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Beyond the point of no return

Industry participants have witnessed steady growth in the use of electronic trading in the securities finance sector and this is expected to accelerate over the years ahead

HQLA^{X}, J.P. Morgan, Wematch and Ownera confirm feasibility of cross-ledger DvP repo

HQLA^{X} and J.P. Morgan, working with Wematch and Ownera, have announced a successful demonstration that confirms the technical feasibility of processing a DvP repo trade across two different DLT platforms.

This simulated transaction demonstrated how ownership rights in securities recorded in digital collateral records held on HQLA^{X}'s DLT-based ledger could be exchanged simultaneously against digital cash recorded on J.P. Morgan's DLT-based book of record.

The trade was executed using Wematch's trading platform, with Ownera providing connectivity across Wematch's front-end systems and the two distributed ledgers using FINP2P routing protocol.

Commenting on the simulated transaction, HQLA^{X} CEO and co-founder Guido Stroemer says: "Interoperability across distributed ledger platforms is paramount for broad market adoption of DLT in the securities finance industry. This test demonstrates not only the technical feasibility for interoperation across ledgers, but it also highlights the spirit of industry-wide collaboration."

J.P. Morgan's head of markets DLT, Scott Lucas, says: "Collaboration and interoperability between platforms will be key to enhancing the liquidity of tokenised assets across the market. This is another step on that pathway."

Wematch CEO and co-founder Joseph Seroussi adds: "After years of hard work and massive investments from banks and tech companies, blockchain is moving from the labs to the street. The industry is ready to adopt this game-changing technology and unleash the efficiency of DLT in traditional finance."

According to Ami Ben-David, co-founder and CEO of Ownera, "this project is an important milestone for the industry. Our role in it is to serve as a neutral layer, seamlessly interconnecting the various platforms using open-source interoperability specifications to facilitate market collaboration and liquidity."

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In the search for alpha, you need more than just a lending agent.
RETURNS
You need complexity made simple. Uncertainty made clear.
Decisions made with confidence.
MADE
Above all, you need a trusted partner like State Street.
SIMPLE
Our lending program is the most innovative in the world.[1] We give you easy access to the intelligence and lending tools you need to make the right moves and unlock growth.
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[1] Global Investor ISF Survey 2020 – Securities Finance Agency Lending named Most Innovative Lender

Global securities lending revenue increases

EquiLend's market data service DataLend reports that the global securities finance industry generated US$2.3 billion in revenue in the third quarter of 2022, a 12 per cent increase from Q3 2021.

The industry generated US$814 million in revenue for lenders in September 2022, a three per cent increase YoY from US$790 million.

For Q3, equities revenue increased more than 7 per cent YoY to US$2.03 billion. Declines in EMEA (36 per cent) and APAC (22 per cent) securities were offset by 17 per cent gains from North American securities.

Revenue generated from fixed-income securities rose by 31 per cent YoY during Q3 to US$598 million.

DataLend says that increase was driven by global fixed income, with average fees increasing by 38 per cent for government bonds, and 82 per cent for corporate debt.

For September, the revenue of global broker-to-broker activities increased five per cent YoY to US$220 million.

MTS BondsPro and Overbond partner

Overbond has confirmed a data sharing and redistribution partnership with MTS BondsPro, integrating elements of MTS fixed income price data to enhance the coverage and precision of its AI-generated fixed income data feeds and automated trading solutions.

Through the relationship, Overbond AI will be able to integrate 10 million additional price updates daily across 25,000 investment grade, high yield and emerging market debt instruments.

MTS BondsPro clients will have access to Overbond's fixed income prices and liquidity-confidence benchmarks.

Overbond notes that electronic and automated trading require precise, live data, but significant gaps remain in this data coverage owing to the lack of a centralised source for fixed income trade data.

Executable prices and liquidity measures require sophisticated artificial intelligence (AI) and cloud-based processing for modelling, it says, and most fixed income trading desks

lack the expertise and resources to perform these functions in-house.

The MTS BondsPro automated trading system (ATS) is operated by Wall Street-based broker-dealer MTS Markets International.

BNY Mellon adds ESG enhancements to its securities finance platform

BNY Mellon has enhanced its securities finance platform to help clients to analyse their agency securities lending programme alongside their sustainability goals.

The announcement comes as stakeholder demands are growing for transparency in connection with ESG commitments.

Delivered through an interactive dashboard, the updated platform allows clients to apply ESG scores based on third-party data across their lendable portfolio and collateral and cash investments. This enables clients to evaluate their level of alignment with their individual ESG goals.

The new dashboard leverages MSCI ESG Research's ESG Ratings, assigning scores to securities across the three distinct pillars of ESG: environmental, social and governance.

The scores are applied to a client's non-cash collateral and cash reinvestment, including both outright purchases and repo collateral. The resulting output allows clients to quickly and easily analyse how their portfolio, the collateral they receive, and the investments they make, align with their environmental, social and governance goals and values.

The new capability represents the first in a series of ESG enhancements BNY Mellon plans to make to its platform.

Ina Budh-Raja, EMEA head of securities finance product and strategy and global head of markets ESG at BNY Mellon, says: "Transparency is critical to the evolution of the ESG investing landscape, as well as the management of ESG risks and regulatory compliance. BNY Mellon is committed to providing clients with next-generation solutions and insights designed to help enable alignment with their ESG goals."

OCC cleared securities lending volume up

Securities lending transaction volume cleared through OCC has grown 19.2 per cent year-on-year to 203, 860 trades for September 2022.

However, average daily loan value for securities lending trades cleared through the Chicago-based clearing house have contracted 4.0 per cent to US$122.56 billion for September 2022 relative to September 2021.

For options contracts, total average daily volume for all options cleared through OCC has grown 5.1 per cent YoY to 40.59 million year-to-date.

This has been driven particularly by a 50.4 per cent YoY rise in ADV for ETF options to 15.64 million ytd and a 40.4 per cent YoY rise in ADV for index options to 2.70 million ytd. For equity options, average daily volume has contracted 15.4 per cent to 22.25 million ytd.

Total monthly cleared futures and options volume through OCC has grown 12.0 per cent to 915.25 million contracts for September 2022 relative to September 2021.

SWIFT pilots Securities View to boost post-trade efficiency

SWIFT has completed a pilot of its Securities View project designed to eliminate settlement fails and to improve transparency in post-trade processing.

This aims to provide market participants with an integrated view of a securities trade across the transaction lifecycle, providing capacity to flag trades that run a high risk of failing.

The service uses an ISO-standard unique transaction identifier (UTI) to mark the progress of securities across the trade lifecycle, enabling automated tracking of both sides of the transaction.

SWIFT reports that it is encouraging use of the UTI to promote standardised data use across the post-trade lifecycle, delivering greater transparency to post-trade processing as part of measures to promote instant, frictionless and interoperable transactions globally.

It has completed the pilot phase of the project, with participation from a wide range of global securities services providers, market infrastructure specialists and buy-side firms, including ABN Amro Clearing Bank, BlackRock, BNP Paribas, BNY Mellon, Citi, Credit Suisse, Euroclear, Euronext, HSBC, J.P. Morgan, Northern Trust, Optiver, Pershing and SEB.

