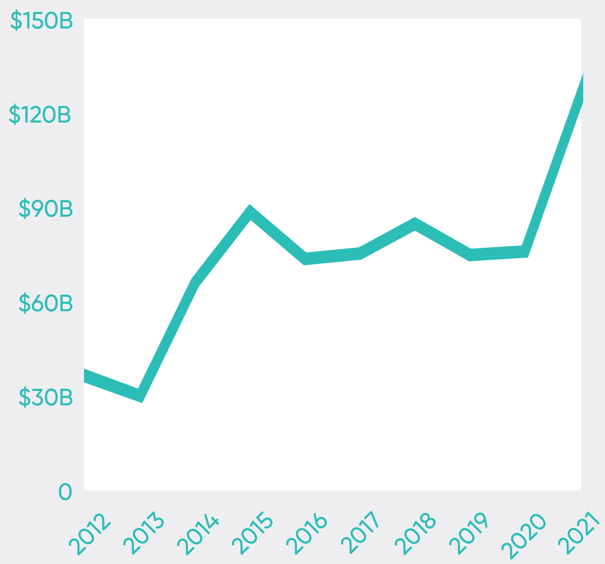
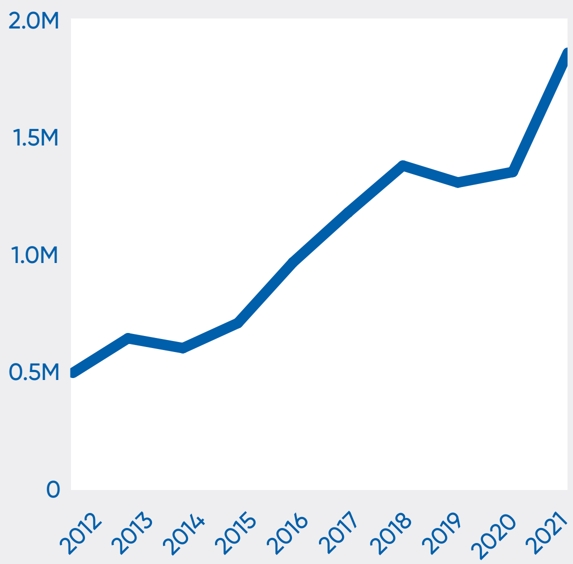
Annual Notional Value of Loans



Annual New Loan Transactions



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

Loop Capital selects Matrix Applications for outsourcing services

Matrix Applications has been selected by investment banking, brokerage and advisory services firm Loop Capital as a key strategic partner and provider of a variety of technology and outsourcing services.

Loop Capital will utilise Matrix Applications' multi-asset trade processing platform, Elevate, to support the growth of its US broker-dealer business.

Elevate is a fixed-income and equities securities lending platform that offers a cohesive front-to-back office solution for institutional post-trade processing.

Formerly known as QTIX, Elevate has upgraded to Next Generation deployments and a modernised user interface. By utilising Elevate, Loop Capital is able to redeploy internal resources to new strategic growth areas.

Jim Reynolds, CEO of Loop Capital, comments: "During our search for a strategic partner, the Matrix Applications team demonstrated the best-in-class technology and operational solution to meet Loop Capital's specific requirements.

"The Matrix team's shared commitment to opening opportunities for DEI firms, coupled with their extensive industry expertise, were significant factors in our decision to implement their Elevate platform for post-trade processing and support."

Stephen Mellert, managing director at Matrix Applications, adds: "It has been a privilege to partner with Loop Capital and witness the build out of its successful broker dealer start-up. We are committed to helping the Loop Capital team meet their goals. Our new Elevate system enables us to do so."

MJ Hudson has partnered with SLIB for improved governance and transparency

London-based solutions provider MJ Hudson, and risk management and post-trade software specialist SLIB, have partnered to provide improved governance and transparency on risk exposures within the brokerage market.

MJ Hudson's RiskMonitor Monte Carlo value at risk (VaR) calculations will be integrated within SLIB's risk management solution (RMS) via application programming interface (API) software.

The integration aims to strengthen counterparty risk exposure monitoring, across asset classes and trading venues.

SLIB is jointly owned by global bank BNP Paribas and corporate investment company Natixis.

Max Hilton, head of quantitative solutions at MJ Hudson, says: "Within our business we see an increasing drive towards multi-asset portfolios, with VaR representing the critical market risk calculation. SLIB is already proving to be an excellent partner to our business, and I am excited at the prospect of what we can achieve together."

Philippe Cognet, CEO of SLIB, comments: "This is definitely a decisive step forward in our credit risk strategy of bringing together an industry-leading risk engine, with our RMS platform, which is amongst the leaders in the European clearing industry.

"With best-in-class risk algorithms and API technology, MJ Hudson represents an ideal partner to bring this innovative and much needed solution to market."

Tools to trade

GLMX's CEO Glenn Havlicek and COO Sal Giglio speak to Carmella Haswell about their perception of integrated technology, adding value throughout the trading lifecycle, and what the industry can expect next from GLMX

The current market has become a dual-edged sword for many GLMX clients, according to Glenn Havlicek, CEO at GLMX. On the one end, opportunities in interest rate markets are surging along with global rates. On the other end, clients are facing challenges that, if left unaddressed, could be disruptive to profitable trading.

Regulation and focus on efficient capital management across financing businesses are ever-present navigational tests. War and inflation, combined with aggressive interest rate increases by global central banks, are causing outsized market movements and rising volumes. In combination, these pressures are straining clearing processes and have led to recent US Securities and Exchange Commission proposals to improve the resiliency of US Treasury and repo markets.

Since market participants have limited influence on these external, macro events, many are focusing on what they can control. According to Havlicek, this includes reducing execution risk around trading and streamlining straight-through processing (STP) to minimise trade settlement bottlenecks. Achieving fast and seamless execution, ensuring precise settlement and then gathering feedback from previous transactions to inform new trade opportunities, is a top priority for GLMX clients.

Reflecting on the major themes presented across the market, GLMX identifies inflation concerns, yield (and yield curve) volatility, and increased trading opportunities as hot topics. GLMX has seen a surge in repo volumes and attendant challenges for market participants in managing those "massive" volumes.

"With a high level of market volatility, there is a greater need for rigorous controls to mitigate risk from the beginning to the end of a trade," says Havlicek. He adds: "Inside GLMX, we refer to repo

"As securities financing trading transitions from a manual to a digital process, risks associated with bilateral trading can be mitigated in a reliable and automated manner. GLMX's success is driven by the company's superior technology"

Sal Giglio, COO, GLMX

as having 'persistent risks'. Unlike the simple purchase or sale of a security, which involves a single settlement, repo transactions have two settlements – the 'on leg' and 'off leg'." He notes that trades require constant attention in between. A key benefit of GLMX technology, he says, is that those so-called mid-life or lifecycle events, in between the two settlements, are handled seamlessly, efficiently and with minimised risk.

Although other mechanisms are present to help mitigate the risks identified, Havlicek says market participants are now focused on integrated technology, which can solve for the entirety of their increasingly complex workflows. Clients are demanding a clean, intuitive and user-friendly interface, consistent with that which they experience on their smartphones.

Havlicek explains: "They want to capture more of their workflow in one place, through centralised technology for both vertical and horizontal workflows." Horizontal workflow efficiency is consistent with the ongoing trend among diversified firms of better aligning financing and derivatives businesses to optimise collateral mobility in order to achieve capital savings. Vertical workflow efficiency is achieved by addressing the full trade lifecycle, which requires front-to-back technology through a single touch point.

"Accessible information across organisations is essential to trading in a compliant and profitable manner," Havlicek adds. "How this information is managed through the trading cycle is the second essential component of the virtuous loop, in which the previous trade informs the very next trade."

Integrated technology

Linked steps are necessary for a trade to be successful, profit and loss notwithstanding. Pre-trade, trade and post-trade are the

"Successful collateral management can only be achieved through the use of technology, whether digitising collateral schedules, building interconnectivity between internal systems, or rationalising collateral usage"

Glenn Havlicek, CEO, GLMX

traditional steps in a transaction lifecycle. Even before a trade is negotiated, strict controls and flexible trading tools are necessary to set the stage for a desired and error-free outcome.

GLMX COO Sal Giglio says controls are necessary to ensure that trades are compliant and legal. He adds: “GLMX prevents clients from trading with undocumented counterparties, above credit limits, beyond tenor limits or with unapproved products. Trading tools help generate trade ideas and prevent often-costly mistakes.” Posting trading axes and publishing push lists of available inventory on GLMX are effective ways to create new transactions, he observes. ‘Fat finger’ controls that prevent trading outside a predefined range for rates, haircuts and security size are easily configurable through the administration portal.

