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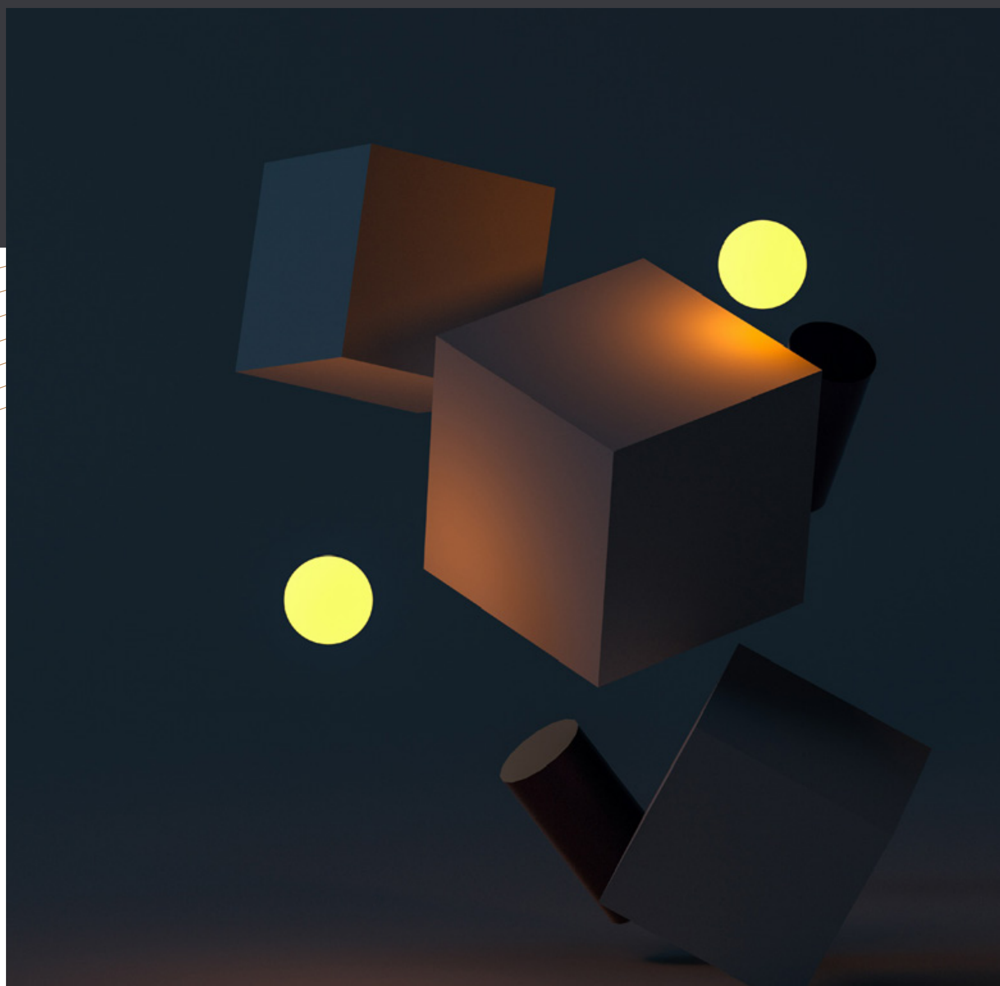
The Foundation for Secure Markets

OCC's Oberon Knapp reveals the key drivers of the firm as it gets ready for industry testing of its Ovation platform



ICE to launch clearing service for US Treasury market

Intercontinental Exchange (ICE) has announced its plan to launch a clearing service for all US Treasury securities and repurchasing agreements.

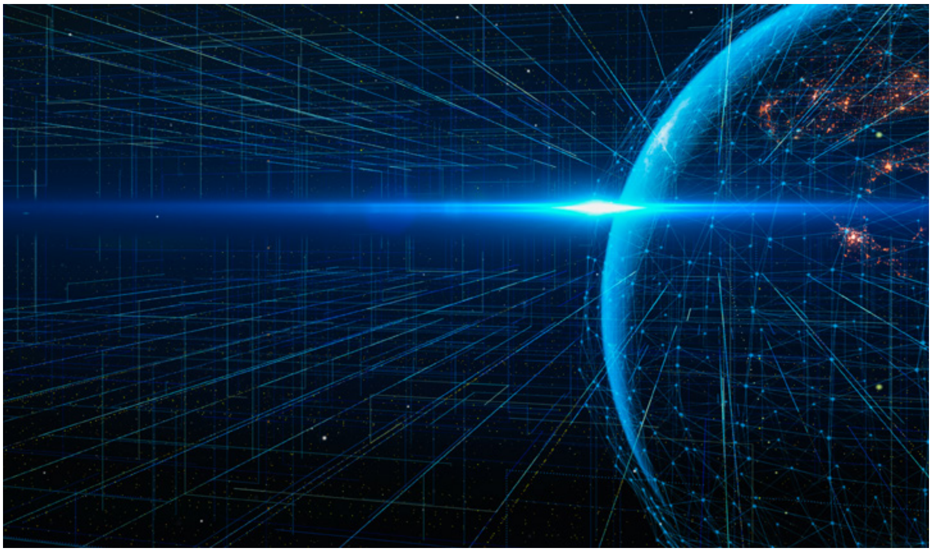
This follows the recent move by the US Securities and Exchange Commission (SEC), mandating for the expansion of US Treasury securities clearing to enhance resilience in the market.

The new Treasury clearing service will be a distinct offering from the current credit default swaps (CDS), though it will leverage ICE's existing CDS clearing house, ICE Clear Credit.

Stan Ivanov, president of ICE Clear Credit, says: "The rich experience we've developed creating and operating ICE Clear Credit and the work we've done to ensure its compliance with all US and foreign regulatory regimes has created a fertile environment for adding Treasury clearing to our suite of credit clearing services."

Chris Edmonds, president of ICE's Fixed Income and Data Services, says: "As we look to add Treasury clearing to the breadth of services we offer for fixed income markets, we will leverage the successful playbook we developed in the past to offer an industry-trusted clearing solution along with the front, middle and back office workflows our customers rely on to manage their daily business operations."

