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Widening access to triparty:

Jérôme Blais reflects on the advance of BNP Paribas' triparty solution and how firms can overcome initial hesitation about triparty adoption

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CSDR penalties “bigger than expected”, says BoE Securities Lending Committee

The November meeting of the Bank of England's Securities Lending Committee (SLC) observes that CSDR settlement fines are “bigger than expected” and “are not washing through the system as easily as anticipated”.

Following on from dialogue in the Bank of England’s December Money Markets Committee, the November meeting of the SLC reflected on the “high” level of settlement fails in the securities lending industry and the rise in settlement fails following the September UK mini budget.

The Committee noted that this problem has existed in the industry for years and that Central Securities Depositories Regulation (CSDR) penalties – introduced with enactment of the CSDR settlement discipline regime in February 2022 – have not resulted in a significant improvement so far.

SLC members indicated that improvements in technology are likely to have the greatest impact in addressing this problem since the industry continues to be held back by its “reliance on rigid archaic systems”.

This issue was given detailed consideration in a panel at the ISLA post-trade conference in London on 1 November 2022 and at the Securities Finance Times Technology Symposium three weeks later.

The Committee received a presentation on tokenised collateral and discussed the potential that tokenisation offers for reducing collateral fails. It noted that the primary constraint to date has not typically been the technology, but rather the regulatory and legal uncertainty around this form of ownership which has created challenges from a compliance standpoint.

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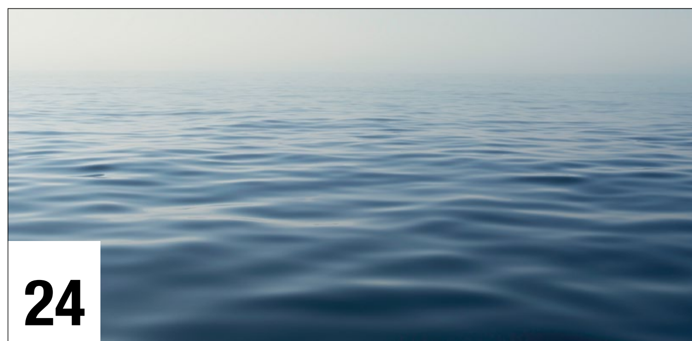

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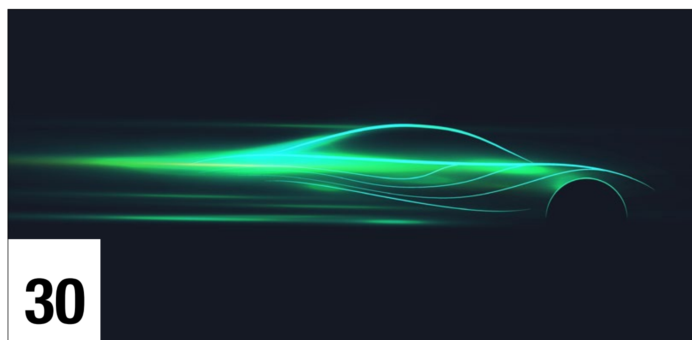

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Transcend has announced a series of senior appointments, with Stephanie Dimarco, John Willian and Scott Freidenrich joining its advisory board

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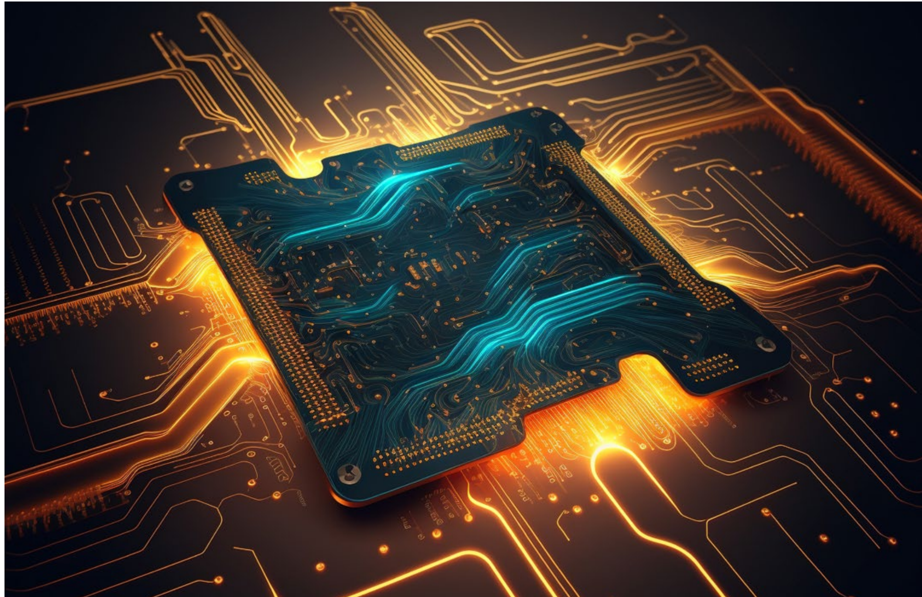

TradeHeader joins REGIS-TR's partnership programme

Consultancy services and software development firm TradeHeader has joined REGIS-TR's partnership programme.

Through the partnership, REGIS-TR's clients will be supported in their reporting obligations and kept informed of regulatory changes.

The programme seeks to bring together companies in the regulatory reporting space, aiming to provide clients with improved efficiency and the operational advantages offered by leading industry brands.

Nick Bruce, head of business development at REGIS-TR, says: "[TradeHeader's] range of innovative, client-focused, solutions are aligned to our own goals of streamlining the reporting process as much as possible for market participants.

"Similarly, our interoperability with TradeHeader, and our other partners, affords our clients a range of industry leading solutions, allowing them to build highly flexible solutions attuned to their specific needs."

Marc Gratacos, managing partner at TradedHeader, adds: "As financial standards and ISO 20022 experts, this partnership strengthens our value proposition for EMIR and SFTR regulatory reporting. We aim to facilitate data connectivity to REGIS-TR for our existing and future clients."

CSDR penalties "bigger than expected", says BoE Securities Lending Committee

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ISLA is currently preparing a research paper that will examine the complexities relating to transfer of legal ownership and legal certainty of new owner records when working with tokenised assets.

More broadly, the Committee discussed the continuing impact of the UK mini-budget, and related rise in gilt yields and market volatility, on securities lending markets. The Committee noted a greater number of queries from asset owners during the liability-driven investment (LDI) crisis as they reassessed the flexibility that their lending

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contracts gave them to recall securities. This prompted some beneficial owners to temporarily cease lending, according to the SLC minutes.

The gilts sell-off also triggered a rise in enquiries from LDI funds that are seeking to review their funding arrangements. One consequence is that some funds are exploring opportunities to access funding through peer-to-peer (P2P) channels, alongside their existing arrangements.

