Securities Finance Times

The primary source of global securities finance news and analysis

Issue 359 20 August 2024

Financial confidence in a new future

SNB Capital's Jalal Faruki on connecting local and international investors with global opportunities

ECB publishes harmonised rules for collateral management

The European Central Bank (ECB) has published rules and arrangements for the mobilisation and management of collateral in Eurosystem credit operations.

According to the bank, the move marks a step towards further financial integration in the euro area and the capital markets union.

The harmonised rules and arrangements reflect on a number of developments, including the implementation of a Eurosystem policy which establishes that assets mobilised as collateral will be held in accounts in TARGET2-Securities (T2S).

It also covers the adoption of market standards relevant for Eurosystem collateral management, as set out in the Single Collateral Management Rulebook for Europe (SCoRE); and updates to the eligibility criteria applicable to securities settlement systems (SSSs).

The General Documentation has been amended to take account of Guideline ECB/2024/22 and implement certain other changes, for example, relating to the expression in face amount (FAMT) of the quantity of debt instruments to be eligible as collateral, and that comply with market standards for the denomination of securities.

The new rules and the amendments to the General Documentation will come into effect with the launch of the Eurosystem Collateral Management System (ECMS), which is planned for 18 November 2024.

The ECMS is a unified system for managing assets mobilised as collateral in Eurosystem credit operations. It will replace the existing individual collateral management systems belonging to the national central banks of the euro area countries.

Inside this issue
4

SNB Capital becomes clearing member

Investment bank and asset manager SNB Capital has become a direct clearing member of Muqassa, a securities clearing centre company, in the derivative market.

SNB Capital has completed all regulatory and technical requirements to attain this status.

Muqassa is the clearing house of the Saudi Tadawul Group, and was established in 2018 as part of Saudi Arabia's Financial Sector Development Program.

The firm says it reduces post-trade risk, provides a centralised counterparty risk management service, and develops clearing services in accordance with international best practices.

ICMA releases new GMRA legal opinion for Ghana

The International Capital Market Association (ICMA) has revealed the publication of a new Global Master Repurchase Agreement (GMRA) legal opinion for Ghana.

Following member requests, the association commissioned a legal opinion which covers the enforceability of the netting provisions of the GMRA, as well as the validity of the GMRA as a whole, under the laws of Ghana.

The legal opinion for Ghana can be accessed on the aosphere platform, along with 70 other legal opinions in ICMA's GMRA legal opinion library.

The opinions provide ICMA members a business-critical service with access to a body of legal know-how regarding the enforceability of the GMRA and, in particular, the GMRA netting provisions in 71 jurisdictions globally, the association says.

Regulators require repo transactions to be subject to agreements like the GMRA, supported by regularly updated legal opinions, to reduce regulatory capital

requirements through close-out netting, ICMA adds.

Tradeweb reports 25.3% repo rise

Repo average daily volume (ADV) traded on the Tradeweb platform jumped 25.3 per cent year-over-year (YoY) to US$621.8 billion for July.

The combination of quantitative tightening, increased collateral supply, and current rates market activity shifted more assets from the Federal Reserve's reverse repo facility to money markets, the firm says.

For rates trades, US government bond ADV was up 47.4 per cent YoY to US$206.1 billion. European government bond ADV rose 16.5 per cent YoY to US$42.9 billion.

According to Tradeweb, US government bond volumes were supported by growth across all client sectors, increased adoption across a range of protocols, and favourable market conditions.

The growth in European government bonds and UK gilts was a result of sustained volatility on the back of political elections in Europe earlier in July, as well as a continued active primary market during the first half of the month.

For swaps and swaptions, ADV was up 38.9 per cent YoY to US$351.5 billion, and total rates derivatives ADV climbed 85.7 per cent YoY to US$671.4 billion.

Tradeweb reports that swaps and swaptions volume was driven by ongoing institutional client activity, strong tailwinds from global political uncertainties, and a 23 per cent YoY increase in compression activity, which carries a lower fee per million.

In credit markets, fully electronic US credit ADV rose 38.3 per cent YoY to US$6.7 billion, while European credit ADV increased by 10.5 per cent YoY to US$2.1 billion.

US and European credit volumes were driven by increased client adoption of portfolio trading and Tradeweb AllTrade.

Clearstream GSF volumes outstanding up 3%

Clearstream has revealed that its global securities financing (GSF) business generated a 3 per cent year-over-year (YoY) growth in volumes outstanding to €707.6 billion for July.

Year-to-date (YTD) GSF volumes outstanding were up 16 per cent to €715.82 billion for 2024, compared to €615.83 billion for the same period last year.

Assets under custody held in Clearstream have risen 8 per cent YoY to €18,866 billion for the month, with a 7 per cent YTD increase to €18,536 billion for 2024.

For Clearstream's investment funds services (IFS), securities deposits increased 16 per cent YoY for July to €3,769 billion. The number of transactions through the funds division was up 37 per cent YoY to 4.94 million.

International business securities deposits through the Clearstream ICSD were up 6 per cent YoY for July to €8,802 billion. The number of transactions through this service has climbed 48 per cent YoY to 8.69 million for the month.

OCC welcomes MIAX Sapphire as participant exchange

The Options Clearing Corporation (OCC) has enlisted MIAX Sapphire as its newest participant exchange.