The service is expected to be released for broad market adoption during 2023.

SWIFT's head of securities strategy, Vikesh Patel, says: "SWIFT Securities View does more than just empower our customers to identify and rectify discrepancies in settlement transactions; it sets the blueprint and foundation for a new industry standard to radically transform the industry, just as SWIFT gpi continues to do for cross-border payments.

"Our early pilot results show this potential and further strengthen our mission of making transactions instant and frictionless, across all industries."

Taiwan tightens short-selling

The Taiwan securities markets regulator has tightened its rules on short-selling and securities lending.

The move comes as TAIEX, the Taiwan Stock Exchange's main cap-weighted index, fell almost four per cent, from 13850 on 27 September to 13301 on 30 September, in the face of volatility in global equities markets and the prospect of further interest rate increases from the US Federal Reserve. This pushed the Taiwan benchmark equities index to its lowest levels for almost two years.

In a bid to contain this slide, the Financial Supervisory Commission limited the volume of intraday securities lending orders to 20 per cent average daily trading volume over the past 30 days, down from the 30 per cent ADTV limit in place previously.

The FSC has reduced the permitted volume of intraday SBL in response to a significant rise in short-selling activity by foreign institutional investors over the preceding nine months, according to a statement by Sam Chang, director-general of Taiwan's Securities and Futures Bureau, reported in translation in the Taipei Times.

Taiwan imposed a ban on short selling in response to market volatility triggered by the COVID-19 pandemic, introducing this measure on 20 March 2020 and subsequently lifting this restriction in June 2020 as trading conditions stabilised.

Tradeweb daily repo volumes rise

Repo average daily volumes traded on Tradeweb increased 16.6 per cent YoY for September, rising to US$381.2 billion.

This represented a 3.1 per cent month-on-month increase on the US$369.6 billion in repo ADV traded in August.

The US-based provider of electronic trading for rates, credit, equities and money markets indicates that average daily trading volume across all asset classes for the month of September was up 17.2 per cent YoY to US$1.20 trillion.

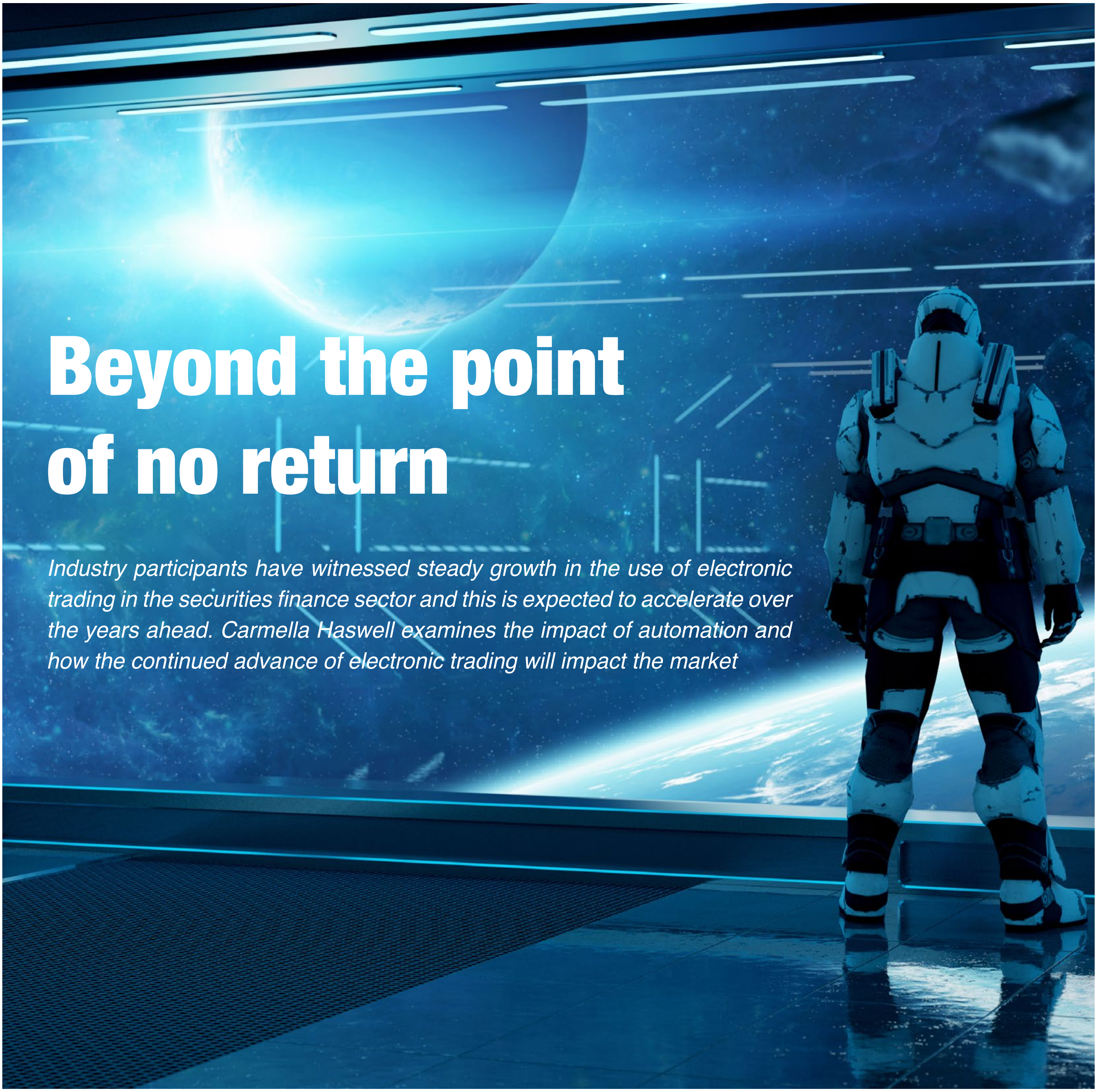
For Q3, total trading ADV was up 14.0 per cent YoY to US$1.10 trillion.

Trading of government fixed income securities on Tradeweb had mixed fortunes during September, with US government bond ADV down 3.8 per cent YoY to US$129.3 billion but with European government bond ADV rising 20.8 per cent YoY to US$41.6 billion.

Tradeweb reports that US government bond activity across institutional and wholesale markets was lower, but higher interest rates are driving record volumes in the retail market.

Record activity in European government bond trading was powered by high interest rate volatility and record activity in UK gilts.

Average daily trading volume for swaps and swaptions rose 37.4 per cent YoY to US$257.9 billion for September, with ADV for interest rate derivatives rising by 42.0 per cent YoY to US$393.0 billion.



Beyond the point of no return

Industry participants have witnessed steady growth in the use of electronic trading in the securities finance sector and this is expected to accelerate over the years ahead. Carmella Haswell examines the impact of automation and how the continued advance of electronic trading will impact the market

Technology firms are needing to adapt to survive in an industry where market participants are demanding and expecting increasing levels of automation to maintain position. Despite being years from a fully-electronic world, electronic trading is leading decision making in the repo markets.