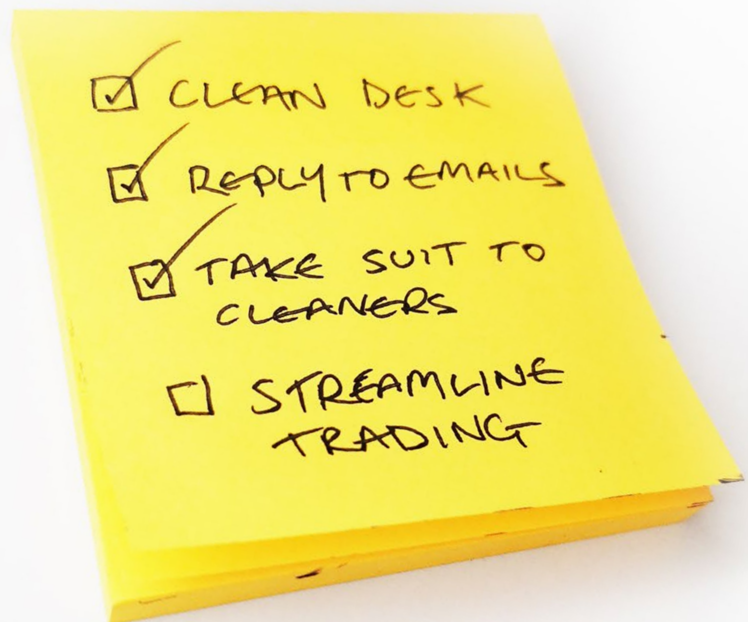
The Committee considered the capital cost for agent lenders of providing indemnification for lenders in securities lending transactions, indicating that some agent lenders had "decreased business" owing to the significant capital cost that they bear, commonly estimated to be around 13bps, in providing this indemnity. Consequently, the Committee indicated that the provision of indemnification by agent lenders might be expected to become less prevalent in the future.

Evaluating the potential impact of Basel IV capital adequacy provisions on securities financing transactions, some members of the committee stated that the EU stance on implementing output floors may raise the capital overhead for corporate and buy-side clients – particularly unweighted corporates, pension funds, sovereign wealth funds and mutual funds – penalising borrowing from unrated EU-based funds and potentially motivating borrowers to source securities through alternative channels, including funds based outside of the EU.

ISLA has proposed use of 60 per cent risk-weighted assets (RWA) for unrated counterparties rather than 100 per cent RWA – and has suggested that banks should be allowed preferential risk weighting until 2023. It also recommends using international standards to identify whether trade counterparties have sound access to liquidity.

The SLC indicates that these constraints are likely to trigger further discussion on use of central counterparties to provide greater capital efficiency in lending arrangements, along with use of credit benchmarks to alleviate risk weighting.

Reflecting on the Basel framework, the Committee noted greater use of pledge-based collateral over time, with data from Securities Financing Transactions Regulation (SFTR) reporting indicating that, for June, 16 per cent of EU collateral was under pledge – up from 12 per cent – and the corresponding figure was 18 per cent for the UK.



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Reflecting on activity through securities lending markets over the preceding year, the SLC concludes that 2022 was a "satisfactory year" for securities lending, with DataLend reporting record volumes – although the Committee noted a contraction in demand for GC gilts over the period.

SC Ventures, LBBW and Comyno take stakes in DekaBank's SWIAT

SC Ventures, Landesbank Baden-Württemberg (LBBW) and financial software specialist Comyno have agreed to invest in DekaBank's SWIAT, a blockchain platform that enables real-time settlement and trading of traditional and digital data, assets and transactions.

The joint venture — which is expected to close in H1 2023 — will combine the strengths of the three founding banks with Comyno's technology expertise to create a uniform standard for processing blockchain-based securities.

The joint venture participants hope to provide software that will create a decentralised financial infrastructure and frictionless, real-time settlement in multiple use cases, including securities lending, repurchase agreements, derivatives and bond issuance.

Expected to reduce cost, improve risk management and conduct business in these areas with greater flexibility, Comyno says the move to invest in DekaBank's SWIAT will enable economies of scale and create new business opportunities, such as providing custody services.

Established by DekaBank in February 2022, SWIAT is a software developer for blockchain-based digital financial services platform for regulated financial market players to flexibly issue, trade and settle any type of asset — traditional or digital — on the blockchain.

DekaBank determined from the beginning that the platform would be open to partners to be built as a market consortium, and eventually expanded into an international network.

Martin Müller, member of DekaBank's board

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of management, says that there is no uniform standard for issuing, trading or settling digital assets. He indicated that such a standard would “significantly simplify what is at present, a very fragmented process”.

“Only with other financial institutions coming on board would it be possible to develop and establish such a standard on the blockchain for the financial sector, so in essence, SWIAT really relies on multi-party cooperation,” Müller explains.

Dirk Kipp, global head of markets at LBBW, adds: “SWIAT is an opportunity for all of its shareholders to jointly build up know-how and, at the same time, create their own digital products and services for blockchain-based securities settlement. This move will enable our customers to participate in that digital transformation."

Alex Manson, head of SC Ventures, explains: “SWIAT is a solution for the financial sector being built at institutional grade by banks, for banks. It not only provides a platform to save costs and achieve economies of scale, but enables better risk management and audit trails through the use of the latest generation of technology.

“As one of the lead investors, SC Ventures is convinced that the current use case is the precursor for many others, with the bulk of the settlement industry moving gradually to blockchain protocols. We invite all other banks to try it for themselves."

Comyno’s founder and CEO Markus Büttner concludes: “Compared to classical centralised infrastructure, the two big advantages of decentralised blockchain applications are the increased efficiency and higher security we can enjoy.

“We have already seen this in the first use cases such as securities lending, where we have done away with having to move securities around physically. The higher the number of participants on the blockchain, the more these advantages are felt.”

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FinOptSys completes first tranche of Series A funding round with backing from State Street

FinOptSys has completed a Series A funding round with backing from State Street.

The New Jersey-based provider of enterprise-wide software-as-a-service solutions indicates that it will be using the fundraising to expand its global team and to extend the range of traditional and non-traditional assets supported through its peer-to-peer (P2P) network services.

Using artificial intelligence to drive decision-making, patent-pending analytics and P2P negotiations, FinOptSys also intends to add further technology innovation to its current suite of modules.

Formed in 2019, the company says that it is the first platform to support all securities financing products across all asset classes and client segments. This includes providing legal document and collateral schedule negotiation and digitisation, along with frictionless trade negotiation with clients, counterparties and peers.

FinOptSys founder and CEO Divyesh Bhakta says: "Rather than being reactive, our technology will empower firms to manage their financial resources proactively with increased optionality. This seamless access to new sources of liquidity will reduce costs, increase yield and optimise asset utilisation, all done in a fully transparent manner."

"Our vision of AI analytics powering peer-to-peer will not only drive the future of the industry and empower our clients with the sophisticated tools necessary to thrive, but it will also help unlock trapped assets through an innovative indemnification marketplace."

Commenting on the funding round, State Street Global Markets head of financing solutions Gino Timperio says: "This represents a significant milestone in our relationship with FinOptSys. We believe this investment will further enable our organisation to deliver better results on behalf of buy-side clients in the peer-to-peer marketplace. We look forward to collaborating in the securities financing arena."

FinOptSys indicates that it has plans to extend its service capabilities outside of the securities financing segment. "Our innovations will not only revolutionise the securities financing industry, but they will also form the foundation of our ultimate vision to deliver greater market efficiency, connectivity, liquidity, revenue generation, risk management and transparency to the broader financial markets," says Bhakta.

Last week, FinOptSys entered into a strategic partnership with S&P Global Market Intelligence to help deliver securities financing market data and services, including an extended range of analytics tools.

T+1 implementation could lead to more settlement fails

The implementation of T+1 could see an initial increase in settlement fails and lead to an increase in trade breaks, according to Justin Aldridge, head of agency lending at Fidelity.

This topic featured in a number of panels this week at the IMN's 28th Annual Beneficial Owners' International Securities Finance & Collateral Management Conference.

Speaking on the conference's 'Looking to the Future: The State of the Global Securities Finance Market' panel, Aldridge said: "T+1 could have many great benefits, from the capital benefits to the reduction of counterparty risk. From a securities lending perspective, it may create some friction, overall. Initially, we may see more fail activity."