With respect to the “at trade” part of the trading cycle, Giglio says GLMX technology provides a wide breadth of functionality to access liquidity and determine the best execution for each transaction. Traders need to manage a lot of information at the moment of trade and therefore failure to take into account seemingly innocuous variables can be costly. GLMX aims to provide business intelligence at that crucial point of trade, which provides insight into potential counterparty netting opportunities, DV01 of underlying collateral, and indication of best execution. Securities financing transactions can be designated as bilateral, triparty and cleared and in the form of classic repo, sell-buy-backs, borrow versus cash, and non-cash collateral.

The varied trade structures and workflows required in the dealer-to-client (D2C) marketplace represent a significant departure from legacy dealer-to-dealer (D2D) platforms. Giglio explains how GLMX technology supports the multitude of trade structures that make D2C securities finance trading so complex — for example, ON, Term and Open, GC Money or Par Fill, and Cross-currency, to name a few.

For Giglio, workflow analysis is a core GLMX competency from which all system functionality flows. This approach allows traders and sales people to have a better “version” of their existing experience of interacting with clients. The GLMX platform supports a multitude of facets including directed or comp negotiation, dealer or client initiation, mid-life management and price discovery tools. Each of these features were driven directly from exhaustive work with, and analysis of, key client workflows, Giglio explains.

A growing, consequential advantage of trading electronically is that it enables clients to apply an advanced suite of post-trade services, which are the natural extension of GLMX’s existing services. “The most apparent of those advantages is the straight-through processing of trades, which eliminates the need for manual and error-prone data input,” Giglio explains. “That said, when STP is combined with now very popular mid-life trade maintenance functionality, efficiency rises exponentially.”

Live trades can be accessed through a blotter in the user-interface and mid-life events — such as cancel and correct, substitute, early term, rerate, reprice and partials — can be bilaterally executed with full STP. “Given the pace at which central banks have been raising rates, this service saves countless hours and sidesteps numerous errors for our clients,” Giglio informs. “Finally, since each interaction on the platform is digital, comprehensive data capture is innate. Data capture is essential to support trading decisions — including low-touch variants which are rapidly growing in popularity — as well as meeting the growing number of internal and regulatory reporting requirements.”

‘Access, Automate, Analyze’

D2C trading is unique in that many hours are spent managing mid-life trade events. This is complicated by the fact that this type of activity typically occurs across many counterparties, securities and often during periods of high volatility. Manually managing these processes invariably leads to errors, creating further demands on time and, potentially, higher fail-to-deliver costs.

Beyond the manual nature and risks associated with mid-life trade maintenance, Giglio identifies a number of pain points facing each stage of the trading (mid-life) lifecycle. For instance, in securities lending and repo transactions, non-specific maturity — known as “open” trades — are common. These open trades require that the details of the original trade are frequently updated, sometimes daily, throughout the life of the trade.

Rerates — which is a change in the interest rate that underlies the funding transaction — need to be communicated and agreed by each counterparty and then entered by each firm into their respective systems. Substitutions for general collateral trades are another time-consuming process, in which one party notifies the other of their need to pull back a specific piece of collateral and provide a replacement security.

If acceptable, both parties book these trades into their respective systems. Giglio indicates that these events are easily and efficiently managed on GLMX, with both parties affirming the changes, and trade processing occurs automatically without manual intervention.

GLMX adds value in these painful situations, in part, through the firm's slogan "Access, Automate, Analyze". Its stated mission is to build technology for institutions to help enhance their access to liquidity, automate manual tasks which are repetitive, time-consuming and risk-creating, and to provide analytics that help improve profitability.

Giglio explains: "As securities financing trading transitions from a manual to a digital process, risks associated with bilateral trading can be mitigated in a reliable and automated manner. GLMX's success is driven by the company's superior technology – which seamlessly handles the comprehensive range of securities finance trade structures and trade mid-life events, and is connected to a wide array of pre- and post-trade technologies and to multiple clearing venues." As such, GLMX technology has been instrumental in powering its clients' drive for efficiency and maximal access to liquidity."

Future endeavours

GLMX's long standing ambition in supporting global, short term funding markets is that its technology will provide a comprehensive, intuitive and highly capable portal into and across multiple instruments — and in doing so, support its client's horizontal workflow. Clients' increasing reliance on technology is driving greater efficiencies in areas of the market that would otherwise not be achievable. As costs continue to weigh on financial institutions, it is essential to optimise not only collateral and cash usage across businesses and entities, but also how that cash and collateral enters the market and is processed.

"Many firms have effectively aligned their securities financing business, repo and securities lending, with derivatives trading to better coordinate movement of collateral to comply with regulations, such as Uncleared Margin Rules (UMR) and Central Securities Depositories Regulation (CSDR), as well as to increase profits," Havlicek explains. "Successful collateral management can only be achieved through the use of technology, whether digitising collateral schedules, building interconnectivity between internal systems, or rationalising collateral usage."

Success in this endeavour will require high-touch collaboration between internal technologists and outside vendors. With enhanced collateral mobility approaching, GLMX clients are looking for efficient and automated ways to access pools of liquidity across multiple products, securities and jurisdictions. This reality syncs with GLMX's view of the future, and with the technology it has been building for more than a decade.

In October 2021, GLMX was approved to operate in the Canadian provinces of Alberta, British Columbia, Ontario, Quebec, and Nova Scotia. This approval reflects the company's geographic expansion to accommodate the global demands of its clients in North America, the UK and Europe — and in Asia, where regulatory approval is pending with the Monetary Authority of Singapore.

GLMX indicates that it has also embarked on a long-planned expansion of its money market products to provide "truly intuitive and comprehensive access" to money markets around the globe. With technology development for instruments such as time deposits, certificates of deposit and commercial paper — combined with ongoing pilot programmes with major market participants from both the buy- and sell-sides — GLMX says it is well along its path to enhancing liquidity and efficiency in the world's largest markets.

Stepping stones to sustainable lending

Sunil Daswani, global head of securities lending at Standard Chartered, provides a step-by-step guide for beneficial owners to drive a successful securities lending programme

As the new school year starts, with squeaky shoes and pristine stationery, the leaves fall and we look to the season ahead. Now is a good time for beneficial owners to think about how best to approach their securities lending activities.

Increasingly, securities lending is seen not as an isolated activity, but an integral part of a wider liquidity management strategy, ultimately driving better outcomes for the business. This applies not only to the largest players for whom securities lending or borrowing is a major part of their core business, but also smaller firms where this is occasional or opportunistic.

But what drives a successful securities lending programme? This article provides five pointers.

1. Make better use of technology

Evolving technology and better use of data is helping to drive greater transparency, better price discovery, more confident decision-making, and improved process efficiency. By leveraging their own technology and their agency securities lending provider’s technology more effectively, beneficial owners can spend more time with their provider on more strategic discussions such as risk, collateral and, increasingly, how best to connect securities lending into their wider environmental, social and governance (ESG) ambitions.

2. Connect ESG into your securities lending strategy

Many firms have set challenging ESG targets to meet stakeholder expectations, meet regulatory requirements, and to be better corporate citizens. Integrating these ambitions within a securities lending programme brings its challenges. Every beneficial owner has their own ESG priorities, so they need a tailored securities lending programme that meets their asset, collateral and counterparty criteria, and enables proxy voting in line with these criteria.

The reduction in supply of certain securities linked to ESG matters can lead to increased borrower demand and increased revenue for lenders of these securities. However, these returns can be eroded if assets are withdrawn for long periods for proxy voting. To avoid this, beneficial owners need their provider to take a data-driven approach to identifying and withdrawing securities from lending programmes very precisely, minimising lost lending income.

3. Review your collateral

Beneficial owners that are integrating ESG policies into securities lending will review their collateral as part of this process, but all beneficial owners should do so, even if ESG is not yet a key part of their lending strategies. Monetary funding introduced to support economies during the pandemic is coming to an end, while inflation and rising interest rates will further reduce liquidity. Lenders should take an integrated view of collateral across their activities as far as possible, including OTC derivatives and repo, as well as securities lending, maximising flexibility, opportunity and, potentially, returns.

4. Review your risks

All market participants should be prioritising risk management and liquidity in a more constrained market environment. For beneficial owners, this includes reassessing their lending (as well as collateral) parameters and counterparty risks to balance risk, return and ESG credentials. They may also consider their indemnification. Some will conclude that balance sheet, or in some cases insurance-backed, indemnification is essential, while others may see this as an avoidable cost.