Inside this issue



Global securities lending revenue faces decline

The global securities finance industry has faced a 16 per cent year-over-year (YoY) decline in revenue in the second quarter of 2024, generating US$2.53 billion for lenders, according to DataLend.

In June, the industry generated US$790 million for lenders, representing an 11 per cent fall from the previous year.

Broker-to-broker activity for the month totalled an additional US$207 million in revenue for June, also leading to an 11 per cent decrease YoY.

For Q2 2024, DataLend reports that global broker-to-broker activity, where broker-dealers lend and borrow securities from each other, produced an additional US$696 million in revenue, a 9 per cent decline YoY.

Regionally, equity revenue was down 33 per cent in Europe, the Middle East, and Africa (EMEA) and 19 per cent in North America, compared to the same period last year.

A 22 per cent decline in fees in North America and a 23 per cent dip in EMEA accounted for the majority of the decreased revenue, says the market data service of fintech EquiLend.

On the other hand, equity revenue in Asia Pacific increased by 8 per cent due to a 13 per cent increase in fees.

Global fixed income performance declined 11 per cent YoY in Q2.

While revenue from government securities was “roughly flat”, corporate debt revenue fell by 32 per cent — a regression of a trend which saw corporate bonds “running hot” through much of 2022 and 2023, reports DataLend.

The top five earning securities in June 2024 were Lucid Group, Trump Media & Technology Group, Canopy Growth Corporation NPV, Beyond Meat and ImmunityBio.

In total, the five securities generated US$56 million in revenue for the month.

Provable Markets completes novation of bilateral stock loan in NSCC

Provable Markets has completed the real-time novation of a pre-existing bilateral transaction into DTCC's NSCC Securities Financing Transaction (SFT) clearing service.

The Depository Trust and Clearing Corporation's (DTCC) National Securities Clearing Corporation's (NSCC) SFT clearing service provides central clearing and settlement for overnight borrows and loans of equity securities.

Provable Markets achieved the novation through the use of its alternative trading system (ATS), Aurora. In the first use case, an outstanding bilateral transaction was routed to the firm's ATS for confirmation, then forwarded to NSCC's SFT clearing service for processing.

In doing so, NSCC became the lender to the borrower and the borrower from the lender.

According to Provable Markets, the joint offering enabled novation to be completed in real-time, with minimal operations intervention, and without the need to recall and return the outstanding trade.

Aurora provided further downstream processing in near-real time to the respective clients' books and records systems through its role as an NSCC Approved SFT Submitter.

In conjunction with Provable Market's broader offering, the company says this workflow now manages both cleared and uncleared activity in one place, "providing manoeuvrability" on demand across settlement types as market dynamics fluctuate.

Provable Markets CEO Matt Cohen says: "It's hard to underscore the importance of completing this novation, only made possible through detailed and thoughtful collaboration between Provable Markets, DTCC, and our clients.

"Novation often carries the stigma of being extremely difficult to complete between all parties to a transaction. In contrast, capitalising on the benefits of clearing in near-real time can be a game-changer, opening up tangible possibilities for participants of all sizes to realise immediate ROI, at a time when capital relief optimisation and operational excellence are of utmost importance to operate efficiently in today's market landscape."

John Vinci, managing director and head of securities finance and collateral management at DTCC, adds: "The SFT Clearing service aims to provide NSCC members with the ability to offset their balance sheets through novation to NSCC, including existing NSCC members as well as their institutional clients.

"We look forward to continuing our work with Provable Markets to deliver our clearing capabilities via our SFT offering to an even larger community of members."

South Korean capital markets become Euroclearable

Euroclear Bank and the Korean Securities Depository (KSD), in collaboration with the South Korean Ministry of Finance, have opened an omnibus account for Korean treasury bonds (KTBs) and monetary stabilisation bonds (MSBs).

For the first time, KTBs and MSBs will be able to be settled via the Euroclearable link allowing international investors post-trade access to the market.

According to the Brussels-based international central securities depository (ICSD), the link will also allow KTBs and MSBs to be eligible on Euroclear's triparty platform, enabling integration onto Euroclear's Collateral Highway for repo and pledge activities.

The Collateral Highway is a neutral, open infrastructure for collateral management.

Through the use of Euroclearability, foreign investors may access the local market in a more secure and standardised way.

In addition, local issuers will have enhanced access to wider liquidity pools and can realise a potential reduction in the overall volatility of borrowing costs, says Euroclear Bank.

Commenting on the milestone, Choi Sang-mok, South Korea's Deputy Prime Minister and the Minister of Economy and Finance, says: "The Korean government has been committed to improving foreign investors' accessibility to the KTB markets as a top policy priority.

"This policy direction will be consistently maintained as we believe it is crucial for sustainable progress and continued development of the Korean economy. The government is actively engaged in dialogue with global financial markets, seeking opportunities to improve foreign investment proximity and accessibility."

Soonho Lee, chairman and CEO of the Korea Securities Depository, adds: "Following extensive discussions with Euroclear, we have opened the system in a relatively short implementation period of 18 months.

"We expect this system to open new horizons for global investors in Korean government bonds and we are committed to fully supporting the seamless internationalisation of the Korean government bond market."

Euroclear Bank aims to provide a seamless, efficient and secure infrastructure for international investors to access and utilise Korean government bonds, says the bank's CEO Peter Sneyers.

He indicates that the partnership between the three entities creates new opportunities for Euroclear Bank's Collateral Highway.

PASLA reveals location of securities finance conference 2025

The Pan Asian Securities Lending Association (PASLA) has announced that its Annual Conference on Asian Securities Finance will be held in Macau for the first time, marking its 30th anniversary in 2025.

Macau is an autonomous region on the south coast of China across the Pearl River Delta from Hong Kong.

The conference will take place at the Galaxy International Convention Center on 26-27 February 2025.

According to PASLA, the conference is a must-attend event for market professionals and service providers within the securities finance industry.

The event aims to bring in-depth market insights, input from policy makers, regulatory discussions, key market dialogues, and networking opportunities for those in attendance.

Clearstream, DekaBank and DZ Bank issue tokenised bonds on DLT

Clearstream, DekaBank and DZ Bank have jointly issued two tokenised €5 million bonds using distributed-ledger technology (DLT).

The issuances took place during the European Central Bank (ECB) trials, which are aimed at exploring the potential of DLT for settling wholesale transactions in central bank money. The trials are taking place from May to November 2024.