He added: "The asset managers and beneficial owners of securities are now going to have to do their trade affirmations intraday to get them over to their custodian or their broker-dealer trading counterparts that evening — which may ultimately lead to more trade breaks."

For the Depository Trust & Clearing Corporation (DTCC), the topic is front and centre of the organisation's agenda as it works alongside the industry to achieve T+1.

Laura Klimpel, general manager of fixed income clearing corporation (FICC) and head of SIFMU business development at DTCC, says: "What is particularly interesting is how the acceleration of the settlement cycle is going to compress the time periods for returns and recalls. This has been a key focus of our internal discussions.

"One specific area that will continue to be under pressure as a result of T+1 is the issue of breaks related to securities lending transactions. Market participants will likely be exploring how to avoid breaks in their stock loans to be able to make sure that the recall and return process is efficient."

During the discussion, Aldridge highlighted industry conversations that called for an extension on the recalls period and suggested an extension of lending hours.

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"The securities lending market, from a DTCC perspective, is only active until 3:15pm," he explains. "There have been conversations in the industry about the extension of allowing recalls to go later in the day, but I do not think it solves the problem, it just puts the onus on the prime broker. So the industry may likely see some friction there."

OptionsDesk onboards ION's XTP suite

UK voice broker OptionsDesk, part of the AMC Group, has expanded its derivatives capabilities with the adoption of ION's XTP front-to-back suite.

The suite, consisting of ION's XTP Trading, XTP Clearing and XTP Cleared Derivatives solutions, will help to facilitate OptionsDesk's growth plans.

By providing real-time processing and actionable insights at execution, clearing and settlement stages, clients will be able to manage their investment portfolios more efficiently, ION says.

James Proudlock, managing director of OptionsDesk, says: "While we continue to prioritise giving our clients access to highly experienced options brokers, this partnership also establishes us as a digitally driven, retail consumer finance brand. Our goal is to combine the best of both worlds to help our clients further their investment objectives across cash equities, futures and options."

Francesco Margini, chief product officer for cleared derivatives at ION Markets, adds: "By using XTP, OptionsDesk will be able to unlock additional opportunities. XTP is a full front-to-back product suite that harnesses the power of integrated workflows and connected data to provide real-time insights."

On the asset management side or the beneficial owner side, Aldridge believes that market participants will need to include their custodian as an interested party on all their buy and sell activity intraday — which he hopes will be an important step to mitigate that friction.

He adds: "I think there should be some conversation on the extension of lending hours, people should be able to do securities lending after 3:15pm."

As the discussion shifted from T+1 to 10c-1, CEO of eSecLending Craig Starble said that the reporting obligation from the US Securities and Exchange Commission (SEC) is going to be time-consuming and significant like the Securities Financing Transactions Regulation (SFTR).

"It is operational, time-consuming and costly — but it will be something we have to do," Starble indicated. "Let's hope that 10c-1 will come in with a less rigorous reporting timeline. Reporting is part of the business and, unfortunately, it is a cost part of our business, but it is something that does not really impact the client, or at least shouldn't."

Starble explained to the panellists at the IMN conference that firms need to change their models slightly and it has to incorporate the cost of reporting regulation. He continued: "I worry most about resource training, because all of the most powerful minds in our industry are going to have to figure out how to deal with that, if that happens to be the outcome."

"Regulation is why we exist here, for better or for worse," Starble concluded.

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Jérôme Blais
Co-head of triparty collateral services
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Widening access to triparty collateral management

Jérôme Blais, co-head of triparty collateral services at BNP Paribas, speaks to Bob Currie about the evolution of the company's triparty solution, the service advantages it offers and how new clients can overcome initial anxieties about triparty adoption

Which factors motivated BNP Paribas' decision to establish a triparty collateral management service?

BNP Paribas has been offering collateral management services as a middle-office collateral manager since the early 2010s, initially focusing primarily on OTC derivatives margining and bilateral repo collateral management. As the success of the franchise has grown over the years, the need became clear for us to support our clients beyond bilateral collateral.

Indeed, more and more clients — especially on the buy side — highlighted their growing need to have access to a triparty collateral solution for securities finance and derivatives transactions, while retaining the benefits of the full suite of services that BNP Paribas was already offering as an asset servicer.

We also understood at an early point that the sell side was seeking two goals. One was to access additional liquidity providers that are using BNP Paribas as a custodian and depository bank. The second is to leverage triparty collateral management and benefit from enhanced efficiency, increased automation and reduced operational risk.

As a provider with a longstanding global footprint with both sell- and buy-side players, this was a natural move for BNP Paribas. As such, we entered the triparty playing field with confidence, launching our solution in 2017. Triparty collateral management grew to be a market standard for non-cash collateral in securities finance. In addition, it also became the norm to manage regulatory initial margin rules and many of our largest clients had to be compliant with these obligations.

Looking back, we are glad that we have made that decision. The solution has been of tremendous help in supporting the two areas mentioned above and with other less expected objectives.

What have been the main steps and landmarks in the evolution of the BNP Paribas triparty service?

Having released our solution at the end of 2017, we onboarded our first clients in the spring of 2018 — which meant we needed to be ready with a robust, state-of-the-art platform. Benefiting from innovative technologies, we made decisive choices to ensure the product was as complete as possible on launch. This enabled us to support all types of clients across securities lending, repo and regulatory initial margin very early on.

We continued to rollout advanced new services between 2019 and 2021: from pre-trade simulation tools to new flexible algorithmic capabilities, delivery-versus-delivery substitutions — reducing the impact of substitutions on the client's balance sheet — as well as the ability to leverage pools of collateral held in domestic and segregated markets.

In 2022, we began a client-driven geographical expansion phase, driven in part by our intention to support our many global clients in their own locations. To do so, we made the product available to clients holding collateral in their domestic locations, including Spain, Switzerland, Belgium, as well as our first expansion to APAC, notably to support Australian clients that have to comply with regulatory initial margin rules. This came in addition to existing locations, such as France, Luxembourg, Italy, Germany and the UK.

What primary benefits and service advantages have you been able to bring to this sector?

The first aligns with our aim to unlock untapped liquidity pools. We are helping more and more of our buy-side clients to access triparty collateral management — firms that would have struggled to do so otherwise. It can be a massive challenge for the buy-side in general,

and for asset managers in particular, to engage with a separate custodian simply to enrol into a triparty collateral programme. Our buy-side clients now have the opportunity to enhance their collateral operations using our triparty collateral services as part of the BNP Paribas complete suite of services, which they are familiar with and are fully integrated.

I also believe that our positioning as a multi-local and global player is truly unique in this space and this has allowed our clients to adopt the solution more easily. In the case of Uncleared Margin Rules (UMR), for instance, our clients were quick to see the benefits of holding their collateral in their domestic market, being able to segregate their collateral under local law and to maintain their relationship with their domestic BNP Paribas branch, while benefiting from the product coverage of a global player like us.

Other features of our triparty collateral solution have been very successful. Our ability to perform delivery-versus-delivery substitutions means that these have no impact on clients' balance sheet. The fact that we offer a wide range of collateral allocation strategies, which clients can easily customise, has been very helpful. Our user interface has also received great feedback and is built with ease of use in mind.

What approach have you taken to technology innovation and solutions development?

We are following a client-centric approach. Our Triparty Collateral Management solution has been built from its inception to answer clients' needs and to meet client demand. This is illustrated in the recent expansion of our offer to new domestic markets and will be apparent in future development activities.