The way that trading platforms have expanded across different asset classes over the past two decades has characterised the digital transformation across capital markets, according to Ed Tyndale-Biscoe, head of secured funding product development at ION Markets.

As a global provider of technology to firms across all asset classes, ION Markets' view of the world is built on the foundation of electronic trading. Tyndale-Biscoe explains: "We ensure that our technology evolves at the same pace as that in which the markets provide. The core values that we have when designing solutions are simplifying and automating workflows, improving efficiency, and empowering users' decision making."

Electronic trading is defined by the International Capital Market Association (ICMA) as the execution of a contract across an electronic platform. In December 2021, 26.8 per cent of the outstanding value of repo business reported had been executed on an automated trading system (ATS) — an electronic repo trading method.

The ICMA's "European Repo Market Survey: Electronic trading in the European repo market" suggests that most repos traded on an ATS are short-term, meaning that they "run off" quickly between survey reporting periods. As a result, a significant percentage of these trades are not being captured. The survey reads: "In terms of turnover (flow) data, which include all new transactions over a period, ATS would take a much larger share. Using UK and EU Securities Financing Transactions Regulation (SFTR) data on trading venues as a proxy suggests 53-58 per cent at end-2021. The ATS share of interdealer trading is likely to be even higher."

Global head of BrokerTec at CME Group, John Edwards, says electronic trading within the dealer-to-dealer (D2D) markets has been established for a long time, but continues to evolve. BrokerTec Quote — a dealer-to-client (D2C) request for quote (RFQ) trading solution for the European and US repo markets — is experiencing an "interesting" period of innovation within the repo space. This comes in response to regulatory changes, in particular SFTR, which has altered the market and outlook for electronic execution, according to Edwards.

"Electronic trading is about delivering efficiency to a market," Edwards notes. "Repo is typically not a high frequency, fast moving product. This is about order management — trying to build liquidity pools which give real value to customers in terms of a one-stop venue, so they can execute the vast majority of their business."

The key to creating a fully electronic market revolves around three pillars, according to Madhu Subbu, head of securities finance engineering at Clear Street. These include electronic distribution of market data, electronic order management and electronic matching.

Reflecting on the history of the cash equities market, Subbu explains that these three pillars were largely in place by the late 1990s, which saw volumes explode, reduced trading costs and a participation increase. Compared to the stock loan market, the three pillars are in place to varying degrees, but not at the level of the cash equities market.

ION Market's Tyndale-Biscoe concludes: "As the level of expectation in trading platforms increases, participants are demanding, and expecting, increasing levels of automation to maintain position and to drive more efficient management of scarce resources, in line with the requests that we are hearing from our clients.

"In terms of the transition, it is not anywhere near complete to a fully electronic world. There are still a number of challenges and uncertainties around the path to that."

Changing trading needs

The value of electronic trading within the repo markets is three-fold, according to Clear Street's Subbu. Firstly, it provides scale and market throughput; in the securities lending market for US equities, utilisation has historically averaged around 3 to 5 per cent.

Secondly, electronic trading allows for price discovery for market participants — when a market moves to electronic trading, price discovery tends to improve and prices converge. Thirdly, it provides market access as participation increases when the market becomes more electronic.

With a multitude of factors impacting the evolving electronic trading environment, Clear Street is noticing a change in client trading needs. Subbu explains: "Most prominently, securities lending used to be a rather niche corner of the market, but that has changed thanks to players like Robinhood and the other new-age brokers. There is also a broader understanding of shorting in the market, which means there is more demand for securities lending. We are generally seeing participation go up as a result."

Tradeweb's head of European fixed-income Nicola Danese suggests that client needs have changed particularly as a result of the pandemic and the shift to work from home, as this has reinforced the merits of automation and electronic trading solutions. Additionally, technology development and regulation have become drivers in changing trading needs, particularly as a result of the Central Securities Depositories Regulation and settlement penalties.

Building on this point, CME Group's Edwards notes: "MiFID II was an alarm call to the securities lending, and particularly the repo, markets, knowing that SFTR was coming and would seek to make similar changes for these markets. It was a real catalyst in driving the adoption of electronic trading in the direct-to-customer (D2C) environment."

Prior to the introduction of SFTR, the D2C market was "very slow" to adopt electronic trading, especially when compared to rates or other fixed-income markets, Edwards explains. He continues: "SFTR was the catalyst for greater adoption and demand and a big driver of why we recognised the opportunity to get into the D2C market in 2019."

Tradeweb's Danese reflects on the hesitancy from clients to embrace technology, owing to the fact that the repo market is a relationship-based business. "There was a desire not to push too hard towards electronification, although the merits were absolutely acknowledged," Danese comments. "Some clients, rightly or wrongly, had the perception that the relationship aspect could have been diluted by automation. They now see the merits in their day-to-day trading activity with simplified, more efficient, automated workflows."

Adding that the "proof is in the numbers", Danese announces that in EUR terms, Tradeweb's institutional global repo platform saw a 14 per cent increase in average daily volume in the second quarter of 2022 year-over-year.

A greater impact

In the repo market, the adoption of electronic trading continues at pace and is expanding across other flows, where traditionally it was more widely used on the interdealer markets for trading more liquid assets over short terms, ION Market's Tyndale-Biscoe explains. Although repo has been slower to embrace electronic trading, and remains behind the curve, it is definitely catching up.

Tyndale-Biscoe adds: "We are seeing significant demand from our clients when it comes to managing RFQs for those participants that, historically, have not been able to access the interdealer liquidity, or where there is a demand for less liquid, more structured, or longer term types of deals."

In response to this trend, ION Markets has extended its solution on the interdealer markets and trade processing to simplify the sales-to-trader workflow through the use of an order management solution. The firm predicts that as more participants automate their flows and leverage the benefits of that model, this will become the default and, eventually, "the only way to do that business".

Evaluating its impact on the repo market, CME Group's Edwards says the advancement of electronic trading has provided greater transparency in the dealer-to-dealer (D2D) space, which has supported the market and allowed further growth. Over the past few years, Europe has seen close to double-digit growth in terms of nominal volume transacted. More recently, the US has seen a significant increase in volume activity, Edwards informs.

He continues: "We have seen new record highs frequently over the last eight months or so. Often traders are not fully aware of the increase in activity from one day to the next and this is a testament to the efficiency of electronic trading, in that if their financing needs are much greater today versus yesterday, the market has the ability to absorb that and allow them to transact seamlessly."

Currently, there are two key developments in the stock loan market that could move electronification forward, notably electronic matching at scale and new clearing models. Clear Street's Subbu explains: "When I came to Clear Street, I brought with me Enigmatch's technology, which possesses the unique ability to match complex financial contracts at scale, including stock loan and repo." In terms of new clearing models, the DTCC's Securities Financing Transaction CCP offering is expected to alleviate capital constraints for participants and increase participation.

Despite its positive impact, the market is facing new challenges and risks from electronic trading as the industry seeks to answer pressing questions on fragmentation, interoperability and data hygiene — questions of how to deal with different channels for liquidity and availability, and how to get these systems to interoperate in a seamless way, cleaning, normalising and processing all of that information in a world with increasing volumes of data.