The processes run on Deutsche Börse’s D7 DLT and include both the security transaction and the transfer of funds using digital central bank money.

The transactions mark the first institutional-grade issuances in Germany on DLT using wholesale digital central bank money, says Clearstream.

DekaBank acted as issuer and DZ Bank as investor — with swapped roles in the second case — while Clearstream acted as DLT market operator, providing the technical infrastructure with its digital securities platform D7, developed in partnership with Google Cloud.

According to Deutsche Börse Group, connecting D7 with the Bundesbank Trigger Solution reflects the bond settlement in the European TARGET2 payment system.

Silvio Lenk, head of treasury at DekaBank, says: “The use case impresses with the simplicity of issuing a security with DLT technology, and at the same time, benefiting from the advantages of the Trigger Solution.

“The delivery versus payment of the Trigger Solution proves how the issuing and settlement processes of private blockchains and wholesale CBDC will interact in future. As issuer, banks benefit from the speed, scalability, and security of the new technology.”

Jens Hachmeister, head of issuer services and new digital markets at Clearstream, says: “With our new D7 DLT, launched for the ECB trials, we provide processing of digital assets and high-quality cash on-chain, which is an important step in developing a digital European securities landscape.

“This transaction represents a significant milestone for the creation of stable digital capital markets in Germany and Europe, demonstrating the power of digital solutions in enhancing safety, liquidity and efficiency.”

ISDA to develop industry notices hub

The International Swaps and Derivatives Association (ISDA) has decided to proceed with the development of an industry-wide notices hub, following support from dealers and buy side institutions globally.

The new online platform is designed to allow immediate delivery and receipt of critical termination-related notices, while also ensuring address details are up to date, to prevent uncertainty and potential losses for senders and recipients.

It will also enable market participants to update their physical address via a single entry.

Following an industry outreach initiative in April — in which ISDA sought indications of support for the proposed platform — buy side firms, including asset managers, insurance companies and hedge funds, made up 57 per cent of respondents who were in favour of the new platform.

ISDA will work alongside S&P Global Market Intelligence and Linklaters to build the platform, draft the necessary documentation and commission legal opinions in priority jurisdictions to confirm the validity of delivering notices via a central hub.

The ISDA Notices Hub will be free for buy side users and available through S&P Global Market Intelligence's Counterparty Manager platform, with implementation targeted for 2025.

Under the ISDA Master Agreement, termination-related notices must be delivered by certain prescribed methods including physical delivery, but delays can occur if a company has not updated its address after moving, or if delivery is interrupted by geopolitical shocks.

The ISDA Notices Hub would act as a secure central platform for firms to deliver notices, with automatic alerts sent to the receiving entity.

A number of designated people at each firm will be able to access the hub from anywhere in the world, regardless of the situation at its physical location.

ISDA's Chief Executive Scott O'Malia says: "We're delighted that so many financial institutions recognise the benefit of having a secure digital platform that allows termination notices to be delivered and received in the blink of an eye.

"As well as increasing certainty for users, the ISDA Notices Hub will eliminate risk exposures and potential losses that can result from delays in terminating derivatives contracts."

Canton Network launches Global Synchronizer

The Canton Network has gone live with its decentralised interoperability infrastructure, Global Synchronizer, after a decade of technological development.

The launch marks a pivotal step towards unlocking the full potential of synchronised financial markets, according to the market participants who run the Canton Network.

The organisation says its new infrastructure provides "first-of-its-kind" connectivity for the tokenisation and exchange of regulated financial assets and liabilities.

It is designed to enhance interoperability on the Canton Network, a public-permissioned blockchain network designed with the privacy and controls required to facilitate the exchange of regulated financial assets.

The Global Synchronizer is operated and governed in a decentralised manner, with internet-like scalability, the firm says, so that no single party controls the service, and limiting the potential for any single point of failure.

The infrastructure is designed to offer clients enhanced efficiency, reduced operational costs, and minimal risks.

In addition, the Global Synchronizer includes a utility token, called Canton Coin, which is used to pay traffic fees for using the infrastructure.

It is designed to incentivise third parties to build applications using the Global Synchronizer, rewarding connections that accelerate connected capital markets.

Commenting on the announcement, Yuval Rooz, CEO and co-founder of Digital Asset, says: "Canton Network participants have taken a long-term strategic view on what was needed to enable the modernisation of synchronised global capital markets.

"Firms have convened over the past year for the initial launch and subsequent testing of the Canton Network. We are excited to see the governance and incentive mechanisms in place to facilitate the adoption and use of the Network as it goes live."

The Canton Network aims to deliver near-term efficiencies for the highest concentrations of tokenised assets, while also facilitating new opportunities as more applications and liquidity are brought on-chain.

A number of market participants are engaging with the organisation, including Broadridge, Ownera, Calastone, EquiLend and Digital Asset.

The foundation for secure markets

Oberon Knapp, head of securities finance at OCC, explores the organisation with Justin Lawson, delving into the core of its operations and the value proposition of its lending programmes and upcoming platform for the market

Can you speak about the OCC and what drives the Chicago-based clearing house?

OCC is the world's largest equity derivatives clearing organisation. We are covering listed options, derivatives, and securities lending in the US equity markets. For our members, if you are trading single stock listed options or futures — for example, for derivative products like VIX — or if you are doing securities lending and borrowing in any of the 7500 eligible securities at OCC, all of those transactions can come to us for clearing.

The numbers we have released for May highlight the scale of that. It translates to monthly volumes of 978 million options and futures cleared, almost a billion in volume. And then with our securities lending programme, our average balances in May were roughly US$160 billion. Beyond the numbers, OCC is also a systemically important financial market utility (SIFMU).

While that means a lot of things, one of the key points is that we are dedicated to providing financial and operational resiliency to the marketplace. With the goal of reducing risk and increasing market confidence, regardless of conditions. We are known as the foundation for secure markets — that is a pretty good descriptor of our DNA.

Building on those strong foundations, market infrastructure is key in securities lending. OCC is a CCP and a clearing house, how does this structure operate?