Going a step further with that approach, we have been keen to co-design with triparty collateral management clients, and sometimes even with prospects. This strategy guarantees our alignment with concrete client needs and ensures adoption. It does require very strong collaboration, however, and definite commitment from our side to deliver.

In focusing on client-centricity, the balance of in-house build and vendor partnerships depends on how best to service our clients. As clients come first, we must select the most efficient way to answer their needs. This is the type of logic we have recently applied to answer some UMR constraints, for instance our collaborations with the Depository Trust and Clearing Corporation (DTCC) and CloudMargin.

How does your triparty solution sit alongside agency and principal lending, repo, derivatives trading and other solutions within the bank that utilise collateralised transactions? And within your broader securities services and CIB structure within the bank?

The solution was designed to be integrated with the full suite of BNP Paribas solutions, including our agency lending, financing collateral services and derivatives collateral management offers. As a whole, there are benefits for BNP Paribas clients to increase synergies between all services so there is strong potential for growth.

The same applies to our collaboration with other services within the bank. UMR clients, for instance, have the option to leverage the entire suite of OTC derivatives collateral management services — from trade capture, transaction management, initial margin (IM) calculation, dispute and reconciliation, to triparty collateral management and segregation services. This is a huge benefit, particularly in relation to Phase 5 and 6 firms — those firms included in the 2021 and 2022 regulatory phases of UMR. These firms do not traditionally have in-house collateral management capabilities, or the ability to run the SIMM calculation model. Our suite of services allows them to fully delegate the entire post-trade tasks and focus on their trading strategy.

Which direction are your clients and prospects taking the development of your triparty solution?

What could feel like a must to us — as a collective of people excited about "anything collateral" — may not be the most urgent changes, or the enhancements with the highest return on investment. As a result, in a world of finite resources and time, a continuous dialogue with clients is indispensable to prioritise the developments that are key for them.

Here again, we have to make a distinction between the buy- and sell-side as their priorities tend to diverge.

When it comes to the buy-side, the focus continues to be on geographical expansion, both in terms of custody booking and market coverage. Then, ESG comes to mind. Many of our buy-side clients are keen to apply their firms' ESG criteria to the collateral they receive and, to this day, these are bespoke requirements from client to client.

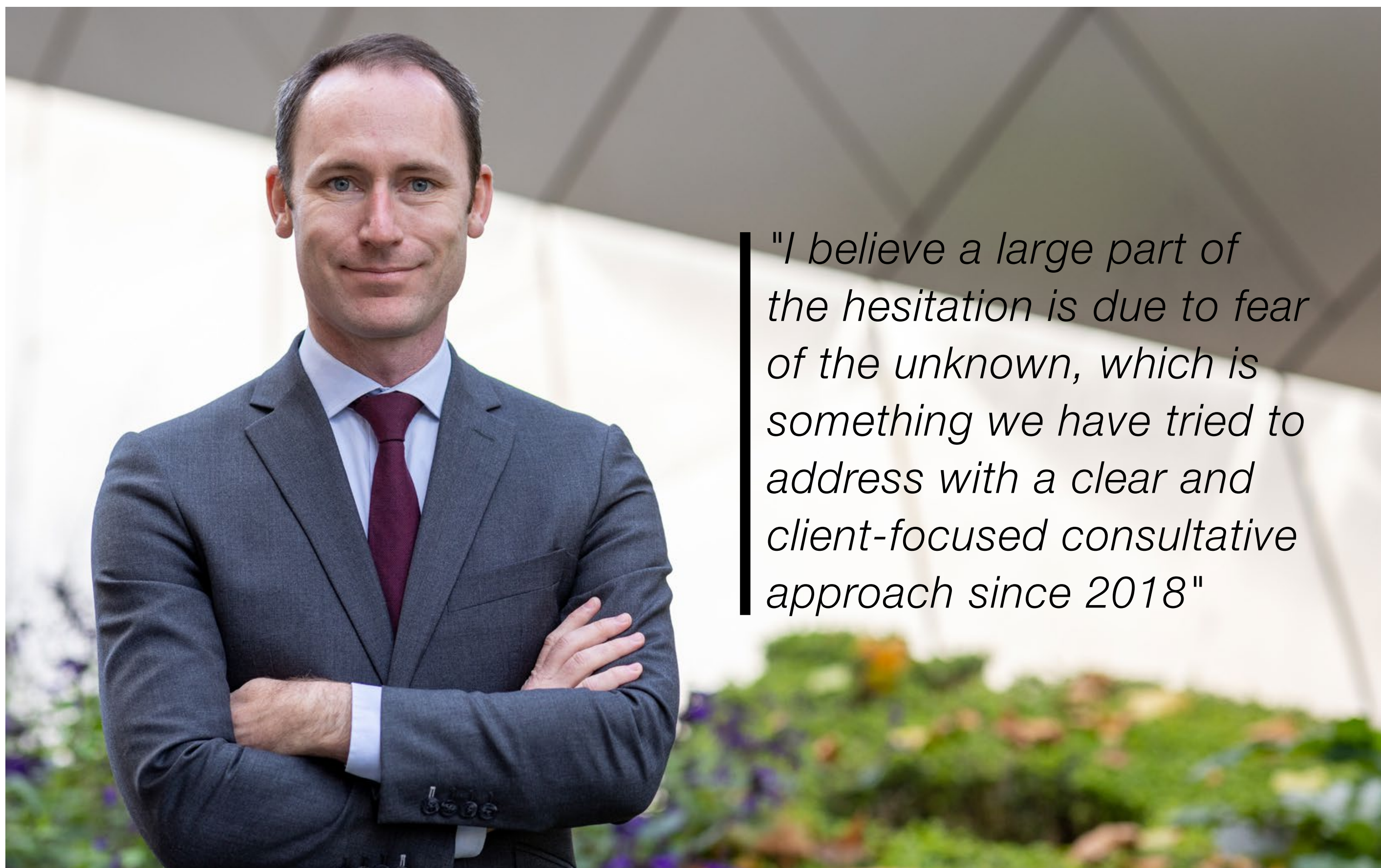
The engagement we have with clients via the many solutions that BNP Paribas provides — for example investment analytics, performance measurement, fund administration — means that they rightly expect that we play a partner role in walking this ESG path with them.

In a context where corporate and institutional banks are experiencing pressure on collateral availability, these firms are driving us to take our collateral sourcing, inventory management and collateral optimisation to the next level. This makes perfect sense and BNP Paribas — often acting as a domestic custodian for many of these firms — is in a good position to deliver a lean model whereby banks can increase the portion of assets they refinance from their local markets. This model can help to eliminate the need to dedicate time and resources on lower value-added tasks like "local market-to-long box" inventory management.

On the topic of optimisation, we understand that the top tier banks are well equipped to optimise their own collateral target allocation. This means that BNP Paribas, as a triparty agent, is expected to work alongside these firms to ensure that the optimisation that we propose is aligned with their optimal collateral allocation. As this includes a vast portion of activity that does not fall under the remit of the triparty agent (e.g. bilateral, IM, VM, CCP clearing), we are having important conversations with our clients and prospects about the role they expect us to play. With this in mind, we may start to have optional services that move away from the traditional role of a triparty agent, which used to focus on applying a similar collateral allocation strategy across clients and counterparties.

How do you see the evolution of buy-side demand for triparty services, with UMR Phases 5 and 6 and subsequently?