Tyndale-Biscoe says: "The risk is that a lot of legacy tech still remains. These closed or proprietary systems present something of a block to fully realising the benefits of electronic trading. But the industry is working very hard to address this and there are a number of initiatives, not just SFTR and the common domain model (CDM), but there is transaction reporting generally and lifecycle modelling to help standardise that processing."

However, vendors can play a big part in helping the market navigate this, in particular, through the use of cloud, artificial intelligence (AI), covering data science, and machine learning, which make greater use of predictive analytics to help and improve confidence in decision making and risk management.

Clear Street believes that margins are under pressure because there is no more price transparency. "Customers are also demanding a frictionless user experience. They want access to a broad range of inventory at good prices. That is the pressure electronic trading has put on participants like us," Subbu adds.

On the horizon

As the integration of electronic trading spreads across the securities finance and lending industries, market participants reflected on what is next to come from this technology phenomenon.

"For quite some time, people were still unsure if electronification was going to happen — it has happened, and we are beyond the point of no return," says Tradeweb's Danese. "We see other powerful forces at play, like the removal of some of the accommodative monetary policies that are expected to give further impetus to the automation of repo as a product."

As part of the solutions in post-trade, the mention of distributed ledger technology (DLT) is increasing. Although too early to know if DLT is going to address the settlement challenges, Danese expects further impetus in automation, electronification and new solutions in that space.

Through the evolution of electronic trading, the market is likely to see continuing initiatives to support additional workflows and broader asset class coverage.

In terms of Tradeweb's own evolution, Danese names repo to be the "lifeblood" of the financial markets. He continues: "It is particularly important for us to have a good repo offering, because providing liquidity in the repo market enhances the liquidity of the cash markets. I will go one step further, it is not just about repo for us, but it is also about financing. We are looking at the entire financing ecosystem."

CME Group's Edwards expects to continue to see growth in the marketplace over the next five years, with sponsored clearing singled out as an interesting area for development — which is supported on BrokerTec Quote in the D2C space.

In terms of its own evolution, BrokerTec is still within its growth phase in terms of the D2C under BrokerTec Quote and its focus will be on extending collateral types — specifically, different fixed-income securities available for traders to execute a repo transaction. He concludes: "There is an increase in demand and appetite to trade repo as a floating rate or spread, rather than a fixed-rate repo. The driver for this is the changing and upward interest rate environment, to provide more protection and hedge in terms of further rate changes. We are keen to maintain our strong service and platform as the place to go to trade repo."

Clear Street's Subbu predicts that the securities lending market is going to see an increased amount of electronic matching, combined with central clearing. The securities lending and repo market could also see the emergence of multiple venues and multiple liquidity pools. "Over time, they will likely consolidate, just like in the cash equities market. The ones with the best user experience, customer service, and the widest inventory, will probably win out." Subbu comments.

"The past few years, and certainly the past few months, have shown the unpredictable nature of what goes on in the global economy and the impact that it has directly on capital markets, secured funding, and all the different areas of the business. The fact that electronic trading has continued to expand during that period is real testament to the high level of quality and reliability of the systems that we have in place," concludes Tyndale-Biscoe.

Over the next five years, it is very unlikely that the market will see a complete absence of humans from making trading decisions, Tyndale-Biscoe advises. However, there will be a shift toward automated decision making. Additionally, there will be growing emphasis on the transparency and ESG-related aspects of decision making, alongside steps to support greater flexibility around trading in digital assets.

Guiding the market

Tonic chief executive and co-founder Chris Watts reflects on the origins of the company, how consultancy models are changing, and why it recently chose to rebrand

Can you describe the Tonic consultancy service model and what it brings to the industry?

From inception, the Tonic model has been built on providing expertise-led consultancy services to accelerate our clients' business objectives. At our core, Tonic is a squad of industry specialists, with cross-product domain and transformation expertise, who help our clients across the front-to-back trade lifecycle for securities finance and derivatives.

One key outcome of our expertise is the ability to define and deliver tailored client solutions, driven by our clients' bespoke requirements. We combine our expertise with a highly client-centric and flexible approach. These pillars have been central to building trust and long-term partnerships with clients.

As these relationships have matured, our clients have approached us to help them to solve problems across a far wider domain scope and this has been central to the evolution of our business.

Was that the motivation for your recent rebranding?

Yes, the reality is we outgrew our previous name some time ago. It is no secret that the company was formed four years ago as ‘Margin Tonic’, providing expertise-led services across margin and collateral. We had a particular focus to help the industry to uplift its collateral infrastructure in line with pending regulatory demands, technology challenges and cost pressures.

With our clients enjoying our service model, the company’s domain coverage has expanded rapidly. This was central to our decision in July to rename the company as Tonic.

Today we are an expertise-led capital markets consultancy. Our domain coverage bridges custody, clearing, settlement, treasury and financing, analytics and optimisation, digital assets and technology, sustainable investing, market risk, legal and more. Our domains continue to grow out to the point that, in times ahead, we will be able to support any client requirement with genuine expertise.

Taking a step back, what was your motivation for forming an independent consultancy?

In our previous lives on the client side, Tonic co-founder Craig Pearson and myself had widespread exposure to the traditional service model offered by the larger consultancies.

While this service model has its strengths, we recognised an opportunity to uplift this model, focused on an expertise-led service model, tailored solutions, combined with a very client-centric, flexible approach.

In the early days of Margin Tonic, it was just Craig and myself, each wearing multiple hats and covering the wide range of roles necessary to run a young consultancy business. This extended from client delivery through to business development, recruitment, finance and marketing. It was not an easy time.

Back then, the early focus was on expanding our network and ensuring that we captured the trust of the market. As we have grown, our roles as co-founders have evolved but we remain heavily engaged with the day-to-day delivery of services and solutions to our clients.

As chief executive, I oversee the strategic direction of the company and remain heavily focused on business development, with Craig Pearson sitting at the heart of client delivery. Our operations director Deven Naran ensures that we continue to scale our business, while managing our finance and resourcing requirements. Currently the consultant team is roughly 20 strong, but we will expand further during the remainder of 2022 and into 2023.

In growing our business, we have remained committed to our founding principles, ensuring that we do not dilute our expertise or stray from our client-centric approach. This has been important in generating the trust of large and well-established customers, which today includes a growing mix of major custodians, large dealer banks, smaller banks, hedge funds, pension funds, commodity houses, crypto providers, digital technology providers and other vendors.

How is your service coverage organised?

We offer four key Tonic service families, namely Advise, Transform, Educate and Operate. Across these services we provide end-to-end consultancy support for our clients.

The Advise module focuses on helping clients to define their strategy and vision — which often includes use of benchmarking analysis, for example, to help customers to understand where they currently sit in the market and how they can advance towards their business objectives.

A second family of services, Transform, has been Tonic’s traditional engine room, helping clients to design and execute high-quality tailored solutions and target operating models. This may involve helping the client to meet forthcoming regulatory compliance objectives, to consolidate or upgrade its internal systems, to select and install a new vendor platform, or to define a new organisational structure. Often there is a commercial objective that our clients want us to help them achieve via our Transform services.