5. Find the right partner

The right agency lender is essential to navigate the complexities of a market characterised by constrained liquidity, inflationary pressures, rising interest rates and an increased focus on social and environmental purposes, as well as financial objectives. Many beneficial owners have focused their choice of provider solely on revenue projection and fee splits, but this approach fails to take into account the nuances of each owner's financial and ESG strategies.

Instead, these institutions should be evaluating how providers can tailor programmes to meet their risk-reward objectives precisely, the efficiency of their operations, the use of data to drive enhanced reporting and decision-making, and the quality of client relationships and communications. Beneficial owners are also increasingly seeking to work with providers that demonstrate a strong commitment, and proven expertise, in bringing together money and purpose for a sustainable and financially attractive securities lending programme. ■

Sunil Daswani
Global head of securities lending
Standard Chartered

US Securities Lending Panel

US-based securities lending specialists focus on recent market performance, projections for 2023, and the potential impact of further Fed tightening on trading and collateralisation strategies

Panellists

Justin Aldridge
Head of Agency Lending, Fidelity Investments

Michael Cardieri
Executive Director, Head of the Agency Securities Finance (ASF) Americas Equity Desk, J.P. Morgan

Mark Coker
Head of North America Equity Agency, Northern Trust

Joe Gillingwater
Head of Fixed Income Agency Trading, Northern Trust

Michael Saunders
Americas Head of Agency Securities Lending, Securities Services, BNP Paribas

How do you assess the performance of US securities lending markets during 2022 to date? What trends do you identify in terms of loan supply, borrower demand and loan revenue?

Joe Gillingwater: Fixed income lending continues to provide robust revenue amid heightened demand across asset classes. US treasuries remain well sought after, given the regulatory environment, while volatility in the curve led to some special opportunities. Moreover, diverging central bank policies have provided significant cross-currency arbitrage opportunities, with borrowing counterparts increasingly keen to use JGBs as collateral at wider fees than is typical.

Another standout performer through the securities finance lens has been the credit markets, with rising interest rates leading to increased funding costs at a time of recessionary fears. As such, we have seen fees for corporate bond loans continue to widen dramatically amid robust borrow demand.

Mark Coker: From a US equity perspective, volumes throughout the period have been volatile as the ebb and flow of the equity markets impacted borrower needs and collateral availability. We have seen a general risk-off stance, or de-grossing, from investors with GC volumes softening as a result.

In late Q2, we saw a noticeable improvement in 'specials' spreads translating into strong revenue across the equity book. In large part, the Russell Reconstitution was the catalyst, with changes in supply triggering increased lending spreads on already highly-shorted names. The reconstitution also saw the addition of several companies which were originally created through special purpose acquisitions in 2021, some trading at heightened fees.

Exchange-traded Funds (ETFs) have been a strong source of demand this year, especially those with exposure to corporate bond, US equity and China indices, given the Fed tightening, market volatility and China economic slowdown.

Michael Cardieri: The US securities lending market performance has been very strong in 2022 against the backdrop of inflation at a 40-year high, the war in Ukraine, supply chain issues, COVID-19 lockdowns in China and higher interest rates. Following the worst first half of the year for the US equity market since 1970, there was a significant increase in demand for single stock names, particularly in the consumer discretionary sector, electric vehicle (EV) space and meme names. Revenue from IPO lockup trades remained robust at the start of the year owing to a record setting year for IPOs in 2021. ETF lending has been strong, specifically high yield and investment grade corporate bond ETFs and index ETFs, owing to the rising interest rate environment and market volatility.

Michael Saunders: The dramatic increase in market volatility so far in 2022 has presented opportunities and challenges. Slowing global growth, stubborn inflation and coordinated central bank tightening have created an environment for lenders to monetise portfolios of high-quality liquid assets (HQLA). The knock-on impact of the market volatility has reduced the number of IPOs, which has reduced intrinsic lending opportunities, especially compared to 2021. Lendable supply, or rather industry participation from institutions, continues to increase, driven by increased participation and engagement from beneficial owners seeking to increase revenue streams.

Justin Aldridge: So far, 2022 has been a banner year for our lending programme clients for revenue and utilisation, despite limited IPO issuances and limited merger arbitrage deals. The volatility in the markets, coupled with rising interest rates, has brought single stock shorting to the forefront of lending activity. Our lending revenue is up nearly 100 per cent and our balances are up approximately 25 per cent year-on-year. We believe our clients are benefiting from our automated lending technology and our positioning in the marketplace as a non-bank entity without Risk Weighted Assets (RWA) and Single Credit Counterparty Limits (SCCL) hampering our ability to service our clients effectively.

S&P Global Market Intelligence reports that equity specials balances have rebounded strongly during 2022, with the top 10 revenue-generating equities in the US market accounting for more than 30 per cent of the entire lending revenues for the region for H1 2022. What are the drivers and what opportunities does this create?

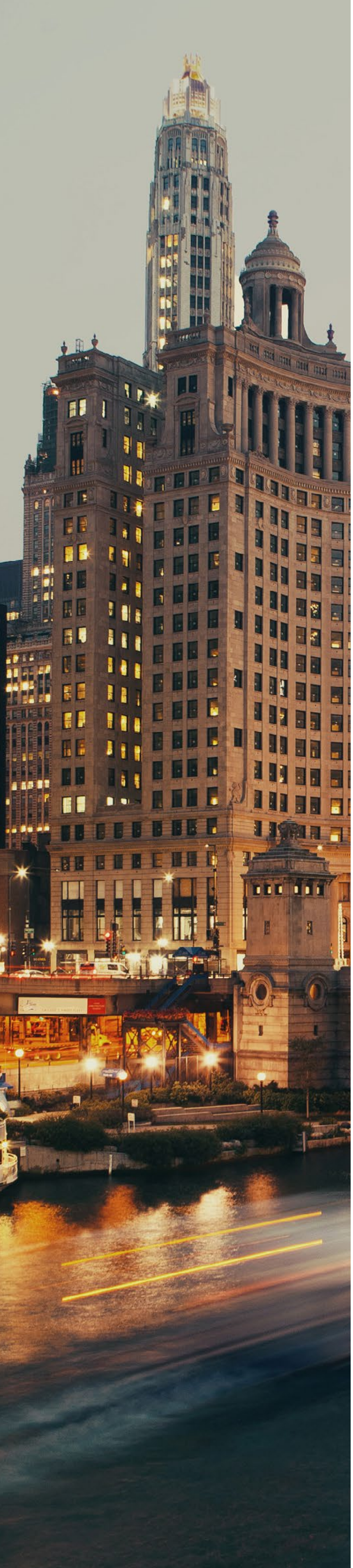
Aldridge: The key driver, single stock shorting, has returned after its hiatus following the meme stock frenzy in 2021. Alternative asset managers are seeing more opportunities on the short side, given the increased volatility in the market coupled with rising interest rates. On the negative side, we expect that the limited IPO issuances during the first half of 2022 will continue to hamper revenue opportunities in the second half of this year.

Saunders: Revenues attributed to specials is certainly a game of have and have nots. Beneficial owners holding any number of the assets in the "Top 10" experienced relevant, and in some cases substantial outperformance relative to the market return. Institutions not holding these 'specials' focused on a more sustainable long-term strategy of lending general collateral, opting for a stable and predictable revenue stream to offset administrative expenses.

Cardieri: The key drivers are inflation and the Fed's reaction to inflation. With hindsight, the Fed was behind the curve with regard to inflation after flooding the market with liquidity during the pandemic. The result pushed inflation to 40-year highs. The Fed adopted a hawkish stance in early 2022, moving interest rates aggressively. More rate hikes are expected in the coming months. In anticipation of continued rate increases and easy money drying up, short-selling broadened out across asset classes, names and sectors.

What impact is the current US macroeconomic climate, particularly the prospect of further Fed tightening, having on the outlook for lending markets?

Saunders: The coordinated tightening campaign from central banks globally has triggered historic levels of volatility.



This volatility has led to a fair amount of opportunities for beneficial owners. Asset owners and asset managers have shifted to lending all asset classes in their portfolios as the higher federal funds rates have influenced all asset classes from high yield, sovereign lending, to ETFs, through to growth and value equities. The Federal Reserve's actions to increase federal funds from 250bps to 350bps through September 2022 has presented substantial opportunities, certainly when lending US Treasuries. The ability to engage in duration-mismatched lending programmes in a rising rate environment has proven to be impactful from a revenue generation perspective. This strategy continues to benefit those willing to manage the liquidity risk of lending on a short-term basis and reinvesting cash collateral into longer dated tenors. This will continue until the FOMC ceases its tightening campaign.