With the addition of MIAX Sapphire, OCC can now provide clearing and settlement services to 21 exchanges and trading platforms for options, futures, and securities lending transactions, according to the firm.

MIAX Sapphire, a subsidiary of Miami International Holdings (MIH), launched its electronic exchange on 12 August to provide its clients with “a new exchange designed to meet their evolving demands for improved access to options liquidity”.

Thomas Gallagher, chairman and CEO of MIH, says: “The launch of our fourth US options exchange provides our market participants with access to 100 per cent of the multi-listed options market, all supported by our proprietary technology designed to enhance liquidity and promote improved price discovery.”

OCC CEO Andrej Bolkovic adds: “As the central counterparty clearing house for all US listed options, we are pleased to offer our clearing and settlement capabilities to MIAX Sapphire and to support the exchange-traded options industry’s continued growth.”

ISLA welcomes AustralianSuper as member

The International Securities Lending Association (ISLA) has welcomed AustralianSuper as a new member.

AustralianSuper is one of Australia’s largest superannuation funds and one of the largest pension funds in the world.

The team supports its members in achieving their best financial position in retirement while also advocating for an equitable and sustainable superannuation system, says ISLA.

Commenting on the news, an ISLA representative says: “This membership highlights ISLA’s growing coverage of global beneficial owners.

“Through our Beneficial Owner Steering Group, ISLA actively promotes the collective voice of institutional investors within the securities lending market and the ISLA community.”

ESMA recognises CDSC as Tier 1 CCP

The European Securities and Markets Authority (ESMA) has recognised Canada's national securities depository as a third-country central counterparty (CCP) under the European Markets Infrastructure Regulation (EMIR).

On 8 August, CDS Clearing and Depositary Services (CDSC) became a Tier 1 CCP under Article 25 of EMIR.

The move follows an equivalence decision regarding the regulatory framework for central CCPs established in parts of Canada, including British Columbia, which was adopted in November 2015.

The authority's recognition of CDSC was made possible through the signature of the Memorandum of Understanding (MoU) between ESMA and the British Columbia Securities Commission (BCSC) on 18 July.

The MoU establishes cooperation arrangements, including the exchange of information, regarding CCPs which are established in Canada and authorised or recognised by the BCSC, and which have applied for EU recognition under EMIR.

The new agreement complements ESMA's MoU with the Ontario Securities Committee and the Autorité des Marchés Financiers of Québec, according to ESMA.

With this MoU, ESMA has concluded 26 cooperation arrangements under EMIR with relevant non-EU supervisory authorities from 21 countries across all continents, including the US, UK, and New Zealand.

EMIR provides for cooperation arrangements between ESMA and the relevant non-EU authorities whose legal and supervisory framework for CCPs has been deemed equivalent to EMIR by the European Commission.

Tradeweb completes ICD acquisition

Tradeweb Markets has completed the acquisition of Institutional Cash Distributors (ICD), an investment technology provider for corporate organisations trading short-term investments.

The US$785 million all-cash transaction was first announced in April 2024.

With this move, Tradeweb adds corporate treasury professionals as a fourth client channel, complementing its existing focus on institutional, wholesale and retail clients.

ICD is one of the largest US institutional money market fund portals, enabling more than 500 corporate treasury organisations across various industries in more than 45 countries to invest in money market funds and other short-term products to manage liquidity.

In the future, ICD clients will have the ability to optimise yield and duration via Tradeweb's existing suite of products and partnerships, as well as manage liquidity needs and related FX risk.

In addition to cross-selling its products to ICD's clients, Tradeweb will leverage its international presence to accelerate ICD's growth and expansion.

Global securities lending revenue down

The global securities finance industry faced an 11 per cent year-over-year (YoY) decline in revenue in July, generating US$843 million for lenders, according to DataLend.

The company also noted a 20 per cent YoY fall in US equity lending revenue for the same month.

Decreased fees were the driver, with the average cost to borrow for US stocks down 21 per cent compared to July 2023, according to DataLend.

However, with fees bouncing in July, US equities showed positive momentum with a 22 per cent revenue increase month-over-month. Global broker-to-broker activity totalled US$219 million in revenue in July, down 7 per cent YoY.

In the global equity lending market,

Taiwanese securities continued to generate strong returns, with revenue increasing 59 per cent YoY.

Loan balances for Taiwan equities climbed 43 per cent and fees increased 11 per cent compared to 2023.

In fixed income, global lending revenue for corporate bonds continued to cool, falling 23 per cent YoY.

DataLend says that the dip was driven by investment-grade issuances, where a 28 per cent drop in fees led to a 21 per cent decline in revenue.

Global sovereign debt revenue improved 8 per cent YoY as balances climbed 15 per cent.

US Treasury lending accounted for the bulk of the improvement, with revenue rising 14 per cent, DataLend reports.

The top five earning securities in July were Sirius XM Holdings, Lucid Group, Beyond Meat, ImmunityBio, and NuScale Power.

These five securities in total generated US$87 million in revenue for the month.

OCC average daily loan value up 23% YoY in July

The Options Clearing Corporation (OCC) has recorded a 23 per cent year-on-year (YoY) increase in average daily loan value for securities lending trades across its platform, generating US$167.61 billion for July.