At BNP Paribas, we have seen this as one of the most significant factors in the adoption of triparty by the buy-side for a long time. With thousands of new entities worldwide being subject to UMR, many of them had to adopt triparty collateral with clear deadlines in mind. It is important to highlight the work done with and by trade associations like the International Swaps and Derivatives Association (ISDA) and its UMR collateral working group, which published essential



"I believe a large part of the hesitation is due to fear of the unknown, which is something we have tried to address with a clear and client-focused consultative approach since 2018"

educational material about triparty. This meant that the buy-side had the proper level of assistance and market intelligence to make the move to triparty comfortably.

With most of the UMR clients now live and active, it is time for them to look a step further and reap the obvious benefits of having a triparty collateral setup already in place for other trading activities. This includes, but is not limited to, securities finance collateral, financing trades, collateralised notes, and even the possibility to move some OTC derivatives variation margin from bilateral to triparty. There are clear benefits to the latter, from automation to cost benefits, but we need to see a wider market move in this direction for this to materialise substantially.

How is this being shaped by the current macroeconomic environment and challenges of managing collateral in this time of post-covid readjustment?

The situation varies greatly between market participants. We do observe greater stress on collateral, especially on the banks' side, and we aim to support them in their collateral sourcing strategies as well as their optimisation targets. We are also helping our bank clients to widen the scope of eligible collateral they aim to utilise, beyond assets that are more traditional.

From the receiver's side, the conflict in Ukraine was a true test of our ability to respond swiftly to the needs of our clients to secure their collateral books in line with new risk management guidelines. It was sometimes necessary to achieve this within the hour. Having a modern and agile platform allows us to attain these near real-time risk management targets.

What is top of your development pipeline for 2023 and into 2024?

Alongside the client-driven projects that we have discussed, BNP Paribas is involved in the effort to promote a higher level of market standardisation across Europe. We are working on implementing the new European Central Bank standards related to collateral management standards in general and the adoption of ISO 20022 SWIFT messages in particular.

In addition, we are looking to continue the expansion of our offer across the APAC region. Supporting a growing number of asset types, including digital assets at some stage, will remain key. Lastly, we continue to support the interoperable models facilitated by fintechs such as HQLA^{X}.

Starting a brand new triparty collateral management service from scratch is no small endeavour. To do so, there had to be a seamless strategic alignment between all stakeholders and, most importantly, a shared vision. The ambitions of BNP Paribas in this space have been shaped by the growing importance of collateral as an integral part of our clients' decision-making process when choosing to work with a custodian.

I trust that our deep understanding of the mindset of our asset manager clients — when it comes to asset protection and risk management — has been a defining factor in shaping our solution to provide the right level of sophistication and, most importantly, comfort in delegating this risk management function. At the time that we created this solution, there were still heated debates ongoing around the way UCITS and Alternative Investment Fund (AIF) collateral had to be held, accounted for and segregated. Knowing this, we designed the solution to be flexible enough to adapt to each asset manager's own preferences, in line with rules and regulations. This was an effective way to address concerns around asset protection and restitution at any early point.

Doing so required input from a collective of experts at BNP Paribas. The average level of experience of our triparty collateral business team is around 20 years in the banking, post-trade and collateral management industry. For instance, looking at onboarding — being such an important and sensitive part of our business — we have invested in recruiting teams of very senior experts, some with more than 30 years of experience. As the saying goes, "you only have one chance to make a good first impression", and having a robust onboarding and client integration team is paramount to start a relationship in the best possible way.

From a personal standpoint, having had an earlier career in academia, I have drawn from this experience to be clear, concise and often educational when forwarding triparty collateral as a potential solution for our buy-side clients — clients for whom triparty is often a new and foreign concept. This has been a subject of debate in the past. How difficult, challenging or costly is it to join a triparty collateral programme? I believe a large part of the hesitation is due to fear of the unknown, which is something we have tried to address with a clear and client-focused consultative approach since 2018.

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Preserving calm at year end

Published each January, the ICMA European Repo and Collateral Committee year-end report examines how end-of-year conditions have impacted leading repo markets. Bob Currie analyses its latest release

The ICMA European Repo and Collateral Committee (ERCC) has released its annual summary of repo market performance around the year end.

Traditionally published by the ERCC in January, the report reflects on how end-of-year conditions have impacted EUR, GBP, USD and JPY repo markets, drawing on market data and accounts supplied by buy-side and sell-side market participants.

Written by International Capital Markets Association (ICMA) senior director and deputy head of market practice and regulatory policy Andy Hill, the latest version of this report indicates that participants in euro repo markets had started preparing early for the 2022 year-end and with some degree of nervousness, with the turn becoming a focus of attention as early as August.

This accords with SFT's own research in the market, which indicates that some market participants had begun preparations for the turn as early as July or August (see, for example, SFT Issue 319, pp 18-35).

Hill finds that by late September and early October, term trades over year-end were implying turn rates of 1000bps below the euro short-term rate (€STR) for German collateral, with the FX basis indicating a notional euro rate of -14 per cent.

Pricing improved in the run-up to the year-end, such that by 28 December German collateral (GC and some specific repo) averaged €STR-350bps, French collateral averaged €STR-290bps and Italian collateral averaged €STR-195bps.

The report indicates that Spanish collateral, which had become more difficult to source into December, averaged around €STR-300bps over the turn.

Several factors are likely to have been important in containing price disruption over the 2022-23 turn. In general terms, financial authorities began to take steps to address concerns around collateral scarcity and to reduce excess liquidity in the banking system. In late October, the German Finance Ministry, Deutsche Finanzgenturn, announced that it would make €54 billion in German bonds across 18 German ISINs available through repo channels — an action that SFT has addressed in some detail in other articles (see SFT, 315, pp 14-17 or SFT 319, pp 18-35).

Also, the European Central Bank raised its borrowing facility against cash on the Public Sector Purchases Programme (PSPP) and Pandemic Emergency Purchase Programme (PEPP) from €150 billion to €250 billion.

The ECB confirmed at its December 2022 meeting that it will provide further details in Q1 of its plans to reduce its Asset Purchase Programme (APP) holdings. It had previously indicated in

its autumn statements that it intended to recalibrate the terms of its Targeted Longer-term Refinancing Operations (TLTRO), with banks repaying €296 billion in TLTRO loans in November and €447 billion a month later, with a further €52 billion in TLTRO holdings also maturing in December.

With these interventions, the 2022 year-end was negotiated with less disruption than some had feared in advance. “The DFA intervention in particular had an important impact,” says Hill. “It was particularly after these interventions that the implied forward rate began to stabilise.”

The ERCC report finds that, as often happens, trading volumes declined significantly going into year-end, although the tail-off in activity seems to have come earlier than in previous years, with a notable drop going into the final week of the year. This can be seen in RFR volumes as well as in Eurex outstanding balances. “This probably also reflects the degree of nervousness and early attention going into the year-end, with market participants squaring their books well in advance of the turn,” says the report (p 13).

On balance, Hill indicates that some widening in repo market pricing was certainly significant, particularly when measured against pricing levels in some other markets. “It is also important to remember these pricing levels relate to the interbank, primarily centrally cleared, market,” he says. “Pricing for end investors in many cases will have been even more extreme.”

For GBP repo markets, volatility was “relatively benign” over the turn and collateral availability appeared to improve, despite preceding concerns that sterling repo rates could move lower owing to significant amounts of cash being invested at the short end of the yield curve.

The report identifies a number of factors that were potentially important in offsetting any reserve-collateral disequilibrium, including stronger term reverse repo activity and quantitative tightening. The GBP-USD FX basis moved into positive territory, creating opportunities for US banks to lend USD and receive GBP, thereby removing some sterling liquidity from the system.