Cardieri: There is the camp that believes the Fed will engineer a soft landing, no recession or a shallow recession, resulting in risk-on sentiment and a view that buyers will return. A continued strong job market and short covering will provide additional fuel to the rally. This view could drive refinancing and a narrower list of specials. An offset to this would be that companies will move forward with IPOs which will provide lending opportunities first when the IPO goes public and then around the lockup expiration date. Deal activity should pick up under better market conditions, which will also provide lending opportunities.

There is another camp that believes the Fed is too late in responding and now being too aggressive in its fight against inflation. The economy will fall into a deeper recession and short sellers will establish or increase short positions as the job market softens, consumer spending slows and corporate profits decline. Highly leveraged companies will have trouble refinancing debt and credit conditions will deteriorate, resulting in rating downgrades and increased demand in the corporate bond market. Quantitative tightening may limit US Treasury supply, resulting in increased specials to meet capital adequacy and liquidity needs. IPOs will remain on the sidelines and deal activity will remain muted.

Gillingwater: The Federal Reserve's recognition of the inflationary environment towards the end of 2021 provided some strong opportunities across the securities finance programme. There was greater focus on cash reinvestment portfolios, with the frequency and size of rate hikes having to be closely managed in the asset-liability complex. Additionally, the emergence of yield opportunities in sovereign curves has prompted some challenges across credit and emerging markets. With the two-year Treasury yielding 3.50 per cent, there is pressure on riskier assets, particularly with recessionary concerns on the horizon.

As mentioned previously, diverging interest policies, and the removal of high-quality sovereign bonds held by The Bank of Russia, have prompted wider fees when lending dollar-denominated assets versus cross-currency sovereign bonds. Therefore, lenders have taken the opportunity to pivot away from equities and corporate bonds as collateral, instead preferring the safety of European sovereign bonds, UK gilts and Japanese government bonds (JGBs) for example.

Coker: I would add that risk appetite, generally, is in short supply, given the uncertainty with selling pressure across the equity indices. Directional demand across the equity book has pivoted to names with swelling debt obligations, with rising interest rates or inflationary pressures impacting their supply or raw material costs. The fintech, consumer discretionary, retail and real estate sectors have all seen heightened borrower demand, which is likely to continue.

Aldridge: It has a tremendous impact on the lending markets. As we stated in Securities Finance Times Issue 288 in October 2021, we were very optimistic that 2022 would be a banner year for lending revenue, given that rising interest rates would negatively impact companies' earnings and create more opportunities on the short side. The reinvestment market remains challenging, but will provide more opportunities once the Fed's policy initiatives have stabilised inflation.

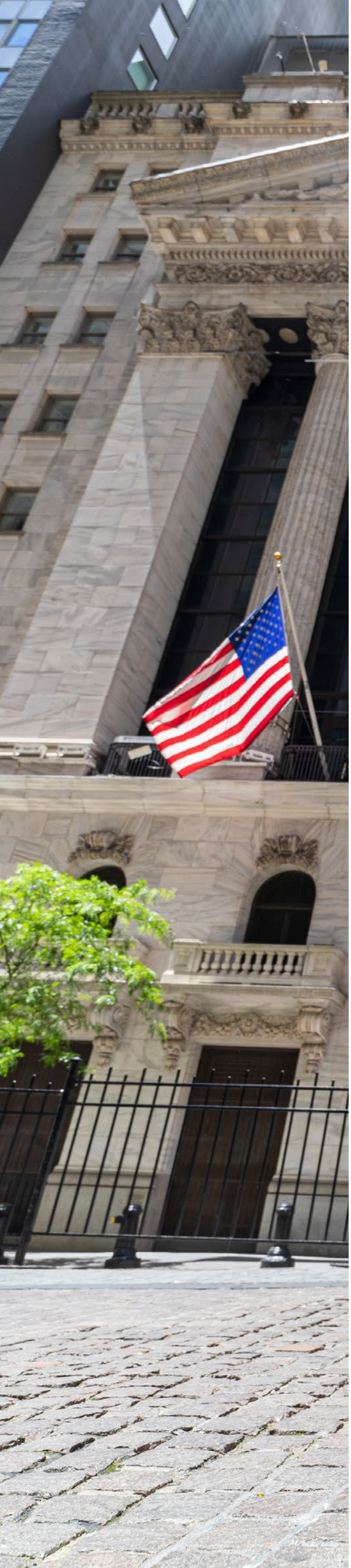
How are these trends shaping collateralisation strategy ?

Cardieri: Owing to the market volatility, borrowers are experiencing a collateral shortage and this is translating into difficulty in adding new borrows and filling existing trades. Cash collateral has remained strong during the past year, bucking the historical trend of an increase in non-cash collateral. There has also been an increase in loan refinancing activity. As borrowers look for collateralisation efficiency, there is strong demand to collateralise loans with ADRs, ETFs, corporate bonds, convertible bonds and special-purpose acquisition companies (SPACs).

Gillingwater: The cadence and size of the Fed's rate hikes during 2022 have provided both opportunities and challenges. Lending rebates reset immediately after the rate increase, while a cash reinvestment portfolio with a duration mismatch and blended Weighted Average Maturity (WAM) of 60 days obviously takes a while longer to catch up. As such, investment managers have sought shorter maturities for much of the year, with floating rate instruments and repo typically preferred over term bullet investments. Fed policy will likely become clearer in the coming weeks and months as we reach the terminal funds rate. At this time, lenders are likely to look to increase the allocation of loans versus cash.

Saunders: Cash lending in a rising rate environment presents the greatest optionality relative to non-cash collateral lending, all else being equal. Implementing a duration mismatch lending and cash reinvestment strategy captures the forward monetary policy actions of the Federal Reserve, where beneficial owners can monetise the anticipated rate hikes on the cash collateral portion of the transaction while realising the lower funding cost when raising liquidity on an open or shorter-duration tenor.

Aldridge: The Fidelity Agency Lending programme is currently focused on US '40 Act asset managers who are limited to accepting cash and US government securities for non-cash collateral. In general, prime brokers are significantly less interested in providing US government securities as collateral, and their preference is to post equities. Equity collateral is not a permitted collateral type for borrowers to post to US banks and '40 Acts. We estimate that US asset managers have seen non-cash balances decline by roughly 30 per cent over



the last 12 months on average, and this only represents a small portion of all outstanding loans in the market for this client type. We continue to expect muted demand to provide US government securities as collateral while the Federal Reserve raises interest rates and shrinks their balance sheet. If the SEC were to amend rule 15c3-3 to allow US borrowers to deliver equities as collateral and amend the '40 Act to allow US mutual funds to accept equities as collateral, then we would anticipate significant growth in non-cash flow for US mutual funds in the future.

Where is technology innovation most reshaping US lending markets during 2022? Where are you focusing your technology and innovation budget to deliver better lending outcomes?

Aldridge: We will continue to focus on improving our programme through our artificial intelligence (AI)-powered automated-lending technology to maintain our status as a first destination for borrowers' needs. At Fidelity, we are continuously enhancing our reporting and data distribution technologies to ensure we can meet our clients' evolving data needs. We are also focused on expanding our collateral flexibility for existing clients. A lot of time and effort is being applied to transparency and optimisation tools that help clients maximise their returns. Our team is also doing some unique work on qualified dividend income (QDI) optimisation for firms that view this as a binding constraint for their lending programmes.

Saunders: Innovation and technology are key pillars to a successful securities lending programme from an efficiency, cost and execution perspective. Both technology and innovation are paramount to programme growth. Transparency and data reporting, both internally and externally, remain our focus.

At BNP Paribas, our focus is on a mix of vendor-based and proprietary technologies to best meet our clients' needs and enhance the quality of our offering even further.

Cardieri: J.P. Morgan Agency Securities Finance (JPM ASF) is committed to providing an outstanding client experience and has allocated significant technology resources to be a leader in the industry. We continue to enhance our proprietary web-based portal, providing complete transparency to a client's programme offering performance, analytics and governance. Examples include a visualisation of the client's programme parameters and a "What-If" tool to capture opportunity costs and forecast possibilities.