As a clearing house, we think of that more as a funnel. At the top of the funnel, we are a strategic partner to our stakeholders, whether that is our exchanges, clearing members or regulators, as new products and capabilities are being contemplated, we are working with them to the extent that those capabilities translate into action. As those trades then come down the funnel, we are at the bottom to clear, settle and risk manage every single transaction.

While the clearing house is the vertical, we think of the CCP as the horizontal. As a central counterparty spanning across all of the trading activity, as those trades come to us, we become the buyer to every seller, the lender to every borrower, and vice versa — guaranteeing the performance of every trade.

In terms of market structure connectivity, OCC is currently connected to 20 exchanges and securities lending markets. We have over 100 clearing member organisations, and we connect to another 250 non-clearing organisations (NCOs) — which are the entities that provide all of these important services such as pre-trade compliance, post-trade services, and collateral optimisation. That has been one of the most interesting parts of OCC for me, seeing not only the transparency we bring to markets, but the structural interoperability that we also bring to the markets that we serve.

The OCC operates two securities lending programmes. Can you explain how each of them works, how they differ, and who they serve?

We have OCC Hedge and OCC Market Loan. Hedge is the original programme, which was founded over 30 years ago, and remains to be where the vast majority of our activity takes place. In Hedge, the counterparties are fully disclosed and they consummate a trade before clearing.

Market loan is the opposite. Market loan counterparties are transacting with each other anonymously, and that anonymity is protected through the lifecycle. However, we are becoming the central counterparty to that trade and we are guaranteeing the performance of it.

In terms of who our members are, both programmes have broker dealers, futures commission merchants (FCMs), as well as certain non-US securities firms fittingly being in Canada right now. The Canadian firms are a large and growing part of the OCC lending community. In addition, recently we approved banks as members, and there are a few starting on their journey toward membership.

Capital efficiency is a topic we talk about a lot — and that is big. We are a qualified CCP (QCCP), which means two per cent as a risk-weight counterparty for a typical OCC member. That amounts to roughly 95 per cent savings. Not just that, but clearing your securities lending activity means increased distribution and sourcing opportunities, as well as lower risk and interoperability. Firms are appreciative of the OCCs ability to help them mature and scale their programmes, rather than having to build one connection at a time.

OCC has been working on a clearing platform named Ovation, can you reveal more about the project?

Ovation is our next generation platform, it offers near real-time clearing, combined with the resiliency of cloud-based architecture. Day one, the promise of Ovation is shortening the time to market from a technical perspective on new products and capabilities that were requested. It will also power enriched data services to members. Day two, it becomes the foundation to so much more that we can do for people. Beyond talking about it, we are excited to start showing it. That will start with industry testing a little later this year, including for our securities lending ecosystem.

Specific to securities lending users, we have taken a lot of care to limit the impact of this conversion, and we are working very closely with the various post-trade providers to ensure a seamless integration for when we go live.

Of course, we would not be doing this if there was not a value proposition. There are three main benefits that we are focused on right now for our securities lending clearing members. The first is harmonising our workflows to increase our guarantee. We have Hedge and we have Market Loan programmes — those programmes have their own operations and technical flows. This conversion is going to let us bring those together, and when we can bring them together, that means we can expand our guarantee. Our members will have coverage of rebates going forward, once we are able to normalise flows, as well as certain corporate action types that are not covered right now.

Number two is the potential to take a node. The securities lending clearing system is, at its heart, based on distributed ledger technology (DLT). Members will have the opportunity to licence a node if they wish, which will give them real-time insight into all of their clearing activity. The fun part is thinking about the new potential tools, products and solutions that we have not even thought about yet, that this type of timely clean data might power.

Lastly, is the accelerated time to market. Whether that means supporting new loan market applicants, supporting onboarding of new members, or considering things like new member types or product expansions. We are looking forward to having a platform that allows us to serve the markets better.

Watch full video online

The shifting winds of global politics

In a year that will see around half the world's population take part in an election, Karl Loomes looks at the potential impact on securities lending and the financial markets

Politics and finance have long gone hand-in-hand. From a general sentiment of good economic policy, to specific manifesto pledges set to help or hurt a certain sector, the market often waits with bated breath to discover the choice of the electorate.

It is no surprise then, that in this year where around half of the global population is set to take part in some form of election, market participants have a lot to keep an eye on.

Top trumps

While it is true around 64 countries are holding elections this year, those in the US are arguably dominating both headlines, and the thoughts of the market. A natural enough situation given the country's broad and deep global economic impact. The personification of party politics in the one-person figurehead that is (or will become) President — particularly if that person is divisive — makes it all the easier to distil the complexities of financial policy into a 'Biden vs Trump' debate.

Most polls are fairly unanimous in the expected presidential result at the moment, however, and so the markets have no doubt already priced in any believed impacts of a second Trump White House.

One interesting point of note given how diametrically opposed the two candidates are, is an area of economic policy that many believe they may share — protectionism. A view aired by a number of speakers during the various panel discussions at the recent International Securities Lending Association (ISLA) conference in Geneva.

For Biden, this natural Democratic policy of protecting domestic industry, and more importantly workforce, fits well in an election year. For Trump, the US-first, "Make America Great Again" attitude, seems less fiscal and more political, and very much fitting with the beliefs and policies of his first term.

While broad economic policy often plays a role in elections, what is rarer is to see the intricacies of securities finance regulation making headlines. This is currently the case, however, with Basel Endgame regulations. The nuances of capital liquidity requirements have been on billboards and TV ads in the US for a while — even making it onto a highly coveted Super Bowl spot in February this year.

Of course 'nuances' is not quite correct. The argument against is generally summed up as — the proposed increased capital requirements will make it harder for banks to help 'normal people'. The argument for: if they hold large amounts of capital, taxpayers will not be put in the situation of the 2008 financial crisis, where governments were forced to financially support banks that were 'too big to fail'.

As the Bank Policy Institute (BPI) puts it: "The federal government's Basel Endgame proposal will have real costs for everyday Americans. These capital requirements will create a drag on our economy for years to come — and will hurt working families and small businesses."

The majority of the anti-Basel campaign is industry led, though the general consensus is that it falls mostly down party lines (Democrats for, Republicans against). The exception being — as often the case in the umbrella parties of US politics — the more right-leaning, free market side of the Democratic party, who have at least murmured their disagreement.