The total number of securities lending transactions cleared on the OCC platform also grew, up 30.87 per cent YoY to 247,572 transactions for the month.

Year-to-date average daily volume for all futures and options cleared through the equity derivatives clearing organisation for 2024 was 47.48 million contracts, 6.4 per cent higher compared to the previous year.

The total volume for all futures and options cleared on the platform rose by 25.5 per cent YoY to 1.1 billion contracts for July 2024.

Alongside a 38.6 per cent YoY jump in cleared futures contracts to 5.88 million, the platform also recorded a 32.6 per cent YoY rise in index options contracts for July to 92.46 million. ETF options contracts cleared on OCC grew 34 per cent YoY in the month to 412.17 million, and equity options volumes increased 19.1 per cent YoY to 591.18 million.


EX
Don't mind the gap
Our repo markets bridge liquidity gaps. More than 160 European financial institutions are currently active on our Repo, GC Pooling, HQLA^x and eTriParty markets. They benefit from trading opportunities with fully integrated clearing and settlement.
Architects of trusted markets
EUREX

Giving everyone financial confidence in a new future

SNB Capital's Jalal Faruki, director, head of securities services and custody, speaks to Carmella Haswell about the firm's focus on connecting local and international investors with opportunities across the globe

Jalal, can you tell me about your role and core focuses at SNB Capital? How have your responsibilities developed during your five-year term with the company?

Over the past five years, SNB Capital has evolved in-line with the growth and development of capital markets in the Kingdom of Saudi Arabia, and has established solutions to continue positioning the company as a leading capital market institution in the region.

As with all other local institutions, the securities and brokerage businesses of SNB Capital have historically served the primary investor base in the local capital markets, which included retail, individual and high-net-worth clients. Since 2019, as Saudi Arabia was included in emerging market indices of MSCI and FTSE, we have witnessed a significant growth in the institutional segment of investors, both locally and internationally, as well as a shift in local investors towards appointing asset managers.

Within the securities division of SNB Capital, we have made significant investments into growing our teams, infrastructure and capabilities to support this shift. Some of these changes included the establishment of a dedicated sales trading function, connectivity with trading networks and post-trade confirmation systems, the implementation of institutional trading capabilities including co-location and low latency systems, as well as the provision of reporting and data exchange solutions to serve institutional investors and asset managers. These changes were of course accompanied by growth in our teams and capabilities across institutional trading, sell-side research and securities services.

In 2021, SNB Capital partnered with BNY Mellon to launch its global securities services in Saudi Arabia, offering SBL and clearing services. How have these services developed since its inception, and how was this driven by client demand?

In 2020, SNB Capital took a decision to grow its securities division to include custody and securities services, to provide a global solution to local asset owners and managers. To provide a solution, while maintaining compliance with the strict data residence requirements of local asset owners and entities, we have decided to work with BNY. The Bank of New York Mellon Corporation has the experience and capabilities that allowed SNB Capital to implement data solutions in the Kingdom at our own data centres, which provides clients with the benefit of BNY's technology and reporting capabilities, while retaining client asset data in our own data centres.

Global custody services provided by SNB Capital, through BNY as a sub-custodian, forms the base for this project. The value-add to clients has been the additional securities services, which is enabled by having a single global custody platform and account for the client.

Can you reveal more about what SNB Capital's SBL and clearing services have to offer for clients? How does this compare with other services offered in Saudi Arabia?

SNB Capital is a direct clearing member (DCM) of Muqassa, a clearing house in Saudi Arabia, and was awarded best DCM by the Saudi Tadawul Group in 2023. Clearing in Saudi Arabia is generally the responsibility of the executing broker, and as an exchange member for brokerage, we have a high focus on ensuring our clearing activities are consistently optimised and fully support the execution requirements of our clients and collateral requirements of Muqassa.

In terms of securities borrowing and lending (SBL), SNB Capital has taken a phased approach with the initial phase focused on the most natural supply/demand dynamic — which has been local investors as lenders providing securities for loan to international institutions as borrowers. We have taken a unique approach to enabling this type of activity through a number of areas.

First, SNB Capital faces local lenders as principal, given that local lenders are largely high-net-worth-individuals, this enables us to provide a solution to access this liquidity pool which would otherwise be challenging for international institutions to face.

Second, SNB Capital executes a matched principal onward lending transaction to face international institutions, banks, and prime brokers as borrowers under market standard agreements.

Third, we work with all borrower counterparties to provide collateral on a same day basis, utilising the closing prices of loaned assets on a same day basis to calculate required collateral values and book collateral movements. This enables us to minimise risk and ensure

"We are largely focused on securities which are off-benchmark and provide lenders a higher potential income/return from lending fees."

Jalal Faruki
Director, head of securities services and custody
SNB Capital

compliance with local regulations which require a minimum 100 per cent collateral for securities on loan.

Fourth, we are largely focused on securities which are off-benchmark and provide lenders a higher potential income/return from lending fees. Given that securities lending is a new activity in the market, investors are not yet conditioned to the long term benefits of small incremental returns from securities loans. Hence why we have focused on securities in the 200-500bps range, with the weighted average return for our lenders in 2024 being over 400bps.

SNB Capital aims to expand its financial market footprint through its collaboration with Broadridge's SFCM solution. How have evolving attitudes toward SBL activity in the region, and changing regulation, enabled your firm to expand in this respect?