With the Bank of England’s November Monetary Policy Committee (MPC) meeting, repo market participants took advantage of the steepening yield curve to extend the term of reverse repo activity moving into January.

“Accordingly, the gilt repo market sailed through year-end with little friction, particularly for placers of cash,” notes the report (p 15).

For US repo markets, the ERCC concludes that record level of uptake in the Federal Reserve overnight reserve repo (RRP) was important in ensuring a “smooth and uneventful year end”, with the RRP becoming an effective mechanism for soaking up excess liquidity.

The ICMA reports that the well-developed ecosystem for supporting sponsored repo clearing — through the DTCC’s Fixed Income Clearing Corporation (FICC) facility — has also served as a stabiliser for the market, enabling banks to meet the requirements of money-market funds without consuming large amounts of balance sheet.

“Accordingly, turn repo rates are barely discernible from those on any other neighbouring days, while the RRP uptake on 30 December was a record US$2.55 trillion,” it says (p 16).

Sponsored clearing will continue to gain traction in other jurisdictions and is likely to play a significant role in managing concerns around dealer intermediation capacity in the run up to year end. Alongside multilateral netting and balance sheet efficiency, this also offers benefits in terms of operational efficiency and contract preparation — enabling financing relationships to be managed via a CCP without the burden of preparing multiple Global Master Repurchase Agreements (GMRAs) and running due diligence on bilateral counterparties. While central clearing is not a panacea for all repo market challenges, it is a tool offering standardisation, anonymity and risk management benefits for market participants, albeit with an associated cost.

For JPY repo, the report finds that term repo rates tightened over the year end, particularly for special repo, but the overnight rate remained relatively stable. Although the change in the Bank of Japan’s monetary policy appeared to catch the market off guard to some extent, this did not result in significant price dislocation in JPY repo markets.

The ICMA ERCC briefing note on the European repo market at year end has been published each January since 2017. It draws heavily on data supplied by Eurex, Bloomberg and CME Group Benchmark Administration.

Commentary and insights from AXA IM, Bank of America Merrill Lynch, Barclays, BlackRock, Eurex, HVB Unicredit, J.P. Morgan, LCH and UBS were key in preparing the report.

The art of the possible

While not providing a silver bullet, the application of technology to specific pain points offers potential for major efficiency gains in securities finance. Carmella Haswell reports

Distributed ledger technology (DLT) has been expanding in the financial marketplace and is making its way to the world of securities lending. The transactions that are being facilitated in the market today by DLT platforms are taking place between highly regulated institutions in highly regulated markets, and in very high value transactions.

DLT refers to the protocols and supporting infrastructure that allow computers in different locations to propose and validate transactions and update records in a synchronised way across a network. Market participants that took part in an Acuiti report in November expect the technology to bring the industry major efficiencies to trade settlement, trade reconciliation and custody.

Guido Stroemer, CEO and chairman of HQLA^{X}, emphasises that DLT in itself is not going to be the "silver bullet" that provides a solution to all problems in the market. However, it will be the "very precise and well thought out application of the technology to specific use cases and specific pain points in the market" that is paramount.

Fit for purpose

Market participants at IMN's 28th Annual Beneficial Owners' International Securities Finance & Collateral Management Conference came together to discuss the importance and benefits of DLT as it relates to the securities finance sector.

HQLA^{X}, in particular, makes note of the headwinds that the firm has heard from its beneficial owner community. Stroemer elaborates that owners sometimes face restrictions around the ability to reuse collateral received in securities lending transactions. DLT can facilitate additional collateral mobility that allows beneficial owners the ability to, for example, reuse collateral received into onward obligations, such as variation margin exposures.

Stroemer continues: "Tokenisation, broadly speaking, enables the decoupling of ownership transfer from movement of assets, thereby greatly enhancing the ability for users of DLT platforms to get the right collateral to the right place at the right time, without the need to actually move the security physically. It is just a matter of transferring the legal title, or the ownership rights of those securities."

During the "Exploring Digital Assets and Distributed Ledgers in Securities Finance" panel, EquiLend's Gary Klahr, director of strategic initiatives within the client relationship management team, also found that DLT can be harnessed to address pain points in the industry for the firm and its clients.

After a discussion with a number of EquiLend's clients last year, Klahr says that there was a resounding focus from participants in eliminating reconciliation through putting securities lending transactions onto DLT.

In terms of DLTs of data versus value, EquiLend analysed a proof of concept (POC) to ensure that the solution would mitigate the risks. The POC validated 1Source's ability to solve complex business operations, scalability and interoperability. The firm then had a successful POC on DLT, Klahr says.

1Source was pioneered by an EquiLend-convened digital transformation working group made up of market participants representing a broad cross-section of the industry, whose goal is to solve key challenges facing the market. The initiative harnesses emerging technologies such as distributed ledger to develop a single source of truth for securities finance lifecycle events.

The first undertaking of the 1Source initiative is to eliminate the reconciliation of securities lending transactions, which the working group identified to be the most pressing issue facing the industry.

"Ultimately, the environment today, where everyone books entries onto their own system and has traders go in and reconcile those, is incredibly inefficient. With 1Source, you can have your traders doing more value added work. This is a risk mitigation tool that can add value onto a trading desk," Klahr informs.

When it comes to the application of DLT, it is imperative that the operating model, as well as the design features of the operating models, is fit for purpose from a regulatory and legal perspective, explains Stroemer. This supports market adoption for DLT applications by bank borrowers, agent lenders and beneficial owners.

"When the music stops and there is a failure in the system — where the counterparty goes down or a service provider is unable to continue providing services — there needs to be complete legal certainty in terms of who owns what, at any given time," Stroemer indicates.

On the regulation front, Stroemer believes that a great deal of progress is being made. He emphasises the need for additional regulation in the digital asset space, predicting that an increasing number of service providers and fintechs will likely become regulated over time.

Reaching T+0

As market participants explore the uses of DLT platforms, some question the role that DLT plays in facilitating the transition to shorter transaction settlement cycles, and specifically to T+0.

T+1 has been a subject of much discussion in the industry as the Indian market transitioned to the shorter settlement cycle in January, with the US planning to implement T+1 in 2024. While the UK government explores this step with a new taskforce, participants of the IMN panel look further afield to T+0.

Reviewing the SEC's ambitious agenda and whether it will trigger a necessity for the entire ecosystem to rely on blockchain and DLT, Ed Blount, founder and executive director of Advanced Securities Consulting LLC, says: "We do not need blockchains and digital assets to get to T+1. We do need it to get to T+0, possibly." Admitting that it may be impossible to get to such a shortened settlement cycle without reengineering workflows within the market system, Blount says "everything that we do is essentially an automation of the manual processes that took place".

He adds: "In the past, we have upgraded, automated and written programmes, but shared ledgers were never available to anybody before. Shared ledgers will be essential to make it to T+0."

The industry needs to think of DLT as a "foundational base" and from that, participants can grow the chain further, adds Klahr. He believes that the "art of the possible" will allow for 1Source to link to additional activities well beyond the scope of securities lending contract terms.

He continues: "Ultimately, 1Source is a foundational product, and while we don't know everything that DLT can do just yet, we know that it can fit the purpose for making businesses much more efficient in terms of the interoperability and the future state, you can clearly see the industry getting to T+0, you can see ALD faster processing through DLT. In theory, for 10c-1, you can even have your data in a reconciled ledger, where the data is shared."

Reviewing other opportunities in the securities lending space, the panel evaluated the trajectory for crypto assets and its possible interaction within the sector.