Interestingly, a study by law firm Latham & Watkins noted that of the 356 publicly posted comment letters on the regulation, 97 per cent either outright opposed the proposal, or raised concerns regarding at least one substantial element of it. The report also found that about 86 per cent of these negative comments were actually from outside the banking sector — including elected officials, think tanks, as well as various business segments.

Voting with your wallet

Though the term generally means voting in accordance with what will benefit you financially, 'voting with your wallet' could be seen in a different light in the US at the moment. Arguably, demand for Trump Media & Technology Group shares is coming from the retail side — specifically from those 'average' investors who support Donald Trump politically.

This can be seen both as a political statement 'by other means', or as some vague reflection that if the head of a company is President of the United States, one way or another that firm may benefit during their term. Who can say if this is a legitimate argument, but certainly it could be a self-fulfilling prophecy if investors buy shares believing it to be true.

This 'personality investing' is not just limited to the US market. It perhaps goes a long way to the testament of Trump's image and global media presence, that shares in the Chinese company Wisesoft — whose Mandarin name, Chuan Da Zhe Sheng, sounds like 'Trump wins big' in the local language — jumped 10 per cent following the Presidential debate.

"The intricacies of securities lending rarely hit the mainstream media."

Donald Trump recently came out and publicly explained to the company's investors how not to allow the shares they hold to be lent out, in order to minimise short selling in the stock. Again, the intricacies of securities lending rarely hit the mainstream media, though public sentiment against short selling activity has certainly been in the press many times (particularly following the credit crunch and 2008 financial crisis).

Trump's concerns may not be without merit — at least in terms of the shares seeing a lot of short selling activity — though artificially inflating a price by not allowing this educated, expert aspect of the market to 'have their say' seems unlikely to work as a long-term strategy.

Data from S&P Global Intelligence shows that in Q2 this year, Trump

Media & Technology Group shares generated the highest levels of securities lending revenue for US equities, some US$108.1 million.

That said, borrowing has declined in recent days compared to its higher levels. According to Mathew Chessum, director of securities finance at S&P Global Market Intelligence, the percentage of market cap on loan was about 4.49 per cent at the start of July, compared to levels nearer 14 per cent where it has been in the past.

He does note that “there was a small uplift in borrowing activity when the conviction was announced and the share price fell by seven per cent at the start of the month”, perhaps suggesting that short sellers are also keeping one eye on the political landscape.

Around the world

Of course as headline-grabbing as US politics is, there are multiple facets of both politics, and securities finance, elsewhere in the world.

European elections have been seeing a political shift to the right, as populist candidates oust incumbents at every turn. One notable aspect of this, is that a shift to the right generally brings with it a move away from environmental spending (traditionally less of a priority for the right), and an increase in money funnelled into defence. With this sea change in a government’s priorities, naturally related shares for either sector will be impacted accordingly.

As Chessum notes: “As the Greens have won fewer seats in the European Parliament, the political emphasis seems to be moving from the environment to defence spending. We may therefore see higher levels of short interest in these environmental stocks as political and financial incentives are diluted.”

Following the first round of elections in France, the centre left parties grouped together to pull candidates that were in third place, in a collective effort to keep Marine Le Pen’s right wing Rassemblement National (RN) party out of power. The equity markets, at least, seemed to have taken the move well, with the CAC 40 seeing a bump after the first round.

Sharon Bentley-Hamlyn, investment manager at Aubrey Capital Management, comments: “Markets are hoping to avoid either the RN or the extreme left gaining too much influence since both are seen as having the potential to keep deficits, already 5.5 per cent of GDP in 2023, well above the EU’s three per cent limit.

“The left is set on higher spending and taxation, while the RN talks about reducing the tax burden, increasing defence spending and nationalising the motorways.”

This seems, in the main, to be the preference of the market to avoid any extremes — both on the right and left — rather than relating to any specific economic policies.

This sentiment for the middleground is already being played out elsewhere in the world. The South African elections resulted in a coalition government, as the African National Congress (ANC) party lost its majority for the first time since the end of apartheid.

The ANC still has a large percentage of seats however, which could be key. Speaking at a panel discussion hosted by our sister publication Asset Servicing Times before the SA election, Sifiso Ndala, head of global securities solutions at Rand Merchant Bank, noted:

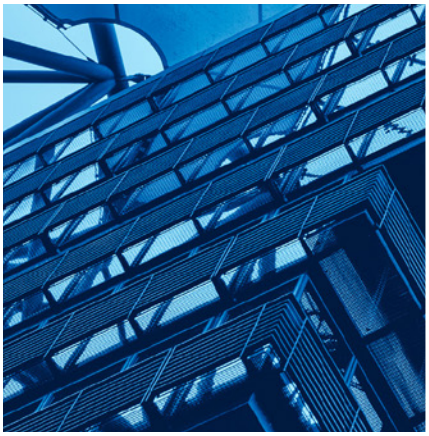
“With a coalition government, from a business perspective, there is hope that the governing body would get at least between 43 and 47 per cent, which means that they will still have a large majority. As a result, there will be some consistency in the policies — especially the financial policies that have been put in place.”

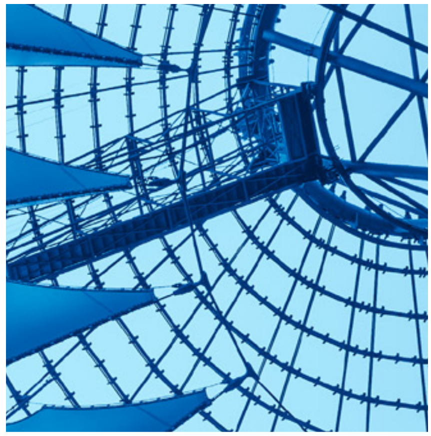
Similarly the Indian elections have also resulted in a coalition government, which the country's equity, bond and FX markets are all seemingly positive about.

According to Rob Brewis, investment manager at Aubrey Capital Management: “The markets themselves have all been pretty stable, the rupee and the bond market, which itself is probably gaining from index inclusion coming up at the end of this month, and the equity market seems to have moved a fair bit higher now and is gaining some momentum.”

Monetary, not fiscal

Of course while all these global elections are in focus for the markets, high interest rates are the backdrop for everything — the securities lending and repo markets included. With the key central banks setting policy independently from their country’s elected officials, who can say how much influence one person can have? We should vote on it.