SBL regulations have been available in Saudi Arabia since 2017. However, the market structure and operational challenges in enabling this activity in-line with international models was only addressed when the Saudi Exchange completed the implementation of the Post Trade Technology Program in April 2022.

This program changed the market structure to remove pre-validation on orders and established a separate clearing house for collateralisation of trade settlements. This change has enabled SNB Capital and other market participants to execute securities lending and borrowing transactions in a manner similar to international markets.

Given our large client base and aspiration to develop SBL solutions for the broadest base of investors possible, we selected to work with Broadridge to implement its Securities Finance and Collateral Management (SFCM) platform at SNB Capital, since the firm has significant capabilities and experience working in multiple securities lending and borrowing models with various types of end investors.

We expect as we continue to grow our base of lenders, SBL will become a common activity for local individual investors, especially those which are long-term shareholders in local markets.

With regards to the institutional activity of local investors in securities lending, the primary challenges we have seen are not from a willingness or interest to participate, but rather from the investment accounting and valuation side with other local custodians and middle office teams. The market practice of reflecting securities 'on loan' in custody systems is largely not yet available in Saudi Arabia.

Given that many custodians are also not active in securities lending yet, the challenge of dealing with third-party lending transactions adds to this issue. We expect that as asset owners see the benefits that clients of SNB Capital and others are generating from this activity; they will place more pressure on their custodians and middle office teams to find solutions to support securities lending for them.

For SNB Capital, how do you compare domestic and international participation in your services? Can you explore any trends that you are seeing in this respect?

As a regional financial institution with expertise across five business lines including asset management, wealth management, securities, investment banking, and principal investments, SNB Capital is the largest asset manager in Saudi Arabia with SAR 260 billion (US$69.3 billion) of assets under management as of March 2024.

Within the securities division, we have various services which have a significantly different mix of clients. In areas such as securities trading, where we provide execution services both high-touch and low-touch to institutional clients, we see up to 40 per cent of our activity coming from international clients on some days. Related areas like sell-side equity research also have a high percentage of clients which are international investors.

When it comes to our custody services, around 80 per cent of our clients are locally registered entities, sometimes they may be a foreign asset manager. Other areas of our business such as securities services are almost entirely serving locally registered clients, many of which are listed companies, asset managers regulated by the Capital Market Authority (CMA) and asset owners in the Kingdom.

A key trend we have noticed in terms of local asset owners is the greater involvement of international asset managers, which places requirements on SNB Capital to ensure we can support the capabilities they require. On the other hand, we see a greater activity in custody and securities services from local asset owners in holding custody of or requiring services for international market assets. This is where our relationship with entities like BNY provides significant value, since our coverage and capabilities can support the requirements of any client for global markets.

Looking ahead, what are the core priorities of SNB Capital's development strategy over the coming 12 months? Can you share any upcoming projects or collaborations?

Our vision "Giving everyone financial confidence in a new future" is all about looking ahead, building trust, and creating new opportunities for a better financial future.

In general, the strategic pillars of our strategy and vision cover the following areas: strengthen and future proof existing business; shape the growth of local and regional capital markets; and drive efficiency and productivity of assets and people.

Under these pillars, SNB Capital has been actively partnering with fintech firms and international asset managers, improving securities trading value proposition of qualified foreign investors (QFIs) and institutions, improving productivity through integrating AI and GenAI in our business lines, and, in general, playing an active role as the national champion supporting funding Vision 2030 initiatives.

When we look at how those key pillars apply to our custody and securities services businesses, the opportunities and focus areas become clear:

- Growing the value chain offered to core custody clients, enabled by providing asset servicing and securities services in areas such as investment accounting, administration, SBL, collateral management, and agency services.
- Develop new solutions and products, such as the unique models we have implemented for SBL, services we provide listed companies for Employee Share Plans, as well as other strategic initiatives.
- Capturing a larger asset base of clients and providing more services per client to drive efficiency and productivity of our relationships.

We believe that delivering on our key strategic pillars will ensure SNB Capital maintains a position as the region's leading investment bank with a focus on connecting local and international investors with opportunities across the globe.

SEC postpones 10c-1a SLATE approval

Industry participants reflect on the delay in implementing FINRA's 6500 Series SLATE and what it means for the market. Carmella Haswell reports

The US Securities and Exchange Commission (SEC) has now postponed its approval of the Financial Industry Regulatory Authority's (FINRA's) Rule 6500 Series proposal to allow for additional analysis of the suggested rule changes, which requires, among other things, that FINRA rules promote just and equitable principles of trade.

The rule change relates to the Securities Lending and Transparency Engine (SLATE), a new facility that allows for covered securities loan transaction reporting by 'covered persons', and transparency of covered securities transactions in accordance with SEC Rule 10c-1a and the FINRA Rule 6500 Series.

First filed on 1 May and published for comment in the Federal Register on 7 May, FINRA's proposal requires the reporting of securities loans, and provides for the public dissemination of loan information.

It is designed to improve transparency and efficiency in the securities lending market, consistent with Section 15(A)(b)(6) of the Exchange Act, Rule 10c-1a, and Section 984 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

In addition, the rules would define key terms for the reporting of covered securities loans and specify the reporting requirements with respect to both initial covered securities loans and loan modifications, including prescribing required modifiers and indicators.