In support of the ESG agenda, JPM ASF has sourced external vendor proxy event data to identify upcoming events of interest for a client's portfolio assets. Clients have the capability to establish rules to restrict positions from being lent over event dates based on prescribed event information, including meeting types and other criteria. JPM ASF will expand on its pay-to-hold offering, rolling out a US pay-to-hold product in Q4. Automation is critical to distribution. To increase straight through processing (STP) flow, JPM ASF continues to invest and improve pricing models and the use of in-house developed AI to refine offer rates in our proprietary trading system. In short, technology remains a core component of our growth strategy.

In November, the Securities and Exchange Commission proposed Exchange Act Rule 10c-1, which would require lenders of securities to provide the material terms of securities lending transactions to a registered national securities association, such as the Financial Industry Regulatory Authority.

How do you react to this initiative? What refinements to the 10c-1 proposal may be required to make this work effectively for the US securities lending market?

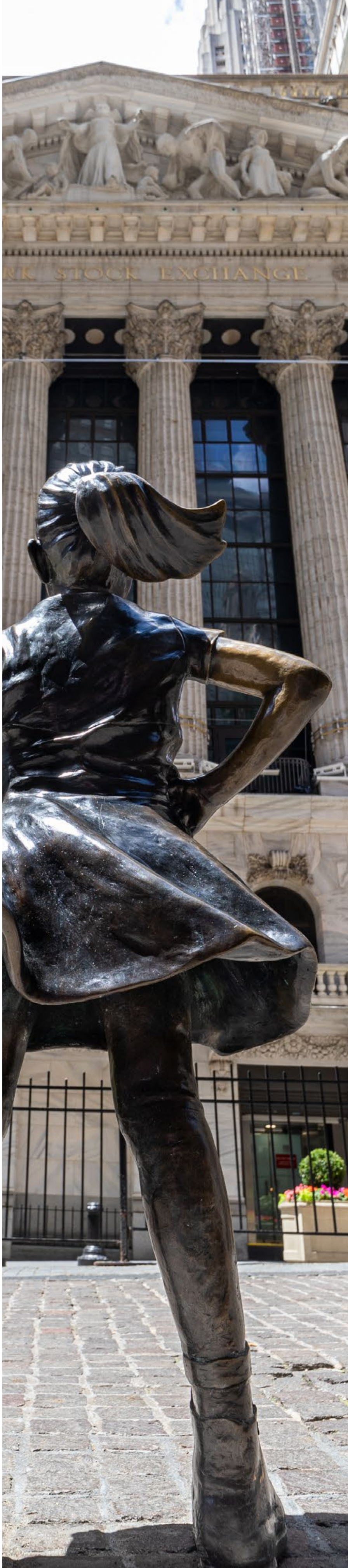
Cardieri: JPM ASF contributed to the industry feedback through the Securities Lending Committee of the Risk Management Association (RMA) comment letter. As a firm, JPM has also provided feedback through the Securities Industry and Financial Markets Association (SIFMA) and other industry and regulatory meetings. To be clear, we are supportive of increased transparency, but with the suggested proposals outlined in the RMA comment letter. Some of the refinements highlighted in the comment letter centre around the timing of the reporting, the reporting of securities available to loan, the party responsible for the reporting, the scope of the reporting, the public dissemination of data, and the flexibility in the production of Unique Transaction Identifiers. The European markets were deemed to have been successful with the implementation of SFTR. A logical outcome of 10c-1 would be to leverage the SFTR model for its best parts and consistency.

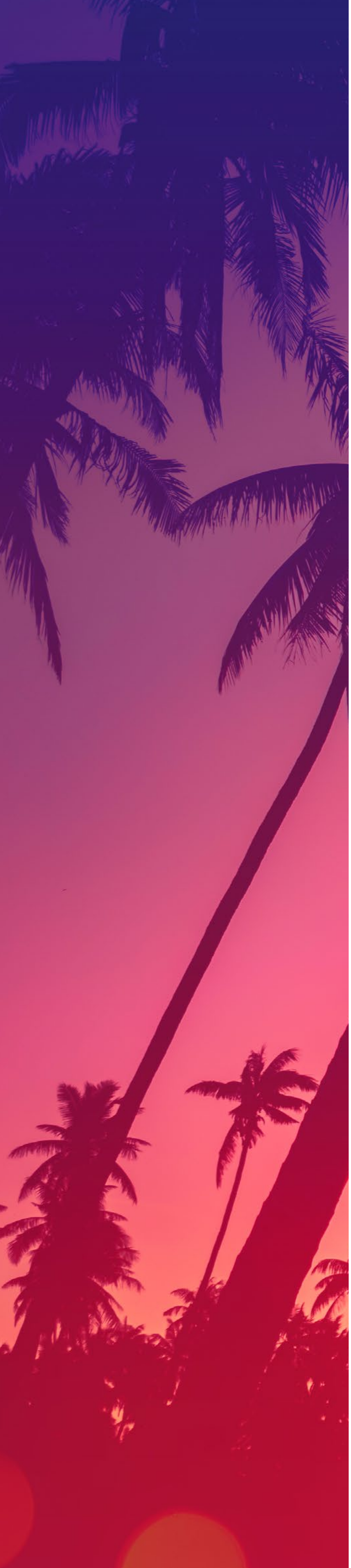
Saunders: As a global lender with clients in almost every major market, the introduction of SEC 10c-1 is manageable. Similar to SFTR, the bank has the resources to implement the SEC proposal. We are fortunate in this regard. Entities, either banks or counterparties, who historically have focused their activity on the US market exclusively will experience several growing pains in implementing SEC 10c-1. Transparency is a positive development for the industry. However, specific elements of SEC 10c-1, namely the disclosure of available supply as a reporting field, has the potential to cause unnecessary levels of information sharing.

More broadly, which regulatory projects will have the greatest impact on your lending programme over the 12 months ahead?

Saunders: There are two critical pieces of legislation slated to be discussed, and potentially finalised, by the SEC in the near future. SEC 2a-7 Money Market Reform and SEC 10c-1 are manageable, but will distract businesses from enhancing their offering to the benefit of their clients, instead requiring that they focus time, energy and resources on implementing the SEC proposals.

Aldridge: We do not believe that any of the pending regulatory changes will have a significant impact on our lending programme. We have built a securities lending programme that is flexible and able to provide real-time data to clients and regulators as requirements change. Fidelity also actively comments on proposals to help shape regulation and would plan to lead with technological solutions for any new requirements. Consequently, we believe we can adapt quickly to any new requirements.





The proposed rule 13f-2 could have a negative impact on the lending returns of beneficial owners. Alternative managers could react to the additional transparency requirements by reducing the amount of single stock shorting they engage in, owing to the heightened risk of coordinated short squeezes with the additional information in the market. This would reduce income generated for shareholders of funds that participate in lending.

In a recent SFT feature, we debated the value of securities lending indemnification, noting that the capital cost borne by the agent in providing indemnification may often far exceed the economic benefit realised by the lender. Are lenders likely to explore alternative lending options beyond an indemnified lending programme?

Aldridge: This topic has been discussed many times over the last decade, as capital costs for agent lenders have risen due to changes in regulation. We have seen very few clients move to un-indemnified programmes during this time. The returns, in general, are probably not significant enough for a beneficial owner to take on the counterparty risk, even as remote as the losses might be. Therefore, I would expect that other changes would need to occur to see a material segment of beneficial owners actively participate in un-indemnified lending.

Cardieri: Prior to the financial crisis, indemnification on the lending side became the norm. Post the financial crisis, and the ensuing implementation of the governing capital rules and financial metrics, the cost of providing indemnification has become too expensive and it is on an unsustainable path in its current form. This is particularly the case when we consider the lower fee splits retained by the agent banks and the true benefit, or lack thereof, that the indemnification provides. Not all indemnification products are equal and not all are backed by fortress balance sheets, but it is also true that indemnification can reasonably be viewed as an expensive over-insurance policy. Lenders and agents are looking towards, and currently implementing, alternatives inclusive of expanding non-indemnified programmes, peer-to-peer lending, altering pricing and collateral models. Central counterparty clearing (CCPs) is also being explored, but with a cautionary focus on cost allocations.

Saunders: Indemnification is an interesting topic for several reasons. The over-collateralisation of trades and daily margin collateralisation can be viewed as an adequate risk protection mechanism, deeming indemnification unnecessary. However, as a leading global lending agent and custodian, our client base gives a high degree of importance to indemnification. Given the option to receive indemnification from a lending agent or not, I cannot think of a scenario where a lender would choose not to be indemnified. Therefore, it becomes a commercial decision to offer indemnification or not to clients.