Bringing the securities lending market together

Discussing ISLA Connects, Tina Baker, head of Legal Services and ISLA Connects lead, sits down with Carmella Haswell to talk about the new initiative

ISLA Connects is a new initiative by the international association, which has now seen its second event take place. Can you tell me about the project and what it means for the wider securities finance industry?

The ISLA Connects brand was conceived by the International Securities Lending Association (ISLA) team in 2023 in consultation with the board of directors and has been supported by the ISLA DE&I Steering Group. Driven by a desire to leverage our position as an industry body, to cultivate a securities financing industry where all members can bring their unique skills, perspectives, and experiences to advance the industry in the most effective and efficient manner.

The original ambition for ISLA Connects, which still underpins the direction of the initiative today, was to provide a forum for ISLA member firm representatives employed in the securities financing industry to connect, and to enable ISLA to reach market participants who may not have the opportunity to interact with us via ISLA working groups or attend our annual conferences or other regional events.

Kyle Kolasingh, head of Market Services Solutions at RBC Investor Services, and chair of the DEI Steering Group, comments: “Through initiatives such as ISLA Connects, we are able to enhance networking and educational opportunities outside our individual workplaces to aid in furthering an inclusive and collaborative industry.”

Having held your second briefing event for ISLA Connects, how have industry participants responded to the new project?

Last year, our focus when launching ISLA Connects was on networking events to build the community and the brand. These events proved successful with attendees representing the full range of our membership across the securities financing value chain.

With the concept firmly established, this year we launched our Educational Briefings, working in partnership with member firms to host deep-dives into specific topics and themes shaping the industry, followed by structured networking. So far this year, we have partnered with Citi to host a ‘Basel: Endgame’ briefing and more recently, with S&P Global Market Intelligence for an ‘Understanding Data’ session. The sessions allow attendees, who may not be that close to the topic in their day-to-day work, to build their knowledge and apply this within their organisation.

As with all ISLA’s events, we share a post event survey with delegates to garner feedback and make sure the content and outcomes meet their expectations and continue to add value to their work and their member firms.

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, says: “I was delighted to support and participate in the second ISLA Connects Educational Briefing, hosted at our offices.

"One of the most striking observations on the day, was the diversity of the attendees, both in terms of the firms they represented, but also their respective roles within our industry. This type of initiative really helps to connect those who are new to the industry to their peers whilst broadening their knowledge base."

What was the catalyst for the creation of this project? Why is now the opportune time for it to take place?

We are witnessing an incredible amount of change in the industry, driven by regulation, digitisation and technology. With this change comes the need for innovative mindsets to drive new solutions. To address this need, we recognise the importance of attracting and cultivating new talent and skills, as well as enabling seasoned market participants to further develop their skillsets.

This view was echoed at ISLAs recent Annual Securities Finance & Collateral Management conference in Geneva, during the ‘New Hiring Paradigm’ panel. The panellists highlighted that the industry, although still rooted in interpersonal relationships (which remain important), now also requires more non-traditional skillsets including data analysis, risk management and IT development, to help drive productivity and profitability of trading desks.

Through ISLA Connects we can expose attendees to a broad range of industry defining topics and themes, forge cross industry relationships and ultimately help develop the next generation of decision makers. From an ISLA perspective, our hope is that these decision makers will maintain their relationship with ISLA through our working groups and industry events to help shape the future of the industry.

Where does the association intend on taking ISLA Connects? What role will it play in ISLA’s evolution?

While ISLA Connects was initially focussed on new entrants to the industry, this has evolved to become more inclusive and welcoming of a broader range of professionals. It is still very much about opening doors and building networks but with a focus on developing the knowledge and skills needed to progress our industry.

In terms of initiatives, we will be continuing to focus on expanding the reach of our Educational Briefings. The next briefing is currently planned in partnership with RBC Investor Services, exploring the legal frameworks that underpin the industry, and we are aiming to host at least one more this year.

We also have plans to launch ISLA Connects, or at least a similar model, in the Americas through our affiliate, ISLA Americas. The need to encourage and promote the next generation of talent is a global challenge and we are incredibly excited to see this model expand into different regions.

Tina Baker
Head of Legal Services and ISLA Connects lead
ISLA

Embarking on your optimisation journey

Eric Badger, managing director and global head of client coverage, Clearance and Collateral Management at BNY, explores the core factors when choosing whether to build or buy, and key considerations for a successful optimisation journey

In reflecting on the past 12 months since we last gathered at the ISLA conference, there is good reason for optimism, and many accomplishments to highlight. At the same time, market participants are challenged by the lingering uncertainty from regulatory, market and geopolitical pressures, as well as the continued evolution of global market infrastructure.

By extension, the global collateral management marketplace continues to progress and advance against the backdrop of these challenges. Its importance and the rising levels of investment reflect the need for solutions that solve for increasing complexity. Efficient, timely and flexible optimisation capabilities are essential, with the outcomes related to collateral usage being increasingly critical.

One of BNY's core focuses is on collateral optimisation, ensuring that the right collateral reaches the right place at the right time. We have a long history of developing solutions that efficiently allocate collateral, assisting clients through a consultative approach and in-depth analysis, as they look to optimise global portfolios of assets across regions, legal entities and service providers. Every day, we process over 10,000 optimisation runs globally, on more than US$3.3 trillion of collateral, where accuracy, speed, scale and resiliency are paramount.

BNY's range of optimisation solutions offer operationally efficient and automated methods of allocating collateral. Our patented algorithm incorporates multiple funding and market variables, and is flexible enough to allow for clients to achieve bespoke outcomes to meet liquidity, regulatory, funding and capital requirements.

Build or buy

Whether a client decides to build it themselves, use a third party fintech, or a combination of both, we have technology solutions to help them achieve their objectives. Given our position in the market, we are often asked for counsel on which option works best.

As clients begin their optimisation journey, one of the first decisions that they must make is whether to build their own solution internally or buy from a third-party provider. There are several important factors that firms must consider when making this decision, including time to market, infrastructure limitations, and costs related to continued investment and maintenance, among others.