A third stream, Educate, is broken into two pathways: Tonic University and Tonic Content. Tonic University offers expertise-led training, delivered through educational modules broken down by products and service domains. Tonic Content is a service stream which may not be as well known.. Here we continue to produce expert content, such as onboarding guides for our clients, across sales, marketing and operational needs.

Our fourth service area, Operate, focuses on provision of tailored operational services — providing expertise-led operational resources customised to the specific requirements of the client.

I have heard you mention previously that, for some banks, there is a degree of acceptance that their legacy, siloed infrastructure is difficult and expensive to unwind. How is this guiding your conversations with clients around use of vendor solutions and fintech to revitalise the inefficiencies of their legacy technology?

Silos remain an enduring challenge for the securities finance industry. Many firms are dealing with multiple silos, which may include securities lending, repo, uncleared, cleared and listed derivatives, each having their own legacy IT stacks and profit centres.

For multinational entities, there is also likely to be fragmentation of collateral and liquidity geographically across a firm's business centres around the world — and this may be magnified by fragmentation at domain level, across treasury and liquidity management, trading, operations and other service centres.

Over time, some of our clients and partners have become pragmatic about how they manage their silo arrangements. For example, they recognise that these silos present an obstacle to an enterprise collateral inventory view — for more efficient collateral mobilisation, optimisation and funding cost base — but, at the same time, they also recognise that the upfront cost and effort of consolidating these silos can be prohibitive, especially for technology.

With this in mind, some clients have focused on what they can do on top of these silos to accelerate cross-silo solutions. For the same use case, we have seen firms consolidate asset data from a range of product-level or entity-level technology applications to provide a holistic asset inventory view. This is one area where vendor solutions can play an important role.

Simply put, in a climate where increasing funding costs look likely for the longer term, firms are having to get creative with the solutions available to them. In doing so, this is heavily dependent on being able to draw high-quality data from those silos to make this approach work. If there are data gaps or inaccuracies, this will limit how far the firm can progress with this approach.

On balance, the optimal approach is almost always to standardise systems and processes to eliminate silos as far as possible. This is almost always the case for operational processes.

But there are certain contexts where it may make sense to keep legacy systems, at least at the current time, and to apply a data middleware layer to provide a consolidated enterprise-wide data view. Front-office based domains may be a strong candidate for this approach, where the upstream silos are simply too difficult to consolidate. Use cases here may include collateral and liquidity optimisation, treasury management and performance analytics.

This approach utilises a data layer or data 'fabric' on top of legacy modules to provide consistency across silos and to support an enterprise-wide data view?

Correct. But the middleware needs to be flexible to deliver this standardisation. If a firm has multiple legacy systems sitting below this layer, the data fabric must be able to accommodate a wide range of data formats and normalise this data to deliver a rationalised data view.

When in place, this cross-product or cross-entity view is very powerful since it enables firms to think about cross-product collateral mobilisation and optimisation. We are all clear that the benefits of managing collateral in this way far outweigh what is possible when managing this silo-by-silo.

How is buy-side culture evolving around outsourcing of SFT processing and collateral management functions?

We know buy-side firms have traditionally been strong candidates for outsourcing "non-core" services, outside of the money management function, to external providers. Many buy-side firms continue to lean heavily on their outsource providers to assist with managing margin obligations, but also increasingly to manage the complexities of collateral optimisation, mobilisation and analytics.

Demand for analytics services continues to increase in the current climate of rising costs, with firms keen to find ways to bring their total cost base down. In many cases these outsourcers, typically large global banks with expertise in custody and fund administration, have a detailed view of a fund manager's asset holding and composition of its trading portfolio.

Given this insight, we see increasing conversations with buy-side clients not just around post-trade collateral optimisation, but also around pre-trade analytics, enabling the client proactively to improve the efficiency of its inventory management and to reduce its funding costs.

With this in mind, we find the custodian-administrators expanding the breadth of their outsourced solutions to buy-side firms, offering a wider set of smart solutions to help clients with their financing strategies and collateral allocation. In some cases, this has included peer-to-peer (P2P) financing and securities lending, providing participants with access to powerful liquidity solutions with lower service fees than they would typically bear through an agency financing solution.

Inevitably the P2P solution is only as strong as the pool of borrowers and lenders that sign up for it — and in some cases these are relatively new initiatives that are still building momentum. But as the participant pool builds, these services will offer faster and wider liquidity access and access to high-quality liquid assets (HQLA), against lower service fees.

And what about trends in sell-side outsourcing of SFT and collateral management functions?

This is one to keep a close eye on. Some sell-side firms are now looking more closely at potential opportunities offered through outsourcing, especially for operational processes that they see as lower complexity, with a high cost base.

One potential home for this outsourcing, which is being monitored, is via service partnerships with custodian-administrators who already house the assets for the market. Custodians have significantly expanded their service scope in recent years, driven by helping their clients with regulatory, liquidity and investment needs. Most also now offer powerful data management and collateral optimisation capabilities which have delivered new vitality to their IT architecture.

However, the sell-side operating models are high scale and high complexity, especially with the modern day's regulatory nuances applied. For that reason, it will be interesting to see if and when administrators will start supporting the sell side's service needs.

Is part of your role to assist the early part of the RFP process, sharing your knowledge of vendor solutions and how these will fit with the specialist needs of the client?

Most certainly. Vendor evaluation, selection and delivery lie at the heart of our core suite of services, normally provided via our 'Transform' stream.

The industry operating model continues to become increasingly complex, charged by constant regulatory adaptation, on top of aggressive revenue and cost pressures. So the need for new, or upgraded, technology and operational solutions is clear, which firms now increasingly lean on vendors for.

> *"We started with a primary focus on collateral vendors, but have broadened that coverage across the front-to-back trade lifecycle for securities lending, repo and derivatives"*

We started in our early days with a primary focus on collateral vendors, but have subsequently broadened that coverage across the front-to-back trade lifecycle for securities lending and repo, alongside derivatives. This includes technology vendors supporting pre-trade analytics, trade execution, post-trade processing, collateral workflow, settlement connectivity, digital technology, legal solutions and more. In addition, we are very close to custodian services, CCPs and operational outsourcers.

There is great value in being able to navigate through the noise and help clients quickly to arrive at a vendor shortlist, before providing accelerated deep-dive analysis to evaluate how well the vendor can deliver against the client's specific requirements.

After vendor selection, Tonic is then able to draw on our practical expertise to accelerate the delivery process. Across our team of specialists, we have witnessed plenty of sub-optimal vendor deliveries over the years, resulting in major problems for the client that are difficult to unwind. That can be expensive, with serious implications for service quality, service quality and reputational damage for both client and vendor.

Consequently, it is important to ensure that any vendor delivery is well-planned and well managed from the outset, delivering a target operating model that is appropriate for both client and service provider.

How is your consultancy helping clients to manage their digital and sustainable finance needs?