There continues to be elevated discussions between agents and borrowers on reducing the over-collateralisation, especially on collateral transformation transactions involving sovereign debt. In the event that lenders agree to reduced collateralisation, I would anticipate that indemnification will become more important and prevalent.

How do you assess the outlook for US securities lending markets for the remainder of 2022 and into 2023? What is top of your development priorities for this period as a securities lending team?

Saunders: The remainder of 2022 and first half of 2023 will continue to experience elevated volatility. Slowing growth, higher rates and stubborn inflation will remain the focal point for market participants. The combination of these factors will inevitably present opportunities, especially when lending specific assets which have high degrees of interest rate sensitivity.

Gillingwater: The outlook remains healthy. Several factors continue to drive the demand for US treasuries: dollar premium in currency markets, regulatory factors including Uncleared Margin Rules and the Liquidity Coverage Ratio, along with the inflation backdrop, which may perpetuate hawkish policy and fuel specials activity. In addition, global macroeconomic challenges will preserve demand for perceived riskier assets as valuations remain challenged. As always, we are very aware of market liquidity challenges so adequate buffers, and potentially excluding a growing number of corporate bonds from lending availability, will be prudent risk management tools. Lastly, collateral mobility will be key, particularly if signs of bond scarcity move to US markets. As such, clients should employ a full suite of collateral options, allowing them to make quick decisions regarding the best use of their assets.

Northern Trust has continued to invest heavily in our technology, with a focus on automation, flexibility and enabling our clients to make the best possible data-driven decisions for their portfolios across trade construction, execution, and lifecycle management.

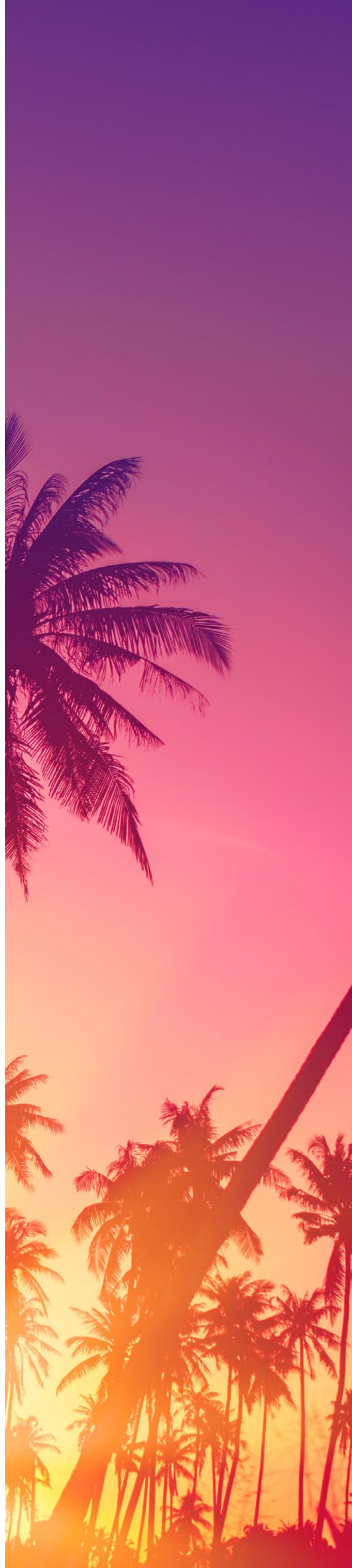
Aldridge: All else being equal, we believe the second half of 2022 will not be as profitable for US lenders as the first half of 2022 unless deal and IPO activity picks up. We are optimistic that 2023 will potentially be a great year for lenders as the markets normalise from aggressive rate hikes, and we see a normalised funnel of new IPOs coming to the market along with a healthy amount of deal activity. We do expect volatility to continue, given global tensions and the elevated possibility of a recession.

Cardieri: We anticipate that demand for single stock names will remain strong during the final months of 2022, but not as strong as earlier in the year.

The lack of IPO activity in H1 2021 will almost eliminate the IPO lockup expiration opportunity. IPOs will return if market volatility decreases — with the pipeline potentially including Mobileye, VinFast, Reddit, Instacart, Stripe, Discord and ServiceTitan.

Specifically, the deal activity pipeline with lending opportunities remains quiet. However, borrowers continue to source low RWA supply for general collateral supply to provide balance sheet relief.

Looking forward to 2023, if the Fed achieves a soft landing this is likely to weaken demand for single stock names but will contribute to a rebound in IPO and deal activity. In contrast, if the Fed engineers a hard landing, there will be strong demand for single stock names and IPO and deal activity will remain muted.



Navigating the evolving settlement landscape

David Taylor, product manager for ION Markets' Secured Funding solutions, urges industry participants to innovate and future proof their technology, noting that firms that invest early in effective solutions will be well placed to take advantage of T+1 settlement

Settlements are set to change. From the first half of 2024, the move to next-day settlements in the US and Canada, recommended by the Depository Trust and Clearing Corporation (DTCC), will modernise and bolster securities settlement, alongside reducing risk.

The DTCC believes that the move to T+1 will significantly reduce the volatility component of the National Securities Clearing Corporation's (NSCC) margin requirement, estimated to save member firms billions of dollars. It also estimates increased operational efficiency, as industry standards improve and operators move to straight-through processing (STP) and to increase their levels of automation.

The upcoming move to T+1 settlement will radically impact the processing of repo and securities lending transactions. Participants on both buy and sell sides of the market, including dealers, prime brokers, agent lenders and asset managers, will be affected by these changes to settlement and trade processing.

Today's securities finance outlook

To understand the impact of this new market standard, it is important to review the current securities finance environment. While securities finance has undoubtedly become more standardised, driven in large part by recent regulations — for example, the Securities Financing Transactions Regulation (SFTR) and Central Securities Depositories Regulation (CSDR) — and automation has increased, thanks to advances in electronic trading and technology, manual processes remain prevalent throughout the operating environment.

Pre-trade negotiation and execution is commonly agreed and confirmed through email and chat. Post-trade lifecycle and settlement management is almost entirely managed through email, phone, chat, and even fax. The collateral management process, from identifying and reconciling exposures and issuing margin calls, to selecting and agreeing acceptable collateral, is still a largely manual and complex task for the middle office. Billing reconciliation requires the use of dedicated services and breaks that must be manually investigated by the middle or back office. Finally, the impact of corporate actions on existing trading portfolios typically requires manual assessment and updates.

Time's up for T+2

As the ICMA European Repo Council's Operation Group stated of the move from T+3 to T+2 settlement, "unexpected cash and securities positions will have to be covered same day, adding to the volume of overnight repos. Funding and short-covering requirements will therefore fluctuate widely during the day before the intended settlement date".

The move to T+2 restricted the time available for repo and lending desks to address those funding requirements. Manual management of repo and securities lending trades is still possible, albeit with little or no margin for error. Even if trades executed today for settlement on T+2 are not incorporated in the positions until the next day, traders still have until the morning cut-off to identify and issue any recalls or returns that need to go out, and they have a full day to source alternative borrowers or lenders to deal with the changes in their books.

However, even in a T+2 environment, relying on manual processing remains risky. For example, if the desk fails to issue recalls or returns in time for the morning cut-off, there will be more manual work required to manage the resulting short or over-borrowed positions. Over-borrowed positions that cannot be returned in time result in increased borrowing costs. Errors in trade execution or post-trade events must be caught immediately, or they may require further work to address, or they may lead to settlement failures. In times of market stress, when there is excess demand on liquidity and trade volumes spike, the impact can be outsized. Front office and middle office teams, that are already working at capacity to process the impact of the upcoming T+2 settlements on a normal day, can struggle to cope with the increased volumes.

> *"If the move to T+1 is eventually followed up with a further contraction to T+0, real-time automation will no longer be an option but a necessity"*

Moving to T+1

The move to T+1 will further reduce the time available to manage changes to the internal and client positions of repo and lending traders. Relying on manual processes will become even more risky. Repo and lending traders will need to see the impact of today's activity on tomorrow's positions in real time. That means it will no longer be possible to wait until the next day's positions are processed. The window available for dealing with trade and lifecycle booking errors will shrink, increasing the importance of automation and system validation.

Agent lenders will need to recalculate client trade allocations in real time based on intraday client sales. Furthermore, they can no longer rely on a start of day batch reallocation process. Recalls will need to be issued as and when positions are sold to ensure returns can be processed in time.

Participants have until 2023 to test industry processes, develop and build solutions.

Will the industry settle at T+1?

If the move to T+1 is eventually followed up with a further contraction to T+0, real-time automation will no longer be an option but a necessity.