The industry has been working hard over the past few months to digest the proposed rules, which ultimately resulted in a lot of

feedback on how to best improve the reporting requirements. Some firms have commended FINRA and the SEC for taking a consultative approach and extending the period to finalise the rules.

However, the decision to postpone does not come without challenge.

"Trying to capture every nuance of a completely new trade reporting regime within a single rule is always going to leave a multitude of unanswered questions, any number of which could lead to delays," explains Jonathan Lee, money markets director at Kaizen.

He adds: "This method of rolling out a new regulation lacks the somewhat more phased approach as we have in Europe which consists of a regulation, regulatory and implementation technical standards, followed by schemas, validation rules and guidelines."

The order

An order published by the SEC on 5 August institutes proceedings to determine whether to approve or disapprove the proposed rule change. The SEC will now have until 5 October to make a decision on the proposed Rule 6500, and has reopened the comment period window for another 21 days after the order's publication in the Federal Register.

Speaking to Securities Finance Times, Tom Veneziano, North American head of product at Pirum, says the decision to delay the proposal by another 60 days and reopen the comment period can be seen to pose a further challenge to the industry in its preparation for compliance with the rule.

He adds: "Despite the delay, firms will still be required to push ahead and assign resources and budget for the project without knowing SLATE's final scope and specification."

Igor Kaplun, global head of business development, Cappitech at S&P Global Market Intelligence, interjects: "The delay, however, does create some more practical challenges in that it reduces the time between when the final requirements are out, expected to be in October 2024, and the go live on 2 January 2026."

The industry will have just over 12 months to analyse, design, build, integrate and test a reporting solution to meet the go live date, Kaplun advises. S&P Cappitech and Pirum have extended their collaboration from their Securities Financing Transactions Regulation (SFTR) solution to address the reporting requirements for SEC 10c-1a.

This is not the first time the proposal has been pushed back from approval. On 10 June, the commission extended the time period to 5 August, in which to reach one of three verdicts: approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.

Following the announcement, an EquiLend representative said the firm “understood” the need for a thorough review by the SEC, but also echoed that a delay in this decision “affects the industry participants and their ability to prepare for the new rule’s implementation”.

"Reporting firms, beneficial owners, agent lenders, and the street generally, need more regulatory certainty than they have today."

EquiLend has been actively participating in industry dialogues and closely monitoring developments related to the 10c-1a SLATE proposal. The firm anticipates the eventual rollout of Rule 10c-1a and will work to ensure it is in a good position to launch its product offering and begin client testing and integration.

Veneziano agrees that there remain several issues in need of clarification which the industry is concerned about. As a result, he believes extending the final decision “makes sense”. This statement coincides with the SEC’s order, which reflects on a previous industry review of the FINRA rule.

For example, one commenter stated that the rules would impose on market participants reporting requirements that go beyond the commission’s requirements under Rule 10c-1a, which would result in the disclosure of highly sensitive and complex information and contribute to significantly increased costs and burdens for implementation and compliance.

Within the published order, the SEC comments that the institution of proceedings is appropriate at this time in light of the legal and policy issues raised by the proposed rule change. The institution of proceedings does not indicate, however, that the commission has reached any conclusions with respect to any of the issues involved.

A brief pause

The resultant output for the FINRA 6500 Series needs to be fit for purpose, freely available in a digestible form for retail, and not only able to be interpreted through expensive vendor offerings, according to Kaizen’s Lee.

“The current requirements in terms of the amount of trade lifecycle data is perhaps overly complex as it stands in meeting this simple primary goal,” he interjects.

In his analysis, Lee pinpoints that trying to install and enforce a very US domestic rule in an interconnected multinational market “was always going to be fraught with difficulties from a market participant perspective”.

“Quite apart from all of the challenges in relation to technical and implementation standards, schemas and the choreography of reporting, come the fears about double counting in the aggregation of regional and global securities financing transaction data,” he continues.

Lee explains that US securities financing reporting will need to focus on lenders (and if cross jurisdiction, borrowers too) established in the US to be entirely workable.

In conclusion, Lee says: “Reporting firms, beneficial owners, agent lenders, and the street generally, need more regulatory certainty than they have today to ensure the best possible outcomes from FINRA Rule 6500 SLATE implementation and go-live. Sometimes it is better to take a (brief) pause and deliberate over the details and the unanswered questions than to go-live with something that is not yet ready.”

Industry dialogue and data collaboration: The keys to successful future transitions

With America's successful T+1 transition now complete, what insights can Europe and the UK draw for their forthcoming implementations? Pardeep Cassells, head of client experience at AccessFintech, explores the lessons learned and their implications

After months of preparation and a tense start to the year, the industry's success in transitioning to T+1 settlement in North America and beyond feels like clouds clearing for the industry. Summer has finally arrived, and we are all breathing a sigh of relief after a positive start to this new era.

While a few data points do not tell a complete story, early numbers indicate the industry as a whole was broadly prepared, specifically for North America's shift to a shortened settlement cycle.

First, trade fail rates have remained stable following the T+1 implementation on Tuesday, 28 May. Settlement fail rates remained below two per cent on the first two days of the transition, an impressive accomplishment given that the average fail rate for the period in May prior to the faster settlement was 2.01 per cent.