We have led a lot of recent work for clients across the digital and sustainability domains. On the digital side, we now work with a wide mix of client types, including firms focused on crypto trading and asset management, DLT services and other digital technologies. Digital has quickly become one of our core service domains and we are enjoying being part of the new, growing digital ecosystem.

> *"We are all sold on the idea of using tokenised assets and DLT technology to achieve real-time asset settlement, inventory management and optimisation"*

In terms of the different digital use cases, there are many, and the challenge is often to narrow down market opportunities to tangible digital scenarios with real benefits. Broadly I think we are all sold on the idea of using tokenised assets and DLT technology to achieve real-time asset settlement, inventory management and optimisation.

The great news is that the technology and service providers are now out there to support the industry's digital needs. But there is also still plenty of work to do to define new operating models, to successfully onboard to those platforms and build a critical mass of participants. In the case of sustainable lending and finance there is growing consensus that the industry is slowly moving in the right direction, from a social, environmental and governance perspective.

However, we do need regulation to kickstart industry usage of ESG classifications, which we expect to come as part of the pending EU Sustainable Finance Disclosure Regulation.

Once ESG reporting becomes mandatory, we expect standardised industry classifications to soon follow. After that, it is realistic for sustainability practices to become far more widespread, as ESG incrementally becomes a profit driver, via scenarios such as larger haircuts for non-ESG assets and accompanying risk-weighted asset (RWA) impact.

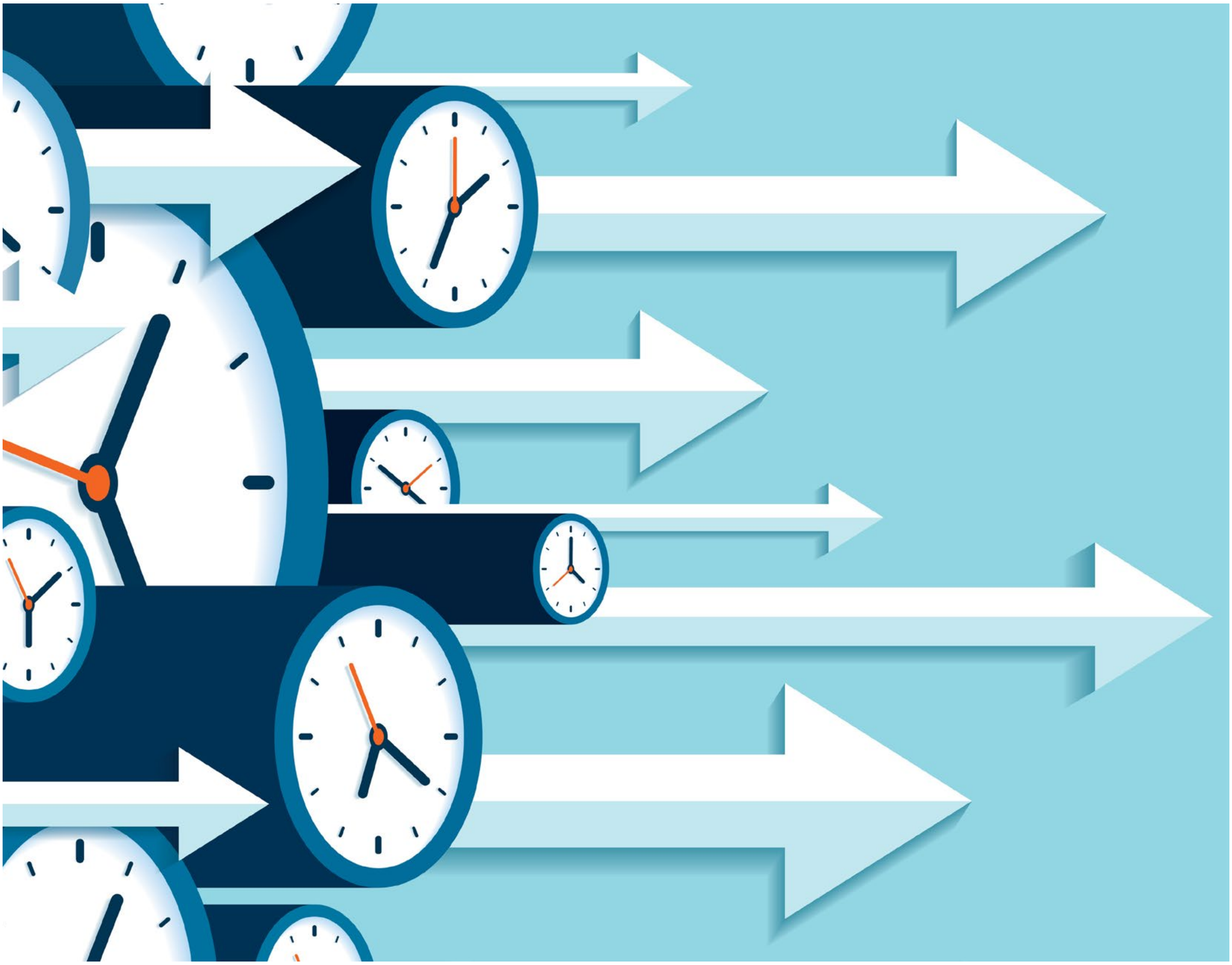
We have recently worked with clients to help deliver effective ESG taxonomies and data, providing early classification of 'sustainable' or ESG-compliant assets.

What are your development priorities for the 12 to 18 months ahead?

We have lots of priorities. Capital markets continue to be a more difficult and complex landscape to operate within, owing to tighter regulatory standards, high commercial pressures and ongoing market events and volatility. For that reason, the top priority for us is to continue to adapt and grow to support our clients' evolving needs. We need to stay nimble and always look to uplift our expertise where our clients need future help.

That aside, there are several short-term focus areas for Tonic. We will increase our support for high-growth domains that we are already working within, but are becoming increasingly important to our clients, such as digital and sustainability. This also includes continued growth of our consultant base in the Americas, where we already have a pool of major clients, as well as increasing our presence in other global regions. We also regularly assess our service and domain scope, which you can expect to expand further in 2023.

In general you will also see us continue to scale up, to support increased client demand across the board.



Moving with the times

FIS' David Lewis explores how new generations of employees and clients are driving change in securities finance and how performance in the 2020s will be measured by more than basis point returns

There is a well-known novel which focuses on some of the largest questions in the universe. Huge resources, including money and time, were spent seeking the answer, but once an answer was found it was less than fulfilling. It was only then that they realised they were asking the wrong question.

Data is great to have, but it needs to be actionable information if it is to add value to a decision-making process. But if the question to be answered, or the range of options that may be selected, is wrong, then even the best quality, deepest and most accurate data is not going to help.

A few weeks ago, the London Chapter of Women in Securities Finance hosted a networking event in London. The objective was to facilitate network building among new graduates and entrants to the industry – with 14 experienced members of the market making themselves available to be questioned about their experiences and to share advice. Those 14 senior figures took up positions around the room and speed dated their way through the evening, grilled by bright new faces keen to understand more about the securities finance and collateral industry.