To allow sufficient time to plan and prepare for T+1 industry testing at the end of the year, there is no time to delay reviewing solutions and systems. This is especially the case for those using solutions designed when settlement was T+5, batch processing was the norm and trade processing was almost entirely manual. While these systems have grown organically and enhanced over time as the repo and lending markets have matured, the move to T+1 and then to T+0 will be a bridge too far.

At ION, we recommend that industry participants both innovate and future proof their technology. By simplifying complex processes, boosting efficiency, and empowering better decision-making, we continue to work with our customers as they navigate the evolving settlement landscape. Clients that invest now in solutions — like Anvil, ION's Trade Processing solution — that have been designed from the ground up for real-time processing, automation, STP, and exception-based management, will be well placed to take full advantage of the benefits of the move to T+1, and ready for any further contractions. ■

David Taylor
Product manager
ION Markets' Secured Funding solutions

The client onboarding revolution starts here

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, explains the challenges presented by client onboarding and how a new onboarding accelerator solution brings improved efficiency, transparency and analytics to a process that has remained unchanged for many years

The efficient and timely onboarding of new funds into a securities lending programme is a critical task for both borrowers and lenders. Despite its importance, both revenues and competitive advantage continue to be lost as a result of inefficiencies in this process and the onboarding of new accounts remains both challenging and time-consuming. The protracted timeframes needed to complete client onboarding are reflective of its manual and clerical nature. Counterparts frequently spend time navigating emails, spreadsheets, and documents that are shared and requested multiple times. The onboarding process has suffered from a lack of innovation and consideration over the years, which has concluded in an ongoing administrative challenge for onboarding teams and a delay in the introduction and monetisation of new sources of liquidity.

Onboarding assets quickly into a securities lending programme is more than just an administrative task. Competitive advantage can be gained by simplifying the process, automating the processing of documentation and by reducing the administrative costs involved. The future of client onboarding is ready for a disruptive change.

The introduction of the S&P Global Market Intelligence Onboarding Accelerator Tool provides a new digital solution capable of triggering a change of this magnitude. It is already transforming the client onboarding process and making it fit for the twenty-first century.

The disruptor

The Onboarding Accelerator Tool uses a centralised online portal for storing and sharing documentation which allows market participants to formalise and digitise their onboarding process. Through the online portal, clients can track communication flows, create bespoke policies regarding document inclusion, make ad-hoc requests for additional information, and download documentation directly from lenders' document vaults. The ability to backfill the platform creates a single and central repository for all relevant documentation. As a result, workflows can be streamlined, documentation can be centralised, and client lifecycles can be better documented, enhancing the governance of the onboarding process.

The front-to-back SFTR solution from MarketAxess
Our SFTR solution helps you to manage the entire SFTR reporting process, from trading and matching to reporting and monitoring.
Advantages:
— UTI generation and sharing portal
— Display and manage loan allocations
— Complete lifecycle event management
— Customized, intuitive dashboard
MarketAxess®
30+ years of experience in regulatory reporting.
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S&P Global Market Intelligence's Onboarding Accelerator Tool provides a standardised and transparent process for managing documentation and communication. In addition, by unlocking the power of the data in the Securities Finance portal, it can provide access to, and an enhanced understanding of, credit scores and a full review of inventory analytics for front office teams.

Transparent and digital onboarding

Gone are the inefficiencies of sharing multiple spreadsheets and lengthy email trails of past interactions.

Once subscribed and connected to the portal, the onboarding process involves a few simple steps. The account documentation and holdings are uploaded to the portal by the onboarding teams, with the ability to specify document sets and any additional requirements or parameters. The platform provides visibility and easy access to the documents, along with the ability to check their status and review their progress. In a separate portal view, both the securities lender and borrower front office teams can view the Portfolio Assessment Report (PAR).

The PAR is configured and controlled by the lender. Both lender and borrower front office teams can access key analytics, including market areas, instrument type, average fee weightings, instrument quality and utilisation. Once reviewed, the borrower can indicate which funds they would like to prioritise and communicate these to the onboarding teams via the tool and integrate this priority list into the agreed workflows. This process therefore negates the time and resource-consuming process of evaluating numerous asset pools in advance via other methods. Parameters are available for individual clients to set proprietary trading levels to ensure the asset pools can continue to be evaluated in a manner that remains consistent with each institution. The process provides a complete digital audit trail and all communication between the borrower and the lender onboarding teams occurs through the portal.

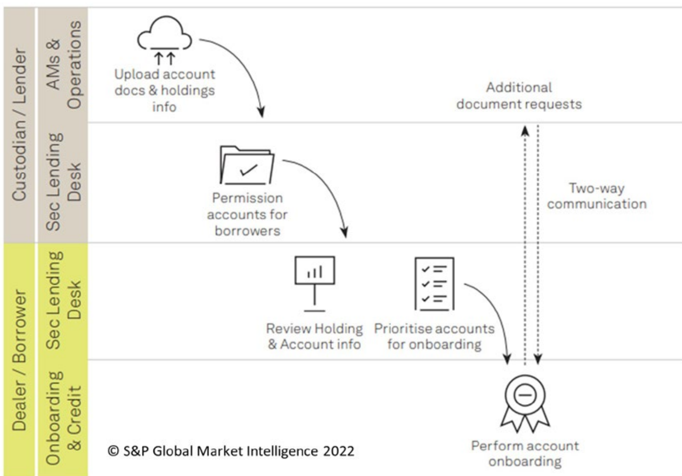
Competitive advantage gained through a simplified digital process

By digitising the onboarding process, some very important and notable advantages are naturally created:

- A decrease in administrative costs through the standardisation and automation of current processes
- Greater transparency and more streamlined communication
- A reduction of risk through well documented audit trails and a newly standardised onboarding procedure
- A clear real-time centralised view of onboarding progress and any pending requirements
- The creation of a library of existing account documentation to enable rapid execution of new trading relationships and reviews
- The automation of processes through open API connectivity to internal systems
- Utilisation of market data, in an interactive and dynamic format to assist in the prioritisation of fund approval and time to market

The benefits are numerous and wide ranging for all market participants. The move towards a central hub for documentation and process flows will accelerate the onboarding process and provide a more efficient audit trail for all participants.

Diagram 1.
The simplification of the new digital onboarding process



The future of client onboarding

As can be seen, digitising the onboarding process brings efficiency and scale, consolidation and coordination, and much needed transparency and analytics to a process that has remained unchanged for many years. In addition to enabling individual onboarding teams to measure and optimise their own performance, the shift to digital workflows holds the potential to enhance the security finance industry's efficiency and performance. By digitising the onboarding process, multiple billions of dollars of additional liquidity can be unlocked more quickly to the benefit of both borrowers and lenders.

Latest industry appointments at Northern Trust, BNP Paribas and BNY Mellon

Clear Street has made a series of institutional sales appointments in its New York and Chicago offices. Six senior sales traders have been welcomed to the company, along with two equity finance professionals.

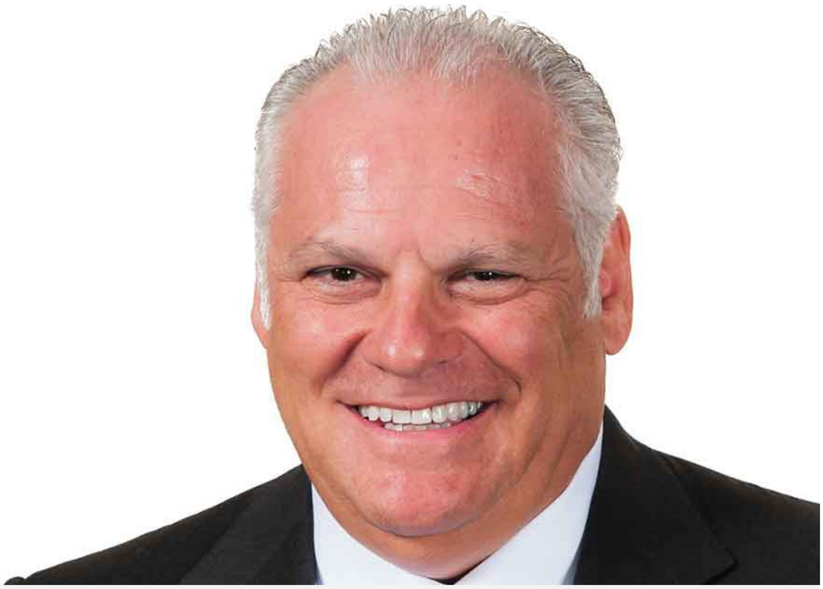
Michael Batanjany will become managing director of distribution within the equity finance team, effective 26 September. He joins Clear Street from Wells Fargo, where he was director of global prime brokerage. Prior to this, he spent more than eight years as director of global prime brokerage sales at BNP Paribas.