Stroemer indicates that from recent market developments in the crypto space at the end of last year — which led to the crypto winter — market participants are taking a step back and realising that crypto assets are one thing, but the underlying technology that underpins them is a completely separate thing. "We should clearly differentiate between the two," he adds.

"What we are seeing in the market today is that there are some DLT platforms that are helping issuers issue securities directly on a ledger," Stroemer continues. "I certainly think there will be plenty of opportunities for that market to further develop, which means it will also need to be supported by the securities lending market."

Stroemer hopes that this will provide a great opportunity for an intersection between DLT platforms that support issuance of natively-issued securities on ledger and DLT platforms that support securities financing transactions of both natively issued securities and existing legacy securities. "I believe we will see some meaningful examples of interoperability across DLT platforms in the near term," he concludes.

Blount suggests that the supporting systems for bringing this technology into mainstream institutions will depend on the interconnectivity between the two. After attending a digital asset symposium last September in Manhattan, Blount left the conference with the takeaway that the connectivities are the vulnerabilities. Beneficial owners should be reviewing application programming interfaces (APIs) when evaluating a service provider that is using a DLT, "because that is where the hacks take place, it is the bridge between one chain and the other", says Blount.

In conclusion, Blount adds: "The future is inevitable, we will have digital assets. Central bank digital currencies (CBDCs) are already in progress. We will have stable coins, CBDCs and there will be applications. I think that this is the way to go. You find that application and then you digitise it, put it on a chain, get a smart contract to control the bridges, and then move the business onto those smart contracts and shared ledgers."

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Pressure on EV share prices charges sec finance revenues

Difficult macroeconomic conditions for electric vehicle and software services sectors are unlikely to suddenly improve and these will continue to propel securities finance revenues, observes S&P Global Market Intelligence's director of securities finance, Matthew Chessum

Throughout 2022, the lending of equity specials was a significant contributor to securities finance revenues. In the Americas, 70 per cent, or US$3.34 billion, of the year's total revenues of US$4.77 billion were derived from specials activity alone. Specials are defined to be securities finance trades generating a fee greater than 500bps. During 10 of the 12 months of 2022, the amount of revenue originating from US equity specials surpassed US$200 million. Specials activity in Americas equities peaked throughout the summer months, reaching a high in July when an impressive US$450 million was generated. Over 80 per cent of all securities finance revenues generated by the asset class during this month were therefore attributable to specials activity alone.

The automobile and components and the software and services sectors both made sizeable contributions to these specials revenues throughout the year. Given the technological developments undertaken by both sectors, their impact on the future world economy could be considerable. Despite this, both sectors suffered from an absence of investor confidence given the significant macroeconomic uncertainty and market volatility throughout the year.

Automobile and components

Tesla was the original high value special that characterised this sector within the securities finance markets. During 2022, borrowing activity in Tesla was muted — despite the 47 per cent decline in its share price — and a different electric vehicle (EV) producer, Lucid Group (LCID), became the top grossing special of the year. The EV sector, consequently, became an important focal point for all securities finance market participants throughout 2022.

The share prices of electric vehicle makers remained under pressure throughout the year. The automobile and component sector's short interest in North America, calculated as a percentage of its market capitalisation, increased to 1.79 per cent during H2 2022 as a result — up from 1.22 per cent in H2 2021 — and the sector became the sixth most shorted in North America.

Lucid Group (LCID) was the highest generating stock of the year, earning over US$267 million for lenders. Other common EV names included Fisker Inc (FSR), earning US$74 million, Faraday Future Intelligent Electric Inc (FFIE) which generated US$45.7 million, and Polestar Automotive Hld Cl A ADR (PSNY) which generated US$45.6 million. EV stocks were particularly prevalent borrows in the ADR market and several foreign companies have successfully raised capital from US investors through their use. One example of this, Xpeng (XPEV), was one of the top five ADR borrows of 2022, generating over US$9 million in revenues. The automobile and component sector produced over US$731 million in global securities finance revenues throughout the year.

The increase in borrowing activity within this sector over the past year is not surprising when we examine the many challenges facing the

industry. The rapid increase in interest rates amplified the financing costs for new vehicles throughout the year, negatively impacting demand. Prices for new cars increased throughout 2022 as supply chain issues made integral car components, such as microchips, more expensive to source. In addition, the impact of a predicted recession, following the rapid increase in interest rates, exacerbated the downward pressure on the share price of electric vehicle makers. Recessionary fears not only impacted predicted sales volumes but also restricted the amount of reinvestment dollars available to these companies to finance the new technologies that often provide them with their competitive edge.

Despite the negative sentiment experienced by the sector over the past year, the agreement made at COP26 to phase out petrol car sales by 2030 — a commitment made by automobile makers and 30 countries worldwide — means that momentum in this important part of the automobile industry continues to grow. According to S&P Global Market Intelligence's mobility team, 2026 will be the tipping point for the industry when the adoption of electric vehicles is expected to increase rapidly. By the year 2030, over one in every four cars sold globally is expected to be an electric vehicle. This fact alone will no doubt offer hope to the industry after a challenging 2022.

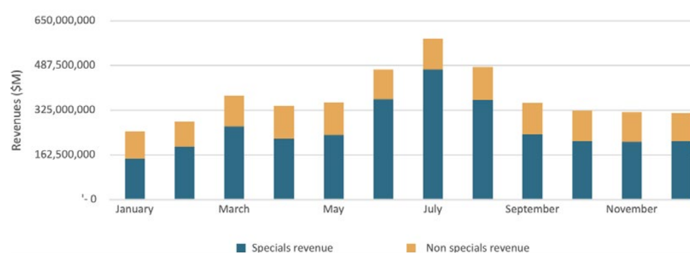
Software and services

During Q4 2022, the world's financial markets were attentively following another market sector that has an increasingly prominent role to play within the world economy. With the price of bitcoin down nearly two thirds over the course of the year, the collapse of crypto exchange FTX, which was once valued at US$32 billion, seemed to be a natural crescendo to a challenging year experienced by crypto markets. The downward trend in the value of bitcoin, and the rapid increase in the cost of the energy needed to mine crypto currencies, encouraged investors to take a closer look at the viability of business models of numerous software companies.

The software and services sector saw increased borrowing activity because of a decline in investor confidence. An increasing percentage of the sector's market capitalisation was borrowed from October onwards. Borrowing activity in the sector increased from 1.79 per cent in H2 2021 to 1.97 per cent in H2 2022. The sector became the third most borrowed sector, as a percentage of market capitalisation, in North America over the second half of 2022. Specials activity in the software and services sector generated over US$578 millon in securities finance revenues during the year.

The percentage of shares outstanding on loan for Marathon Digital Group (MARA), one of the largest US crypto miners, increased rapidly over the final quarter of the year, peaking in December at 52 per cent. According to the financial press, the company has continually missed daily bitcoin production targets and has repeatedly struggled to generate a profit since its inception. Other common borrows in this sector throughout the fourth quarter included Microstrategy Inc (MSTR), which reportedly holds a large proportion of its cash reserves in bitcoin,

Figure 1: US equity revenues per month of 2022



and Riot Blockchain Inc (RIOT), another bitcoin mining company. MSTR generated US$82 million in securities finance revenues over the period, while RIOT generated over US$7 million.

Despite the challenges faced by the crypto contingent of the software and services sector, the difficulties faced appeared to be well insulated with very limited spill over into more traditional financial assets. As the sector evolves, and with the growing popularity and adoption of stable coins which are collateralised by real world assets, controlling any contagion between the two is likely to become increasingly difficult in the future.