It is important that clients consider the potential time to market for each solution, as there is a significant opportunity cost related to this. Time to market and technology opportunity costs can run into tens of millions of dollars per annum. To build one's own solution requires securing in-house quant expertise, hiring sophisticated developers, sourcing historical, high-quality collateral portfolio data, and building the service for an optimised performance. Accuracy and speed are also key considerations. Even a small underperformance in accuracy can have an outsized effect on cost of funding, and delays in completing the process can miss market cutoffs.

The time to market required for each solution can be greatly impacted by the limitations, both internal and external, that a client faces from an infrastructure perspective. A significant investment is required from clients to be able to connect and consolidate data from various internal books-and-records systems, as well as various exchanges and settlement locations to build a high-quality, real-time data layer. This is considered one of the heavy lifts of any collateral optimisation programme.

Once clients have created that foundational base for data, the challenge then becomes how to maintain real-time data to minimise incorrect data that create 'breaks' in the end-to-end process.

Portfolio data will be required across products, desks, legal entities, and external service providers. Bringing all of this together in a frequency and format that is useful to optimise and mobilise collateral is paramount.

To address this, BNY provides a collateral eligibility API, so clients are not required to consistently map data as it shifts due to data vendor changes, harmonising jurisdictional differences or adding new markets.

Clients need to consider the ongoing investment and upkeep costs when considering whether to build or buy. Investment is needed across several fronts, but broadly the two most important areas are performance and resiliency. Performance is especially critical because increasingly sophisticated objectives, growing portfolio sizes, de-siloed business units, widening collateral locations and compressing timeframes mean increased complexity in execution. Therefore, continual investment in performance is essential.

Additionally, resiliency is fundamental and multi-faceted for collateral optimisers. The solution must always provide an optimal result in a short amount of time. And given a forced time-boxed result, it must also have a fallback option. Moreover, the application requires constant uptime — any failure during critical processing times can put a firm at undue risk. BNY has worked to solve this via our active-active-active infrastructure.

The industry has yet to fully solve the multi-product, cross-venue collateral mobility challenge, but progress is being made. We see material progress in digitising collateral eligibility data, though not all collateral venues are providing support for this capability in a sophisticated manner — leaving the heavy lifting to clients and fintechs to piece it together.

Significant investment is needed across the evolving collateral ecosystem to address the complexity and breadth of capability that is required to centralise and automate across the scope of clients' enterprise and global activity. Because of this complexity, we believe it is important that optimisation solutions should not have a one-size-fits-all approach. When working with BNY, clients can choose to use the full suite of optimisation services or specific modules in conjunction with their own optimisation tools, or vendor solutions.

Best practices

Regardless of whether a client chooses to build or buy their collateral optimisation solution, BNY can support them and provide solutions that will enable them to optimise their collateral. We have partnered with our clients on optimisation projects extensively over the past few years and have been able to see what works and what does not.

One of the best practices that we have seen clients utilise is performing a proof-of-value exercise early in the process to de-risk their investment decision when building the internal business case. This can help to reduce some of the uncertainty a client may experience when deciding whether to build or buy and weighing the opportunity costs related to time to market. We can demonstrate proof-of-value improvements in automation, high-quality liquid asset (HQLA) efficiency, net stable funding ratio (NSFR) efficiency, and margin efficiency. We work together with clients to conduct these customisable proof-of-value analysis to build their specific business case to secure the funding and resources to initiate the project.

Additionally, we have seen clients succeed when they approach their optimisation journey in a structured and methodical manner. Clients are generally aiming to optimise triparty funding, securities finance and margin. This can be a big challenge, and clients can get overwhelmed if they attempt to do too much at once. Our clients have usually seen more success when they begin their optimisation journey with a specific use case, rather than trying to broadly optimise across their entire enterprise. We have also seen that it is more effective when clients utilise an optimisation provider that is willing to accept data in any format, as this will limit the upfront cost that many clients experience when they are forced to standardise their data sets.

Finally, it is advisable to sequence settlement venues where optimisation outcomes can be realised quickly. Clients who choose the BNY platform often cite the benefits of its scale, sophistication of its services supporting their programmes, resiliency, and the connectivity we have with various market vendors. Optimisation solutions offer significant alpha for market participants, getting started is the most important step.

"Significant investment is needed across the evolving collateral ecosystem to address the complexity and breadth of capability that is required to centralise and automate across the scope of clients' enterprise and global activity."

Eric Badger
Managing director and global head of client coverage
BNY Clearance and Collateral Management

Pirum hires Marquis

Richard Marquis, an experienced securities finance executive, has joined Pirum's New York office as director sales for North America.

According to Pirum, this move is part of the company's investment plans in North America, to keep up with increasing client demand for securities finance automation and connectivity solutions.

Marquis brings more than 30 years of experience in leading securities finance trading teams and developing innovative technology solutions across agency lending, prime brokerage, and principal borrowing.

He joins Pirum from MUFG Securities, where he ran the Securities Finance Regulatory project for 10c-1a compliance.

Prior to that, he headed Borrow DIRECT at BNY, served as the head of international equity hedge fund demand at J.P. Morgan, and as executive director of international equity prime brokerage at UBS.

AccessFintech selects TV

AccessFintech has appointed Naveen TV as head of product.

In his new role, as part of the executive team, he will be responsible for expanding and maturing AccessFintech's suite of products that operate on the data infrastructure Synergy.

He will also be responsible for driving product innovation by expanding the feedback loop with the capital markets ecosystem leading go-to-market strategy and campaign management.

Prior to his new role, Naveen TV most recently served as managing director, global head of data strategy and AI. In this position, he forged strategic partnerships, strengthened client relationships and played a key role in implementing cutting-edge, front-to-back operating models.

Roy Saadon, CEO of AccessFintech, comments: "Naveen is one of the most widely admired, networked and experienced professionals in the market."

Clear Street names Pawar

Clear Street has appointed Atul Pawar as chief risk officer. He will officially enter his new role in July.