Next, the first three days post-transition saw gradual improvements in affirmation rates, rising from 92.76 per cent to 94.55 per cent and then

94.66 per cent. Finally, fails saw slight increases on days three and four, with affirmations also dipping to 91.26 per cent on 31 May (day four) following the MSCI rebalancing that same day.

However, this does not necessarily mean it is time to relax — full adoption into 'business as usual' may yet see some impact across the market. As project teams and temporary resources step away, the distinction between the settlement and affirmation rates of organisations who have introduced increased automation and seized the opportunity to re-evaluate operational processes, compared to those who have used increased headcount as a sticking plaster solution, is likely to become more apparent.

Meanwhile, the next set of clouds is gathering on the horizon. As Europe and the UK's deadlines for T+1 are still a few years away, now is a valuable time to reflect on the lessons we learned from this round of transitions and prepare for the challenges Europe and the UK will face in their move to shortened settlement cycles.

What comes next?

The UK's Accelerated Settlement Taskforce has recommended that the UK makes the transition no later than by the end of 2027, while Europe's shift could follow a similar timeframe.

Both the UK's taskforce and the European Securities and Markets Authority (ESMA) have stated that they look forward to engaging with one another to coordinate the move and ensure that the transition is efficient and cost effective, supporting a safe, resilient and integrated post-trade environment.

For the UK, this change is theoretically more straightforward as this is a single clearer region with a single legal framework to contend with. Europe, however, faces unique challenges. With multiple jurisdictions, nearly 40 central securities depositories (CSDs) and myriad legal frameworks, even navigating all of the impacted markets may be a challenge, although organisations such as the Association for Financial Markets in Europe (AFME) continue to encourage cross-market collaboration.

Unlike North America, Europe requires instructions to be matched at the CSD prior to settlement, and participants face higher levels of cross-border settlement activity with counterparties often instructing in different CSDs. This is a layer of complexity that market participants are already starting to consider through work with industry bodies and ESMA.

In addition, European market participants are awaiting the final report from the ongoing Central Securities Depositories Regulation (CSDR) refit, which is expected to be published later this year or early 2025. This could see the introduction of a progressive penalty regime and possibly significantly increased penalties — albeit the latter impact seems to be scaling back from the initially proposed seven to ten-fold penalty increase, which is welcome news to many.

> "As Europe and the UK's deadlines for T+1 are still a few years away, now is a valuable time to reflect on the lessons we learned from this round of transitions and prepare for the challenges Europe and the UK will face."

A parallel project to revise CSDR calculations and workflows resulting from a refit while preparing for T+1 in Europe will undoubtedly lead to additional stress on the industry. Regardless of the scale and scope of the refit proposals, an ongoing CSDR regime in an accelerated settlement landscape adds a unique layer of complexity to planning, as increased cash reserve requirements for funding potential CSDR penalties compound the increased reserves needed for managing faster foreign exchange flows for international activity.

Lessons learned and the route forward

The successful change in North America has shown the importance of industry collaboration and communication in comfortably navigating such events. Building on the foundation of insights gained through previous settlement cycle changes to use the best of what has worked before will also be necessary for further successful transitions.

Giving consideration to the October 2023 AFME report, 'Improving the Settlement Efficiency Landscape in Europe', three principal drivers of settlement inefficiencies have been identified for the market to consider: data quality, counterparty behaviour, and inventory management.

The importance of data quality in improving settlement efficiency is recognised across the industry and is an area of keen interest for me. This dates from my days leading a trade management function to my experience today where I see AccessFintech's network participants hold themselves and each other to account to achieve high quality data standards.

Enforcing a comprehensive, agreed minimum data set across the trade lifecycle, combined with AccessFintech's data normalisation which refines over 60,000 data attributes daily, has a clear and evidenceable impact on timely settlement and the eradication of manual effort.

Quality data from the outset, particularly in relation to trade economics including SSIs, PSET, and many more, enables organisations to ensure right-first-time matching and maximises timely settlement, mitigating the risk of CSDR penalties and moving the market towards a more normalised accelerated settlement cycle. In addition, clean settlement location information and a firm grasp of where positions are held directly reduce instances of delivery failure due to inventory issues, which often arise from holdings requiring movement from one depot to another.

A collegiate approach to enforcing good data standards by market participants themselves and growing market momentum towards data collaboration, which reduces the need for excessive query traffic, also lends itself to "better counterparty behaviour" and intrinsic behavioural change.

The importance of industry dialogue and data collaboration

Industry dialogue and collaboration is the distinguishing factor that drives truly impactful change across the market. Only by working together will we collectively improve settlement efficiency and meet the challenges of T+1 changes to come. Improved data centralisation, normalisation and collaboration are foundational. By harnessing data in this way, optimised processes and real-time decision making will be unlocked.

AccessFintech has been and will continue to partner with firms globally to address this. Our Synergy Network connects executing brokers, prime brokers and custodians together with their clients to provide real-time data collaboration. This network now covers approximately 80 per cent of global market equity and fixed income trade activity. Our services have helped organisations achieve fail rate reductions of up to 40 per cent and query traffic reductions of up to 90 per cent, freeing operational capacities and enabling proactive interventions to prevent trade fails within a shorter settlement timeframe.