High performance

It was a highly successful and interesting evening. This influx of new minds and new energy is vital for the regeneration, advance, and improvement of every industry, including securities finance. But it was the nature of the questions asked, and the deeper implications that sat behind those conversations, that stood out for many. One of the most powerful questions explored how we classify "high performance" in the securities finance industry – and how our categorisation of this term, and how it is measured, differed in the early 1990s from that today, nearly 30 years later.

To put this into historical context, in the early 1990s there were only four main TV channels in the UK (Channel 5 launched in 1997), and the "yuppie" period was coming to an end. Ahead of the looming financial issues of the mid-to-late 1990s, the focus was still on cash generation and profit making. Long hours and poor work-life balance were the norm – and even the expectation – in many industries, including banking and finance.

If we compare this period with the 2020s, performance measurement criteria have changed significantly. At least two major market players have issued press releases in recent weeks regarding the inclusion of Environmental, Social and Governance (ESG) measurements and policies in their securities lending programmes – and they are just two of many moving in this direction. Technology and mathematics can, of course, provide much of the data and actionable information that is required to generate these performance metrics, but it will be a complex transition for the market.

Measuring performance by the generation of financial returns is, on the surface, mathematically simple and easily comparable. The reality, as shown through the negotiation and creation of the ISLA Securities Lending Performance Measurement Guidelines, bears testament to just how difficult even (seemingly) simple standard measures can be to create. There are many ways, for instance, to measure utilisation of lendable assets, all of which have a direct impact on the basis point returns made for a given lendable value. Moving on to less data-driven measures will bring even greater challenges for comparability.

However, high performance in the 2020s is not just about basis point returns. The same new faces that bring new ideas also bring new expectations and different standards. Those joining the securities finance industry are not just new employees and contributors, they are a microcosm of wider changes in the client base the industry serves. Witness the rise of disruptor services that seek to democratise the financial markets, bringing direct share dealing to the app in clients' pockets and opening lending markets to more retail clients. FIS, as the world's largest fintech organisation, is, of course, deeply involved in the advancement of banking and payments. However, it is also deeply active in the capital markets side of the business, connecting transaction chains to match the original client demand through to execution and tokenised settlements.

Consider the possibility of buying a security through your app. Not only does it settle instantly, it is also immediately part of a lending programme and potentially lent out straight away. The opposite transaction is equally possible – instant short sales covered immediately as the borrow order is settled alongside the sale. With the advent of intraday lending and borrowing, we can open the markets wider and to a broader set of participants.

Instant actions are the standard expectations for those entering our markets, coupled with new standards and measurements of what is considered to be high performance. Much has been written over the years on the relationship between risk and reward. In the context of securities finance, it has always been the case that lending to a lower credit risk counterparty, or accepting what might be considered to be lower quality collateral, has led to higher lending returns. Those measurements and standards are set to change; counterparties and collateral will be measured by their ESG credentials, for example. Banks will find that their client base is less loyal and more inclined to move their service provider, should they fail to satisfy these new expectations. Customers will require not simply that their bank delivers to these expectations, but that it does so with evidential proof.

The answer to all of this is that the securities finance market, along with the rest of the financial industry, must move with the times and meet the expectations of the new generation of employees and clients. It just has to work out what the question is.

Latest moves at EquiLend, State Street and Wematch

State Street has appointed Darren Pateman as a collateral product manager on contract.

Prior to State Street, Pateman was senior consultant at FIS for more than four years, with a focus on project planning, project management and solutions implementation.

Before that he was a business analyst at Deutsche Bank from 2013 to 2017, returning to the bank having previously served as assistant vice president for collateral management and valuations from September 2008 to September 2011.

Pateman was business analyst and project manager of collateral and client clearing at HSBC Global Banking and Markets from September 2011 to August 2013.

He was also supervisor of over-the-counter and repo collateral management at Lehman Brothers from 2006 to 2008.

EquiLend has appointed Peter Hutchinson as business analyst for Spire.

He joins EquiLend from HSBC, where he was previously product owner for agency lending, based in London.

Before this, he was managing partner of Consolo Limited, the securities finance consultancy, which he co-founded in 2015.

Hutchinson spent a major part of his career at Aviva Investors, where he worked for more than 20 year as securities finance trader and, latterly, as

Shane Martin promoted at Wematch

Wematch has announced that Shane Martin will oversee its global securities finance, sales and client coverage teams, guiding the firm's strategy and business direction.

Martin joined Wematch in February 2021 as European head of sales for Wematch Securities Financing (WSF), bringing more than 20 years of securities finance experience to the matching, smart negotiation and workflow platform specialist.

Prior to joining Wematch, Martin held senior roles in the equity finance divisions at J.P. Morgan and Deutsche Bank.

Speaking about this role, Shane Martin says: "Over the past year, Wematch has doubled its headcount as it progresses through this exciting growth phase. Throughout my career, I have enjoyed the challenge that comes with helping to set the overall strategic direction of organisations that I have been privileged to be a part of.

I look forward to continuing to offer this guidance to the Wematch team in my expanded role as we embark upon the ambitious journey of redefining the dealing process".

Commenting on this development, David Raccat, co-founder and head of WSF, says: "Shane is a highly seasoned and well-respected industry veteran. With his deep expertise in securities finance and extensive background in financial services, we are confident in his ability to strengthen our commercial roadmap further and to help steer Wematch as we continue our march forward".

Joseph Seroussi, Wematch co-founder and CEO, adds: "Shane will be joining the executive committee of the group, bringing decades of expertise. We are fortunate and humble to have such talents in our team, with the ultimate goal to support our clients in the best possible way"