Bjorn Franson also joins the equity finance team, with experience at Morgan Stanley, Citi, BNY Mellon, and, most recently, Mirae Asset Securities.

Batajany and Franson will both report to Pat Travers, head of distribution, and Andy Volz, chief operating officer, and will be based in New York.

David Diaz, Chris Tierney, Erika Thomas, Frank Davis, John Spiegelman, and Louis Natoli II join the institutional sales team. They will report to Joseph Ricciardi, head of US sales and trading, and will be based in the firm's New York and Chicago offices.

Diaz and Tierney move to Clear Street from managing director roles at Virtu Financial, spending 13 and 20 years at the company, respectively. Spiegelman also joins from Virtu Finance, where he was most recently a sales trader.



Transcend appoints Jeff Kidwell as director of sales

Transcend, a provider of optimisation solutions for liquidity, funding, and collateral, has appointed securities finance veteran Jeff Kidwell as director of sales for North America.

Kidwell will focus on growing Transcend's securities finance footprint in North America and will report to Transcend's head of sales and business development BJ Marcoullier.

Kidwell has been an active senior architect in the securities finance industry since 1982.

From 1982 to 2004, he served as executive director of Morgan Stanley's North American repo desk. In his career, Kidwell has held the roles of co-head of the global repo desk and managing director for Cantor Fitzgerald.

Most recently, Kidwell was the founder and head of direct repo at AVM Inc, a registered broker-dealer in Florida, prior to running his own consulting firm, Kidwell Consultants LLC.

Commenting on the hire, Marcoullier says: "Transcend has seen tremendous growth over the past few years, which is a result of our strategic investments in product, technology and people. As we look to scale this momentum, Jeff will help us continue our growth in the securities finance marketplace."

Jeff is coming on board during a time when the securities finance space is more focused than ever on collateral, funding and liquidity optimisation, according to Bimal Kadikar, founder and CEO of Transcend.

He continues: "The demand for innovative solutions is driven by rising rates, regulation, and market complexity. With more than 40 years of expertise, Jeff will be a great asset as we continue to grow our market presence and deliver solutions addressing these challenges."

Thomas joins Clear Street from Cantor Fitzgerald, where she was managing director. She also served as managing director at Barclays Investment Bank for more than 10 years, before which she was senior vice president at Lehman Brothers.

Northern Trust has welcomed a series of hires within its global capital markets business, and has also established a dedicated capital markets client solutions team.

Glenn Poulter has been appointed global head of integrated trading solutions, and will be based in London. Poulter has been with Northern Trust for more than four years, serving as senior vice president and global head of brokerage.

Reporting to Poulter, Stephanie Farrell and Amy Thorne will head integrated trading solutions in the Americas and EMEA respectively. Jon Cherry has been named as head of brokerage for the Americas, following his role as global head of options trading.

Northern Trust's decision to create a capital markets client solutions team comes in response to increased client demand for comprehensive front office transactional and optimisation solutions.

The group will encompass brokerage, securities finance, foreign exchange, and other capital markets capabilities, helping asset managers and owners through rapidly changing economic and regulatory environments, Northern Trust says.

Gerald Walsh has been appointed global head of client solutions and will report to Guy Gibson, global head of Northern Trust capital markets. Grant Johnsey will head client solutions in the Americas and report to Walsh.

BNP Paribas Corporate and Institutional Banking (CIB) has appointed Biagio Bonanno as director of securities lending trading.

Bonanno brings a host of experience to the New York-based role after a 26-year career in the securities lending sector.

He joins BNP Paribas CIB from a 16-year term at Credit Suisse, where he was most recently director of securities lending supply trading. In this role, Bonanno managed a small group of traders, focusing on US hard-to-borrow inventory for distribution to hedge fund clients.

Prior to this, Bonanno was a securities lending supply trader at Goldman Sachs, during his five-year service at the firm. He previously held positions at J.P. Morgan Chase and Morgan Stanley.

BNY Mellon has appointed Dimitar Pantchev as global head of banks and broker-dealers, institutional lending at the firm's New York office.

Pantchev has almost twenty years of experience in financial services. Prior to BNY Mellon, he served as group head of banks and broker-dealers for the Americas, within the Global Financial Institutions Group at Sumitomo Mitsui Banking Corporation from 2008 to 2022.

Before this, Pantchev was an investment banking associate at Bank of America between 2005 and 2007, and held positions at Commerce Bank and Citizens Bank.

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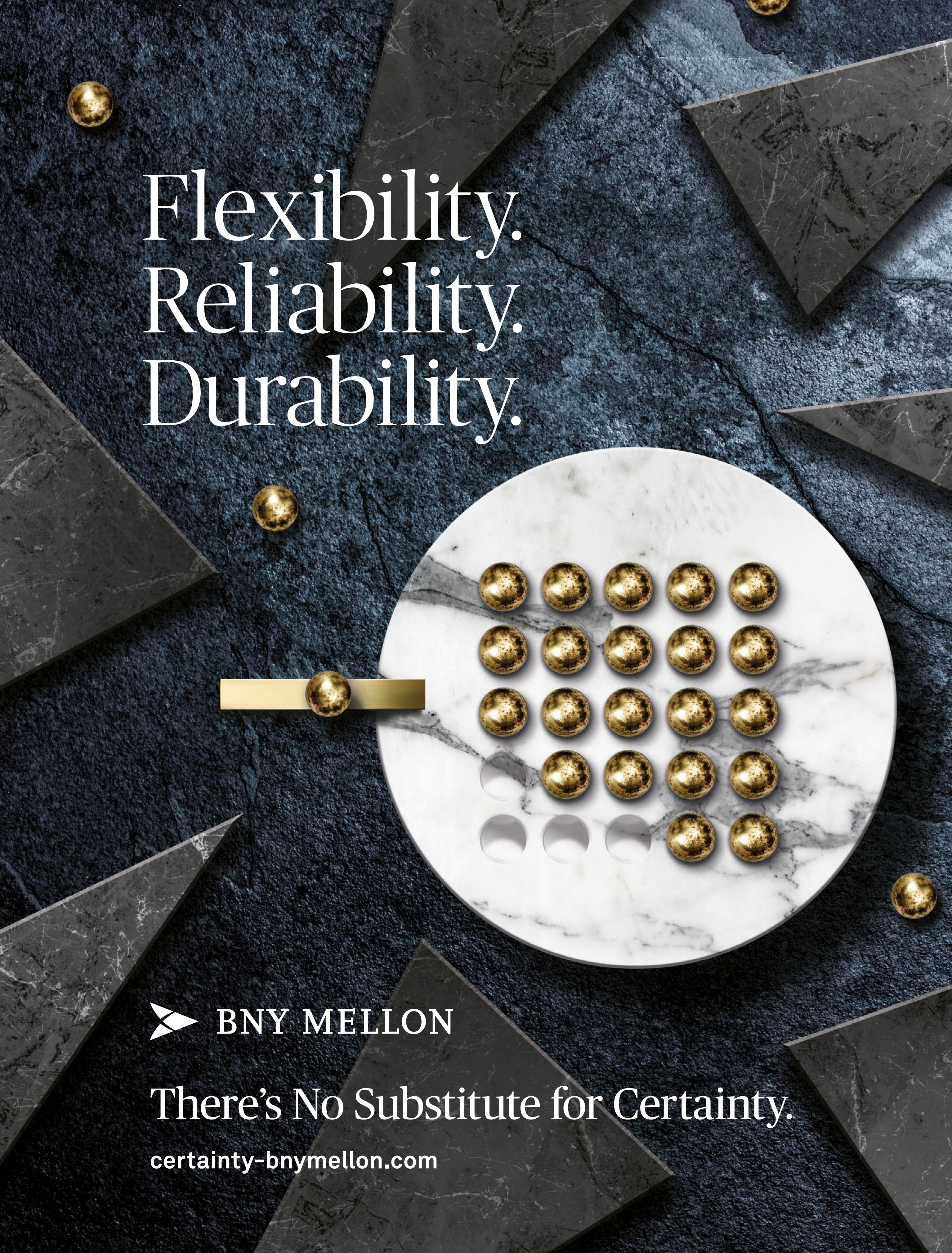
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