Our AI capabilities continue to grow as we look to roll out our Predicted to Fail Probability feature which will enable firms to automate repairs based on our published insights. This innovation promises to further drive settlement efficiency by increasing automation, releasing capacity and minimising risk.

As the industry heads to the beach this summer, we can all take a bit of pride in the role we played in supporting North America's transition to T+1. When we return, rested and revitalised, we should be ready to prepare for the next round of changes.

Pardeep Cassells
Head of client experience
AccessFintech

The dynamic intersection of finance and technology

In the latest of the Emerging Talent series, Sophie Kleshchuk, part of the US Client Coverage team at Wematch.live, speaks with Daniel Tison about technological transformations and the importance of hands-on learning

Can you tell me about your journey into the securities finance industry?

I inherited a keen appreciation for the dynamic intersection of finance and technology from colleagues and mentors I started my career with, and it only got stronger while working with several up-and-coming fintech projects. The securities finance industry, with its blend of financial instruments, regulatory landscapes, and technological advances seemed like a natural choice.

What excites me most is being part of an industry where virtually every decision and innovation directly impacts financial markets and the broader economy. It is incredibly fulfilling to contribute to products and strategies that have tangible, real-world implications. Personally, securities finance presents an opportunity to leverage my technology background and passion for impactful work in a field that is both intellectually stimulating and socially relevant.

As a young professional, what aspects of your role or the industry do you find most exciting?

As someone with a background in technology, I find it incredibly exciting to witness how modern approaches to user experience can transform traditional workflows within the securities finance industry. It is fascinating to see how innovations in user interface design and technology can streamline complex processes, making them significantly more efficient. This not only simplifies and automates numerous manual tasks but also enhances risk management capabilities, ultimately benefiting all stakeholders involved.

Being part of this transformation is particularly fulfilling, because it aligns with the core purpose of improving efficiency and making everyone's professional lives easier — a goal that resonates deeply with me. Moreover, I am inspired by the industry's increasing attraction to young professionals who are enthusiastic about adopting and driving innovation forward. It is invigorating to collaborate with like-minded individuals who bring fresh perspectives and innovative ideas to the table. This influx of talent not only fosters a culture of continuous improvement but also ensures that the industry remains at the forefront of technological advancement.

Many companies offer various training and development opportunities for their employees. How has your company supported your growth?

One of the best parts of the training here at Wematch is the emphasis on hands-on learning through on-the-job training. I have had the opportunity to dive into challenging projects right from the start, which has allowed me to learn by doing and gaining practical insights into the industry's complexities.

This approach is most efficient, as it makes you learn faster and encourages you to explore various processes and solutions in real-time scenarios, which is even more insightful, as we work closely with our teams in London and Paris, and can automatically learn about regulatory differences and product approaches typical for different regions.

But what really deserves special recognition is the mentorship I have been fortunate to receive from colleagues who generously share their knowledge and have been nothing but an incredible support system. The environment and the team dynamic make a huge difference, and I have been extremely lucky.

What misconceptions about working in the financial industry have you encountered, and how do you address these challenges?

The rise of social media has contributed to promoting an exaggerated and disproportionate image of the financial industry — even though this trend tracks across various industries and professions. It is important to remember and recognise that a fair share of that content is curated with an explicit goal of generating revenue for creators, and often does not accurately reflect the day-to-day reality. My best advice is to keep your information clear and be mindful about the content you consume — simple as that.

Looking ahead, where do you see yourself in the next five years in terms of your career goals and aspirations?

In the current dynamic environment, five years can feel both long and short, but I envision myself advancing further along the path where I can navigate client relationships and contribute to evolving products together with my team. I am excited to deepen my knowledge in specific niches but also have a broader view across verticals — which seems to fit right in with the approach at Wematch.

What advice do you have for other young professionals aspiring to pursue a career in your industry?

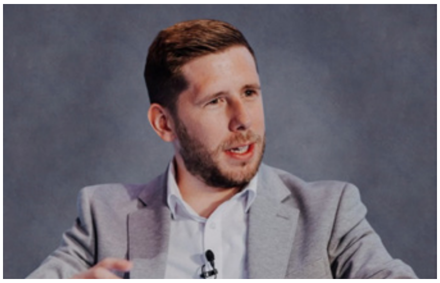
A lot of young professionals get overwhelmed with everyone's advice, tips and tricks that often come from more seasoned and experienced colleagues, and while those can be very helpful further down the path, I believe that if you are just entering the industry — take no shortcuts!

Sophie Kleshchuk

Sophie Kleshchuk is a business development expert, currently serving in US Client Coverage at Wematch.live. With a master's degree in international relations from Taras Shevchenko National University of Kyiv, Kleshchuk brings a global perspective to her work in fintech and securities lending.

Kleshchuk's diverse background includes leadership roles in MedTech and software development, which has equipped her with a unique blend of technical knowledge and client relations skills. At Wematch.live, Kleshchuk uses her expertise to help clients navigate the complex world of securities finance, driving growth and fostering strong partnerships in the American market.

Passionate about innovation and client success, Kleshchuk is dedicated to helping financial institutions streamline their workflows and achieve their goals through cutting-edge technology.



BNY appoints Pikett

BNY has appointed Tom Pikett as director of digital assets product within its Digital Assets business.

Based in London, Pikett will join the team run by Caroline Butler, global head of Digital Assets.