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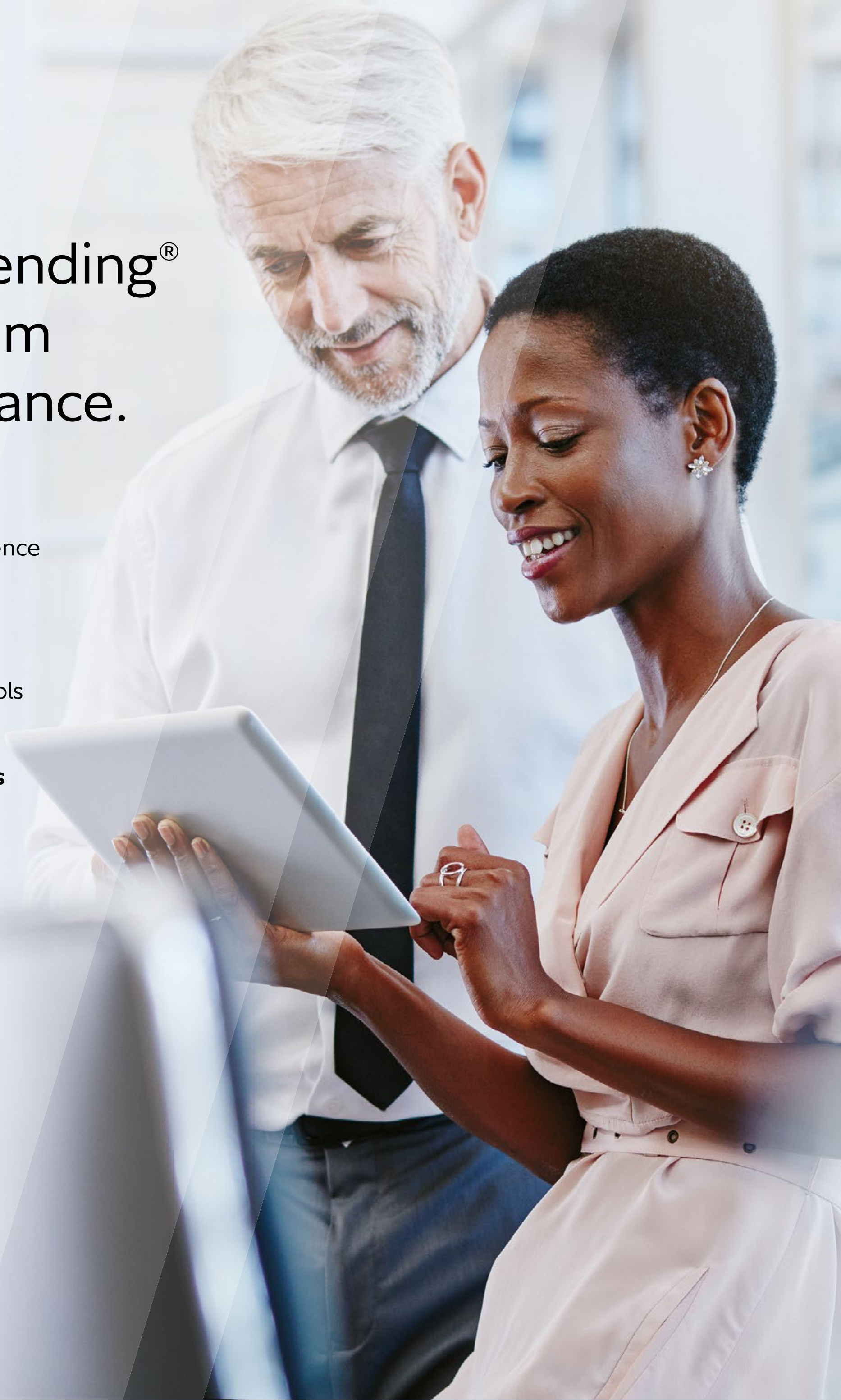

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*As of 12/31/2021.

head of control and development for the securities finance division.

He joined the company in 1991 as part of the operations team at Morley Fund Management, which was subsequently subsumed under the Aviva Investors brand following its purchase.

EquiLend Spire is a securities finance platform and technology-driven hub, powered by Stonewain, that links securities finance professionals, including agent lenders, prime brokers, retail brokers, beneficial owners and collateral managers.

Janney Montgomery Scott has appointed Daniel Hoover to a fully paid lending sales position.

Based in the US, Hoover reports to managing director of securities lending Dan Blum.

Hoover joins the firm from BMO Global Asset Management, where he was previously director of securities lending services between 2014 and 2021.

Prior to this, he was based in Chicago as senior vice president of securities lending at Northern Trust. Previously, Hoover was a senior sales executive at ClearLend Securities, a division of Wells Fargo between 2005 and 2012.

Mirae Asset Securities has appointed Alasdair Sutherland as director of securities financing and delta one.

Within this role, Sutherland will be responsible for leading the development of the firm's new securities lending, repo and delta one offering in London, while also working closely with Mirae's teams in the US and Asia.

Sutherland will report to Mirae Asset Securities (UK) Ltd CEO Seung Wook Kim. Prior to joining Mirae Asset Securities, Sutherland held a number of securities financing roles at ITI Capital, SunGard (now part of FIS) and Maple Securities. He also has prior experience of building out securities lending businesses.

Commenting on his appointment, Sutherland says: "This is a very exciting opportunity to build a brand new business line in London while also joining a firm with a global footprint. There are a number of other exciting projects in the pipeline for Mirae so I am very pleased to have joined at this time."

Anup Patel has joined Sharegain as head of customer success for EMEA.

He will be overseeing the firm's relationships with wealth managers, asset managers, neobanks and online brokers and building its new business pipeline across these client segments.

He joins the UK- and Israel-based capital markets fintech from OSTTRA, where he headed the FX and Securities Customer Success team.

Sharegain indicates that Patel's appointment comes at an important time for the company, where market volatility is driving demand for Sharegain's Securities Lending as a Service (SLaaS) solution, which provides wealth managers with new and stable opportunities for revenue generation.

It highlights Patel's depth of experience in supporting clients at various stages across the securities lending transaction lifecycle, providing a solid understanding of client requirements, constraints and objectives across a wide range of complex financial organisations.

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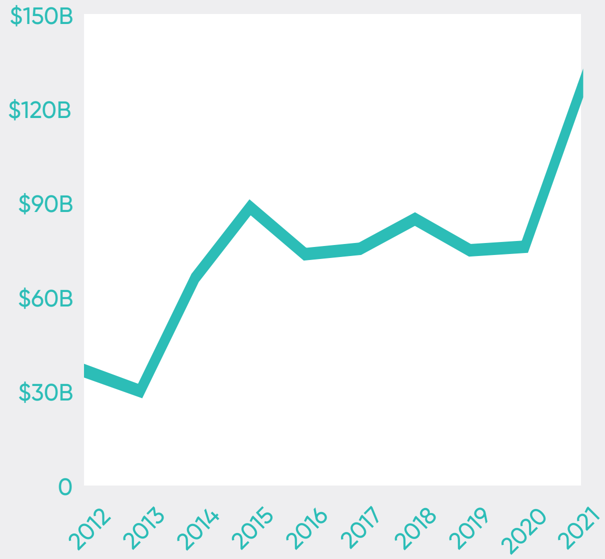
- Automation and streamlined operations

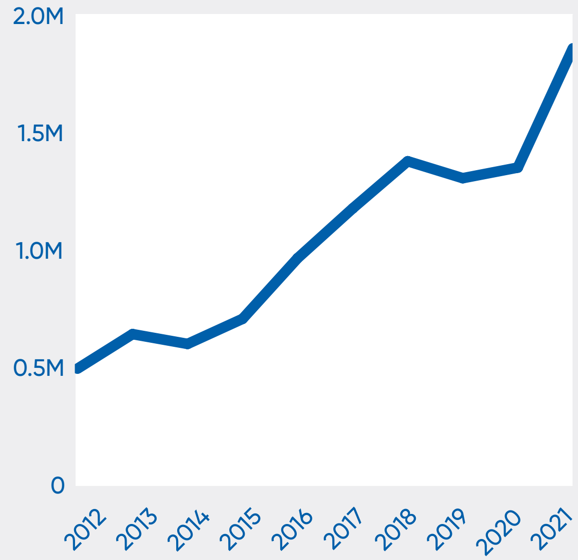
79
HEDGE LOAN PROGRAM MEMBERS

125B
AVERAGE DAILY LOAN VALUE AT YEAR END 2021

Annual Notional Value of Loans



Annual New Loan Transactions



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