Heading into 2023, many of the macroeconomic conditions that have proved challenging for these two sectors do not appear to be improving at any great speed and their contribution to securities finance revenues remains robust. The US Inflation Reduction Act (IRA) does offer a glimmer of hope for electric vehicle makers as it contains provisions to help boost EV adoption and onshore EV and battery manufacturing. Bitcoin has also recovered approximately 20 per cent of its value since the beginning of the year, which may ease some of the cost pressures that crypto miners and crypto asset holders are facing. As these two sectors remain significant for both the future health and wealth of the planet, market participants are likely to remain both captivated and impacted by their future developments for many years to come.

Latest industry moves at Clearstream, Wematch and BNY Mellon

Transcend has announced a series of senior appointments, with Stephanie Dimarco, John Willian and Scott Freidenrich joining its advisory board.

Transcend offers liquidity, funding and collateral decisions solutions to a range of global banks, asset managers, broker-dealers and custodians.

The three additions to the board will support the company's accelerating global expansion, it says. Following a recent move into the European markets, it aims to grow its Asian presence.

Dimarco founded portfolio management and accounting solutions provider Advent Software, which was acquired by SS&C in 2015. She served as president and CEO of the company for more than 30 years.

Willian spent more than three decades with Goldman Sachs, where he was managing director and vice president, partner and subsequently advisory director. His focus in the latter role was on fintech investing and market structure-related advocacy.

Freidenrich began his career at Citi, where he became head of US institutional sales and prime broker in 2009. He then moved to BNY Mellon, where he became global treasurer and, in 2021, president of BNY Mellon North America.

Commenting on his appointment, Freidenrich says: "Transcend is a trend setter, being the first to implement collateral optimisation across triparty agents as well as providing

Wematch appoints Demoulin

Wematch has appointed Stéphan Demoulin as head of sales and relationship management for EMEA securities finance.

Based in Paris, Demoulin will report to David Raccat, co-founder and global head of securities financing at Wematch.

Demoulin brings more than 25 years of experience to the role, where he will help Wematch continue its expansion into EMEA.

He joins the firm from his position as head of securities finance and lending at UBS, where he was responsible for a number of functions including trading and risk linked to lending, borrowing and financing flow, triparty setup, and collateral management schedules.

In addition, Demoulin headed client relationship management between UBS EMEA and APAC regions, such as Hong Kong and Singapore, during his tenure with the firm.

Commenting on the senior hire, Raccat says: “Wematch is on a mission to bring effectiveness and efficiency to managing securities lending workflows, while significantly decreasing operational issues.

“This means combining the best technology and the best talent to ensure Wematch stays at the driving edge. Stéphan’s experience makes him the perfect fit to sustain our current growth curve as we continue to explore new markets in Europe and Asia.”

insightful liquidity analytics. The industry needs this breadth and depth to serve traditional collateralised business areas as well as treasury departments and liquidity managers across sell-side and buy-side institutions."

Bimal Kadikar, founder and CEO of Transcend, states: "We've carefully selected our advisory team, and the expertise they bring to the table will help drive the next phase of growth for Transcend. We have accomplished a lot in the last few years and we're looking forward to expanding our boundaries with the help of our new advisors."

Thapelo Tsheole has joined Global PSSL as strategic advisor and reviewer for UN pathways, with a focus on emerging markets.

Tsheole is chief executive of the Botswana Stock Exchange and president of the African Securities Exchanges Association and will bring his expertise relating to the development of financial markets in Botswana and Africa.

Global PSSL founder and CEO Radek Stech indicates that Tsheole will join Hart Schafer and Paul Watchman as reviewer for the Global PSSL for UN Pathways.

This initiative, announced on 22 December, lays down new principles on transparent public, private and polycentric collaboration in securities finance.

The 3P Transparency project is expected to provide a long-term foundation for collaboration and includes guidelines for letters of intent, memoranda of understanding and for apportioning financial costs.

It also aligns with the United Nations Secretary General's call to weed out greenwashing and dishonest behaviour in sustainable finance.

BNY Mellon has welcomed Romain Lemallier as relationship manager for clearance and collateral management (CCM).

Based in Paris, Lemallier will report locally to Kurt Jarnagin, business head for the CCM business within the European bank and head of product delivery, and functionally to EMEA head of client coverage Stephen O'Donnell.

Lemallier joins the American investment banking firm from a 15-year term at BNP Paribas Securities Services, where he was most recently triparty collateral management business developer.

Moos leaves Clearstream

Melanie Moos has left Clearstream, where she has been senior vice president for product management and investment funds for the past three years.

Moos joined Clearstream in 2015 as vice president for securities lending and collateral management in Luxembourg. In the role, she was responsible for the supervision of a middle-office team and the growth of the company's securities lending activities.

She became vice president of asset servicing in 2017, heading two back- and middle-office teams in Singapore. Moos handled corporate actions in the APAC market and oversaw a tax team for customers in the region.

Returning to Luxembourg in 2019, she gained her most recent role as senior vice president of product management and investment funds. Amongst other responsibilities, Moos led the initiation and development of Clearstream's investment funds product and handled large-scale transitions management and business transformation operations.

He held a number of positions during his time with BNP Paribas Securities Services including on the agency lending trading desk, within corporate actions management and on the collateral management team.

CACEIS has named Jean-Pierre Michalowski as its new chief executive officer.

Michalowski will take over as CEO on 6 March 2023 with the retirement of current chief executive Jean-François Abadie.

He will be promoted from his existing position as senior country officer for Singapore at Crédit Agricole corporate and investment bank which he has held since 2017.

Jean-Pierre Michalowski joined the executive committee of Credit Agricole Asset Management in 2003 on becoming CEO of CAIS Fastnet.

He played an integral role in CACEIS' formation, becoming CEO of CACEIS Fastnet from 2005, CEO of CACEIS Bank from 2007 and Deputy CEO of CACEIS Group from 2010.

Prior to this, Michalowski was chief operating officer at Crédit Lyonnais Asset Management and member of its executive board from 1997 until 2003.

Earlier in his career, he served as head of control and treasury at Credit Lyonnais Rouse, and held previous positions at Banque Indosuez and Meeschaert Rousselle.

In a statement, CACEIS indicates that Michalowski is a recent graduate of the Singapore Institute of Directors.

Jean-François Abadie was appointed as CEO of Crédit Agricole Luxembourg and senior country officer for the Group in Luxembourg in 2010. He became head of global operations at Crédit Agricole CIB in 2015.

Automation platform provider Xceptor has welcomed Michiel Verhoeven as its new CEO, effective April 2023, as Andrew Kouloumbrides announces his retirement.

Verhoeven will join the firm from enterprise application software provider SAP, where he is currently managing director of SAP UK and Ireland.

He brings more than 25 years of experience leading global software corporations and technology start-ups in Europe, Asia and North America.

At SAP, Verhoeven is responsible for business and operations across the UK and Ireland, overseeing approximately 5,000 employees.

During his career, Verhoeven has held management roles at Microsoft and webMethods.

Kouloumbrides steps down as CEO after seven years of leading Xceptor. During this time, he has driven significant growth in the business, increasing headcounts from 18 to almost 250 and expanding into North America, the firm says.

Commenting on the announcement, Xceptor non-executive chair Pete Daffern says: "Michiel is a seasoned and highly-regarded leader with years of experience managing global corporations and startups.

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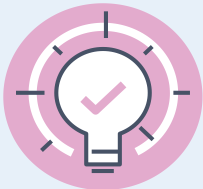

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