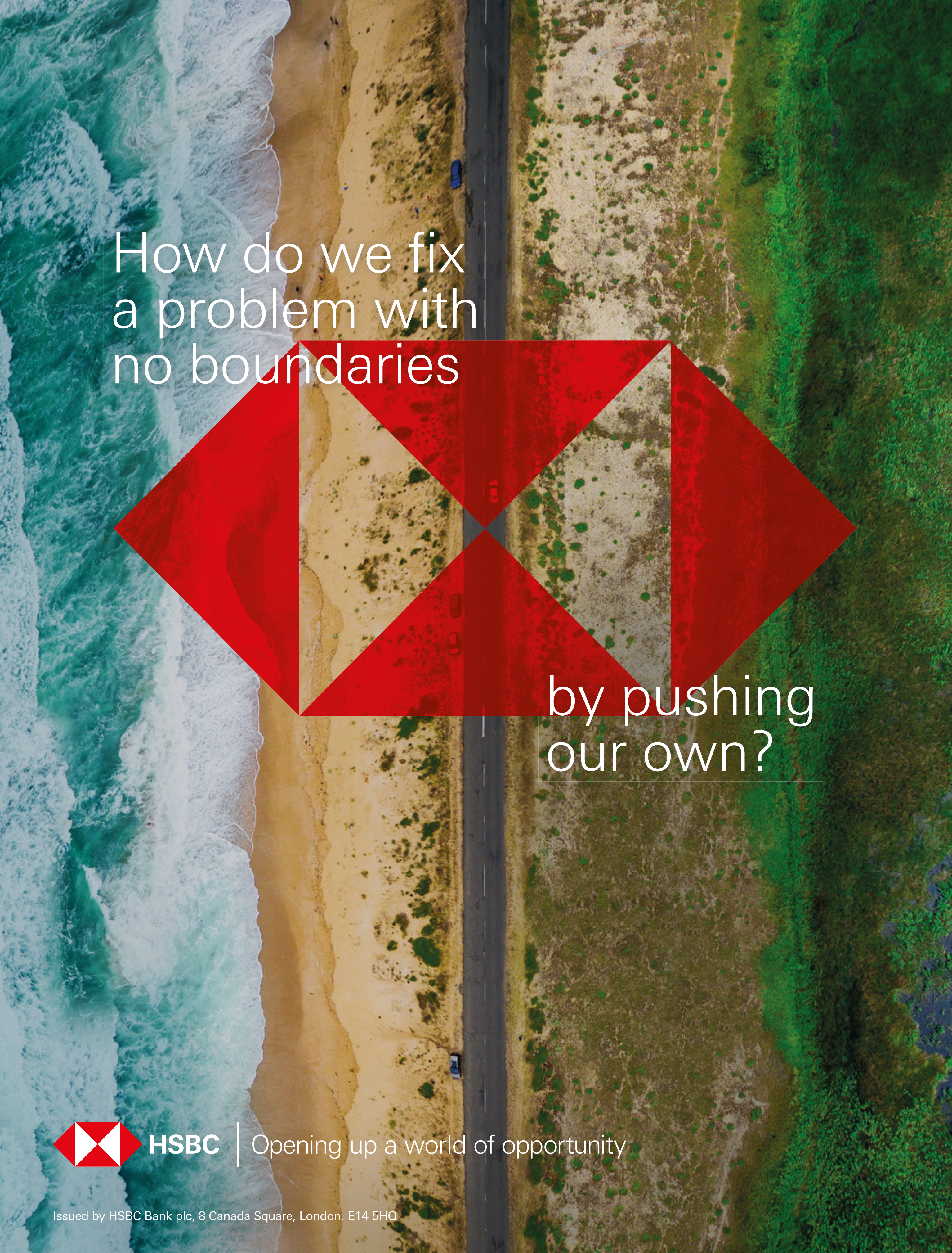
Based in New York, Pawar will oversee the firm's risk management firmwide, across its Institutional and Active divisions.

In Clear Street's Institutional business, the company provides securities financing and lending, clearing and settlement, execution, as well as professional clearing and custody.

Its Active division provides active traders a suite of products and services designed for speed, efficiency and reliability, the firm says.

He joins the firm after two decades at Goldman Sachs, where he was most recently head of US prime, clearing, futures commission merchant (FCM), and counterparty risk.

During his time at Goldman Sachs, Pawar focused on prime brokerage, execution and clearing, and FCM under the Global Banking and Markets division, where he oversaw market and liquidity risk in portfolios across various asset classes.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Delta Capita recruit Frost

Delta Capita has appointed Nick Frost as its global chief financial officer.

Frost will be based in London and report directly to group CEO Joe Channer.

He will be responsible for developing the company's financial strategy and assisting existing growth plans.

Frost comments: "I look forward to collaborating with the team to ensure strong financial growth as Delta Capita continues its mission to reinvent the financial services value chain."

Frost has over two decades of experience in the financial services industry and held the position of chief financial officer at a number of other companies, including the London Stock Exchange Group.

Channer adds: "[Frost's] leadership will be pivotal in shaping our financial strategy and preparing us for the next phase of accelerated growth."

HSBC's Laurent promoted

HSBC has promoted Olivier Laurent to head the bank's continental Europe agency lending and liquidity services.

In his expanded role, he will continue to act as head of Securities Services for France, a position he has held since 2018.

Based in Paris, Laurent reports to Adnan Hussain, global head of agency securities lending, and Tony McDonnell, head of continental Europe and offshore, and global head of alternative investments for Securities Services.

Laurent joined the bank's London office in 2015 where he worked in product management on MiFID II, AIFMD, and the Securities Financing Transactions Regulation (SFTR), before being appointed head of Securities Services, France.

Commenting on the news, Hussain says: "Recognising the increased importance our global institutional clients have placed on HSBC's agency solutions, we're pleased to announce that Olivier has expanded his remit to cover agency lending across continental Europe."

Publisher: Justin Lawson
justinlawson@securitiesfinancetimes.com
020 3667 3244

Group editor: Karl Loomes
karlloomes@blackknightmedialtd.com
020 3617 1722

Deputy editor: Carmella Haswell
carmellahaswell@securitiesfinancetimes.com
020 3617 1722

Reporter: Daniel Tisoň
danieltison@securitiesfinancetimes.com
020 3617 1722

Accounts: Chelsea Bowles
accounts@securitiesfinancetimes.com
020 3667 3979

Designer: James Hickman
jameshickman@blackknightmedialtd.com
020 3372 5997

Studio director: Steven Lafferty
design@securitiesfinancetimes.com

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