He joins the team after five years at JPMorgan Chase where he was most recently global digital product lead for Trading Services.

Pikett first joined the company as vice president of product development for agency securities finance.

Earlier in his career, Pikett held two stints at MarketAxess Post-Trade (formerly known as Trax), where he was most recently Securities Financing Transactions Regulation (SFTR) business manager.

In this role, he was responsible for the joint Trax and EquiLend SFTR solution.

Pikett also held positions at the Royal Bank of Scotland and Euroclear.

Eurex enlists Lehtonen

Eurex has appointed Elina Lehtonen as vice president for fixed income and repo sales.

Based in Paris, she will report to Katja Renner, executive director of funding and financing sales, and Frank Gast, global head of repo sales and member of the management board of Eurex Repo.

Lehtonen brings more than five years of experience in financial services to the role.

She joins from Santander Corporate and Investment Banking (CIB) where she served as associate of credit flow sales for the Nordics and Netherlands, and global markets.

Previously, she worked at BNP Paribas CIB as senior flow salesperson of short-term interest rates and repos for Europe and global markets.

Prior to that, she completed internships at Deutsche Bank and BNP Paribas Asset Management.

Wells Fargo selects Engle

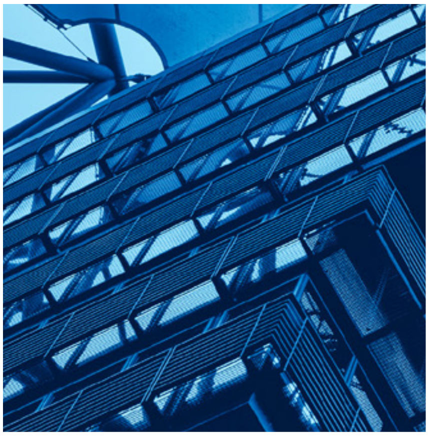
Wells Fargo has appointed Bridget Engle as senior executive vice president and head of technology, reporting to CEO Charlie Scharf.

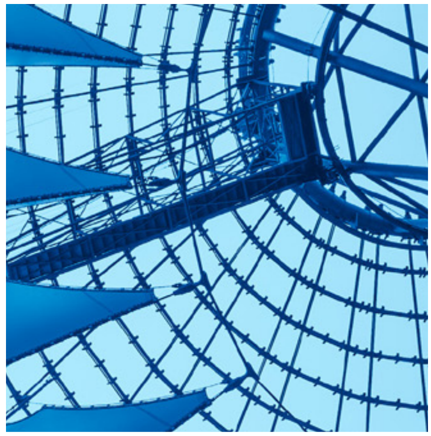
Joining the company's operating committee on 12 August, Engle will be responsible for all technology across the company.

She brings more than 30 years of experience leading technology transformations across multiple global financial institutions to the role.

Engle joins Wells Fargo from BNY where she served as senior executive vice president and chief information officer (CIO) for more than seven years.

Previously, she spent more than six years at Bank of America where she served in several roles, including CIO of global banking and market, and as CIO of consumer banking.





Your equity financing, centrally cleared

With the world's largest
U.S. equities lending counterparty

For more than 30 years, OCC's Stock Loan Programs have reduced operational risk while enabling capital and collateral savings for Clearing Members.

To learn more, visit theocc.com/securities-lending, or contact us at MemberService@theocc.com.

30+	85	$151B
YEARS	HEDGE LOAN PROGRAM MEMBERS*	AVERAGE DAILY LOAN VALUE*

OCC THE FOUNDATION FOR SECURE MARKETS®

*At end of Q4, 2023

Investec picks Doomernik

Investec Bank has appointed Tom Doomernik as Netherland's business development team lead, reporting to Aisling Dodgson, the head of TRS for Investec Europe.

In this newly created role, Doomernik will build the bank's client book in the Netherlands to support the passporting of Markets in Financial Instruments Directive (MiFID) services into the region.

Doomernik will also be responsible for creating a team on the ground to service the needs of the mid-market.

Doomernik brings a decade of corporate banking and forex experience to the position.

He joins from Ebury, a fintech company specialising in international payments, collections and foreign exchange services, where he served as head of desk at the Amsterdam office for more than two years.

Prior to that, he worked at Rabobank Haarlem-IJmond for more than seven years, most recently as a director focused on small and medium-sized enterprises (SMEs) and mid-sized clients.

OpenTrade onboards Jaworek

OpenTrade, an institutional-grade platform for internet-native lending and yield products, has appointed Ronnie Jaworek as senior vice president of sales and business development.

Based in London, Jaworek will report to Jeff Handler, co-founder and chief commercial officer.

She joins the company from institutional-grade crypto custody solutions firm Zodia Custody, where she most recently acted as sales manager.

Jaworek was appointed to Zodia Custody in May 2023 as business development manager.

Prior to this, she held a four-year term with Standard Chartered Bank's financing and securities services team, where she was most recently posted as an associate.

Previously, Jaworek won Rising Star at the Securities Finance Times Industry Excellence Awards in 2022.

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

Sales and Events Support: Vanessa Hayes
vanessahayes@blackknightmedialtd.com
020 3667 3979

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

Studio director: Steven Lafferty
design@securitiesfinancetimes.com

Published by Black Knight Media Ltd